

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: April 3, 2023—9:30 AM EDT]** Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is currently up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.6%. Chinese markets were higher, with the Shanghai Composite closing up 0.7% and the Shenzhen Composite closing up 1.1%. U.S. 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](#) (3/20/2023) (with associated [podcast](#)) “Update on the U.S.-China Military Balance of Power”
- [Weekly Energy Update](#) (3/30/2023): We discuss China’s growing influence on the Middle East and the recent détente between Iran and the KSA. The usual data update is provided; this week, we saw a large rise in refinery operations which contributed to an unexpected slide in commercial oil inventories.
- [Asset Allocation Quarterly – Q1 2023](#) (1/19/2023): Discussion of our asset allocation process, Q1 2023 portfolio changes, and our outlook for the markets.
- [Asset Allocation Q1 2023 Rebalance Presentation](#) (2/2/2023): Video presentation featuring the Asset Allocation Committee as they review our asset allocation strategies, recent portfolio changes, and the current macro environment.
- [Asset Allocation Bi-Weekly](#) (3/27/2023) (with associated [podcast](#)): “Have Policymakers Solved the Tinbergen Problem?”
- [Confluence of Ideas podcast](#) (3/8/2023): “Reflections on Inflation”
- [Business Cycle Report](#) (3/30/2023)

Our *Comment* today opens with several indicators of increasing tensions between the U.S. and members of the evolving China-led geopolitical bloc, including Russia and Saudi Arabia. We next review a range of other international and U.S. developments with the potential to affect the financial markets today, including new analysis showing that a rebound in large-cap technology stocks was the key reason that the U.S. stock market was able to rise last month despite the crisis that engulfed small and mid-sized banks.

**United States-China:** Republican and Democratic members of the House Select Committee on the Chinese Communist Party [will embark on a three-day visit to Silicon Valley and Hollywood this week to talk about U.S.-China relations](#) with top technology and entertainment executives. Some U.S. finance, technology, and entertainment firms have resisted the growing effort by policymakers to suppress China's expanding military power and geopolitical influence. While the members of Congress will listen to the firms' perspectives, we suspect they will also use the meetings to educate the executives about the Chinese threat to U.S. security and the need to put security above narrow business interests.

- Separately, China appears to be ramping up its response to recent U.S. restrictions on its semiconductor industry. In what appears to be retaliation, the Chinese government last week [opened a cybersecurity investigation into Micron Technology \(MU, \\$60.34\)](#), a top U.S. maker of DRAM memory chips.
- The Micron investigation is likely meant to be a warning to other countries with big memory-chip firms, such as South Korea. In all probability, China is trying to caution those countries that if they sign on to the U.S.'s clampdown on advanced technology transfers to China, the Chinese government will hinder their key companies' activities in China.

**China:** The Caixin purchasing managers' index for manufacturing [came in at a seasonally adjusted 50.0 in March, falling short of expectations and marking a big decline from the 51.6 registered in February](#). Like all major PMIs, this one is designed so that readings over 50.0 indicate expanding activity. The current Caixin and official PMIs suggest China's post-pandemic manufacturing recovery has quickly lost steam, at least in part because of weakening demand overseas. If they continue, such tepid readings are likely to be a headwind for risk assets going forward.

**Russia-Saudi Arabia-United States:** Yesterday, the Organization of the Petroleum Exporting Countries and its Russia-led allies unexpectedly [announced that they will cut their total crude oil output by 1 million barrels per day](#). Saudi Arabia alone said it will voluntarily cut its production by 500,000 bpd, while other OPEC+ members said they will cut their output by smaller amounts. Russia said it will extend its 500,000-bpd cut announced last year.

- The move was aimed at reversing a recent decline in oil prices prompted by fears of slowing economic growth around the world. It also appears to be Saudi's retaliation after the Biden administration last week said it had no near-term plan to replenish the U.S.'s Strategic Petroleum Reserve despite previously giving the Saudis assurances that it would buy oil if prices fell. In any case, oil prices so far today [have surged more than 5%](#), with Brent now trading at \$84.13 and WTI at \$79.71.
- Saudi Arabia's cooperation with Russia also underlines its increasingly close alliance with Russia and the rest of the evolving China-led geopolitical bloc. That is likely a harbinger of increasingly tense U.S.-Saudi relations and further threats to global oil supplies.

**Russia:** In a sign that internal political tensions are rising, the Federal Security Service (FSB, successor to the KGB) [is reportedly confiscating the passports of senior officials and state](#)

[company executives to prevent overseas travel](#), information leaks, and defections. The move reflects deep suspicions about the loyalty of the country's civilian elite, many of whom privately oppose the war in Ukraine and are chafing over its impact on their lifestyles.

- Separately, nationalist blogger Maxim Fomin, known publicly as Vladlen Tatarsky, [was killed by a bomb yesterday while conducting a meet-and-greet event at a café in St. Petersburg](#). Fomin had been a vocal advocate of Russia's invasion of Ukraine, although he had also sharply criticized the Ministry of Defense for its failures and shortcomings in running the invasion. He likely had enemies in Russia's official defense bureaucracy, although the lone suspect arrested in the case so far is a woman who had previously attended a demonstration against the war last year.
- On the Ukrainian battlefield, Russian officials [said they have finally taken control of central Bakhmut, the eastern Ukrainian city they have focused on for months](#) and suffered huge casualties trying to capture. However, Ukrainian officials say they still control other parts of the city and will continue fighting to degrade Russia's forces.

**Finland:** Petteri Orpo and his center-right National Coalition Party leveraged a focus on economic issues [to narrowly win Sunday's parliamentary election, ousting Prime Minister Marin and her center-left Social Democratic Party](#). However, the National Coalition only came away with 48 of the 200 seats in parliament, slightly more than the 46 seats for the right-wing Finns Party and the 43 seats for the Social Democrats. That will likely make it difficult for Orpo to form a governing coalition in the coming weeks.

**Switzerland:** Federal prosecutors [announced that they will investigate whether any criminal behavior was involved in last month's government-led takeover of Credit Suisse \(CS, \\$0.8898\)](#) by UBS (UBS, \$21.34). Numerous aspects of the rushed deal have arisen, but the prosecutors haven't specified any particular offenses that they are targeting.

**U.S. Stock Market:** If you're wondering how the U.S. stock market was able to perform so well last month despite the crisis in small- and mid-sized banks, it appears the answer is that large technology firms did quite well. Since the beginning of the crisis in early March, new analysis shows that Apple (AAPL, \$164.90) and Microsoft (MSFT, \$288.30) alone [contributed more percentage points of gains to the S&P 500 price index than all financial stocks in the index](#) subtracted. In turn, that reflects how investors looking for an eventual retreat in interest rates are already positioning themselves back into technology (probably too early, we think).

**U.S. Labor Market:** New analysis from the *Wall Street Journal* [shows that the nation's strongest job markets in 2022 were Nashville, TN; Austin, TX; and Jacksonville, FL](#). The rankings were calculated based on five criteria, including each city's 2022 unemployment rate, labor-force participation rate, changes to employment levels, size of the labor force, and wage rates. In contrast, cities that did well right after the end of the pandemic, such as Salt Lake City, UT and Phoenix, AZ slipped in the rankings.

## U.S. Economic Releases

There were no domestic releases scheduled prior to the publication of this report. The table below lists the economic releases and/or Fed events scheduled for the rest of the day.

Economic Releases						
No economic releases for the rest of today						
EST	Indicator			Expected	Prior	Rating
9:45	S&P Global Manufacturing PMI	m/m	Mar F	49.3	49.3	***
10:00	Construction Spending MoM	m/m	Feb	0.0%	-0.1%	**
10:00	ISM Manufacturing	m/m	Mar	47.5	47.7	**
10:00	ISM Manufacturing PMI - Prices Paid	m/m	Mar	51.1	51.3	**
10:00	ISM Manufacturing PMI - Employment	m/m	Mar		49.1	*
10:00	ISM Manufacturing PMI - New Orders	m/m	Mar	47.5	47.0	**
Federal Reserve						
No Fed speakers or events for the rest of today						
EST	Speaker or Event	District or Position				
16:15	Lisa Cook Speaks at the University of Michigan	Member of the Board of Governors				

## 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
<b>ASIA-PACIFIC</b>								
Japan	Tankan Large Manufacturing Index	q/q	1Q	1	7	3	***	Equity bearish, bond bullish
	Tankan Large Manufacturing Outlook	q/q	1Q	3	6	3	***	Equity and bond neutral
	Tankan Large Non-Manufacturing Index	q/q	1Q	20	19	20	***	Equity and bond neutral
	Tankan Large Non-Manufacturing Outlook	q/q	1Q	15	11	17	***	Equity bearish, bond bullish
	Tankan Large All-Industry Capex	q/q	1Q	3.2%	19.2%	14.2%	***	Equity bearish, bond bullish
	Jibun Bank Manufacturing PMI	m/m	Mar F	49.2	48.6		***	Equity and bond neutral
Australia	Melbourne Institute Inflation	y/y	Mar	5.7%	6.3%		*	Equity bearish, bond bullish
	Building Approvals	m/m	Feb	4.0%	-27.6%	-27.1%	***	Equity bullish, bond bearish
South Korea	Trade Balance	m/m	Mar	-\$4.620b	-\$5.300b	-\$6.000b	*	Equity bullish, bond bearish
	Exports	y/y	Mar	-6.4%	3.6%	-6.5%	***	Equity and bond neutral
	Imports	y/y	Mar	-13.6%	-7.5%	-16.0%	**	Equity bullish, bond bearish
China	Caixin Manufacturing PMI	m/m	Mar	50.0	51.6	51.4	***	Equity bearish, bond bullish
India	S&P Global Manufacturing PMI	m/m	Mar	56.4	55.3		***	Equity bullish, bond bearish
<b>EUROPE</b>								
Eurozone	S&P Global Manufacturing PMI	m/m	Mar F	47.3	47.1	47.1	***	Equity and bond neutral
Germany	S&P/BME Manufacturing PMI	m/m	Mar F	44.7	44.4	44.4	***	Equity and bond neutral
France	S&P Global Manufacturing PMI	m/m	Mar F	47.3	47.7	47.7	***	Equity and bond neutral
Italy	S&P Global Manufacturing PMI	m/m	Mar	51.1	52.0	51.0	***	Equity and bond neutral
UK	S&P Global/CIPS Manufacturing PMI	m/m	Mar F	47.9	48.0	48.0	***	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	31-Mar	528.8b	540.5b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	31-Mar	563.6b	567.0b		*	Equity and bond neutral
	Manufacturing PMI	m/m	Mar	47.0	48.9	48.5	***	Equity bearish, bond bullish
Russia	S&P Global Manufacturing PMI	m/m	Mar	53.2	53.6		***	Equity and bond neutral
<b>AMERICAS</b>								
Canada	GDP	y/y	Jan	3.0%	2.3%	2.9%	**	Equity and bond neutral

## Financial Markets

The table below highlights some of the indicators that we follow on a daily basis. 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)	519	518	1	Up
3-mo T-bill yield (bps)	457	463	-6	Down
TED spread (bps)	63	55	8	Widening
U.S. Sibor/OIS spread (bps)	493	491	2	Up
U.S. Libor/OIS spread (bps)	495	493	2	Up
10-yr T-note (%)	3.50	3.47	0.03	Flat
Euribor/OIS spread (bps)	304	305	-1	Up
Currencies	Direction			
Dollar	Down			Down
Euro	Up			Up
Yen	Flat			Down
Pound	Up			Up
Franc	Flat			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.

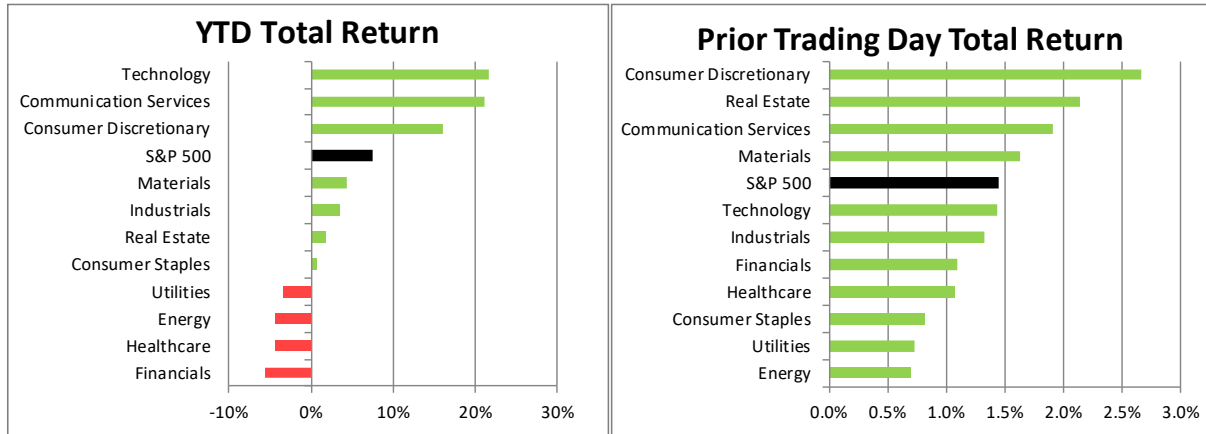
DOE Inventory Report	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$84.95	\$79.89	6.33%	Production Cuts
WTI	\$80.60	\$75.67	6.52%	Production Cuts
Natural Gas	\$2.07	\$2.22	-6.63%	Supply Optimism
Crack Spread	\$35.65	\$35.87	-0.62%	
12-mo strip crack	\$27.80	\$27.56	0.87%	
Ethanol rack	\$2.53	\$2.51	0.62%	
<b>Metals</b>				
Gold	\$1,977.20	\$1,969.28	0.40%	
Silver	\$24.00	\$24.10	-0.40%	
Copper contract	\$407.85	\$409.45	-0.39%	
<b>Grains</b>				
Corn contract	\$667.00	\$660.50	0.98%	
Wheat contract	\$706.75	\$692.25	2.09%	
Soybeans contract	\$1,516.50	\$1,505.50	0.73%	
<b>Shipping</b>				
Baltic Dry Freight	1,389	1,403	-14	

## Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures in the Pacific and Great Plains regions, with colder-than-normal temperatures in the eastern Rockies and Great Lakes region. The forecasts are calling for wetter-than-normal conditions on the East Coast and in the Southeast, with drier conditions expected in states west of the Mississippi River.

**Data Section**

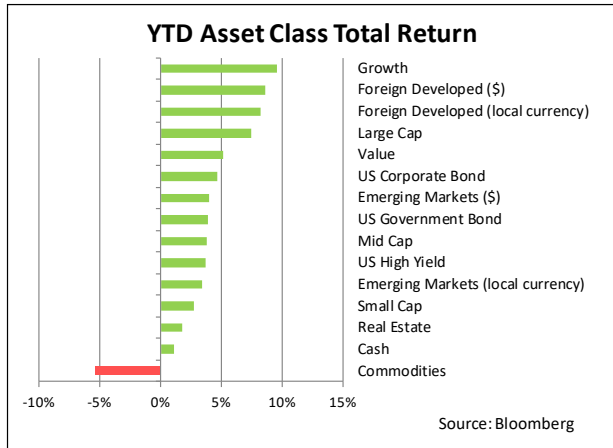
**U.S. Equity Markets – (as of 3/31/2023 close)**



(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 3/31/2023 close)**

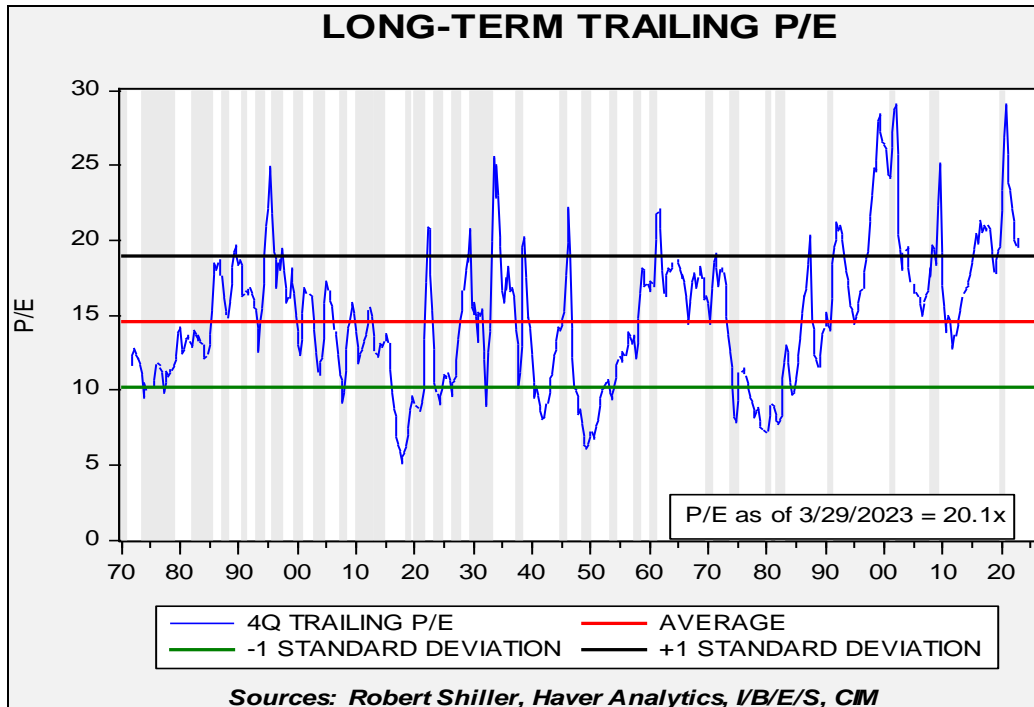


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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), U.S. Corporate Bond (iShares iBoxx \$ Investment Grade Corporate Bond ETF), U.S. Government Bond (iShares 7-10 Year Treasury Bond ETF), U.S. 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

March 30, 2023



Based on our methodology,<sup>1</sup> the current P/E is 20.1x, down 0.1 from last week. Falling index values led to the decline.

*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 I/B/E/S estimates which are updated regularly throughout the quarter; currently, the four-quarter earnings sum includes three actual quarters (Q2, Q3 and Q4) and 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.