

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 17, 2023—9:30 AM EDT] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is currently down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.3%. Chinese markets were higher, with the Shanghai Composite closing up 1.4% from its previous close and the Shenzhen Composite closing up 0.2%. U.S. equity index futures are signaling a flat open.

With 30 companies having reported so far, S&P 500 earnings for Q1 are running at \$50.50 per share, compared to estimates of \$50.89. Of the companies that have reported thus far, 80.0% have exceeded expectations while 20.0% have fallen short of expectations.

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](#) (4/13/2023): The EIA issued its short-term energy forecast and the EPA offers proposed regulations that would accelerate EV adoption.
- [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 an apparent assassination attempt against Japanese Prime Minister Kishida. Although Kishida escaped unharmed, the security failure raises concerns for leaders attending the Group of Seven (G7) summit in Japan next month. We next review a wide range of other international and U.S. developments with the potential to affect the financial markets today, including signs that China’s first-quarter economic growth will come in healthy when it’s released tomorrow and new evidence suggesting the U.S. is about to experience a rebound in manufacturing activity.

Japan: Prime Minister Kishida [was apparently the target of an attempted explosives attack](#) as he prepared to deliver a stump speech for a local by-election near the southwestern city of Osaka on Saturday. The assailant's pipe bomb landed just feet from Kishida, but security personnel whisked him away before it exploded, and the prime minister was not injured.

- Coming just nine months after Former Prime Minister Abe was assassinated by an assailant with a homemade gun, the incident on Saturday points to continuing gaps in the security for Japanese leaders.
- Moreover, the incident raises questions about the security environment for the global leaders who will attend a G7 summit in Hiroshima next month.

China: Numerous signs [indicate that tomorrow's report on first-quarter gross domestic product will be in line with the government's goal of 5% growth this year](#). New data today showed that March new home prices were up 0.5% month-over-month, accelerating from a rise of 0.3% in February and marking their strongest increase in almost two years. The People's Bank of China also kept its one-year medium-term lending facility interest rate unchanged at 2.75% today rather than cutting it, and last week the government announced better-than-expected export growth. Continued economic recovery from China's pandemic lockdowns will likely be positive for global stocks and commodity prices, at least in the near term.

Turkey: National oil champ Turkish Petroleum [will begin shipments this week from its new Sakarya gas field, just three years after the discovering the deposit](#). According to President Erdoğan, supplies from the new gas field will help slash energy costs for Turkish consumers and businesses. The timing of the announcement was probably driven by President Erdoğan, who is at risk of losing his bid for a new term in office in the May 14 elections.

- Erdoğan's electoral strategy is to tout his achievements in completing key economic projects and making Turkey a stronger player in global politics.
- Last week, Erdoğan also [presided at a ribbon-cutting for the Turkish navy's new flagship](#), the TCG Anadolu. The landing ship, which can carry helicopters and armed drones, is Turkey's largest ever naval ship.

Poland-Hungary-Ukraine: Faced with a glut of imports from Ukraine due to the European Union's policies to help the country deal with the Russian invasion, the Polish and Hungarian governments [have announced a temporary ban on Ukrainian grain](#) despite EU warnings that they could be violating the bloc's trade policy. The grain shipments were supposed to be re-exported to the Middle East and Africa but have been bottled up in Poland and Hungary due to a lack of truck and train capacity.

Russia-Ukraine War: Reports indicate a Russian power station in the southern border region of Belgorod [was knocked off line by an apparent Ukrainian drone strike](#). Ukraine has staged numerous attacks on military sites within Russia, but today's strike seems to mark an expansion of its attacks. By shutting off power to Russian citizens, it broadens the impact of the attacks, potentially undermining Russian citizens' confidence in the war effort and perhaps sparking stronger retaliation by the Russian military.

United Kingdom: As the West continues to worry about China’s stranglehold on the rare minerals needed for future energy technologies, British geologists [have identified eight sites in the U.K. that have the right geology to potentially yield 18 key metals and minerals](#), including cobalt and lithium. The mapping marks the first time the U.K. has systematically identified geological potential for the resources needed to produce electric car batteries, semiconductors, and wind turbines. The sites will still need to be explored, and any commercially viable deposits would probably take more than a decade to develop.

Sudan: Over the weekend, military forces led by two rival generals [began attacking each other in the capital Khartoum and elsewhere in the country](#), dashing hopes that the country could continue its transition to democracy after the country’s armed forces toppled its dictator in a 2019 coup. Continued political instability opens the country to further interference from Russia and other countries that would want to take advantage of its strategic location in northeastern Africa.

U.S. Intelligence Leak: New reporting indicates the classified U.S. intelligence documents posted by Air National Guardsman Jack Teixeira in his chat room [were further disseminated by a pro-Russian blogger who had been in the U.S. Navy until late last year](#). The revelation adds to concerns that the U.S. military could be infiltrated with Russia sympathizers who are willing to undermine the U.S. and potentially put U.S. military and government personnel at risk. Such concerns could encourage even stronger U.S. government action against authoritarian states such as China, Russia, and Iran.

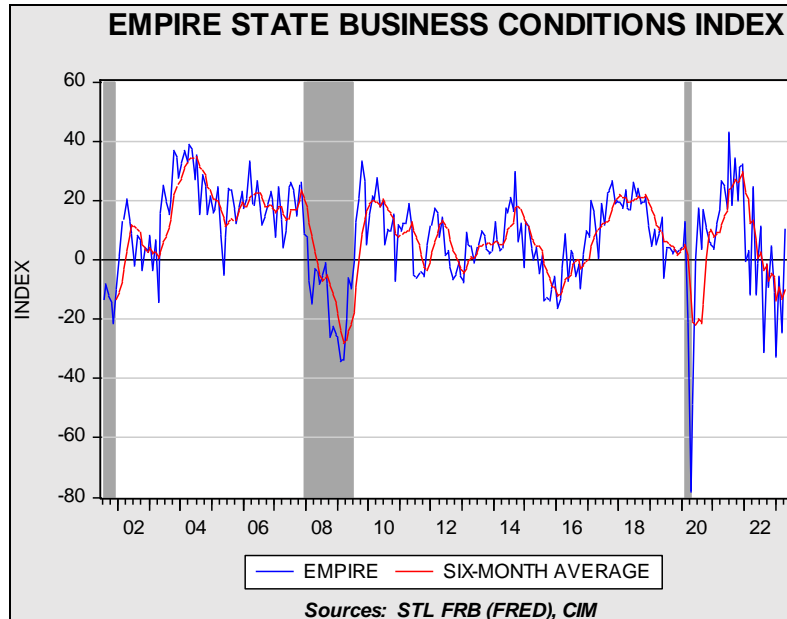
U.S. Industrial Policy: New research by the *Financial Times* suggests the U.S. [is about to enjoy a manufacturing boom sparked by the \\$400 billion or so in subsidies provided in last year’s Inflation Reduction Act and CHIPS Act](#). The research identifies more than 75 large-scale factory commitments that will take advantage of the laws, which will create about 82,000 jobs.

- The research is consistent with our view that deglobalization, increased defense spending, and Washington’s new embrace of industrial policy will prompt significant re-industrialization in the U.S., creating new investment opportunities while also imposing such costs as higher interest rates and the risk of malinvestment.
- Even though Republicans largely opposed the two industrial policy measures and continue to criticize them, the analysis indicates more than 75% of the investments identified so far will be in Republican-held congressional districts, where they will create some 58,000 jobs. If true, that could eventually boost Republican support for the laws and ensure they have political support going forward.

U.S. Bank Regulation: According to officials attending the International Monetary Fund’s annual meeting last week, the banking crises last month in the U.S. and Europe [could prompt the Basel Committee on Banking Supervision to try enforcing its strictest regulations on small and mid-sized U.S. banks](#) that are currently exempt. The possible change would expand the Basel Committee’s reach beyond those that are just “internationally active” to those that are “internationally relevant.” Such a move could impose greater compliance costs on smaller banks and reduce their profitability and lending activity.

U.S. Economic Releases

Manufacturing activity in New York expanded for the first time in five months. The Federal Reserve Bank of New York's general business conditions index surged from -18.0 to +10.8 this month. The reading was well above estimates of -18.0, and the contraction signal of zero.



The chart above shows the index along with its six-month moving average. The surprise reading was due to a major jump in new orders which rose to 46.8 compared to 25.1 in the previous month. There were also improvements in the price paid by suppliers which fell by 9 points. Despite the overall improvement in the index, the employment gauge fell for the third consecutive month, adding to speculation that the economy is slowing.

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	NAHB Housing Market Index	m/m	Apr	45.0	44.0	**
16:00	Net Long-term TIC Flows	m/m	Feb		\$31.9b	**
16:00	Total Net TIC Flows	m/m	Feb		\$183.1b	**
Federal Reserve						
No Fed speakers or events for the rest of today						

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								
New Zealand	Food Prices	m/m	Mar	0.8%	1.5%		***	Equity and bond neutral
	Wholesale Prices	y/y	Mar	1.3%	3.9%	1.6%	**	Equity and bond neutral
EUROPE								
Italy	CPI, EU Harmonized	y/y	Mar	8.1%	8.2%	8.2%	***	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	14-Apr	515.7b	499.4b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	14-Apr	544.1b	532.2b		*	Equity and bond neutral
AMERICAS								
Canada	Manufacturing Sales	m/m	Feb	-3.6%	4.1%	-2.7%	**	Equity bearish, bond bullish
Brazil	FGV Inflation IGP-10	y/y	Apr	-0.58%	0.05%		*	Equity and bond neutral
	Economic Activity Index	y/y	Jan	3.03%	1.42%	1.90%	**	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)	526	526	0	Up
3-mo T-bill yield (bps)	490	492	-2	Up
TED spread (bps)	36	34	2	widening
U.S. Sibor/OIS spread (bps)	504	502	2	Up
U.S. Libor/OIS spread (bps)	506	504	2	Up
10-yr T-note (%)	3.56	3.52	0.04	Flat
Euribor/OIS spread (bps)	318	318	0	Up
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Down			Down
Pound	Flat			Up
Franc	Flat			Up
Central Bank Action	Current	Prior	Expected	
PBOC 1-Year Med-Term Lending Facility	2.750%	2.750%	2.750%	On Forecast
PBOC 1-Year Med-Term Lending (Bil.)	170.0b	481.0b	220.0b	Below 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.

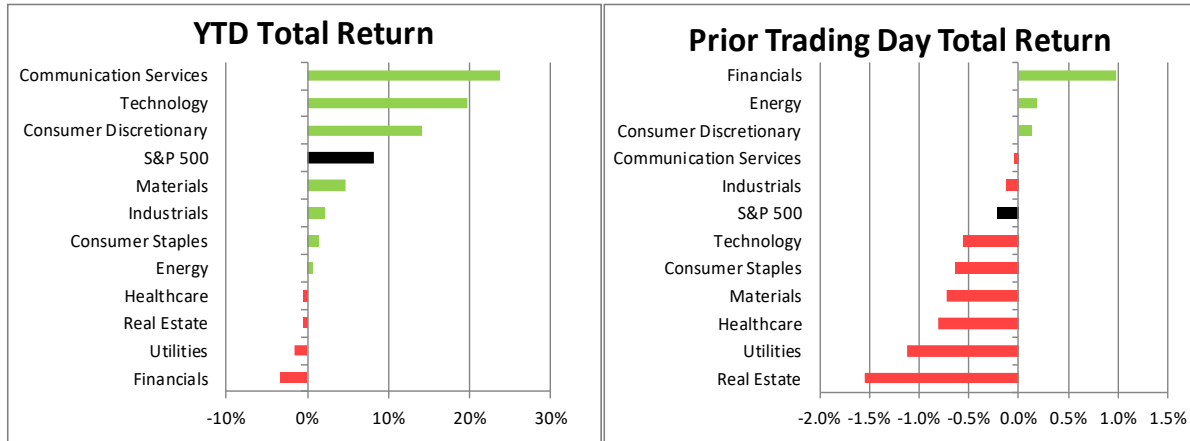
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$85.75	\$86.31	-0.65%	
WTI	\$81.91	\$82.52	-0.74%	
Natural Gas	\$2.25	\$2.11	6.24%	
Crack Spread	\$33.25	\$33.76	-1.50%	
12-mo strip crack	\$26.73	\$27.06	-1.25%	
Ethanol rack	\$2.57	\$2.57	0.24%	
Metals				
Gold	\$2,003.94	\$2,004.17	-0.01%	
Silver	\$25.44	\$25.35	0.36%	
Copper contract	\$409.10	\$410.60	-0.37%	
Grains				
Corn contract	\$636.00	\$635.75	0.04%	
Wheat contract	\$695.00	\$692.50	0.36%	
Soybeans contract	\$1,475.00	\$1,467.25	0.53%	
Shipping				
Baltic Dry Freight	1,435	1,463	-28	

Weather

The 6-10 and 8-14 day forecasts currently call for cooler-than-normal temperatures for most of the country, with warmer temps in the Southwest and Florida. The forecasts are calling for wetter-than-normal conditions along the East Coast and Southwest.

Data Section

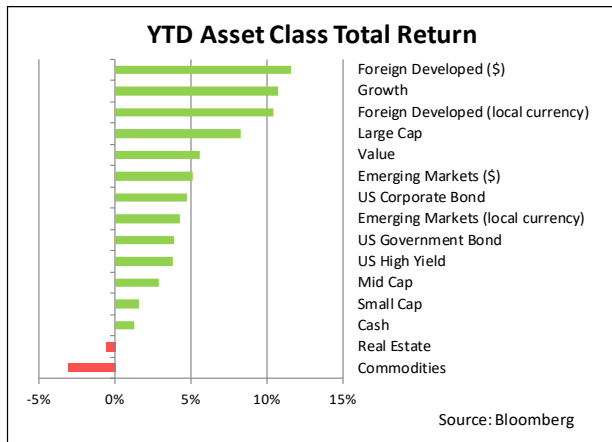
U.S. Equity Markets – (as of 4/14/2023 close)



(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 4/14/2023 close)

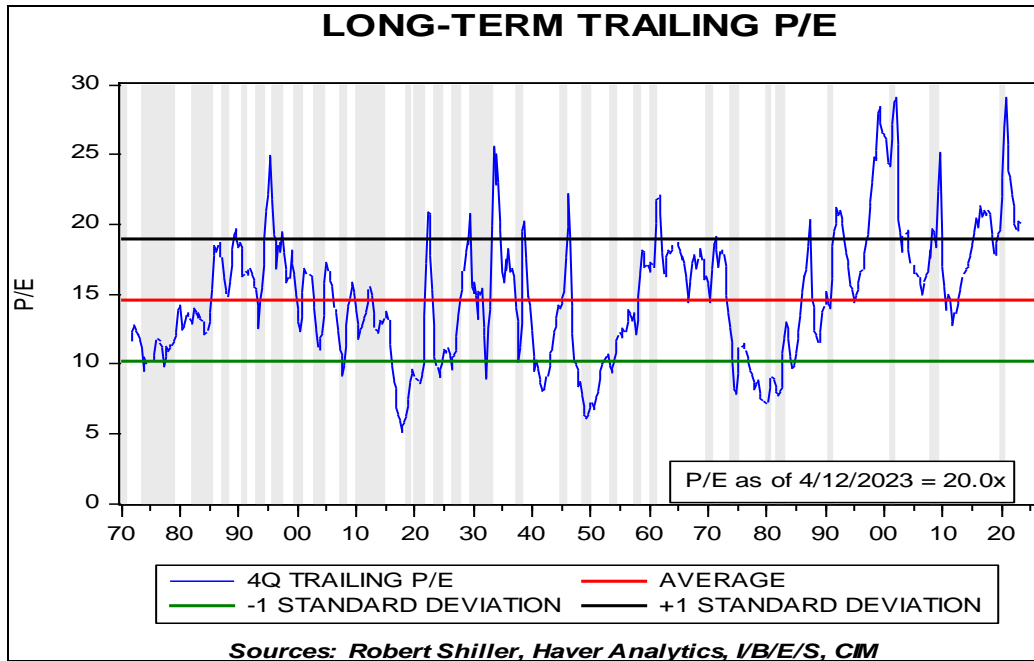


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 13, 2023



Based on our methodology,¹ the current P/E is 20.0x, unchanged 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.