

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 2, 2024—9:30 AM EDT] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.6%. Chinese markets were lower, with the Shanghai Composite down 0.1% from its previous close and the Shenzhen Composite down 0.5%. US 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](#) (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 increasing geopolitical tensions after an apparent Israeli airstrike killed senior Iranian military commanders in Damascus, Syria. We next review a wide range of other international and US developments with the potential to affect the financial markets today, including a growing likelihood that the Japanese government will intervene in the currency markets to support the weakening yen, and new signs that investors are giving up on the likelihood of a Federal Reserve interest-rate cut in June.

Israel-Hamas-Syria-Iran: In an indication that Israel’s war against Hamas in the Gaza Strip threatens again to escalate, the Syrian government yesterday [claimed Israel was behind a missile strike on an Iranian diplomatic post in Damascus](#). The strike reportedly killed several high-level Iranian military leaders. It also marked at least the fourth Israeli strike on Iranian military forces

in Syria this year, potentially aimed at provoking Iranian proxy forces in the area to fight back so that they can be targeted. The risk is that such an incident could draw Iran directly into the conflict.

- Separately, an Israeli airstrike [has killed seven workers from World Central Kitchen](#), the aid group established by celebrity chef José Andrés that first rose to fame by providing food aid to Ukrainians displaced by the Russian invasion of their country. After the UN, [World Central Kitchen](#) is reportedly the largest food-aid group operating in Gaza.
- Israel today claimed the airstrike was unintentional, but the killing of aid workers is likely to further undermine global support for Israel’s attacks on Hamas in Gaza.

Russia-Ukraine War: Britain’s defense intelligence agency [has issued a dire warning that a key Ukrainian defensive line west of Avdiivka is beginning to collapse](#) as Russia pours new troops, equipment, and munitions into the area. The report suggests that Russian forces may be starting to build sufficient momentum to overcome Ukrainian resistance, especially now that Kyiv’s forces are facing severe resource constraints.

- Any additional Russian momentum will likely cause greater angst in Western European capitals regarding future threats from President Putin.
- In turn, that could spur additional European aid to Ukraine and even more commitment to boost European defense spending.

United Kingdom: S&P Global said its March purchasing managers’ index for manufacturing [rose to a seasonally adjusted 50.3, beating both the flash estimate of 49.9 and the February reading of 47.5](#). Like most major PMIs, this one is designed so that readings over 50 indicate expanding activity. With the rise in March, the index suggests Britain’s factory sector is now growing again for the first time since July 2022.



Japan: Finance Minister Suzuki [warned today that he is watching trends in the currency market with a “high sense of urgency” and that his ministry would address any “excessive movements”](#)

in the yen (JPY). That marks the latest in a string of government warnings that it might intervene in the market to keep the yen from weakening further.

- Despite the Bank of Japan’s recent move away from negative interest rates, investors have been dumping the yen on concerns that the central bank doesn’t intend to keep hiking rates. In contrast, investors increasingly think that continued good economic growth in the US may prompt the Federal Reserve to slow or even abandon its plan to start cutting its current high interest rates.
- So far this morning, the yen is trading essentially flat at 151.65 per dollar (\$0.0066), its weakest level in approximately 34 years and is down 7.1% for the year-to-date.

US Monetary Policy: Against the backdrop of strong US economic data and signs of sticky price inflation, investors [continue to ratchet down their expectations for interest rate cuts](#) from the Fed. In a little-noticed development, trading in interest-rate derivatives now indicates only a 56.8% chance that the policymakers will implement their first rate cut at their policy meeting in June; trading suggests there is a 49.1% chance that they will keep the benchmark fed funds rate unchanged until at least their July meeting.

US Stock Market Regulation: In an exclusive report by the *Wall Street Journal* today, US regulators [are examining whether big money managers such as BlackRock and Vanguard are truly acting passively](#) when their index funds amass more than 10% of the shares in major banks. To date, the regulators have exempted the index providers from some rules that treat investors as active when they surpass 10% ownership. The new probe reflects bipartisan concern that the index funds are using their big ownership stakes to push ideological causes, from climate-change policies to pay equity.

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
10:00	JOLTS Job Openings	m/m	Feb	8770k	8863k	*
10:00	Factory Orders	m/m	Feb	1.0%	-3.6%	***
10:00	Factory Orders Ex Transportation	m/m	Feb		-0.8%	**
10:00	Durable Goods Orders	m/m	Feb F	1.4%	1.4%	***
10:00	Durables Ex Transportation	m/m	Feb F		0.5%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Feb F		0.007	*
10:00	Cap Goods Ship Nondef Ex Air	m/m	Feb F		-0.4%	*
	Wards Total Vehicle Sales	m/m	Mar	15.80m	15.81m	**
Federal Reserve						
EST	Speaker or Event	District or Position				
10:10	Michelle Bowman Speaks on Bank Mergers, Acquisitions	Member of the Board of Governors				
12:00	John Williams Moderates Discussion at Economic Club of NY	President of the Federal Reserve Bank of New York				
12:05	Loretta Mester gives Remarks on Economic Outlook	President of the Federal Reserve Bank of Cleveland				
13:30	Mary Daly Participates in Fireside Chat	President of the Federal Reserve Bank of San Francisco				

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	1.6%	2.4%	--	**	Equity and bond neutral
Australia	Melbourne Institute Inflation	m/m	Mar	3.8%	4.0%		***	Equity and bond neutral
South Korea	CPI	y/y	Mar	3.1%	3.1%	3.0%	***	Equity and bond neutral
India	HSBC India PMI Mfg	m/m	Mar F	59.1	59.2		***	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Mar F	46.1	45.7	45.7	***	Equity bullish, bond bearish
Germany	HCOB Germany Manufacturing PMI	m/m	Mar F	41.9	41.6	41.6	***	Equity and bond neutral
	CPI	y/y	Mar P	2.2%	2.5%	2.2%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Mar P	2.3%	2.7%	2.4%	**	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Mar F	46.2	45.8	45.8	***	Equity bullish, bond bearish
Italy	HCOB Italy Manufacturing PMI	m/m	Mar	50.4	48.7	48.8	***	Equity bullish, bond bearish
UK	Nationwide House Price Index	y/y	Mar	1.6%	1.2%	2.4%	***	Equity bullish, bond bearish
	Mortgage Approvals	m/m	Feb	60.4k	56.1k	56.5k	**	Equity and bond neutral
	S&P Global UK Manufacturing PMI	m/m	Mar F	50.3	49.9	49.9	***	Equity and bond neutral
Switzerland	Real Retail Sales	y/y	Feb	-0.2%	0.3%		**	Equity bearish, bond bullish
	Manufacturing PMI	m/m	Mar	45.2	44.0	45.0	***	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	29-Mar	448.1b	460.8b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	29-Mar	456.8b	469.2b		*	Equity and bond neutral
AMERICAS								
Canada	S&P Global Canada Manufacturing PMI	m/m	Mar	49.8	49.7		***	Equity and bond neutral
Mexico	S&P Global Mexico Manufacturing PMI	m/m	Mar	52.2	52.3		***	Equity and bond neutral
Brazil	S&P Global Brazil Manufacturing PMI	m/m	Mar	53.6	54.1		***	Equity and bond neutral
	Total Outstanding Loans	m/m	Feb	5797b	5783b		**	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	519	0	Up
U.S. Sibor/OIS spread (bps)	531	531	0	Down
U.S. Libor/OIS spread (bps)	532	532	0	Flat
10-yr T-note (%)	4.36	4.31	0.05	Up
Euribor/OIS spread (bps)	389	391	-2	Flat
Currencies	Direction			
Dollar	Flat			Up
Euro	Up			Down
Yen	Flat			Down
Pound	Up			Down
Franc	Down			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.

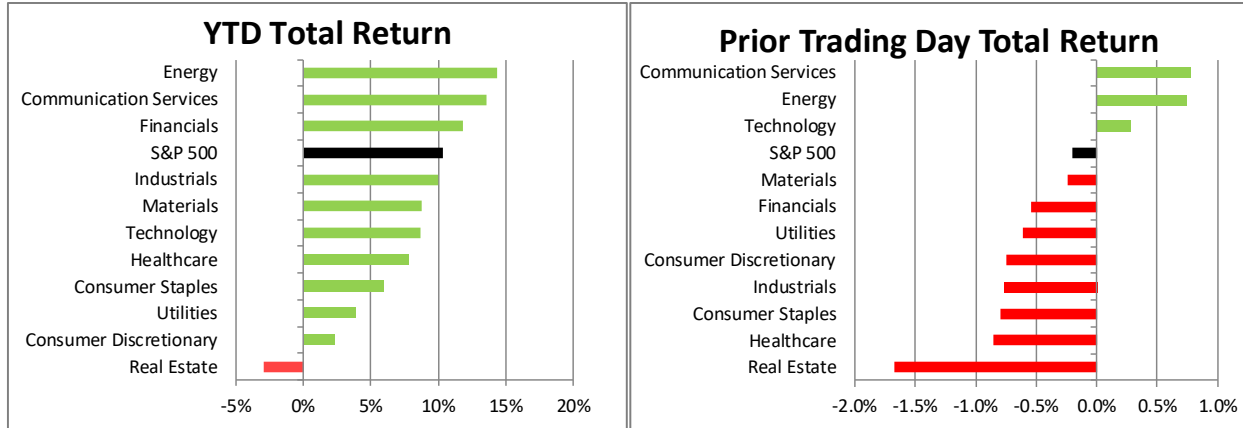
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$88.71	\$87.42	1.48%	
WTI	\$85.08	\$83.71	1.64%	
Natural Gas	\$1.82	\$1.84	-0.98%	
Crack Spread	\$28.94	\$29.03	-0.31%	
12-mo strip crack	\$24.62	\$24.51	0.46%	
Ethanol rack	\$1.77	\$1.77	0.00%	
Metals				
Gold	\$2,257.34	\$2,251.44	0.26%	
Silver	\$25.44	\$25.08	1.43%	
Copper contract	\$408.05	\$404.85	0.79%	
Grains				
Corn contract	\$435.75	\$435.50	0.06%	
Wheat contract	\$555.50	\$557.00	-0.27%	
Soybeans contract	\$1,187.00	\$1,185.75	0.11%	
Shipping				
Baltic Dry Freight	1,821	1,845	-24	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.8		
Gasoline (mb)		-2.0		
Distillates (mb)		-1.72		
Refinery run rates (%)		0.8%		
Natural gas (bcf)		-27		

Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures to spread throughout most of the country, with cooler temps remaining in the Southwest. The forecasts call for wetter-than-normal conditions in most states east of the Rocky Mountain region, with dry conditions expected in the Northern Pacific.

Data Section

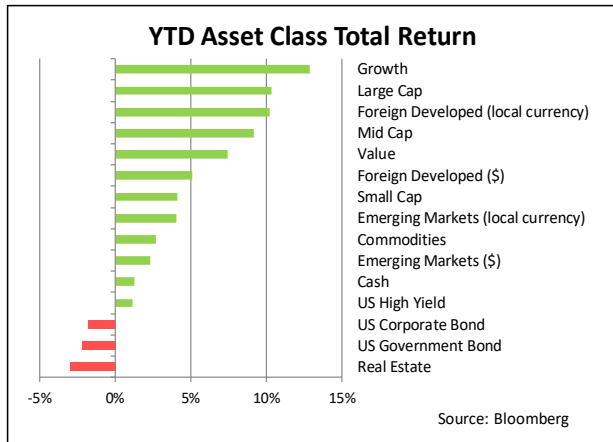
US Equity Markets – (as of 4/1/2024 close)



(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 4/1/2024 close)

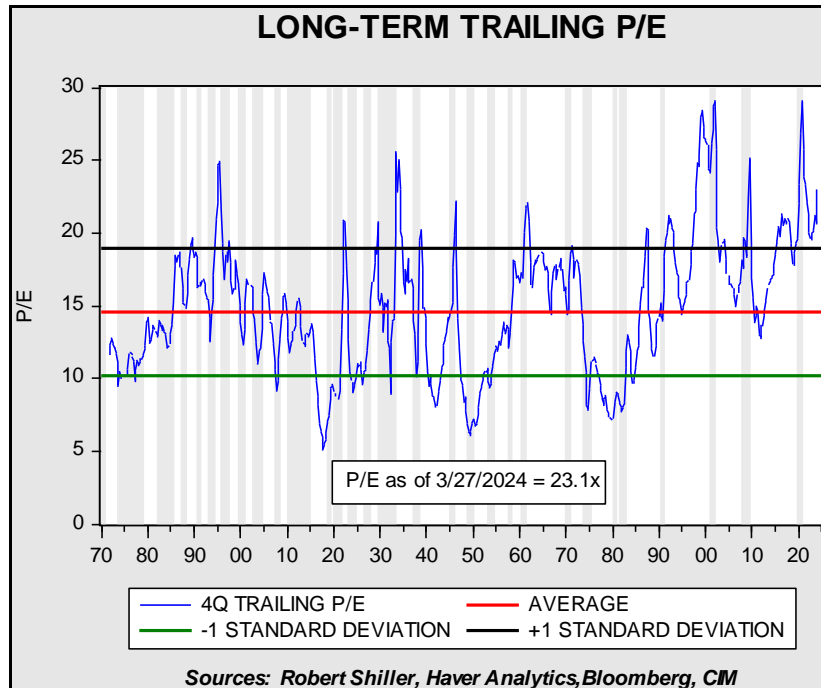


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.