

Looking for something to read? See our [Reading List](#); these books, separated by category, are ones we find interesting and insightful. We will be adding to the list over time.

**[Posted: June 24, 2024—9:30 AM ET]** Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.0%. Chinese markets were lower, with the Shanghai Composite down 1.2% from its previous close and the Shenzhen Composite down 2.3%. US equity index futures are signaling a higher open.

The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below, with new items of the day emphasized in bold:

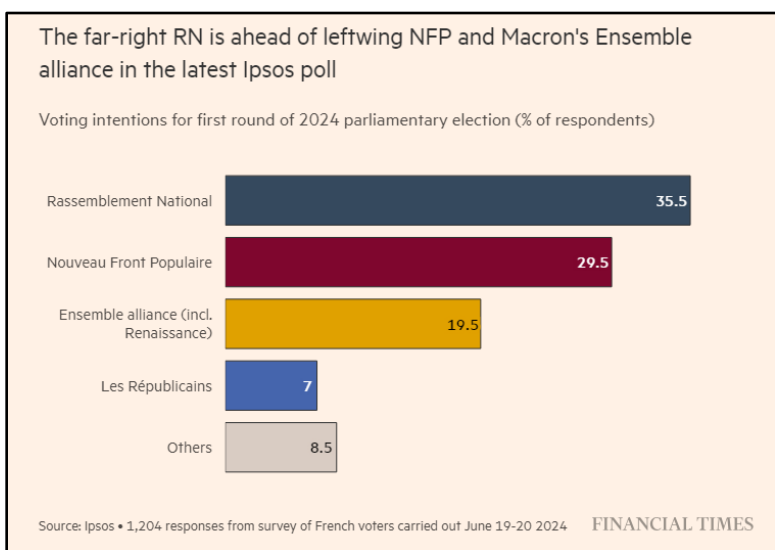
- [Bi-Weekly Geopolitical Report](#) (6/17/2024) (with associated [podcast](#)): “Mid-Year Geopolitical Outlook: Uncertainty Reigns”
- [Asset Allocation Quarterly – Q2 2024](#) (4/25/2024): Discussion of our asset allocation process, Q2 2024 portfolio changes, and our outlook for the markets.
- [Asset Allocation Q2 2024 Rebalance Presentation](#) (5/7/2024): Video presentation featuring the Asset Allocation Committee as they review the asset allocation strategies, recent portfolio changes, and the current macro environment.
- **[Asset Allocation Bi-Weekly](#) (6/24/2024) (with associated [podcast](#) to be published later today): “Small Caps and the Hope for a Soft Landing”**
- [Confluence of Ideas podcast](#) (5/8/2024) “Reviewing the Asset Allocation Rebalance: Q2 2024”
- [Fixed Income Quarterly](#) (June 2024)

Our *Comment* today opens with a new antitrust suit by the European Union against US tech giant Apple. The suit suggests major US tech firms will be in the crosshairs of the EU’s new Digital Markets Act going forward. We next review several other international and US developments with the potential to affect the financial markets today, including new polling showing that the far right and far left are likely to dominate France’s parliamentary elections this Sunday and details on an ongoing cyberattack affecting US auto dealerships.

**European Union-United States:** The European Commission [has accused US technology giant Apple of stifling competition on its App Store](#). The action marks the first major application of the EU’s Digital Markets Act, which went into effect in March and aims to keep big, powerful online platforms such as Apple’s from squashing competition from start-ups. If found guilty, Apple could face a fine of 10% to 20% of its global annual revenue, or tens of billions of dollars.

**European Union-China:** European and Chinese officials over the weekend [confirmed that the EU and China have agreed to start talks over the growth of Chinese electric vehicles in the bloc](#), which EU officials fear will put legions of Europeans out of work. The talks aim to diffuse the EU's planned antidumping tariffs against Chinese EVs, which are due to come into effect in July. At this point, however, we see no reason to think the talks could head off those tariffs.

**France:** Ahead of the snap parliamentary elections next Sunday, a new *Financial Times* poll [shows 35.5% of voters intend to cast their ballot for the far-right populist National Rally](#), while 29.5% intend to vote for the new far-left alliance called New Popular Front. President Macron's centrist Ensemble alliance, including his own Renaissance liberals, has the support of only 19.5%. As of right now, the figures suggest the runoff election on July 7 could pit the far right against the far left, guaranteeing a major change in France's domestic policies.



**Philippines-China:** Satellite imagery shows the Philippine government [has begun building an anti-ship missile base on the west coast of Luzon island, facing the South China Sea](#). The new base is aimed at deterring Chinese aggression against disputed islands and shoals in the area, including the Second Thomas Shoal, which we think is a particularly dangerous source of friction between China and the Philippines.

**Russia-Germany:** According to Western security officials, communication intercepts show that a fire last month at a Berlin factory owned by defense contractor Diehl [was set by Russian saboteurs trying to disrupt shipments of critical arms and ammunition to Ukraine](#). Confirmation that the fire was an act of sabotage has prompted a call for similar incidents to be re-investigated for any link to Russia. Of course, such aggressive Russian attacks on NATO soil run the risk of worsening NATO-Russia tensions going forward.

**Russia:** Terrorists yesterday [attacked a synagogue, two churches, and a police station in the restive North Caucasus republic of Dagestan](#), killing four civilians and 15 police officers. The attacks suggest Islamist militants could be taking advantage as the Kremlin shifts its attention and resources to the war in Ukraine and the fight to control political dissent.

**US Cybersecurity:** The cyberattack on auto dealership software provider CDK Global that started last week [continued through the weekend, disrupting dealership business](#). Statements from CDK Global suggest the attack involved ransomware, in which the attackers shut down a system until a ransom is paid. The attack illustrates how specialized software for particular types of businesses have the potential to shut down large swaths of an industry.

## US Economic Releases

No major US economic reports have been released so far today. The table below lists the economic releases and/or Fed events scheduled for the rest of the day.

Economic Releases						
ET	Indicator			Expected	Prior	Rating
10:30	Dallas Fed Manufacturing Activity	m/m	Jun	-19.4	-15.0	**
Federal Reserve						
ET	Speaker or Event	District or Position				
8:30	Austan Goolsbee Interviewed on CNBC	President of the Federal Reserve Bank of Chicago				
14:00	Mary Daly Gives Remarks on Economy, Policy	President of the Federal Reserve Bank of San Francisco				

## Foreign Economic News

We monitor numerous global economic indicators on a continuous basis. The most significant international news that was released overnight is outlined below. Not all releases are equally significant, thus we have created a star rating to convey to our readers the importance of the various indicators. The rating column below is a three-star scale of importance, with one star being the least important and three stars being the most important. We note that these ratings do change over time as economic circumstances change. Additionally, for ease of reading, we have also color-coded the market impact section, which indicates the effect on the foreign market. Red indicates a concerning development, yellow indicates an emerging trend that we are following closely for possible complications, and green indicates neutral conditions. We will add a paragraph below if any development merits further explanation.

Country	Indicator			Current	Prior	Expected	Rating	Market Impact
ASIA-PACIFIC								
Japan	Nationwide Dept Sales	y/y	May	14.40%	8.90%		***	Equity and bond neutral
New Zealand	Exports NZD	m/m	May	7.16b	6.31b		**	Equity and bond neutral
	Trade Balance NZD	m/m	May	204m	-3m		**	Equity and bond neutral
	Imports NZD	m/m	May	6.32b	6.95b		**	Equity and bond neutral
EUROPE								
Germany	Ifo Business Climate	m/m	Jun	88.6	89.3	89.6	***	Equity bearish, bond bullish
	Ifo Current Assessment	m/m	Jun	88.3	88.3	88.5	**	Equity and bond neutral
	Ifo Expectations	m/m	Jun	89.0	90.3	90.7	**	Equity bearish, bond bullish
Switzerland	Domestic Sight Deposits CHF	w/w	21-Jun	443.4b	453.5b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	21-Jun	451.8b	453.5b		*	Equity and bond neutral
AMERICAS								
Canada	Retail Sales	m/m	Apr	0.7%	-0.3%	0.7%	**	Equity and bond neutral
	Retail Sales Ex-Autos	m/m	Apr	1.8%	-0.8%	0.6%	**	Equity bullish, bond bearish
	Industrial Prices	m/m	May	0.0%	1.4%	0.4%	**	Equity and bond neutral
	Raw Material Prices	m/m	May	-1.0%	5.3%	-0.6%	*	Equity bullish, bond bearish
Brazil	Current Account Balance	m/m	Feb	-\$3400m	-\$868m	-\$3350m	**	Equity and bond neutral
	Foreign Direct Investment	m/m	Feb	\$3023m	\$3867m	\$4700m	**	Equity and bond neutral

## Financial Markets

The table below highlights some of the indicators that we follow daily. Again, the color coding is similar to the foreign news description above. We will add a paragraph below if a certain move merits further explanation.

Fixed Income	Today	Prior	Change	Trend
3-mo Libor yield (bps)	561	561	0	Up
3-mo T-bill yield (bps)	521	522	-1	Up
U.S. Sibor/OIS spread (bps)	534	534	0	Up
U.S. Libor/OIS spread (bps)	534	534	0	Up
10-yr T-note (%)	4.27	4.26	0.01	Down
Euribor/OIS spread (bps)	369	370	-1	Down
Currencies	Direction			
Dollar	Down			Up
Euro	Up			Down
Yen	Up			Down
Pound	Up			Up
Franc	Up			Up

## Commodity Markets

The commodity section below shows some of the commodity prices and their change from the prior trading day, with commentary on the cause of the change highlighted in the last column.

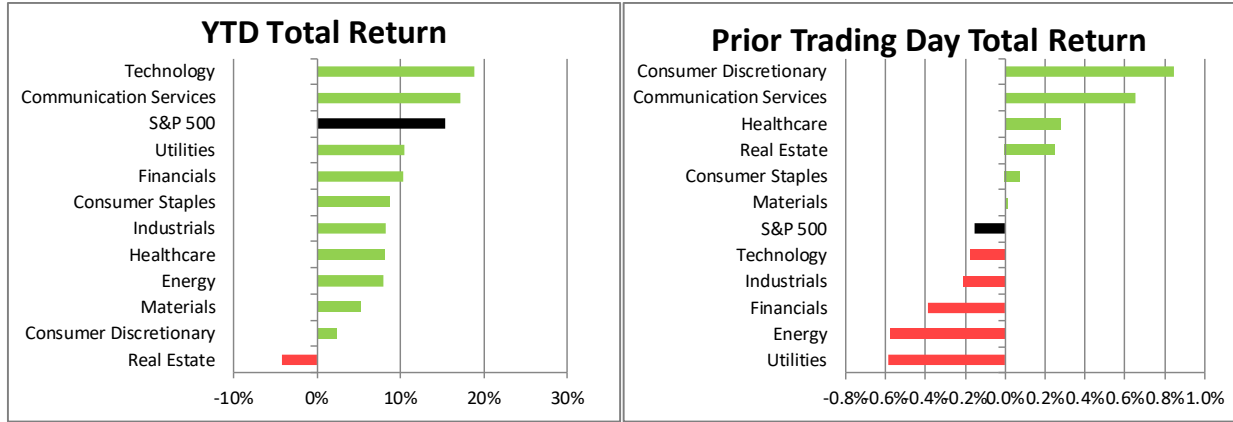
DOE Inventory Report	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$85.57	\$85.24	0.39%	
WTI	\$81.03	\$80.73	0.37%	
Natural Gas	\$2.72	\$2.71	0.55%	
12-mo strip crack	\$22.28	\$22.37	-0.39%	
Ethanol rack	\$2.12	\$2.11	0.15%	
<b>Metals</b>				
Gold	\$2,327.98	\$2,321.98	0.26%	
Silver	\$29.66	\$29.55	0.37%	
Copper contract	\$442.40	\$442.85	-0.10%	
<b>Grains</b>				
Corn contract	\$451.50	\$453.25	-0.39%	
Wheat contract	\$576.50	\$575.75	0.13%	
Soybeans contract	\$1,123.00	\$1,120.00	0.27%	
<b>Shipping</b>				
Baltic Dry Freight	1,997	1,984	13	

## Weather

The 6-10 and 8-14 day forecasts call for warmer-than-normal temperatures throughout the entire country with cooler temps in the Northern Pacific region. Meanwhile, the precipitation outlook projects wetter-than-normal conditions in the Rocky Mountains, the Great Plains, the Midwest and New England regions with dry conditions in California, Oregon, and Nevada. There are no tropical disturbances expected within the next 48 hours.

**Data Section**

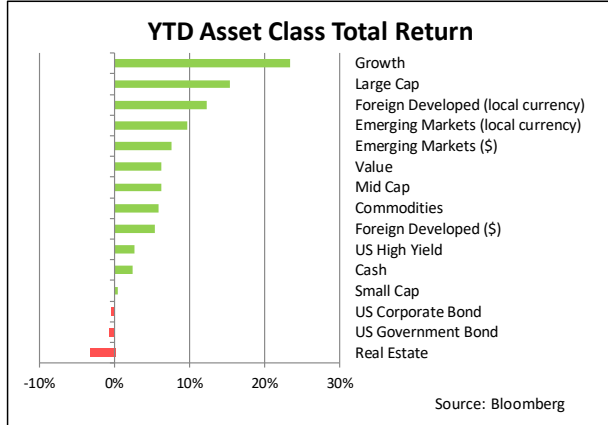
**US Equity Markets – (as of 6/21/2024 close)**



(Source: Bloomberg)

These S&P 500 and sector return charts are designed to provide the reader with an easy overview of the year-to-date and prior trading day total return. Sectors are ranked by total return; green indicating positive and red indicating negative return, along with the overall S&P 500 in black. These charts represent the new sectors following the 2018 sector reconfiguration.

**Asset Class Performance – (as of 6/21/2024 close)**

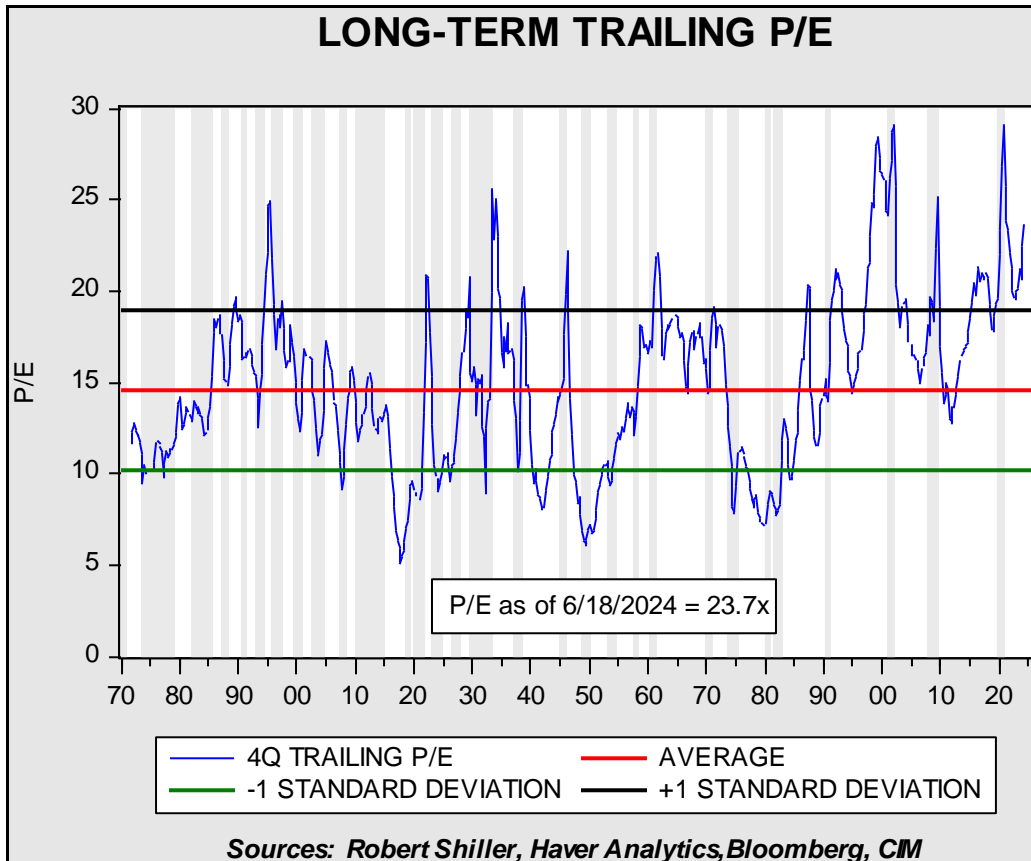


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

Asset classes are defined as follows: Large Cap (S&P 500 Index), Mid Cap (S&P 400 Index), Small Cap (Russell 2000 Index), Foreign Developed (MSCI EAFE (USD and local currency) Index), Real Estate (FTSE NAREIT Index), Emerging Markets (MSCI Emerging Markets (USD and local currency) Index), Cash (iShares Short Treasury Bond ETF), US Corporate Bond (iShares iBoxx \$ Investment Grade Corporate Bond ETF), US Government Bond (iShares 7-10 Year Treasury Bond ETF), US High Yield (iShares iBoxx \$ High Yield Corporate Bond ETF), Commodities (Bloomberg total return Commodity Index), Value (S&P 500 Value), Growth (S&P 500 Growth).

## P/E Update

June 20, 2024



Based on our methodology,<sup>1</sup> the current P/E is 23.7x, up 0.1 from our last report. The increase in the multiple was due to an increase in the stock price index, and a slight decline in Q1 earnings.

*This report was prepared by Confluence Investment Management LLC and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change. This is not a solicitation or an offer to buy or sell any security.*

<sup>1</sup> This chart offers a running snapshot of the S&P 500 P/E in a long-term historical context. We are using a specific measurement process, similar to *Value Line*, which combines earnings estimates and actual data. We use an adjusted operating earnings number going back to 1870 (we adjust as-reported earnings to operating earnings through a regression process until 1988), and actual operating earnings after 1988. For the current quarter, we use the Bloomberg estimates which are updated regularly throughout the quarter; currently, the four-quarter earnings sum includes three actual quarters (Q1, Q2 and Q3) and one estimate (Q4). We take the S&P average for the quarter and divide by the rolling four-quarter sum of earnings to calculate the P/E. This methodology isn't perfect (it will tend to inflate the P/E on a trailing basis and deflate it on a forward basis), but it will also smooth the data and avoid P/E volatility caused by unusual market activity (through the average price process). Why this process? Given the constraints of the long-term data series, this is the best way to create a long-term dataset for P/E ratios.