

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: May 29, 2024—9:30 AM EDT] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 2.0%. Chinese markets were higher, with the Shanghai Composite up 0.1% from its previous close and the Shenzhen Composite up 0.3%. US equity index futures are signaling a lower 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](#) (5/20/2024) (there is no associated podcast): “The Great COVID Labor Reform”
- [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](#) (5/28/2024) (with associated [podcast](#)): “The Importance of the Federal Reserve’s Inflation Target”
- [Confluence of Ideas podcast](#) (5/8/2024) “Reviewing the Asset Allocation Rebalance: Q2 2024”

Our *Comment* today opens with a discussion of how right-wing parties have finally consolidated power in the Netherlands. We next review several other international and US developments with the potential to affect the financial markets today, including increased signs that the Bank of England may be inadvertently laying the groundwork for new financial instability and a discussion of US polling trends as the nation begins to focus more on the November elections.

Netherlands: After months of post-election horse trading, a right-wing coalition [has nominated career civil servant Dick Schoof to be prime minister](#). Formerly, Schoof was chief of the Dutch intelligence agency, the top civilian in the ministry of justice, and the head of the national immigration service. That made Schoof especially attractive to Geert Wilders, the anti-immigrant firebrand whose far-right Freedom Party won the most votes in the November election. Wilders was forced to abandon his goal of becoming prime minister to secure a right-wing coalition.

- With Schoof in place as prime minister, the Freedom Party will rule in coalition with the conservative New Social Contract, the populist Farmer-Citizen Movement, and the conservative liberal VVD party of outgoing Prime Minister Mark Rutte (who is expected to become the new head of the North Atlantic Treaty Organization).
- Among its chief aims, the new government plans to cut immigration, reduce foreign development aid, freeze government salaries, and roll back some environmental policies.

United Kingdom: Upward pressure on short-term interest rates [has raised concern that the Bank of England is being too aggressive in its quantitative tightening program](#). Unlike most other major central banks, the BOE isn't just letting its government bond holdings run off as they mature, but it is also selling them outright. The volatile, surging short-term rates are a concern because they could portend a broader financial crisis at some point.

Russia-Ukraine War: French President Macron [said he will approve Ukraine's use of its French-supplied Scalp cruise missiles to strike targets in Russia](#), so long as they are used against sites that have launched attacks on Ukraine. The move by Macron, who has also supported sending North Atlantic Treaty Organization troops to Ukraine, is another small step raising the risk of an eventual direct clash between NATO and Russia. Steps on the Russian side include increasingly aggressive sabotage and influence operations by Russian intelligence agencies.

- In the latest case of Russian activity, French and Belgian police today [searched the offices of an employee of the European Parliament on suspicion that he has been working for the Russians](#).
- In any case, President Biden and other NATO leaders continue to impose tough restrictions on the weapons they have provided to Ukraine in order to limit the risk of escalation.

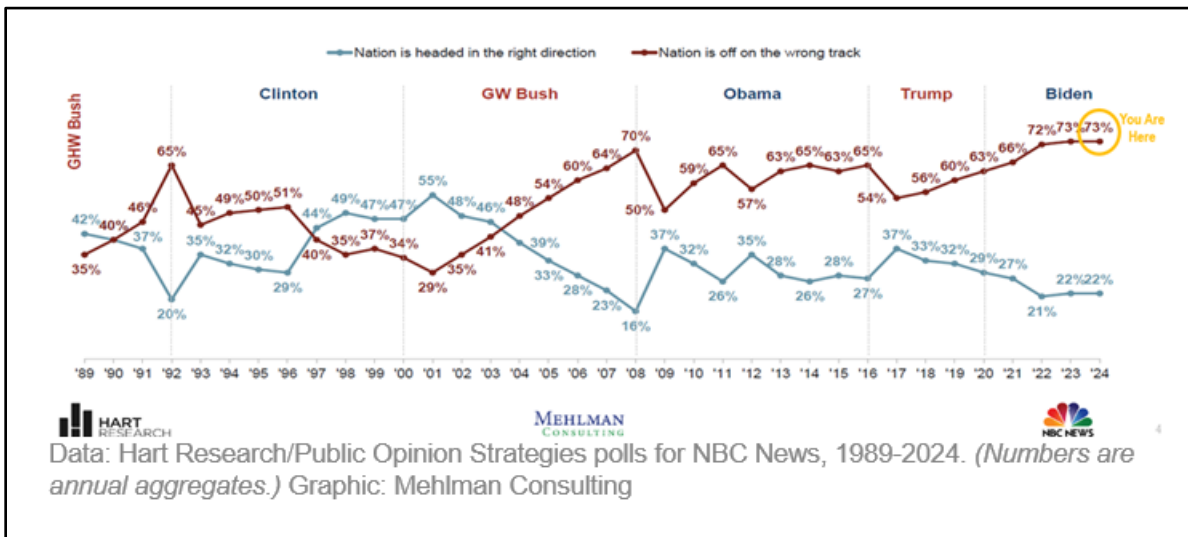
Taiwan: Despite popular protests, the opposition-controlled legislature [has passed legislation giving it increased control over newly inaugurated President Lai and his government](#). The measures give the legislature extensive authority to investigate government policies and projects, including powers to summon military officials and review classified documents.

- The measures, passed by the relatively pro-Beijing Kuomintang and the Taiwan People's Party, could heavily hamstring the independence-minded Lai as he seeks to strengthen Taiwan's defenses against a potential Chinese invasion or blockade.
- Of course, it is highly possible that the opposition effort to tie Lai's hands was supported by Beijing.

North Korea-South Korea: To retaliate for pro-democracy leaflets released over North Korea by activists in the south, Pyongyang [has reportedly sent over 150 balloons carrying garbage and animal feces into South Korea](#). Of course, the North Koreans have much more dangerous weapons that they could send southward. Nevertheless, the incident illustrates how the relationship between North Korea and South Korea just keeps getting crappier (sorry).

US Politics: A new slide deck by pollster Bruce Mehlman contains an interesting graphic [showing the share of voters who think the US is “on the wrong track” has now reached a record high of 73%](#). Perhaps most interesting, the graphic shows that percentage has actually been climbing since 2002, albeit with a flat period during the Obama presidency.

- The 2002 date is significant because it is just about the time when the shock of China’s entry into the World Trade Organization began to be felt. That’s consistent with our view that the growing malaise and populism since then can be traced largely to the US effort to maintain global hegemony in the face of the Chinese onslaught.
- With the US trying to maintain hegemony by keeping its economy open to trade and providing the world’s reserve currency, the result was intense foreign competition for US producers, de-industrialization, and reduced opportunity for relatively less-skilled workers.
- To the extent that is true, we expect government policy in the US will likely remain populist in the coming years, no matter who wins the November election. For example, the US will likely see even more trade protectionism, industrial policy initiatives, near-shoring of production, and reindustrialization.



US Energy Industry: Oil giant ConocoPhillips [has struck a deal to acquire Marathon Oil in an all-stock transaction valued at \\$17.1 billion](#). The takeover is the latest sign of sweeping consolidation in the nation’s oil and gas industry after years of capital discipline and good pricing have provided the financial resources to scrape together new assets for increased efficiency.

US Economic Releases

Elevated borrowing costs continues to weigh on home loan demand. According to an index tracked by the Mortgage Bankers Association (MBA), applications dropped 5.7% in the week ending May 24. The slowdown can partially be attributed to an increase in the 30-year fixed-rate

mortgage which rose 4 bps to 7.05%. As a result, the MBA tracker for refinancing fell 13.6% from the prior week, while the MBA purchase tracker fell 1.1%.

The table below lists the economic releases and/or Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
10:00	Richmond Fed Manufact. Index	m/m	May	-7.0	-7.0	**
Federal Reserve						
EST	Speaker or Event	District or Position				
13:00	John Williams Joins Watertown Community Services Roundtable	President of the Federal Reserve Bank of New York				
14:00	U.S. Federal Reserve Releases Beige Book	Federal Reserve Board				
19:00	Raphael Bostic Speaks on Economy	President of the Federal Reserve Bank of Atlanta				

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	Consumer Confidence	m/m	May	36.2	38.3	39.5	*	Equity bearish, bond bullish
Australia	Westpac Leading Index	m/m	Apr	-0.03%	-0.05%		**	Equity and bond neutral
	CPI	y/y	Apr	3.6%	3.5%	3.4%	**	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	May	11.8	14.3		**	Equity and bond neutral
	ANZ Business Confidence	m/m	May	11.2	14.9		**	Equity and bond neutral
EUROPE								
Eurozone	M3 Money Supply	y/y	Apr	1.3%	0.9%	1.3%	***	Equity and bond neutral
Germany	GfK Consumer Confidence	m/m	Jun	-20.9	-24.2	-22.5	**	Equity and bond neutral
	CPI	y/y	May P	2.4%	2.2%	2.4%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	May P	2.8%	2.4%	2.7%	**	Equity and bond neutral
France	Consumer Confidence	m/m	May	90.0	90	91.0	**	Equity and bond neutral
Italy	Consumer Confidence	m/m	May	96.4	95.2	96.0	***	Equity and bond neutral
	Manufacturing Confidence	m/m	May	88.4	87.7	88.0	***	Equity and bond neutral
	Economic Sentiment	m/m	May	95.1	95.8		**	Equity and bond neutral
AMERICAS								
Canada	Industrial Prices	m/m	Apr	1.5%	0.9%	0.9%	**	Equity bearish, bond bullish
	Raw Material Prices	m/m	Apr	5.5%	4.3%	3.0%	*	Equity bearish, bond bullish
Mexico	International Reserves Weekly	w/w	24-May	\$218739m	\$218953m		*	Equity and bond neutral
Brazil	FGV Inflation IGPM	y/y	May	-0.3%	-3.0%	-0.4%	***	Equity and bond neutral
	National Unemployment Rate	m/m	Apr	7.5%	7.9%	7.8%	*	Equity and bond neutral
	Net Debt % GDP	m/m	Apr	61.2%	61.1%	61.0%	**	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)	560	560	0	Up
3-mo T-bill yield (bps)	525	524	1	Up
U.S. Sibor/OIS spread (bps)	535	535	0	Up
U.S. Libor/OIS spread (bps)	535	536	-1	Up
10-yr T-note (%)	4.57	4.55	0.02	Up
Euribor/OIS spread (bps)	379	380	-1	Down
Currencies	Direction			
Dollar	Up			Up
Euro	Flat			Up
Yen	Flat			Down
Pound	Flat			Up
Franc	Flat			Down

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.

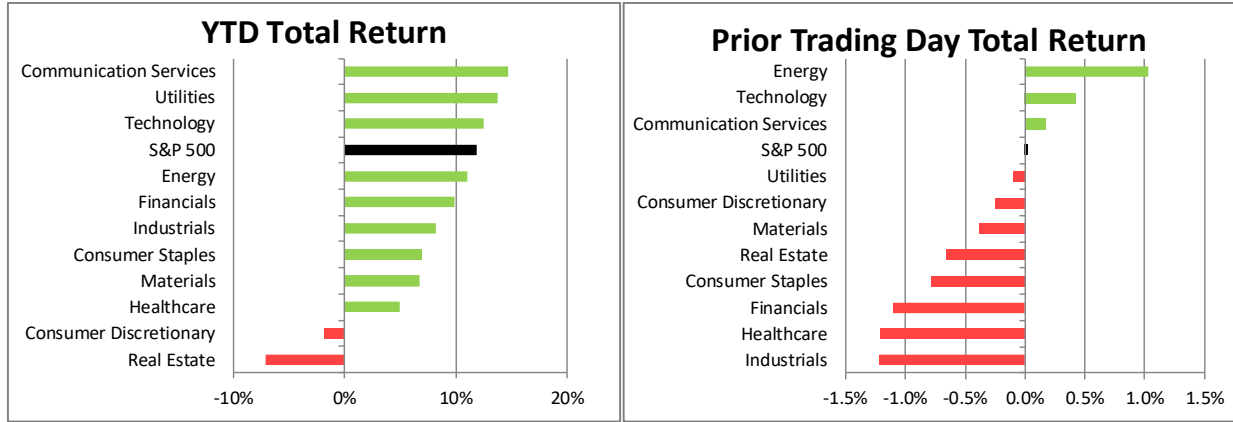
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$84.89	\$84.22	0.80%	
WTI	\$80.50	\$79.83	0.84%	
Natural Gas	\$2.53	\$2.59	-2.28%	
12-mo strip crack	\$22.27	\$22.34	-0.35%	
Ethanol rack	\$1.96	\$1.95	0.44%	
Metals				
Gold	\$2,344.43	\$2,361.31	-0.71%	
Silver	\$31.96	\$32.10	-0.46%	
Copper contract	\$478.60	\$485.50	-1.42%	
Grains				
Corn contract	\$461.75	\$462.50	-0.16%	
Wheat contract	\$698.25	\$700.25	-0.29%	
Soybeans contract	\$1,226.00	\$1,229.50	-0.28%	
Shipping				
Baltic Dry Freight	1,784	1,797	-13	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.60		
Gasoline (mb)		-1.38		
Distillates (mb)		-0.46		
Refinery run rates (%)		0.4%		
Natural gas (bcf)		83		

Weather

The 6-10 and 8-14 day forecasts call for warmer-than-normal temperatures in most of the country, with cooler temperatures expected in the lower Ohio Valley. The precipitation outlook calls for wetter-than-average conditions throughout most of the country with drier-than-normal conditions expected in the Southwest.

Data Section

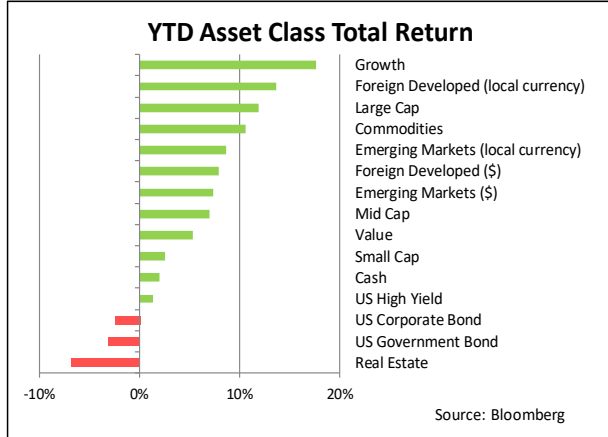
US Equity Markets – (as of 5/28/2024 close)



(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 5/28/2024 close)

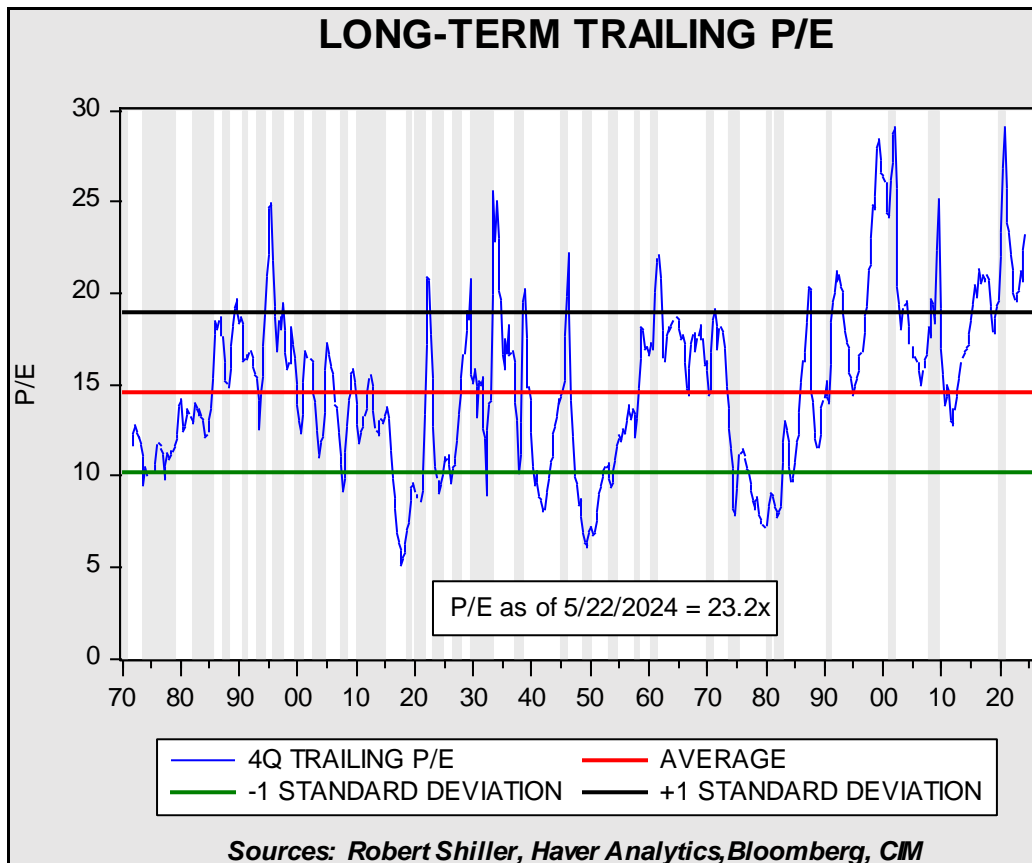


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

May 23, 2024



Based on our methodology,¹ the current P/E is 23.2x, unchanged from our last report. Despite a rise in the stock price index, the valuation multiple remained unchanged due to a corresponding increase in company 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.

¹ 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 (Q2, Q3 and Q4) and one estimate (Q1). 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.