Daily Comment

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

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 30, 2024—9:30 AM EDT] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.2%. Chinese markets were lower, with the Shanghai Composite down 0.3% from its previous close and the Shenzhen Composite down 0.7%. US equity index futures are signaling a lower open.

With 239 companies having reported so far, S&P 500 earnings for Q1 are running at $55.70 per share, compared to estimates of $54.24, which is up 0.9% from Q1 2023. Of the companies that have reported thus far, 81.2% have exceeded expectations while 16.7% 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* (4/22/2024) (with associated podcast): "The Changing Face of War"
- *Asset Allocation Quarterly – Q2 2024* (4/25/2024): Discussion of our asset allocation process, Q2 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* (4/29/2024) (there will be no accompanying podcast): "The Peace Dividend, Government Debt, and Yield Curve Control"
- *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"
- *Keller Quarterly* (4/18/24)

Our *Comment* today opens with growing concern among top Israeli officials that they could be indicted for war crimes over their conduct of the war against Hamas. 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 statistics and a preview of the Federal Reserve's latest policy meeting, which starts today.

Israel-Hamas Conflict: New reporting says Israeli Prime Minister Netanyahu has become increasingly concerned that he and other top Israeli officials could be indicted for war crimes by the International Criminal Court, which has been investigating Israeli and Palestinian conduct against each other over the last decade. The reports say Netanyahu is so concerned that he asked President Biden over the weekend to intervene to make sure the ICC doesn't issue arrest warrants against him or his national security officials.

- A spokesman for the US National Security Council issued a statement saying that the ICC has no jurisdiction over the Israel-Hamas conflict and that the White House does not support its investigations.
- In any case, Netanyahu's concern illustrates the risk that Israel is becoming increasingly isolated and is suffering significant reputational damage over its battle against Hamas in the Gaza Strip. As a result, the Israeli stock market, which had become an investor darling in recent years, could face years of headwinds.

Eurozone: Excluding price changes and seasonal effects, first-quarter gross domestic product rose 0.3%, beating expectations and easily reversing the revised 0.1% decline in the fourth quarter of 2023. The growth rate in January through March was the region's strongest since the third quarter of 2022. Much of the growth reflected a renewed expansion in the German economy, which benefited from stronger investment and exports. Excluding the volatile food and energy categories, the core GDP price index was up just 2.7% year-over-year.

Germany: Little more than a month ahead of the elections for the European Parliament, new polling shows the once-surging, right-wing populist Alternative for Germany (AfD) party is rapidly losing support following revelations that Chinese and Russian spies have been working in its ranks. The reports suggest Chinese and Russian agents have infiltrated populist, anti-establishment political parties and media outlets throughout the West. In turn, any further revelations of the type could slow populist gains in other countries as well.

Japan: Masato Kanda, the vice minister of finance in charge of currency policy, declined today to confirm reports that the government had intervened in the market yesterday to prop up the yen (JPY). Nevertheless, he noted that the recent depreciation in the currency was hurting vulnerable people by raising the prices of imported goods. He stressed that the government would therefore respond firmly to excessive movements in the currency market, in what amounts to a virtual admission of the intervention yesterday.

- Taken together, Kanda's statement and the intervention yesterday suggest the government's red line on the yen's value is now about 160 per dollar ($0.00625). If the currency looks set to depreciate below that level going forward, the government is likely to intervene again.
- So far this morning, the yen is trading at approximately 156.92 per dollar ($0.00637).

Australia: March retail sales unexpectedly fell by a seasonally adjusted 0.4%, wiping out the revised 0.2% gain in February. The culprit? In part, it was Taylor Swift, whose multiple sold-out concerts in February had boosted ticket sales, travel, and other types of consumer spending. Now that the Swifties have gotten back to normal life, the data shows that Australian consumers are in a funk, with retail sales in March up just 1.3% year-over-year.

China: The official purchasing managers' index for manufacturing fell in April to a seasonally adjusted 50.4, beating expectations but still down from 50.8 in March. The nonmanufacturing PMI fell to 51.2 from 53.0. Like most major PMIs, these are designed so that readings over 50 indicate expanding activity. The April data therefore suggests the Chinese economy is still growing again after a period of weakness, but because of challenges such as the continued decline in real estate development, the recovery remains modest and could fizzle out.

- Faced with the risk of the current recovery petering out, the Communist Party Politburo today issued a statement hinting at new economic stimulus measures.

- The statement suggests the People's Bank of China could soon launch a new set of interest-rate cuts, while the government provides new support for the housing market.

China-Solomon Islands-United States: The Solomon Islands' pro-China prime minister, Manasseh Sogavare, yesterday said he would not stand for a new term when lawmakers vote this week for a new prime minister. Rather, ex-Foreign Minister Jeremiah Manele will represent his party. By stepping down, Sogavare insists his party will cobble together 28 of the 50 seats in parliament to retain power, but a coalition of key opposition parties has 20 seats locked up and could convince enough smaller parties and independents to join it and take power.

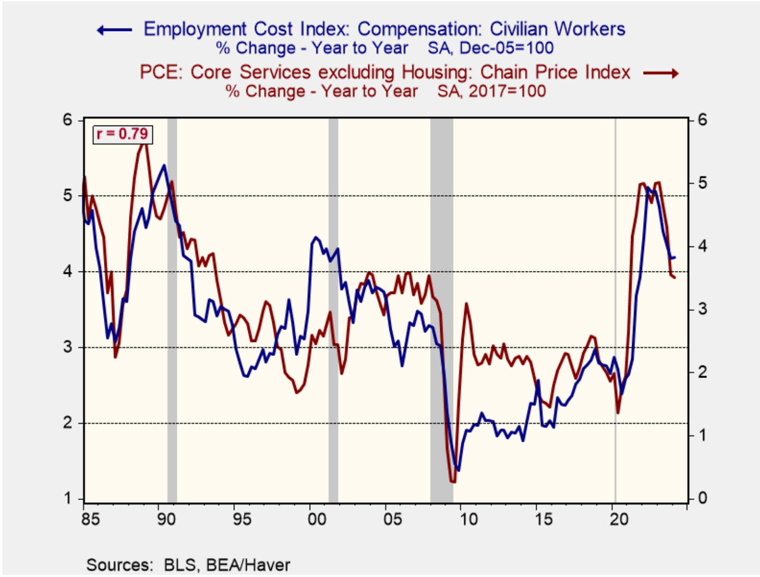
- If Sogavare's party loses the parliament vote, it could reflect popular dissatisfaction over his 2022 security deal with Beijing, which has brought Chinese police to the Solomon Islands and drawn the Solomons away from the US.
- Parliament's vote for the prime minister is due to be held on Thursday.

US Monetary Policy: The Fed begins its latest policy meeting today, with its decision due at 2:00 PM EDT tomorrow. Given the continued momentum in US economic growth and persistent price pressures, the policymakers are widely expected to hold the benchmark fed funds interest-rate target unchanged at a range of 5.25% to 5.50%. Based on interest-rate futures trading, it now appears investors expect the first rate cut — perhaps the only rate cut this year — to come around the end of summer.

- As we've noted before, continued high interest rates will likely put stress on certain banks, commercial real estate owners, and other players in the financial markets.
- Despite the economy's current positive momentum, high interest rates probably remain a risk for the economy and financial markets.

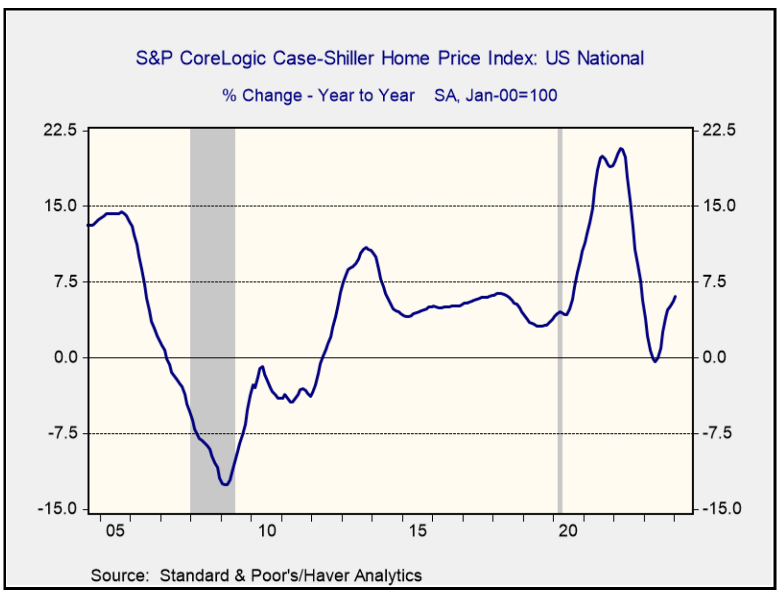
US Economic Releases

Wage pressures remained elevated in Q1, as firms accelerated worker pay increases. The employment cost index surged 1.2% in the first quarter, exceeding expectations of 1.0% and surpassing the prior quarter's gain of 0.9%. The increase was driven primary by an increase in the minimum wage in about half of the states in the country, which helped increase wages and salaries 1.1% during the period.



The chart above shows the year-over-year change in two key measures closely monitored by the Federal Reserve: the Employment Cost Index (ECI) and PCE core services. These indexes gauge wage pressures and underlying inflationary pressures. In the first quarter, ECI increased by 4.2% year-over-year, while PCE core services rose 3.5%. The chart reflects why the Fed may be reluctant to cut rates too soon.

Government and private sector data confirm that home prices continued their upward climb in February, solidifying the persistent strength of the housing market. According to an index tracked by the Federal Housing Finance Agency, home prices rose 1.2% in February, well above expectations of 0.2%. Separately, an index from S&P CoreLogic showed that national home prices increased 0.4% in the same period, while home prices in the top-20 cities increased 0.6%.



The chart above shows the annual change in the national S&P CoreLogic Case-Shiller Home Price Index. Home prices have risen 6.4% from the prior year, which is roughly comparable to historical trends observed before the COVID-19 pandemic.

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	MNI Chicago PMI	m/m	Apr	45	41.4	***
10:00	Conf. Board Consumer Confidence	m/m	Apr	104	104.7	**
10:00	Conf. Board Present Situation	m/m	Apr		151	**
10:00	Conf. Board Expectations	m/m	Apr		73.8	***
10:30	Dallas Fed Services Activity	m/m	Apr		-5.5	***
Federal Reserve						
EST	**Speaker or Event**	**District or Position**				
10:00	FOMC Begins Two-Day Meeting	Federal Reserve Board				

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	Job-To-Applicant Ratio	m/m	Mar	1.28	1.26	1.26	**	Equity and bond neutral
	Jobless Rate	m/m	Mar	2.6%	2.6%	2.5%	***	Equity and bond neutral
	Retail Sales	y/y	Mar	1.2%	4.7%	2.4%	**	Equity bearish, bond bullish
	Industrial Production	y/y	Mar P	-6.7%	-3.9%	-6.3%	***	Equity and bond neutral
	Depart. Store & Supermarket Sales	y/y	Mar	6.4%	7.2%		*	Equity and bond neutral
	Housing Starts	y/y	Mar	-12.8%	-8.2%	-4.5%	**	Equity bearish, bond bullish
	Annualized Housing Starts	y/y	Mar	0.760m	0.795m	0.800m	*	Equity and bond neutral
Australia	Private Sector Credit	y/y	Mar	5.1%	5.0%		**	Equity and bond neutral
	Retail Sales	m/m	Mar	-0.40%	0.20%	0.20%	***	Equity bearish, bond bullish
New Zealand	ANZ Activity Outlook	m/m	Apr	14.3	22.5		**	Equity and bond neutral
	ANZ Business Confidence	m/m	Apr	14.9	22.9		**	Equity and bond neutral
	CoreLogic House Prices	y/y	Apr	-0.1%	0.5%		*	Equity and bond neutral
South Korea	Industrial Production	y/y	Mar	0.7%	4.6%	4.6%	***	Equity bearish, bond bullish
China	Official Composite PMI	m/m	Apr	51.7	52.7		*	Equity and bond neutral
	Official Manufacturing PMI	m/m	Apr	50.4	50.8	50.3	***	Equity and bond neutral
	Official Services PMI	m/m	Apr	51.2	53.0	52.3	**	Equity and bond neutral
	Caixin Manufacturing PMI	m/m	Apr	51.4	51.1	51.0	***	Equity and bond neutral
EUROPE								
Eurozone	CPI	y/y	Apr	2.4%	2.4%	2.4%	***	Equity and bond neutral
	Core CPI	y/y	Apr P	2.7%	2.9%	2.6%	**	Equity and bond neutral
	GDP	y/y	1Q A	0.4%	0.1%	0.2%	***	Equity and bond neutral
Germany	Import Price Index	y/y	Mar	-3.6%	-4.9%	-3.8%	**	Equity and bond neutral
Germany	Retail Sales NSA	y/y	Mar	-2.7%	1.7%	-0.7%	*	Equity bearish, bond bullish
Germany	Unemployment Change	m/m	Apr	10.0k	6.0k	8.0k	***	Equity and bond neutral
	Unemployment Claims Rate	m/m	Apr	5.9%	5.9%	5.9%	**	Equity and bond neutral
	GDP NSA	y/y	1Q P	-0.9%	-0.4%	-0.8%	**	Equity and bond neutral
	GDP WDA	y/y	1Q P	-0.2%	-0.2%	-0.2%	**	Equity and bond neutral
France	GDP	y/y	1Q P	1.1%	0.8%	0.8%	**	Equity and bond neutral
	CPI, EU Harmonized	y/y	Apr P	2.4%	2.4%	2.2%	**	Equity and bond neutral
	CPI	y/y	Apr P	2.2%	2.3%	2.2%	***	Equity and bond neutral
	PPI	y/y	Mar	-7.5%	-5.5%		*	Equity and bond neutral
Italy	GDP WDA	y/y	1Q P	0.6%	0.7%	0.3%	**	Equity and bond neutral
	CPI, EU Harmonized	y/y	Apr P	1.0%	1.2%	1.1%	***	Equity and bond neutral
	CPI NIC Including Tobacco	y/y	Apr P	0.9%	1.2%	1.0%	**	Equity and bond neutral
UK	Mortgage Approvals	m/m	Mar	61.3k	60.5k	61.5k	**	Equity and bond neutral
Switzerland	KOF Leading Indicator	y/y	Apr	101.8	100.4	102	*	Equity and bond neutral
AMERICAS								
Mexico	GDP NSA	y/y	1Q P	1.6%	2.5%	2.3%	***	Equity and bond neutral
Brazil	National Unemployment Rate	m/m	Mar	7.9%	7.8%	8.1%	*	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)	559	559	0	Up
3-mo T-bill yield (bps)	523	524	-1	Up
U.S. Sibor/OIS spread (bps)	533	533	0	Up
U.S. Libor/OIS spread (bps)	534	534	0	Up
10-yr T-note (%)	4.63	4.61	0.02	Up
Euribor/OIS spread (bps)	384	387	-3	Down
Currencies	**Direction**			
Dollar	Up			Up
Euro	Flat			Down
Yen	Down			Down
Pound	Down			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.

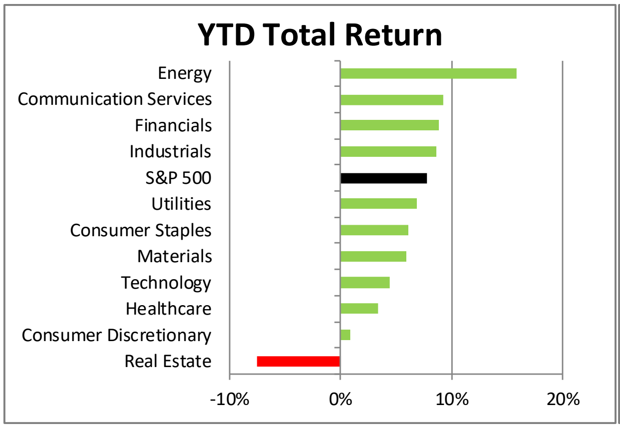
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	$88.78	$88.40	0.43%	
WTI	$83.03	$82.63	0.48%	
Natural Gas	$2.07	$2.03	2.17%	
12-mo strip crack	$24.30	$24.57	-1.12%	
Ethanol rack	$1.84	$1.84	0.08%	
Metals				
Gold	$2,313.51	$2,335.66	-0.95%	
Silver	$26.62	$27.14	-1.94%	
Copper contract	$462.80	$467.65	-1.04%	
Grains				
Corn contract	$448.25	$449.25	-0.22%	
Wheat contract	$601.75	$608.50	-1.11%	
Soybeans contract	$1,182.00	$1,182.00	0.00%	
Shipping				
Baltic Dry Freight	1,684	1,721	-37	
DOE Inventory Report				
	Actual	**Expected**	**Difference**	
Crude (mb)		2.0		
Gasoline (mb)		-1.4		
Distillates (mb)		-1.8		
Refinery run rates (%)		0.5%		
Natural gas (bcf)		84		

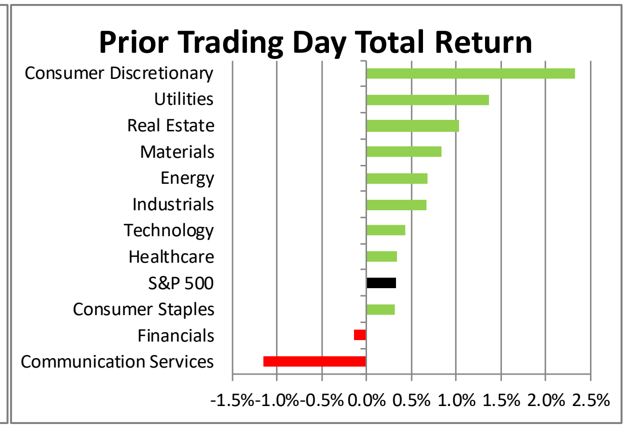
Weather

The 6-10 and 8-14 day forecasts call for warmer-than-normal temperatures across the majority of the country, with the exception of cooler-than-normal temperatures expected in the Pacific Northwest. The current precipitation forecast predicts wetter-than-average conditions across most of the country, with dry conditions expected in the Southwest and Great Lakes regions.

Data Section

US Equity Markets – (as of 4/29/2024 close)

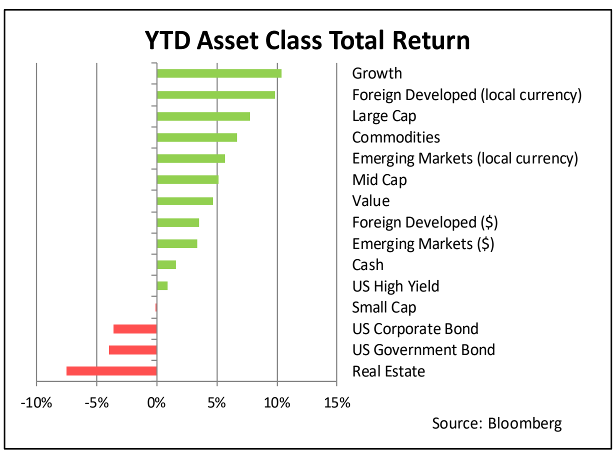




(Source: Bloomberg)

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 4/29/2024 close)

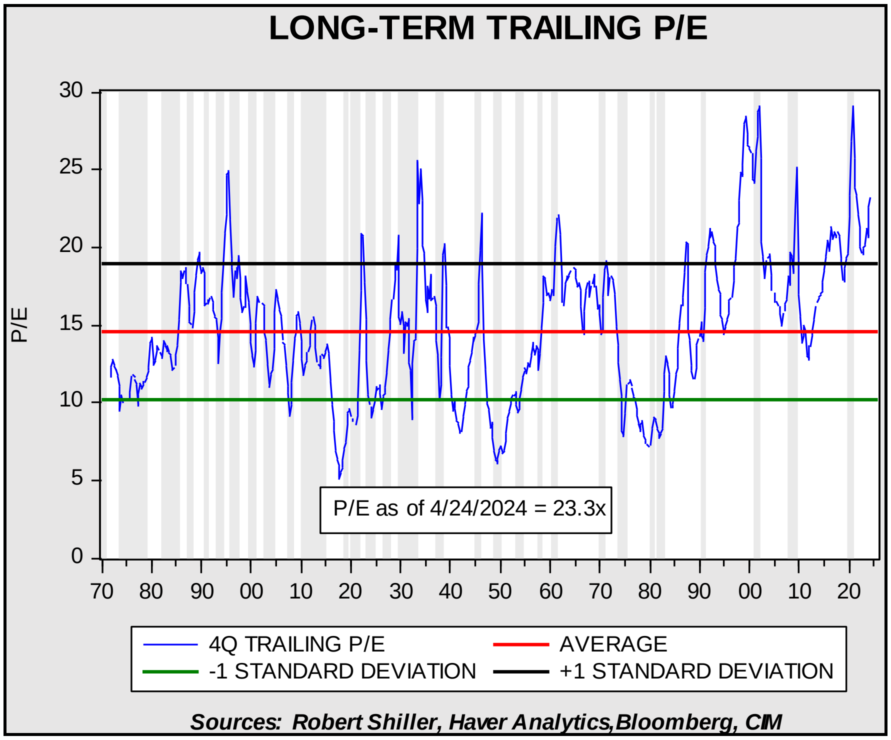


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

April 25, 2024



Based on our methodology,[1] the current P/E is 23.2x, up 0.2x from our last report. The decrease in the multiple reflects a slight increase in earnings and a decline in the stock price index.

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.

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[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.