

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 8, 2024—9:30 AM EDT]** Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed essentially unchanged. Chinese markets were lower, with the Shanghai Composite down 0.7% from its previous close and the Shenzhen Composite down 1.8%. 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”

While everyone else today will be talking incessantly about the solar eclipse, our *Comment* opens with another step in the Biden administration’s effort to strengthen its alliances in the face of China’s geopolitical challenge. We next review a wide range of other international and US developments with the potential to affect the financial markets today, including new tactics being used by Russia in its invasion of Ukraine and multiple developments regarding US interest rates and the bond market.

**United States-Australia-Japan:** The AUKUS defense ministers today [will announce that the pact’s countries are inviting other nations to join in the grouping for its “Pillar II” projects](#) related to technologies such as quantum computing, undersea sensors and weapons, hypersonic missiles,

artificial intelligence, and cybersecurity. A key focus will be to bring in Japan, transforming the group to “JAUkus.”

**Russia-Ukraine War:** The Russian military [has reportedly shifted its tactics recently, launching missile and drone strikes against Ukraine’s energy infrastructure in relatively less protected regions](#). The attacks appear aimed at causing more long-lasting damage, since the remote facilities can’t be repaired easily or quickly. In addition, it appears the Russians are trying to force Kyiv to shift its air defense systems to areas away from the main urban centers and battle lines to make it easier for Russian forces to launch an expected new ground offensive.

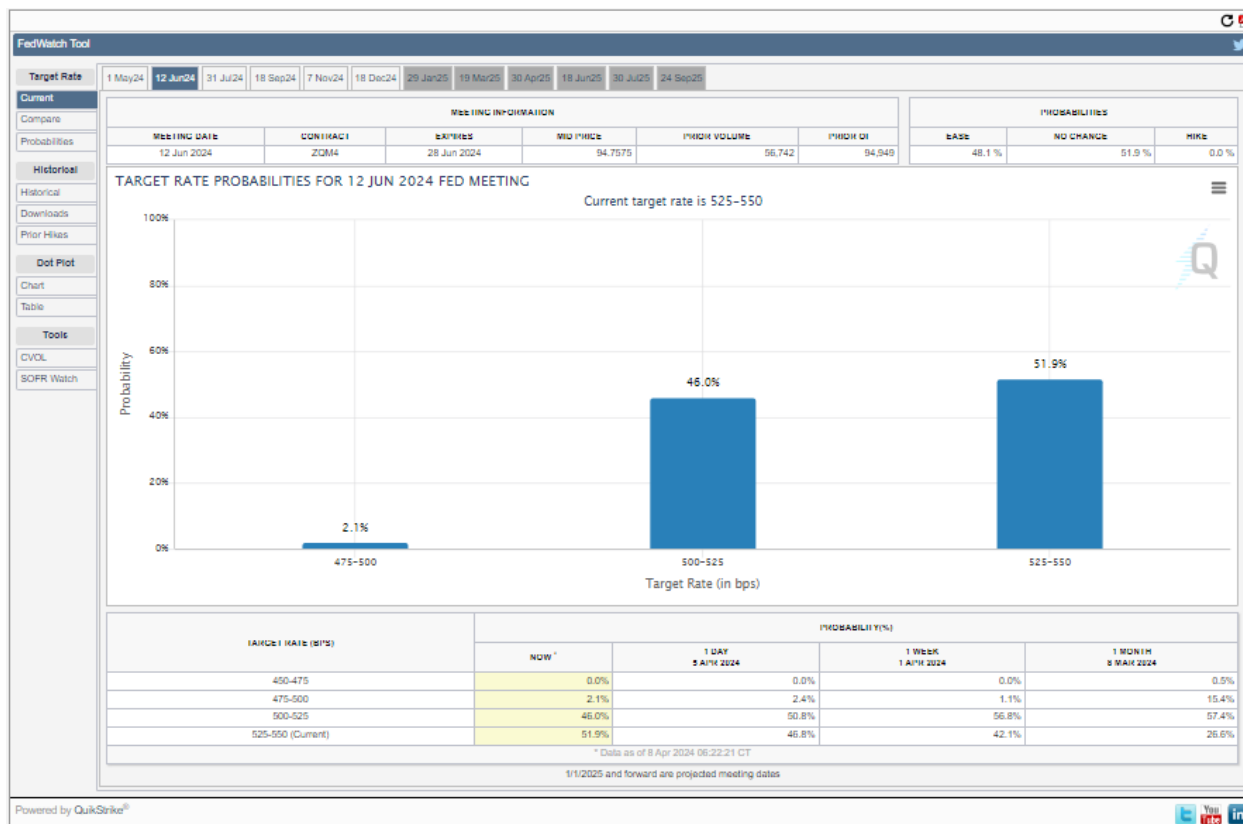
**Slovakia:** In presidential elections yesterday, Peter Pellegrini, an ally of pro-Russian, populist Prime Minister Robert Fico, [won with approximately 54% of the vote](#). In Slovakia, the president has only limited power, but the result is seen as burnishing the political power of Fico at the expense of the Slovakian politicians who are more pro-Western, pro-European Union, and anti-Russian.

**Ecuador-Mexico:** On Friday, the government of Ecuador’s tough-on-crime President Daniel Noboa [intruded on the Mexican Embassy in Quito and arrested a former Ecuadorian vice president who had been granted asylum there from charges of corruption](#). The move prompted Mexico to cut diplomatic ties with Ecuador, but it is also apparently boosting the political position of Noboa as he begins positioning himself for re-election next year.

**Mexico:** In a debate ahead of the presidential election looming on June 2, leftist frontrunner Claudia Sheinbaum of the ruling Morena Party [appeared to successfully fend off biting personal attacks from Xóchitl Gálvez, the main opposition candidate](#). In the latest opinion polls, Sheinbaum has had a commanding lead with support from about 59% of likely voters. The polls suggest the leftist Morena Party will likely retain the presidency and perhaps control of Congress as well. That will likely keep Mexican equity prices lower than they otherwise could be.

**US Monetary Policy:** After Friday’s report showing strong labor demand and job growth in March, futures trading [now suggests investors no longer expect the Fed to cut its benchmark interest rate in June](#). Based on the [CME FedWatch Tool](#), investors now see a 51.9% probability that the policymakers will keep the rate in its current range of 5.25% to 5.50%. Some investors now expect the Fed to cut rates only twice this year, while others are entertaining the possibility of just one or even no cuts.

- The scenarios of just one cut or no cuts at all are probably less likely, but they are plausible if economic growth remains healthy.
- In any case, adjusting to the possibility of continued high interest rates has become at least a temporary challenge for stock investors, as reflected in the price declines seen last week.



(Source: CME Group)

**US Bond Market:** Looking further into the future, JPMorgan Chase CEO Jamie Dimon [warned today in his widely read annual letter that US interest rates could surge to 8% or more in the coming years](#) in response to expanding fiscal deficits, the energy sector’s “green transition,” and worsening geopolitical tensions. Dimon has been overly gloomy in recent years, but his general analysis is consistent with our view that future inflation and interest rates are likely to be higher and more volatile because of the factors Dimon cites in his letter.

**US Fiscal Policy:** President Biden today [will unveil another sweeping plan to slash student loan debt for millions of borrowers](#), despite his earlier attempts being turned back by Congress and the courts. The plan marks another effort to curry favor with progressive and younger voters ahead of the November election, and administration officials say they hope borrowers will see reduced payments by the autumn. However, Republican resistance to the plan is already growing and could well thwart it.

- Under the plan, individual borrowers who earn \$120,000 or less and married couples who make \$240,000 or less [would be eligible for forgiveness of the entire amount that their current loan balance has increased beyond the principal](#).
- The plan would essentially cap accrued interest at the amount of the original principal.

**US Industrial Policy:** In the latest announcement of subsidies to boost advanced semiconductor manufacturing in the US under the CHIPS and Science Act of 2022, the Commerce Department

[said it will give \\$6.6 billion in grants, plus up to \\$5 billion in loans, to Taiwan Semiconductor Manufacturing Corp.](#) for its effort to build three new fabrication facilities in Arizona.

- Under the deal, TSMC has agreed to start producing its most advanced 2-nanometer chips in the new facilities.
- According to the Commerce Department, that would put the US on track to produce 20% of the world's advanced computer chips by 2030.

## US Economic Releases

There were no economic releases prior to the publication of this report. 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
13:00	Austan Goolsbee appears of WBEZ-FM	President of the Federal Reserve Bank of Chicago
19:00	Neel Kashkari Participates in Town Hall Meeting	President of the Federal Reserve Bank of Minneapolis

## 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
<b>ASIA-PACIFIC</b>								
Japan	Labor Cash Earnings	y/y	Feb	1.8%	1.5%	1.8%	**	Equity and bond neutral
	BoP Current Account Balance	m/m	Feb	¥2644.2b	¥457.0b	¥3050.0b	***	Equity and bond neutral
	BoP Trade Balance	m/m	Feb	-¥280.9b	-¥1442.7b	-¥189.5b	**	Equity and bond neutral
Australia	Foreign Reserves	m/m	Mar	A\$89.7b	A\$90.5b		*	Equity and bond neutral
China	Foreign Reserves	m/m	Mar	\$3245.66b	\$3225.82b	\$3229.00b	**	Equity and bond neutral
<b>EUROPE</b>								
Germany	Industrial Production WDA	y/y	Mar	-4.9%	-5.3%	-6.8%	**	Equity bullish, bond bearish
Switzerland	Domestic Sight Deposits CHF	w/w	5-Apr	452.1b	448.1b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	5-Apr	460.9b	456.8b		*	Equity and bond neutral
	Unemployment Rate	m/m	Mar	2.4%	2.4%	2.3%	**	Equity and bond neutral
Russia	GDP	m/m	4Q P	4.9%	5.7%	5.3%	**	Equity and bond neutral
<b>AMERICAS</b>								
Canada	Net Change in Employment	m/m	Mar	-2.2k	40.7k	25.0k	***	Equity bearish, bond bullish
	Unemployment Rate	m/m	Mar	6.1%	5.8%	5.9%	***	Equity and bond neutral
	Participation Rate	m/m	Mar	65.3%	65.3%		*	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)	521	522	-1	Up
U.S. Sibor/OIS spread (bps)	531	531	0	Down
U.S. Libor/OIS spread (bps)	532	532	0	Down
10-yr T-note (%)	4.46	4.40	0.06	Up
Euribor/OIS spread (bps)	389	389	0	Down
Currencies	Direction			
Dollar	Up			Up
Euro	Down			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.

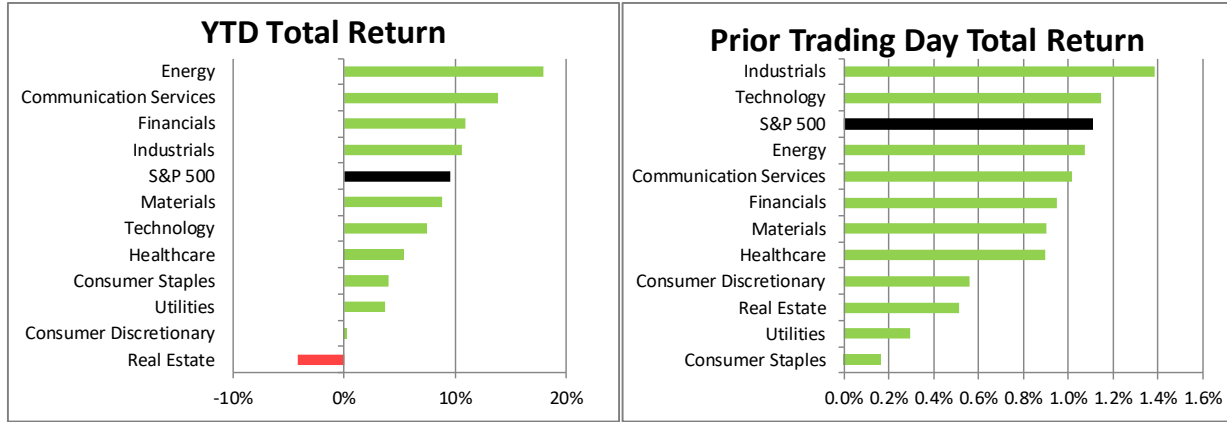
DOE Inventory Report	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$90.37	\$91.17	-0.88%	
WTI	\$86.20	\$86.91	-0.82%	
Natural Gas	\$1.78	\$1.79	-0.11%	
Crack Spread	\$29.70	\$29.45	0.84%	
12-mo strip crack	\$25.24	\$25.14	0.39%	
Ethanol rack	\$1.80	\$1.79	0.57%	
<b>Metals</b>				
Gold	\$2,338.00	\$2,329.75	0.35%	
Silver	\$27.68	\$27.48	0.75%	
Copper contract	\$427.50	\$423.60	0.92%	
<b>Grains</b>				
Corn contract	\$433.25	\$434.25	-0.23%	
Wheat contract	\$565.25	\$567.25	-0.35%	
Soybeans contract	\$1,185.50	\$1,185.00	0.04%	
<b>Shipping</b>				
Baltic Dry Freight	1,628	1,669	-41	

## Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures for most of the country, with near-normal temperatures expected in the Northern Rockies. The precipitation outlook calls for wetter-than-normal conditions in the most states east of the Great Plains, drier than normal conditions expected in the Pacific region.

**Data Section**

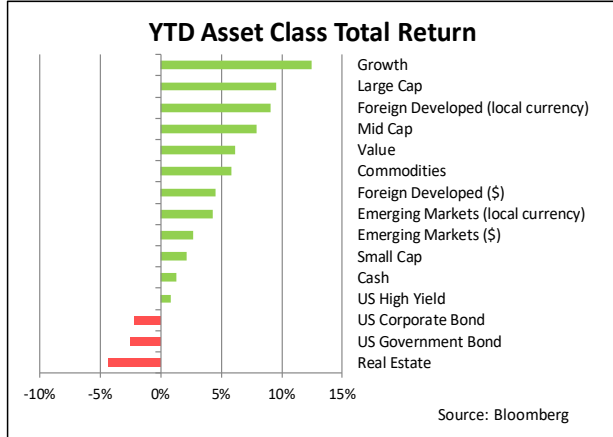
**US Equity Markets – (as of 4/5/2024 close)**



(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 4/5/2024 close)**

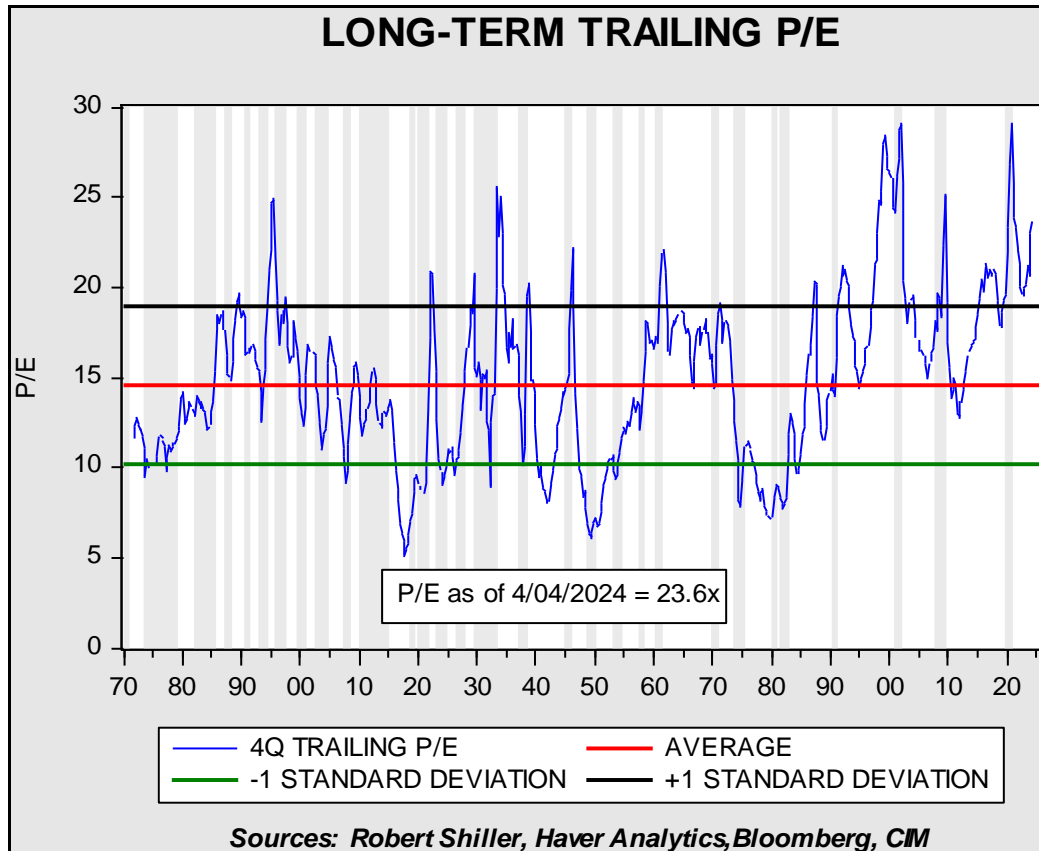


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 4, 2024



Based on our methodology,<sup>1</sup> the current P/E is 23.6x, up 0.5x from our last report. The improvement in the multiple reflects an increase in the stock price index due to a change in quarter, outweighing the increase 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.*

<sup>1</sup> 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.