

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 10, 2023—9:30 AM EDT] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is currently up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.2%. Chinese markets were lower, with the Shanghai Composite closing down 0.4% and the Shenzhen Composite closing down 1.0%. 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](#) (4/3/2023) (with associated [podcast](#)) “The Windsor Framework”
- [Weekly Energy Update](#) (4/6/2023): We examine the surprise OPEC+ decision to cut output and provide our usual update of the weekly data.
- [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](#) (4/10/2023) (with associated [podcast](#)): **“Increasing Concerns About Commercial Real Estate”**
- [Confluence of Ideas podcast](#) (3/8/2023): “Reflections on Inflation”

Our *Comment* today opens with the latest on the big leak of classified U.S. intelligence documents that was discovered late last week. We next review a wide range of other international and U.S. developments with the potential to affect the financial markets today, including increased military tensions surrounding Taiwan, big new strikes in the U.K., and news that the EPA will soon propose strict new emissions rules for U.S. vehicles.

U.S. National Security Leak: U.S. officials [continue to investigate the big leak of classified Pentagon documents onto social media sites late last week](#). Over the weekend, additional documents were posted, some dealing with topics beyond the U.S. efforts to help Ukraine defend itself against Russia’s invasion. The FBI is now investigating who had access to the leaked documents, which appear to be briefing slides prepared for the Joint Chiefs of Staff. The

postings on social media show the hard-copy documents were folded and unfolded before being photographed, which would suggest that they were secretly taken out of a secure location. Although at least one of the photographs was altered to put Russia in a better light, identifying markings on the documents could help identify the culprit. One possibility is that there is a Russian mole at the Pentagon. Another possibility is that the culprit is a Russian sympathizer with access to officials high up in the Pentagon bureaucracy, or perhaps someone opposed to certain aspects of U.S. foreign policy, such as providing more aid to Ukraine.

- One document shows that the U.S. [was secretly listening in on communications between top South Korean national security officials](#) late last year when President Yoon Suk-yeol was considering whether to sell 155-mm artillery ammunition to the U.S. to replenish supplies that Washington had sent to Ukraine.
- The report showed Foreign Secretary Yi Mun-hui warned his boss, National Security Adviser Kim Sung-han, that if the ammunition were later re-sold to Ukraine, it would violate official South Korean policy not to provide lethal military goods to countries in active hostilities. Yoon ultimately approved the sale on the condition that the U.S. military would be its “end user.”
 - Both Yi and Kim later resigned for unclear reasons, suggesting they may have been forced out for pushing back against the deal.
 - If so, it would suggest Yoon went out on a limb politically to support the U.S. In turn, that would underline how much Yoon has prioritized cooperation with the U.S. as he seeks to further cement South Korea into the evolving U.S. geopolitical bloc and prepare for a potential conflict with China.

China-Taiwan-United States: China [has launched a series of military drills near Taiwan](#) to express its anger at Taiwanese President Tsai’s visit to the U.S. and her talks with House Speaker McCarthy in California last week. The Chinese military said on Saturday that the drills would aim to test its ability to “seize control of the sea, air and information” in the area, and that they would [involve a wide range of naval, air, missile, and electronic-warfare assets](#). Nevertheless, the drills appear to be somewhat smaller and less threatening to Taiwan than the exercises China launched last summer after former House Speaker Pelosi visited the island itself.

China: Ten Chinese companies [had their initial public offerings today](#), marking the first batch of IPOs under a new set of listing rules for Shanghai and Shenzhen. The average first-day gain for the new stocks was 96%, suggesting the rules still aren’t producing an efficient market for new listings.

Saudi Arabia-Yemen: A Saudi delegation [has arrived in Yemen to begin negotiations with that country’s Iranian-backed Houthi rebels](#). The development is one result of the recent Chinese-brokered rapprochement between Saudi Arabia and Iran. Saudi Arabia’s involvement in ending Yemen’s civil war could also help ease tensions between Riyadh and Washington.

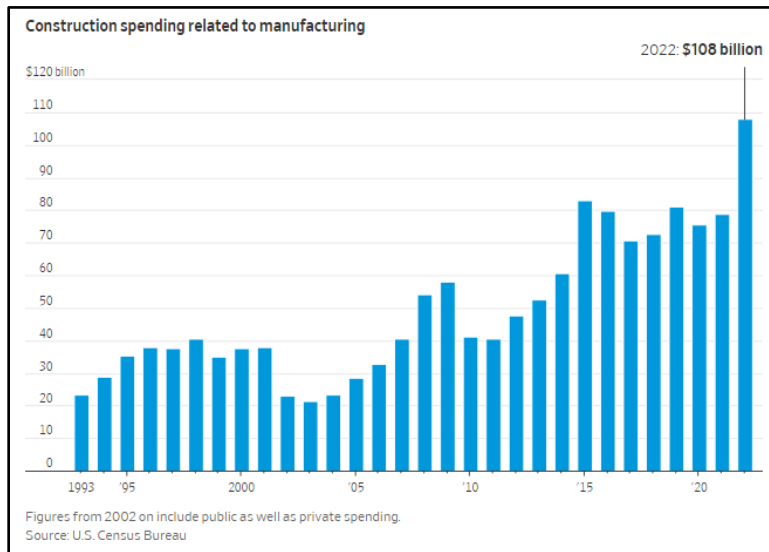
United Kingdom: The British government [continues to face big, disruptive strikes by public sector workers who are seeking higher pay](#). Tomorrow, junior physicians plan to launch a four-day walkout across England for a 35% pay hike. Meanwhile, passport workers last week

launched a five-week strike, and additional strikes are feared in education after teaching unions recently rejected the government’s offer of a 4.5% pay rise and a £1,000 one-off payment.

Brazil: Now that leftist President Luiz Inácio Lula da Silva is back in power, a radical agrarian rights group known as the Landless Workers’ Movement [said it expects to step up its use of “land invasions,” where it illegally occupies rural land to assert control over it](#) and push out private owners. Increased land invasions would be a threat to Brazil’s important agribusiness sector and could touch off increased political tensions within the country.

U.S. Environmental Regulation: Next week, the Environmental Protection Agency reportedly [plans to propose extensive new limits on vehicle tailpipe emissions in order to push U.S. auto makers toward making and selling more electric-vehicles](#). The stringent new rules are expected to apply to model years from 2027 to 2032.

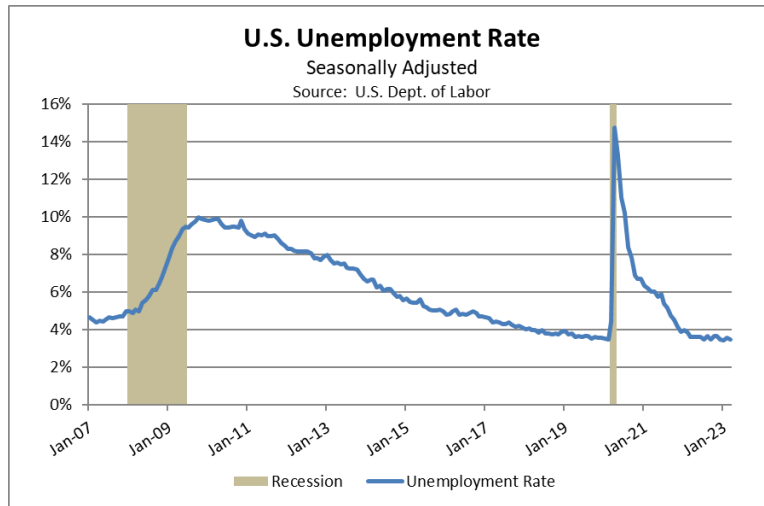
U.S. Manufacturing Industries: New analysis shows U.S. manufacturing capacity last year [grew at its fastest rate since 2015](#), driven by the extensive new construction of factories and related facilities. The increase in factory construction is consistent with our belief that deglobalization, the fracturing of the world into relative separate geopolitical and economic blocs, and increased international tensions will all tend to drive a new period of re-industrialization in the U.S.



U.S. Economic Releases

The March employment report was released while many investors were out of touch for the Good Friday holiday, so we’ll provide a quick recap of it here. March nonfarm payrolls [increased by a seasonally adjusted 236,000, following revised gains of 326,000 in February and 472,000 in January](#). The employment gain in March was historically strong, but it was still the weakest since an outright decline in December 2020. The March unemployment rate fell to a very low 3.5%, but other aspects of the report showed a huge influx of people into the labor market last month, which increased the labor force participation rate and apparently helped hold

down wages. Average hourly earnings in March were up just 4.2% year-over-year, marking their slowest annual rise since June 2021. Overall, the report was strong enough that it will probably encourage the Fed policymakers to hike their benchmark fed funds interest rate at least one more time at their upcoming meeting in May. The chart below shows how the unemployment rate has changed since just before the prior recession.



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	Wholesale Trade Sales	m/m	Feb	0.9%	1.0%	**
10:00	Wholesale Inventories	m/m	Feb F	0.2%	0.2%	***
Federal Reserve						
EST	Speaker or Event	District or Position				
16:15	John Williams Takes Part in a Moderated Discussion	President of the Federal Reserve Bank of New York				

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	Household Spending	y/y	Feb	1.6%	-0.3%	4.8%	*	Equity bearish, bond bullish
	Leading Economic Index	m/m	Feb P	97.7	96.6	97.5	**	Equity and bond neutral
	BoP Current Account Balance	m/m	Feb	¥2197.2b	-¥1976.6b	-¥1989.3b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Feb	-¥604.1b	-¥3181.8b	-¥517.8b	**	Equity and bond neutral
South Korea	BoP Current Account Balance	m/m	Feb	-\$518.4m	-\$4516.7m	-\$4212.3m	**	Equity and bond neutral
	BoP Goods Balance	m/m	Feb	-\$1295.7m	-\$7461.3m	-\$7321.2m	*	Equity and bond neutral
EUROPE								
France	Trade Balance	m/m	Feb	-€9904m	-€12939m	-€12538m	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	31-Mar	\$593.9b	\$594.6b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	31-Mar	16.86t	16.88t		*	Equity and bond neutral
	Official Reserve Assets	m/m	Mar	593.9b	574.2b		*	Equity and bond neutral
	GDP	y/y	4Q P	-2.7%	-3.7%	-3.5%	*	Equity bullish, bond bearish
AMERICAS								
Canada	Net Change in Employment	m/m	Mar	34.7k	21.8k	7.5k	***	Equity bullish, bond bearish
	Unemployment Rate	m/m	Mar	5.0%	5.0%	5.1%	***	Equity and bond neutral
	Participation Rate	m/m	Mar	65.6%	65.7%	65.7%	*	Equity and bond neutral
Brazil	FGV Inflation IGP-DI	y/y	Mar	-1.16%	1.53%	-0.93%	**	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)	520	521	-1	Up
3-mo T-bill yield (bps)	469	474	-5	Up
TED spread (bps)	51	47	4	Widening
U.S. Sibor/OIS spread (bps)	497	497	0	Up
U.S. Libor/OIS spread (bps)	498	498	0	Up
10-yr T-note (%)	3.37	3.40	-0.03	Flat
Euribor/OIS spread (bps)	308	306	2	Up
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Down			Down
Pound	Down			Up
Franc	Down			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.

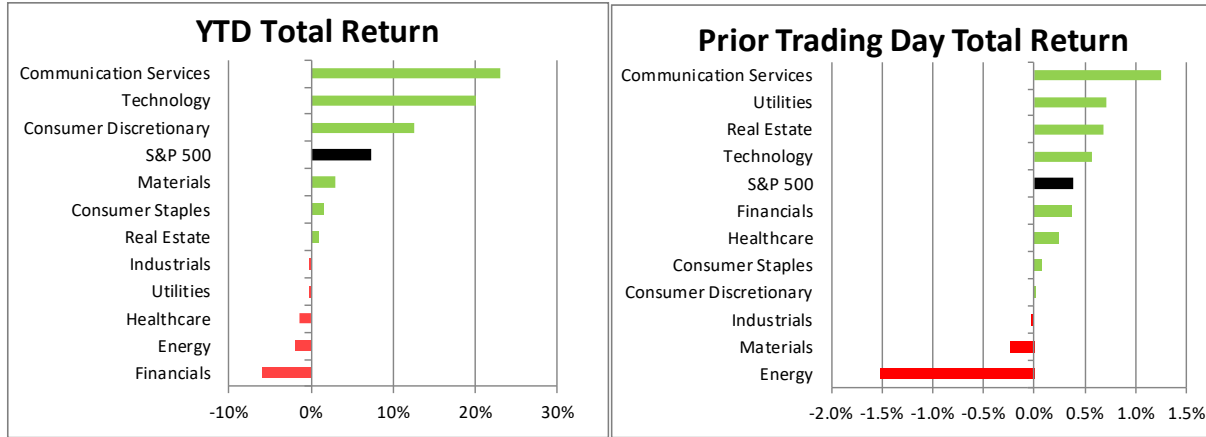
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$85.12	\$85.12	0.00%	
WTI	\$80.73	\$80.70	0.04%	
Natural Gas	\$2.05	\$2.01	1.89%	
Crack Spread	\$34.89	\$35.55	-1.86%	
12-mo strip crack	\$27.66	\$28.03	-1.31%	
Ethanol rack	\$2.55	\$2.55	0.00%	
Metals				
Gold	\$2,001.41	\$2,007.91	-0.32%	
Silver	\$25.04	\$24.98	0.23%	
Copper contract	\$402.05	\$401.55	0.12%	
Grains				
Corn contract	\$644.00	\$643.50	0.08%	
Wheat contract	\$679.50	\$675.50	0.59%	
Soybeans contract	\$1,497.50	\$1,492.50	0.34%	
Shipping				
Baltic Dry Freight	1,560	1,525	35	

Weather

The 6-10 and 8-14 day forecasts currently call for cooler-than-normal temperatures throughout most of the nation, with warmer temperatures along the East Coast. The forecasts are calling for wetter-than-normal conditions to extend from the South into the Mississippi Valley, with dry conditions expected for most of the Southern Pacific and Great Lakes regions.

Data Section

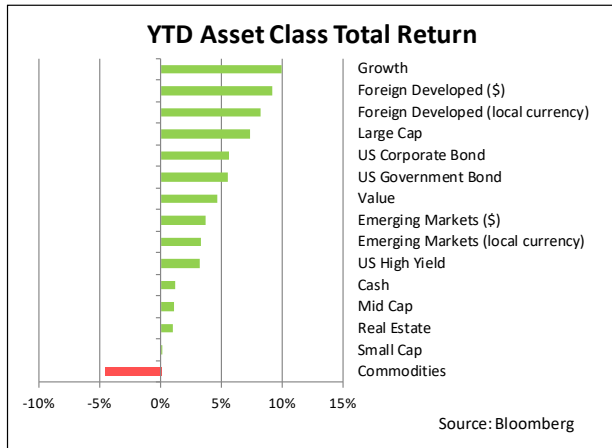
U.S. Equity Markets – (as of 4/6/2023 close)



(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 4/6/2023 close)

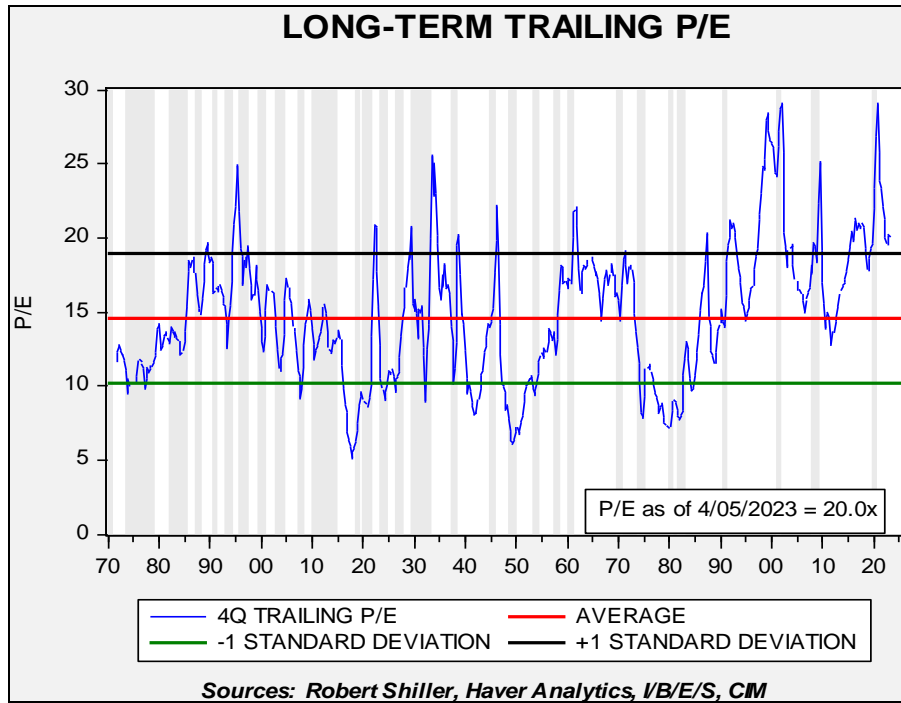


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

April 6, 2023



We move to Q2 this week; based on our methodology,¹ the current P/E is 20.0x, down 0.1 from last week.

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 two actual quarters (Q3 and Q4) and two estimates (Q1 and Q2). 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.