

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 4, 2023—9:30 AM EDT] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is currently up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.5%. Chinese markets were mixed, with the Shanghai Composite closing up 0.5% and the Shenzhen Composite closing down 0.3%. U.S. equity index futures are signaling a higher open.

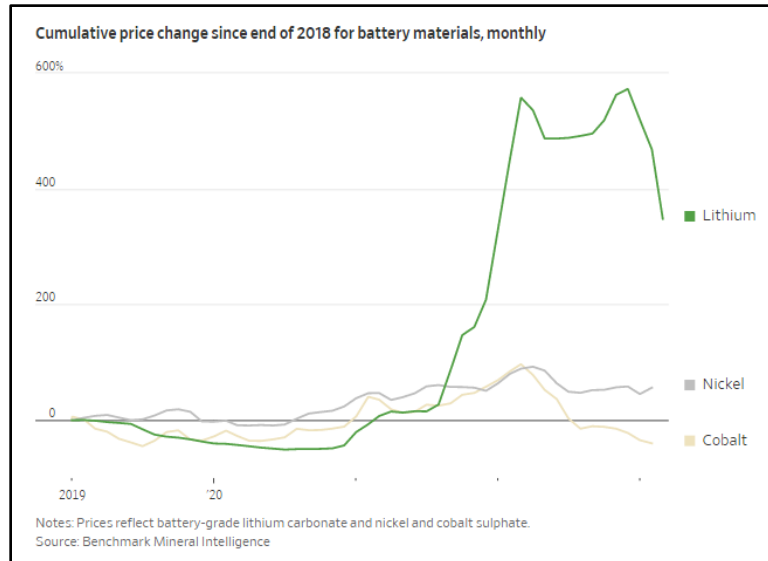
The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below, with new items of the day emphasized in bold:

- **[Bi-Weekly Geopolitical Report](#) (4/3/2023) (with associated [podcast](#)) “The Windsor Framework”**
- [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”

Our *Comment* today opens with some good news on global lithium prices and the prospect of lower costs for batteries and electric vehicles. We next review a wide range of other international and U.S. developments with the potential to affect the financial markets today, including the Australian central bank’s decision to pause its long campaign of interest-rate hikes and new signs of weakness in the U.S. commercial real estate market.

Global Lithium Market: Global lithium prices [are now down more than 30% for the year](#), partially reversing a massive two-year surge and boosting hopes that the cost of batteries and electric vehicles could come down. The drop in lithium prices stems from weaker demand for

electric automobiles, especially in China, and a decline in risk appetite as global interest rates rise. However, given that lithium is a key mineral for electric vehicle batteries, many industry leaders believe its price will eventually rebound as the world transitions away from gasoline-powered cars.



North Atlantic Treaty Organization: NATO foreign ministers who met in Brussels today [formally accepted Finland into the alliance](#). The move vastly expands NATO’s land border with Russia, makes the Baltic Sea essentially a NATO lake, strengthens the alliance’s military power, and enhances its deterrent credibility, even if Sweden’s bid to join remains held up by Turkey and Hungary.

France: As mass protests continue against President Macron’s recent pension reform decree, police trying to get control of the situation [have reportedly revived some of the tough, controversial tactics that helped them quell the country’s “yellow vest” protests in 2018](#). The tactics include preventative arrests and massive police deployments even for modest-sized protests. So far, however, it isn’t clear whether the tactics will help deflate the protests or merely add to the political fire facing Macron.

United Kingdom: So far this morning, the British pound (GBP) [has jumped to \\$1.2488, reaching its highest value in 10 months](#). The recent surge in the GBP has been driven by better-than-expected economic performance and higher interest rates in the U.K., as well as a broad drop in the value of the USD following last month’s U.S. banking crisis. With this surge, the GBP is now the best-performing major currency so far in 2023.



Source: Wall Street Journal

Australia: The Reserve Bank of Australia today [held its benchmark short-term interest rate unchanged at 3.60%](#), after 10 straight rate hikes that lifted the benchmark by 3.50% since last May. The central bank moved to pause its rate-hiking campaign even though Australian consumer prices have only recently begun to decelerate. The pause could boost expectations for a similar move by the Federal Reserve in the U.S.

China-United States: According to media reports and a Defense Department briefing yesterday, the Chinese spy balloon that traveled over the U.S. and was shot down off the coast of South Carolina in February [was maneuverable enough to hover over sensitive military sites](#), prompting the Pentagon to take evasive steps. The media reports said the balloon was able to transmit intelligence back to China in real time, although Pentagon officials would not confirm that in public. The revelations could lead to renewed concern about Chinese spying and further worsen U.S.-China tensions.

U.S. Space Exploration: Yesterday, the National Aeronautics and Space Administration [announced the four astronauts who will make up the crew of the Artemis II mission that will fly past the moon in late 2024](#). The NASA mission will mark the first human flight near the moon since 1972, with the goal of testing spacecraft systems needed for a future lunar landing. The NASA crew will consist of two U.S. men, one U.S. woman, and one Canadian man.

U.S. Water Supplies: Surveyors from the California Department of Water Resources [said yesterday that the mountain snowpack near Lake Tahoe now stands at more than 126 inches](#), the deepest snow in four decades and some of the deepest snow recorded there over the last century. Driven by this winter's nearly constant precipitation, the snowpack is expected to sharply reduce the state's drought conditions, providing a boon to industry and agriculture, but with the risk of dangerous flooding as temperatures rise.

U.S. Commercial Real Estate Market: Blackstone (BX, \$84.96) [said investors asked to redeem \\$4.5 billion from its Breit commercial real estate fund in March](#), marking the fifth straight month in which the fund has faced large redemption requests that have forced it to limit withdrawals. The big redemption requests came despite Blackstone’s conference for Breit investors last month when it argued that the recent U.S. banking crisis will create stronger long-term investment opportunities for the fund by reducing the amount of available bank loans and cutting the risk of an excess supply of properties. The news drove Blackstone’s stock down 3.3% yesterday and put further downward pressure on real estate investment trusts (REITs).

- In another sign of the weakening market for commercial real estate, data firm CoStar Group [said sales of apartment buildings in the first quarter were down a whopping 74% from the same period one year earlier](#). That marks the worst annual sales drop since the first quarter of 2009.
- The drop in multifamily transactions reflects the impact of rising interest rates, regional banking turmoil, and slowing growth in apartment rents.

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 | | | | | | |
|-------------------|--|--|-------|----------|---------|--------|
| EST | Indicator | | | Expected | Prior | Rating |
| 10:00 | JOLTS Job Openings | m/m | Feb | 10.500m | 10.824m | ** |
| 10:00 | Factory Orders | m/m | Feb | -0.5% | -1.6% | *** |
| 10:00 | Factory Orders Ex Transportation | m/m | Feb | 0.0% | 1.2% | ** |
| 10:00 | Durable Goods Orders | m/m | Feb F | -1.0% | -1.0% | *** |
| 10:00 | Durable Goods Orders Ex Transportation | m/m | Feb F | 0.0% | 0.0% | ** |
| 10:00 | Nondefense Capital Goods Orders Ex Aircraft | m/m | Feb F | | 0.2% | ** |
| 10:00 | Nondefense Capital Goods Ship Ex Aircraft | m/m | Feb F | | 0.0% | ** |
| Federal Reserve | | | | | | |
| EST | Speaker or Event | District or Position | | | | |
| 13:30 | Lisa Cook Delivers Introductory Remarks at Career Conference | Member of the Board of Governors | | | | |
| 13:45 | Susan Collins Discusses Exploring Careers in Economics | President of the Federal Reserve Bank Boston | | | | |
| 18:45 | Loretta Mester Speaks in New York | President of the Federal Reserve Bank of Cleveland | | | | |

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 | Monetary Base | y/y | Mar | 1.0% | -1.6% | | ** | Equity and bond neutral |
| | Monetary Base, End of Period | m/m | Mar | ¥675.8t | ¥651.8t | | * | Equity and bond neutral |
| New Zealand | CoreLogic House Prices | y/y | Mar | -10.5% | -8.9% | | * | Equity bullish, bond bearish |
| South Korea | CPI | y/y | Jan | 4.2% | 4.8% | 4.3% | ** | Equity and bond neutral |
| | CPI Core | y/y | Jan | 4.8% | 4.8% | | ** | Equity and bond neutral |
| EUROPE | | | | | | | | |
| Eurozone | PPI | y/y | Feb | 13.2% | 15.0% | 15.1% | ** | Equity bearish, bond bullish |
| Germany | Trade Balance | m/m | Feb | 16.0b | 16.7b | 16.0b | ** | Equity and bond neutral |
| | Exports | m/m | Feb | 4.0% | 2.1% | 2.5% | * | Equity bullish, bond bearish |
| | Imports | m/m | Feb | 1.6% | -3.4% | -1.4% | * | Equity and bond neutral |
| AMERICAS | | | | | | | | |
| Canada | S&P Global Manufacturing PMI | m/m | Mar | 48.6 | 52.4 | | *** | Equity bearish, bond bullish |
| Mexico | S&P Global Manufacturing PMI | m/m | Mar | 51.0 | 51.0 | | *** | Equity and bond neutral |
| Brazil | S&P Global Manufacturing PMI | m/m | Mar | 47.0 | 49.2 | | *** | Equity and bond neutral |
| | Trade Balance | m/m | Mar | \$10.956b | \$2.837b | \$9.092b | ** | Equity and bond neutral |
| | Exports | m/m | Mar | \$33.060b | \$20.560b | \$32.100b | * | Equity and bond neutral |
| | Imports | m/m | Mar | \$22.104m | \$17.723b | \$22.867b | * | 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) | 450 | 469 | -19 | Down |
| TED spread (bps) | 70 | 49 | 21 | Widening |
| U.S. Sibor/OIS spread (bps) | 496 | 494 | 2 | Up |
| U.S. Libor/OIS spread (bps) | 497 | 495 | 2 | Up |
| 10-yr T-note (%) | 3.47 | 3.42 | 0.05 | Flat |
| Euribor/OIS spread (bps) | 305 | 304 | 1 | Up |
| Currencies | Direction | | | |
| Dollar | Flat | | | Down |
| Euro | Flat | | | Up |
| Yen | Down | | | Down |
| Pound | Up | | | Up |
| Franc | Flat | | | Up |
| Central Bank Action | Current | Prior | Expected | |
| RBA Cash Rate Target | 3.600% | 6.300% | 3.600% | On Forecast |

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.

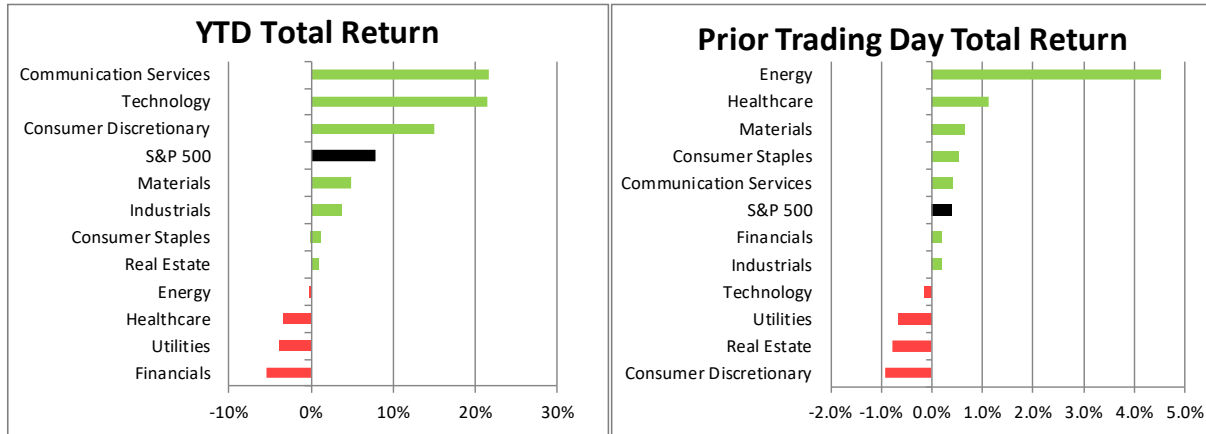
| DOE Inventory Report | Price | Prior | Change | Explanation |
|-----------------------------|---------------|-----------------|-------------------|-------------|
| Energy Markets | | | | |
| Brent | \$85.63 | \$84.93 | 0.82% | |
| WTI | \$81.13 | \$80.42 | 0.88% | |
| Natural Gas | \$2.13 | \$2.10 | 1.43% | |
| Crack Spread | \$34.04 | \$34.26 | -0.64% | |
| 12-mo strip crack | \$27.14 | \$27.23 | -0.32% | |
| Ethanol rack | \$2.56 | \$2.54 | 0.74% | |
| Metals | | | | |
| Gold | \$1,981.36 | \$1,984.65 | -0.17% | |
| Silver | \$23.97 | \$23.98 | -0.08% | |
| Copper contract | \$405.45 | \$404.55 | 0.22% | |
| Grains | | | | |
| Corn contract | \$653.25 | \$657.75 | -0.68% | |
| Wheat contract | \$697.75 | \$693.50 | 0.61% | |
| Soybeans contract | \$1,517.50 | \$1,522.00 | -0.30% | |
| Shipping | | | | |
| Baltic Dry Freight | 1,412 | 1,389 | 23 | |
| DOE Inventory Report | | | | |
| | Actual | Expected | Difference | |
| Crude (mb) | | 1.8 | | |
| Gasoline (mb) | | -2.3 | | |
| Distillates (mb) | | -1.6 | | |
| Refinery run rates (%) | | 0.6% | | |
| Natural gas (bcf) | | -54 | | |

Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures throughout the entire country, with cooler temps on the West Coast in the latter period. Additionally, the forecasts are calling for wetter-than-normal conditions on the East and West Coasts.

Data Section

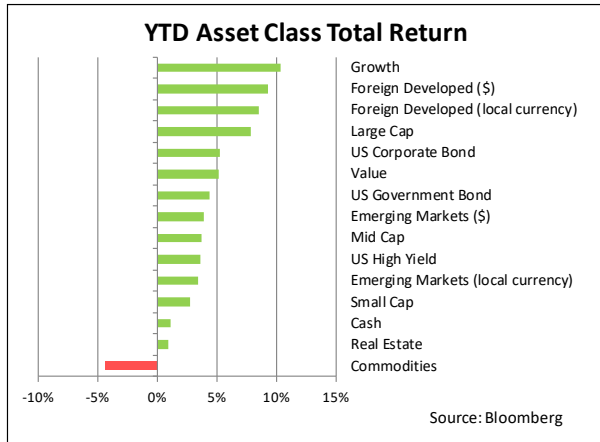
U.S. Equity Markets – (as of 4/3/2023 close)



(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 4/3/2023 close)

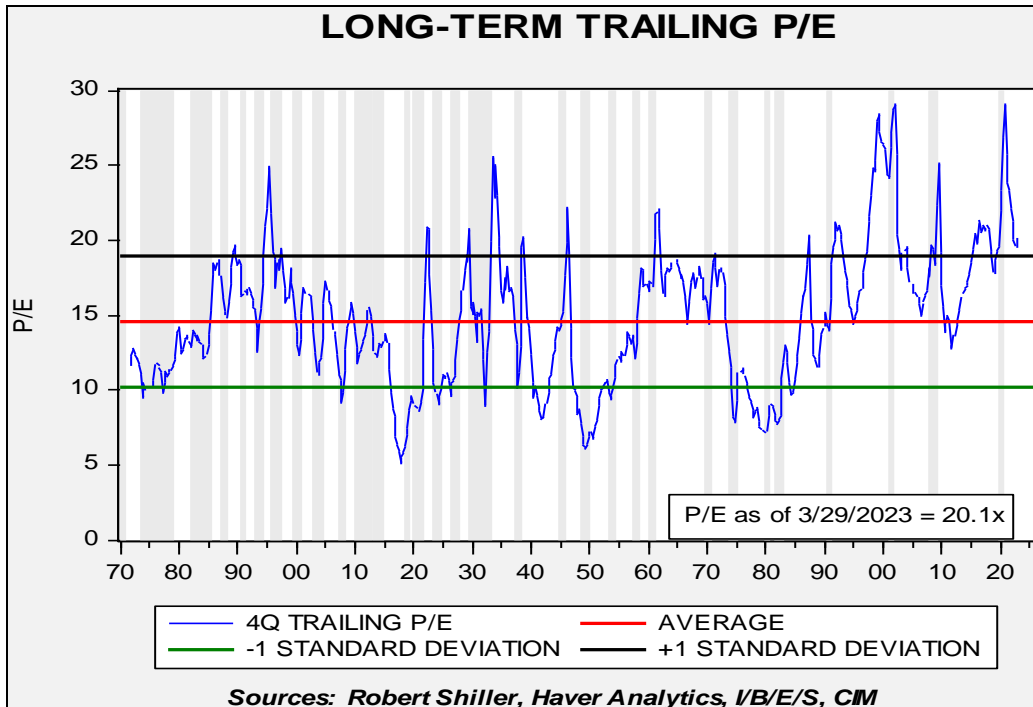


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,¹ 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.

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 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.