

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 1, 2024—9:30 AM EDT] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is essentially unchanged from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.4%. Chinese markets were higher, with the Shanghai Composite up 1.2% from its previous close and the Shenzhen Composite up 2.8%. US 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](#) (3/25/2024) (with associated [podcast](#)): “Venezuela Threatens Guyana”
- [Asset Allocation Quarterly – Q1 2024](#) (1/26/2024): Discussion of our asset allocation process, Q1 2024 portfolio changes, and our outlook for the markets.
- [Asset Allocation Q1 2024 Rebalance Presentation](#) (2/5/2024): Video presentation featuring the Asset Allocation Committee as they review the asset allocation strategies, recent portfolio changes, and the current macro environment.
- **[Asset Allocation Bi-Weekly](#) (4/1/2024) (no associated podcast for this report): “Gold, Gold Miners, and Central Banks”**
- [The 2024 Outlook: Slow-Bicycle Economy](#) (12/18/2023) (with associated *Confluence of Ideas* [podcast](#))
- [Confluence of Ideas podcast](#) (2/13/2024) “Reviewing the Asset Allocation Rebalance: Q1 2024”

Our *Comment* today opens with yet another warning from a top European leader of a potential war with Russia. We next review a wide range of other international and US developments with the potential to affect the financial markets today, including several key economic reports out of Asia and various notes on the US economy and markets.

European Union: In an interview last week, Polish Prime Minister Donald Tusk [became the latest high-level EU official to warn of an impending war in Europe](#). According to Tusk, “I know it sounds devastating, especially to people of the younger generation, but we have to mentally get used to a new era. We are in a pre-war era. I don’t exaggerate. This is becoming more and more apparent every day.” In his interview, Tusk said it is essential for the EU to stand by Ukraine and make sure it is not overrun by Russia’s invasion forces.

Turkey: In local elections yesterday, incumbent Istanbul Mayor Ekrem İmamoğlu, one of President Erdoğan's top critics, [appears on track to win reelection with about 50.8% of the vote](#). Opposition candidates also look set to win in other major urban areas, potentially setting up a major embarrassment for Erdoğan and his conservative Islamist political party.

Japan: The Bank of Japan said its "Tankan" index of optimism among large manufacturers [fell to 11 in the first quarter, slightly beating expectations but still coming in weaker than the reading of 13](#) in the fourth quarter. The index is designed so that positive readings point to more manufacturers seeing positive business conditions rather than seeing negative conditions. Even though the decline in the first quarter was the first since the beginning of 2023, the positive reading therefore still suggests Japan's factory sector is in good condition.

South Korea: The country's exports, a bellwether for global trade, [showed a total value of \\$56.56 billion in March, up 3.1% from the same month one year earlier](#). The increase was a bit weaker than expected, and it marked a slowdown from the 4.8% rise in the year to February. Nevertheless, South Korean exports have now risen on a year-over-year basis for six straight months, suggesting that global economic activity is picking up after some softness in 2023.

- According to the data, exports to the US were up a healthy 12.0% in the year to March, reflecting the country's continued strong economic performance.
- In contrast, exports to China were up just 0.4%, reflecting that country's continued lethargy as it faces a slew of structural economic headwinds.

China: The government's official March purchasing managers' index for manufacturing [rose to a seasonally adjusted 50.8, beating expectations and marking a sharp improvement from the reading of 49.1 in February](#). Like most major PMIs, the official Chinese index is designed so that readings over 50 indicate expanding activity. The March reading therefore suggests that China's factory sector is now growing again after five straight months of contraction, despite the weakness suggested by China's lessening demand for South Korean products.

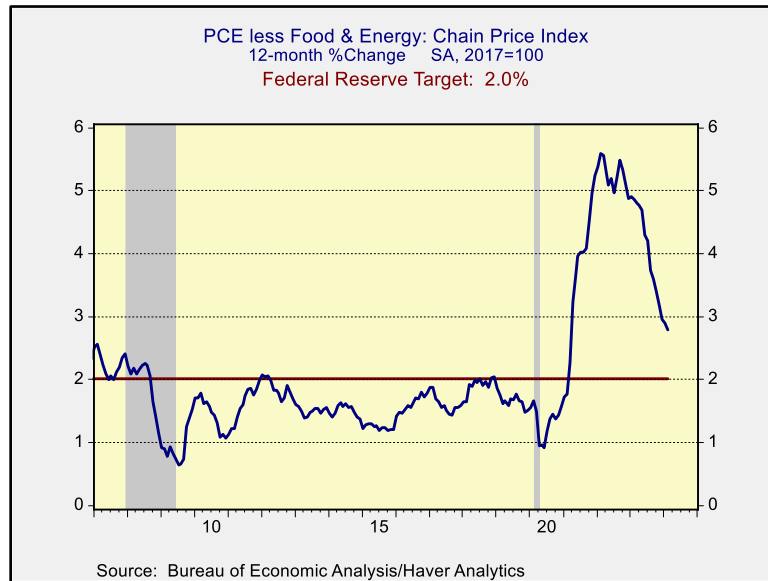
- The rebound in Chinese manufacturing may seem like a positive for the global economy and financial markets, but that isn't necessarily the case.
- We note that the rise in the manufacturing PMI came in part from a surge in new export orders, which is consistent with the idea that Beijing is trying to re-accelerate its economy by dumping electric vehicles, batteries, solar panels, and other products on world markets. Such dumping threatens to decimate key industries throughout the developed countries.

US Monetary Policy: After Friday's personal income and spending report showed the Fed's preferred measure of consumer price inflation remained above target, Chair Powell [took a sanguine attitude, stating at an event in San Francisco that he still expects price pressures to keep easing](#), even if the road to 2.0% inflation will be "bumpy." Nevertheless, Powell also warned that the Fed would take its time in cutting interest rates if price pressures prove sticky.

- In Friday's report, February personal income rose by a seasonally adjusted 0.3%, slowing from a gain of 1.0% in January. Nevertheless, despite the slowdown in income growth,

February personal consumption expenditures (PCE) jumped 0.8%, accelerating from their rise of 0.2% in the previous month. On a year-over-year basis, personal income in February was up 4.6%, while PCE was up 4.9%.

- Excluding the volatile food and energy components, the February core PCE price index was up 2.8% year-over-year, after two straight months in which it increased an annual 2.9%.



US Bond Market: New data shows corporate bond issuance [has already hit \\$606 billion so far in 2024, up about 40% from the same period last year and the highest year-to-date total since at least 1990](#). Reports suggest companies are rushing to market in part to take advantage of today's low corporate yield spreads over Treasury obligations, but they may also be trying to get ahead of any potential volatility in the marketplace as the November elections draw closer. Trading in VIX futures [also points to investors betting on election-driven market volatility](#).

US Labor Market: According to the *Wall Street Journal*, new high school graduates and other members of Generation Z [are increasingly eschewing college in favor of training in trades such as welding and plumbing](#). The report says the number of students enrolled in vocational-focused community colleges rose 16% last year to a record high. The number in construction-trades programs alone jumped 23%. The figures are consistent with our view that US reindustrialization and today's labor shortages will help broaden the workforce going forward.

US Artificial Intelligence Industry: Technology giant Microsoft and OpenAI [are planning to jointly build a specialized data center costing up to \\$100 billion to boost OpenAI's computing capacity for artificial intelligence](#). The data center would house a supercomputer called StarGate with millions of specialized AI processors. In return for funding the project, Microsoft would have exclusive rights to use the resulting AI systems. The project illustrates how much investment could be needed to build out AI systems in the US going forward.

- A separate report today says big AI firms [will soon run out of the high-quality internet text needed to train their large language models](#). As a result, they may have to shift toward using synthetic text derived from videos, proprietary data, or other sources.
- The report may also help explain China’s extensive hacking of large US databases and its promotion of social media tools like TikTok, which could vacuum up immense amounts of user data. If even the internet isn’t big enough to feed modern AI models, Beijing may be surreptitiously gathering immense amounts of private data from US citizens to aid its influence campaigns and espionage efforts.

US Agriculture Industry: After years of concern about falling honey-bee populations, new data from the Department of Agriculture [suggests bee colonies are making a strong comeback](#). For example, the data shows that more than one million new bee colonies have popped up around the US since 2007, making them the fastest-growing type of livestock in the country.

- The rise may in part reflect inflation, since the Agriculture Department only counts bee colonies producing at least \$1,000 of revenue each year.
- Nevertheless, the strong rise in counted bee colonies suggests populations are indeed rising, allaying concerns that global warming, invasive species, and other challenges are reducing the population of bees that are so critical to pollination and food production. The new data is therefore creating a buzz among environmentalists. (Sorry)

US Economic Releases

No major US economic reports have been released so far today. 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
9:45	S&P Global US Manufacturing PMI	m/m	Mar F	52.5	52.5	***
10:00	Construction Spending	m/m	Feb	0.7	-0.2	**
10:00	ISM Manufacturing	m/m	Mar	48.4	47.8	**
10:00	ISM Prices Paid	m/m	Mar	53.2	52.5	**
10:00	ISM New Orders	m/m	Mar	49.8	49.2	**
10:00	ISM Employment	m/m	Mar		45.9	*
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								
Japan	Tokyo CPI	y/y	Mar	2.6%	2.5%	2.5%	**	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food	y/y	Mar	2.4%	2.5%	2.4%	***	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food & Energy	y/y	Mar	2.9%	3.1%	2.9%	*	Equity and bond neutral
	Jobless Rate	m/m	Feb	2.6%	2.4%	2.4%	***	Equity and bond neutral
	Job-To-Applicant Ratio	m/m	Feb	1.3%	1.3%	2.1%	**	Equity and bond neutral
	Retail Sales	y/y	Feb	4.6%	2.1%	2.9%	**	Equity bullish, bond bearish
	Depart. Store & Supermarket Sales	y/y	Feb	7.2%	3.3%		*	Equity bullish, bond bearish
	Industrial Production	y/y	Feb P	-3.4%	-1.5%	-2.7%	***	Equity bearish, bond bullish
	Housing Starts	y/y	Feb	-8.2%	-7.5%	-5.5%	**	Equity bearish, bond bullish
	Annualized Housing Starts	y/y	Feb	0.795m	0.802m	0.810m	*	Equity and bond neutral
	Tankan Large All-Industry Capex	q/q	1Q	4.0%	13.5%		***	Equity and bond neutral
	Tankan Large Manufacturing Index	q/q	1Q	11	12	10	***	Equity and bond neutral
	Tankan Large Non-Manufacturing Outlook	q/q	1Q	27	24	29	***	Equity and bond neutral
	Tankan Large Manufacturing Outlook	q/q	1Q	10	8	10	***	Equity and bond neutral
	Tankan Large Non-Manufacturing Index	q/q	1Q	34	30	32	***	Equity and bond neutral
	Jibun Bank Manufacturing PMI	m/m	Mar F	48.2	48.2		***	Equity and bond neutral
South Korea	Industrial Production	y/y	Feb	4.8%	12.9%	4.0%	***	Equity bullish, bond bearish
	Exports	y/y	Mar	3.1%	4.8%	4.2%	***	Equity bearish, bond bullish
	Imports	y/y	Mar	-12.3%	-13.1%	-10.9%	**	Equity bearish, bond bullish
	Trade Balance	m/m	Mar	\$4280m	\$4290m	\$5818m	*	Equity and bond neutral
	S&P Global Global Manufacturing PMI	m/m	Mar	49.8	50.7		***	Equity and bond neutral
China	Official Composite PMI	m/m	Mar	52.7	50.9		*	Equity and bond neutral
	Official Manufacturing PMI	m/m	Mar	50.8	49.1	50.1	***	Equity and bond neutral
	Official Services PMI	m/m	Mar	53.0	51.4	51.5	**	Equity and bond neutral
	Caixin Manufacturing PMI	m/m	Mar	51.1	50.9	51.0	***	Equity and bond neutral
EUROPE								
France	CPI, EU Harmonized	y/y	Mar P	2.4%	3.2%	2.8%	**	Equity and bond neutral
	CPI	y/y	Mar P	2.3%	3.0%	2.6%	***	Equity and bond neutral
	PPI	y/y	Feb	-5.5%	-4.9%		*	Equity and bond neutral
Italy	CPI, EU Harmonized	y/y	Mar P	1.3%	0.8%	1.5%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Mar P	1.3%	0.8%	1.4%	**	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	22-Mar	\$590.1b	\$594.3b		***	Equity and bond neutral
	Money Supply, Narrow Definition	w/w	22-Mar	18.12t	18.02t		*	Equity and bond neutral
	Current Account Balance	q/q	4Q F	11500m	11100m	11100m	**	Equity and bond neutral
	S&P Global Manufacturing PMI	m/m	Mar	55.7	54.7		***	Equity and bond neutral
AMERICAS								
Canada	GDP	y/y	Jan	0.9%	1.0%	0.8%	**	Equity and bond neutral

Financial Markets

The table below highlights some of the indicators that we follow daily. 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)	556	556	0	Down
3-mo T-bill yield (bps)	519	522	-3	Up
U.S. Sibor/OIS spread (bps)	530	530	0	Down
U.S. Libor/OIS spread (bps)	531	532	-1	Flat
10-yr T-note (%)	4.21	4.20	0.01	Down
Euribor/OIS spread (bps)	389	391	-2	Flat
Currencies	Direction			
Dollar	Flat			Up
Euro	Flat			Down
Yen	Flat			Down
Pound	Down			Down
Franc	Flat			Down

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.

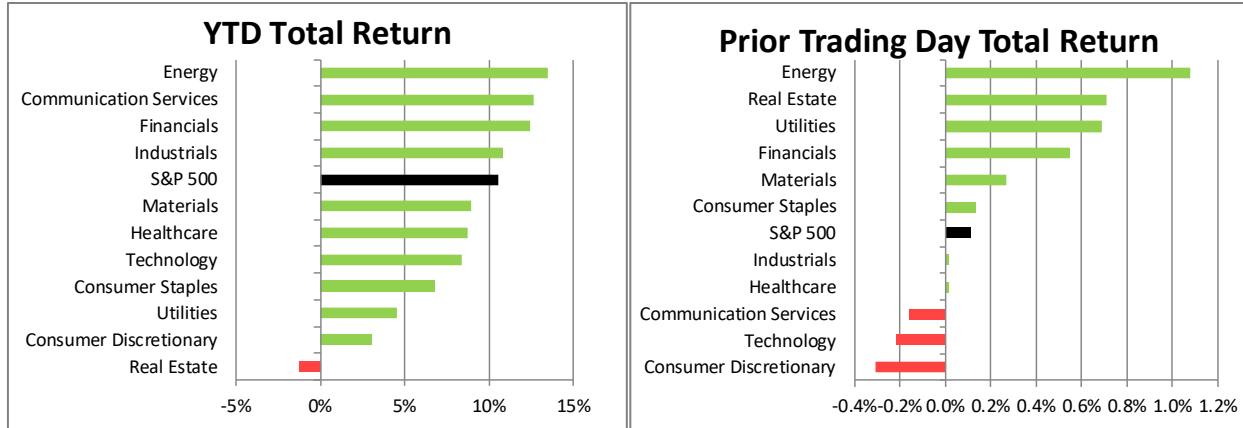
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$86.82	\$87.00	-0.21%	
WTI	\$83.04	\$83.17	-0.16%	
Natural Gas	\$1.75	\$1.76	-0.74%	
Crack Spread	\$29.13	\$29.72	-1.99%	
12-mo strip crack	\$24.14	\$24.52	-1.57%	
Ethanol rack	\$1.77	\$1.77	0.00%	
Metals				
Gold	\$2,250.41	\$2,229.87	0.92%	
Silver	\$25.08	\$24.96	0.46%	
Copper contract	\$405.85	\$400.70	1.29%	
Grains				
Corn contract	\$439.50	\$442.00	-0.57%	
Wheat contract	\$553.75	\$560.25	-1.16%	
Soybeans contract	\$1,196.25	\$1,191.50	0.40%	
Shipping				
Baltic Dry Freight	1,821	1,845	-24	

Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures from the Great Plains eastward, with cooler-than-normal temperatures in the Far West. The forecasts call for wetter-than-normal conditions in the Rocky Mountains, Great Plains, and Mississippi Valley, with dry conditions in the Pacific Northwest and along the East Coast.

Data Section

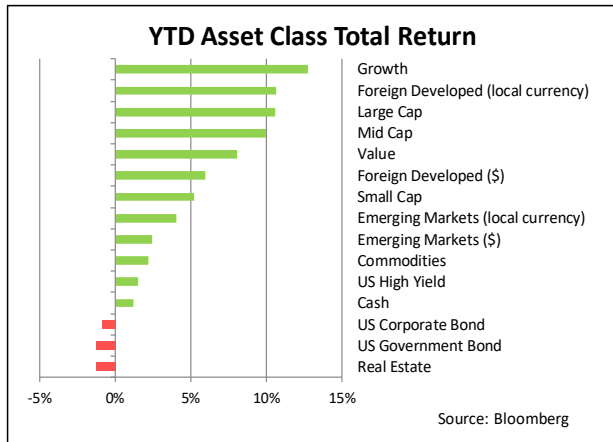
US Equity Markets – (as of 3/28/2024 close)



(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 3/28/2024 close)

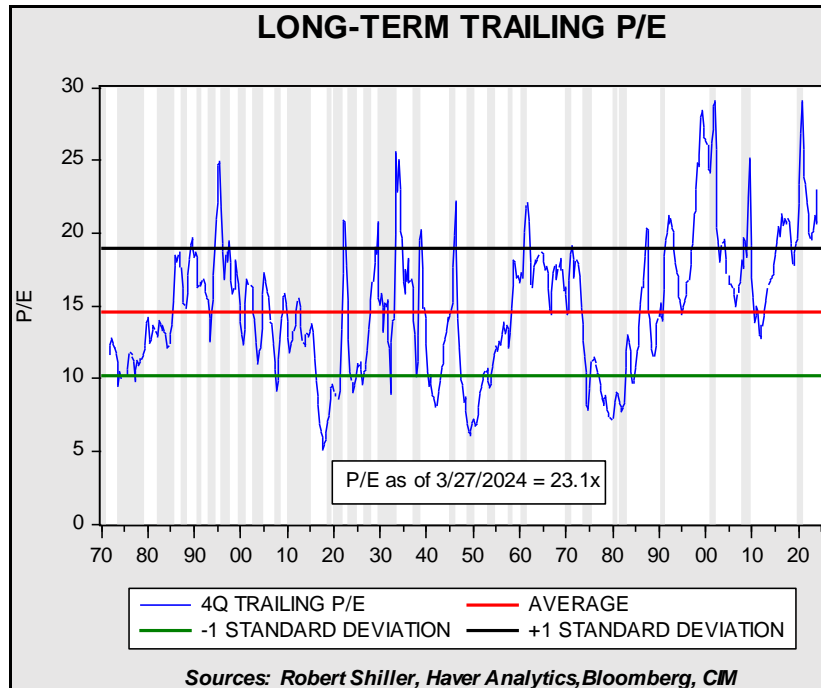


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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), US Corporate Bond (iShares iBoxx \$ Investment Grade Corporate Bond ETF), US Government Bond (iShares 7-10 Year Treasury Bond ETF), US 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 28, 2024



Based on our methodology,¹ the current P/E is 23.1x, up 0.2x from our last report. The improvement in the multiple reflects an increase in the stock price index, and a decrease in earnings.

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 Bloomberg estimates which are updated regularly throughout the quarter; currently, the four-quarter earnings sum includes three actual quarters (Q2, Q3 and Q4) and one 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.