

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 19, 2023—9:30 AM EDT] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is currently down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.3%. Chinese markets were lower, with the Shanghai Composite closing down 0.7% from its previous close and the Shenzhen Composite closing down 0.6%. U.S. equity index futures are signaling a lower open.

With 40 companies having reported so far, S&P 500 earnings for Q1 are running at \$50.80 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](#)** (4/17/2023) (with associated [podcast](#)) “U.S. Intelligence Sharing as a Tool of International Relations”
- [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”

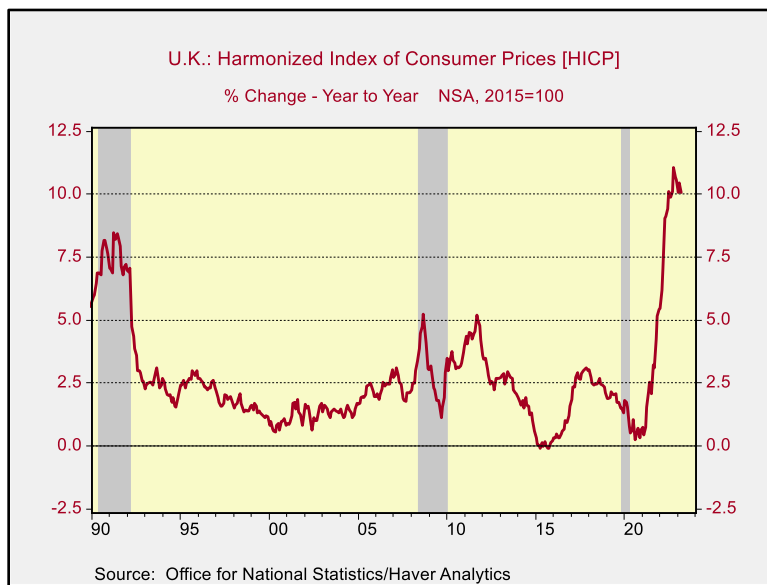
Our *Comment* today opens with several new initiatives in European economic policy, including subsidies for semiconductor manufacturing and a tax on imports tied to greenhouse gas emissions. We next review a range of other international and U.S. developments with the potential to affect the financial markets today, including a report on consumer price inflation in Britain that has raised concerns about more interest-rate hikes in the advanced countries.

EU Industrial Policy: The European Commission [formally unveiled its proposed “EU Chips Act” yesterday, which would provide some €43 billion \(\\$47 billion\) in subsidies and other assistance](#) for semiconductor manufacturers operating in the EU. The support represents an attempt to compete with the subsidies in last year’s U.S. Chips Act and could make the EU more self-sufficient in both commoditized and advanced computer chips. The proposed program also illustrates how it has become more acceptable for governments to use active “industrial policy” to offer protections and backing for certain industries.

EU Environmental Regulation: The EU parliament [approved a first-of-its-kind law yesterday that will tax imports into the bloc based on the greenhouse gases emitted to make them](#). The new legislation is designed to make sure that EU manufactured goods are not put at a competitive disadvantage by imports from countries with looser, less costly environmental regulations.

Eurozone Bank Health: Concerns [are growing ahead of the late-June expiration of the European Central Bank’s pandemic bank-support program known as “targeted longer-term refinancing operations,”](#) or TLTROs. Expiration of the program will require banks in the Eurozone to repay hundreds of billions of euros back to the ECB, replacing them with more costly sources of funding. Many banks, especially some in Italy, may find it challenging to raise the required liquidity.

United Kingdom: The March consumer price index [came in 10.1% higher than in the same month one year earlier, marking a modest deceleration from the 10.4% rise in the year to February](#) but dashing expectations that inflation would finally fall into single digits. Excluding the volatile food and energy components, the core CPI in March was up 6.2% on the year, just as it was in February. The report has rekindled concerns about continued high inflation and additional interest-rate hikes throughout the advanced countries in the coming months, which are weighing on global stock markets so far this morning.



Turkey: An in-depth article in the *Wall Street Journal* yesterday [linked the massive devastation and loss of life from the country's February earthquakes to a systemic weakening of building regulations](#) as President Erdoğan relied on construction to goose the economy and boost his political support over the last two decades.

- The article shows that the government's deliberate easing of building rules and failure to prosecute rule-breaking likely resulted in tens of thousands of building collapses and deaths during the quakes.
- Since Erdoğan is now so closely identified with the construction boom of the last two decades, the scandal about building regulations is a key threat to his re-election prospects when the nation goes to the polls on May 14.

India: The United Nations Population Division [released new data today showing that India has now overtaken China as the world's most populous country](#). Reflecting its higher birth rate, India's estimated population now stands at 1.428 billion, while China, with its low birth rate, has an estimated population of 1.425 billion. Meanwhile, technology giant Apple (AAPL, \$166.47) [opened its first retail store in India yesterday](#), further expanding its commitment to the country after its recent opening of manufacturing facilities there. The population data and the move by Apple are being taken as further validation of India's increasingly attractive investment prospects compared with China.

Mexico: The Supreme Court [invalidated part of a law pushed by President Andrés Manuel López Obrador last year that put the country's national guard under the military's control](#). The ruling is a strong rebuke to the president's penchant for putting more government functions under the control of the military and means that the national guard must now remain under civilian control. While the president argues correctly that the Mexican military is one of the country's most efficient and competent institutions, putting more government functions in its control raises concerns about transparency and whether the military is being given jobs for which it is poorly equipped, including local policing.

China-Taiwan-United States: Admiral John Aquilino, the head of U.S. Indo-Pacific command, said in testimony before Congress yesterday that he [would not join his fellow top military officials in speculating about when China might try to seize control of Taiwan](#) and spark a war with the U.S. However, Aquilino did say the Defense Department and defense industry need to accelerate their efforts to boost U.S. military power in order to deter China. We continue to believe that increased geopolitical frictions will boost global defense spending in the coming years, presenting attractive opportunities for investors, but Aquilino's statement matches our concern that the U.S. military buildup still appears to lack urgency.

U.S. Financial Regulation: In testimony before the House Financial Services Committee yesterday, Securities and Exchange Commissioner Gensler [was heavily criticized by Republicans for his efforts to crack down on the cryptocurrency markets](#). In response, Gensler stated that crypto companies flout regulations worse than any firms he has ever seen. The exchange points to continued muddled enforcement efforts by the SEC and prolonged political pushback in Congress.

U.S. Media Industry: Yesterday, Fox Corporation (FOX, \$31.20) [agreed to pay \\$787.5 million to settle its legal conflict with Dominion Voting Systems](#) just before the start of a trial on the voting-machine company’s allegations that it was defamed by Fox News after the 2020 presidential election. The settlement avoids a court case that could have ultimately clarified and tightened the legal responsibilities of media companies in potential defamation cases. All the same, the big payment to settle the case is a shot over the bow of media firms and could make them more cautious about how they report on political news going forward.

U.S. Economic Releases

A sharp increase in borrowing costs sapped demand for residential loans last week. According to an index tracked by the Mortgage Bankers Association, mortgage applications fell 8.8% in the week ending April 14, after rising 5.3% in the prior week. The decline in mortgage requests was related to a surge in lending rates after the average 30-year fixed-rate mortgage rose 13 bps from 6.30% to 6.43%. As a result, the MBA tracker related to purchases fell 10.0% from the previous week, while the refinance tracker fell 5.8% in the same period.

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		
Federal Reserve		
EST	Speaker or Event	District or Position
14:00	Federal Reserve Releases Beige Book	Federal Reserve Board
17:30	Austan Goolsbee Interviewed on Marketplace	President of the Federal Reserve Bank of Chicago
18:00	John Williams Speaks in New York	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	Capacity Utilization	m/m	Feb	3.9%	-5.5%		**	Equity and bond neutral
	Industrial Production	y/y	Feb F	4.6%	-0.6%		***	Equity bullish, bond bearish
Australia	NAB Business Conditions	m/m	Mar	-0.01%	-0.06%		**	Equity and bond neutral
EUROPE								
Eurozone	Current Account	m/m	Feb	€24.3 b	€17.1 b		**	Equity bullish, bond bearish
	Construction output	y/y	Feb	2.3%	0.9%		*	Equity and bond neutral
	CPI	y/y	Mar F	5.7%	6.9%		***	Equity bearish, bond bullish
	Core CPI	y/y	Mar F	5.7%	5.7%		***	Equity and bond neutral
Germany	ZEW Survey Expectations	m/m	Apr	4.1	13.0		**	Equity and bond neutral
	ZEW Survey Current Situation	m/m	Apr	-32.5	-46.5		**	Equity and bond neutral
UK	CPI	y/y	Mar	10.1%	10.4%	9.8%	***	Equity bearish, bond bullish
	Core CPI	y/y	Mar	6.2%	6.2%	6.0%	***	Equity and bond neutral
	RPI	y/y	Mar	13.5%	13.8%	13.3%	**	Equity and bond neutral
AMERICAS								
Canada	CPI	y/y	Mar	4.30%	5.20%		***	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	14-Apr	\$202991m	\$203089m		*	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)	527	526	1	Up
3-mo T-bill yield (bps)	494	498	-4	Up
TED spread (bps)	32	28	4	widening
U.S. Sibor/OIS spread (bps)	506	505	1	Up
U.S. Libor/OIS spread (bps)	508	506	2	Up
10-yr T-note (%)	3.63	3.58	0.05	Flat
Euribor/OIS spread (bps)	320	322	-2	Up
Currencies	Direction			
Dollar	Up			Flat
Euro	Down			Up
Yen	Down			Down
Pound	Flat			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.

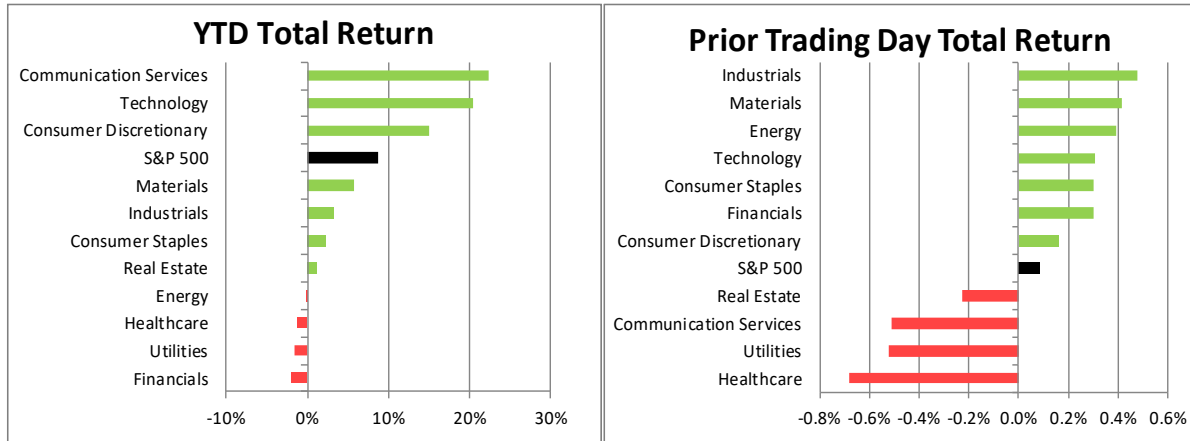
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$83.22	\$84.77	-1.83%	Demand Pessimism
WTI	\$79.40	\$80.86	-1.81%	
Natural Gas	\$2.34	\$2.37	-1.31%	
Crack Spread	\$32.41	\$32.31	0.32%	
12-mo strip crack	\$26.31	\$26.35	-0.16%	
Ethanol rack	\$2.56	\$2.56	-0.09%	
Metals				
Gold	\$1,974.41	\$2,005.45	-1.55%	Strong dollar expectations
Silver	\$24.80	\$25.19	-1.57%	
Copper contract	\$404.60	\$409.65	-1.23%	
Grains				
Corn contract	\$640.75	\$644.50	-0.58%	
Wheat contract	\$700.75	\$709.50	-1.23%	
Soybeans contract	\$1,486.00	\$1,491.00	-0.34%	
Shipping				
Baltic Dry Freight	1,368	1,412	-44	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-0.9		
Gasoline (mb)		-2.0		
Distillates (mb)		-1.2		
Refinery run rates (%)		-0.30%		
Natural gas (bcf)		70		

Weather

The 6-10 and 8-14 day forecasts currently call for cooler-than-normal temperatures for most of the country, with warmer temperatures in the Southwest and the Pacific. The forecasts are calling for wetter-than-normal conditions throughout most of the South and states east of the Great Plains.

Data Section

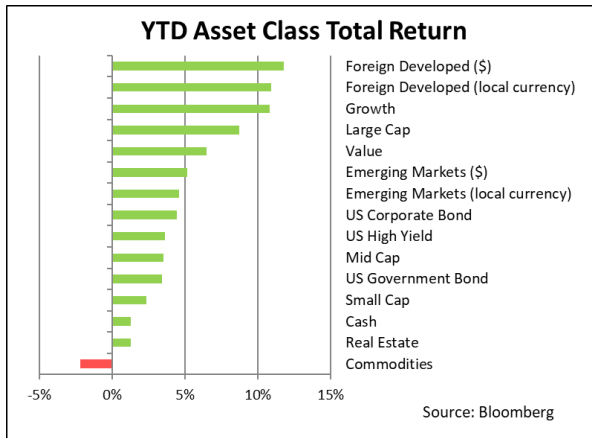
U.S. Equity Markets – (as of 4/18/2023 close)



(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 4/18/2023 close)

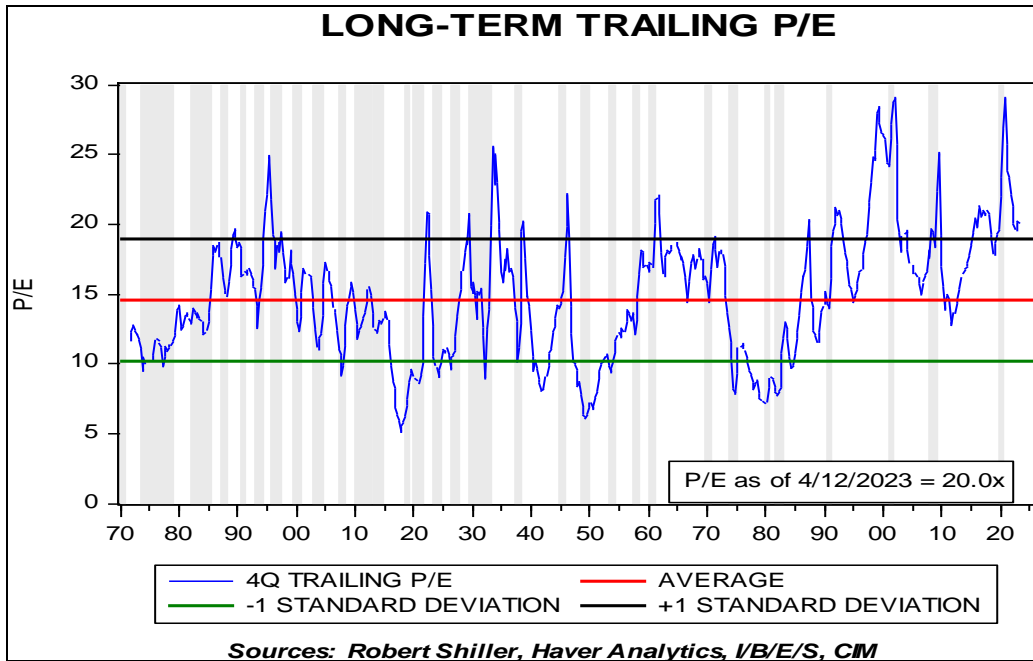


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.