

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: December 1, 2023—9:30 AM EST] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.2%. Chinese markets were higher, with the Shanghai Composite up 0.1% from its previous close and the Shenzhen Composite up 0.3%. U.S. equity index futures are signaling a lower open.

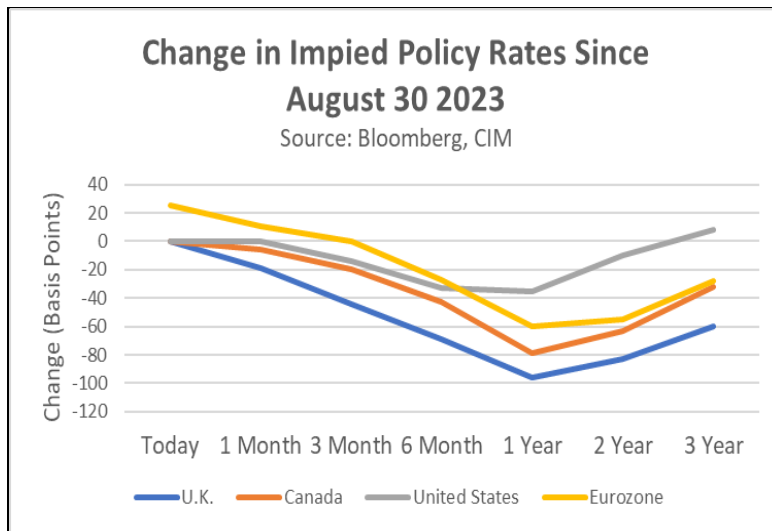
The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below, with new items of the day emphasized in bold:

- [Bi-Weekly Geopolitical Report](#) (11/13/2023) (with associated [podcast](#)): “The Archetypes of American Foreign Policy: A Reprise” (Note: the next BWGR will be published on 12/11/2023)
- [Weekly Energy Update](#) (11/30/2023): We continue to monitor the OPEC+ meeting. COP28 is underway; we expect little content to emerge. Two geopolitical items of note: Russia is struggling to manage an excess of Indian rupees and Venezuela is making threatening moves against Guyana.
- [Asset Allocation Quarterly – Q4 2023](#) (10/19/2023): Discussion of our asset allocation process, Q4 2023 portfolio changes, and our outlook for the markets.
- [Asset Allocation Q4 2023 Rebalance Presentation](#) (10/30/2023): 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](#) (11/20/2023) (with associated [podcast](#)): “Reflections on Earnings”
- **[Business Cycle Report](#) (11/30/2023)**

Good morning! Equities are trading lower as investors seek to liquidate some of their holdings ahead of Fed Chair Powell's speech, and the Dallas Cowboys' defense failed to live up to the hype on Thursday. Today's *Comment* starts with our thoughts about changing interest rate expectations. We then examine the continued stability of oil prices and the potential challenges of providing military aid to other countries. As always, our comprehensive report encompasses the latest domestic and international data releases.

Inflation Cooling: While central bankers unanimously agree on the need for prolonged rate hikes, certain countries are better equipped to withstand the economic implications of this policy stance.

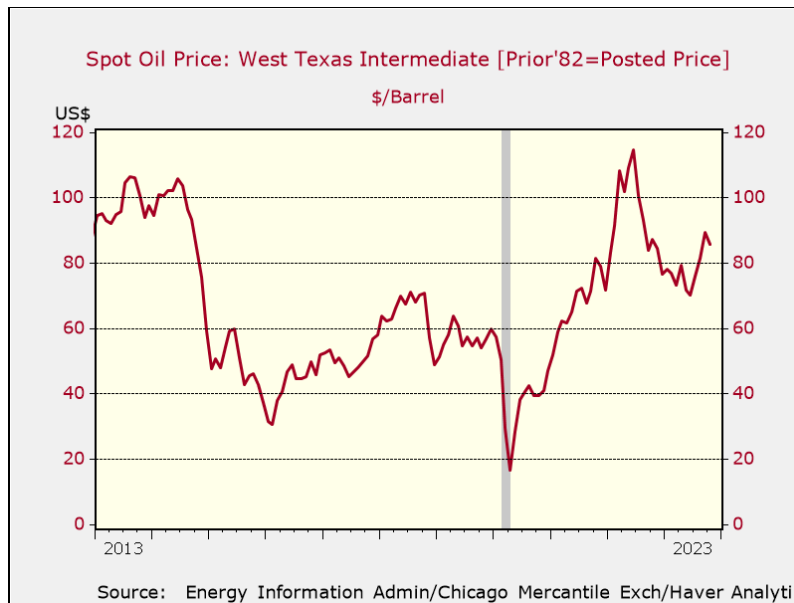
- Inflationary pressures remain pervasive across the developed world, yet price increases have moderated at a rate exceeding most analysts' forecasts. The latest [eurozone data indicates that headline inflation has climbed 2.4%](#) since November 2022, substantially lower than the consensus forecast of 2.7%. Notably, Portugal and Italy have both reported annual price increases well below 2%. Concurrently, the [Federal Reserve's preferred inflation measure rose 3.4% from the prior year](#), well below consensus estimates of 3.5%. This progress has emboldened central bankers, who are now signaling their intent to maintain current interest rates while pursuing measures to address underlying price pressures.
- Despite concerns about a resurgence in inflation, several areas, including the eurozone, the U.K., and Canada, may find it untenable to maintain elevated interest rates without jeopardizing their economic growth prospects. These countries have [all experienced economic contractions in the third quarter of 2023](#), highlighting the delicate balance between curbing inflation and fostering economic growth. In stark contrast, the U.S. economy surged at its fastest pace since 2021 from July to September. This divergence in growth prospects has fueled speculation among investors that other developed economies may be forced to loosen monetary policy ahead of the U.S.



- The chart depicted above showcases the shift in implied policy rates since August. Implied policy rates refer to market-derived forecasts of future interest rates. During this period, investors adjusted their anticipated policy rates downward for the U.K., Canada, and the eurozone for the next few years. Notably, the U.S. has bucked this trend, with investors revising their expectations for the upcoming year. This divergence in policy paths should be supportive of the U.S. dollar against its major counterparts.

Crude Prices Under Pressure: Despite lingering supply concerns, oil prices have remained subdued, falling short of the previous year's level.

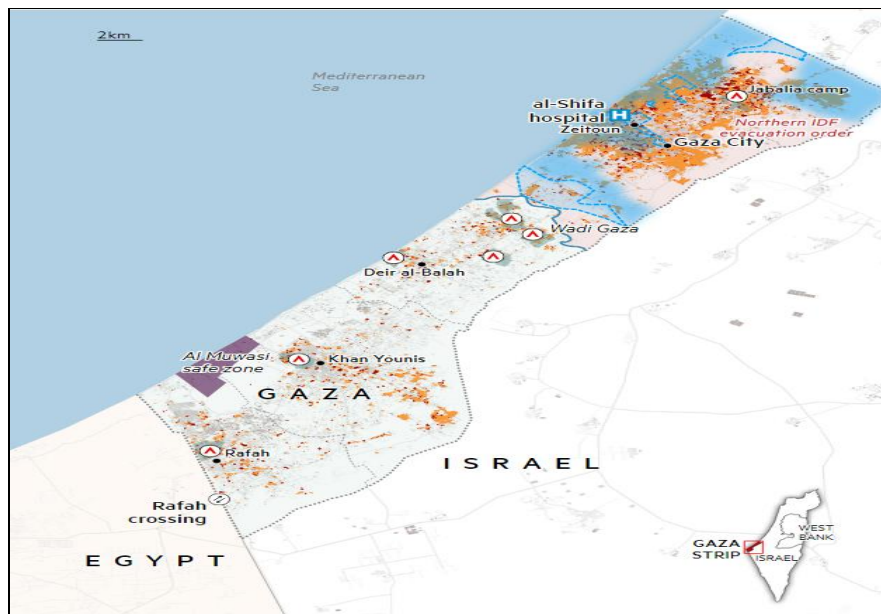
- Oil producers' efforts to achieve a sustainable rise in crude prices faced a setback due to supply cuts. In an attempt to bolster prices, OPEC+, which includes Russia, reached an agreement [on Thursday to deepen production cuts by an additional 1 million barrels per day](#). While the agreement was nonbinding, it was meant to convey the oil-producing nations' resolve to collaborate. Despite an initial surge, Brent crude prices closed the day lower, partly due to concerns that producers might not be able to implement the agreed-upon cuts fully. As a consequence, oil prices ended the day down 2%.
- The stability of oil prices has been partially attributed to weaker demand from China, which is grappling with internal economic challenges, and the looming threat of a global economic downturn. Notably, last year it was expected that oil demand would surge in 2023 as the lifting of [China's Zero-COVID policy was anticipated to increase energy consumption significantly](#). These expectations were dashed as the country's low consumer confidence and industrial output have led to a sluggish economic recovery. Furthermore, the Organization for Economic Co-operation and Development (OECD) has forecast a slowdown in GDP growth [for member countries to 1.4% in 2024, which will further contribute to weakened demand](#).



- This year, energy has been a major headwind for inflation. The base effects from last year's energy price surge have largely dissipated, narrowing the gap between core inflation and headline inflation. The lack of drag from energy will put pressure on other components of inflation as central banks look to bring inflation back to their 2% target next year. Hence, a possible reversal of oil prices could force central banks to rethink the path of interest rates. If oil prices remain relatively stable in the coming year, policymakers may be encouraged to stand pat.

Wars Far From Over: Conflicts in Central Asia and the Middle East show no signs of waning, putting Washington in a difficult position.

- Ukrainian President Volodymyr Zelenskyy has pivoted strategically amidst the evolving conflict with Russia. Acknowledging the constraints of recent counteroffensives, Zelenskyy has redirected attention [toward expediting the construction of robust military fortifications along the eastern front line](#). This shift in focus emphasizes a defensive stance aimed at fortifying Ukraine's defenses against a potential resurgence of Russian aggression during the winter months. Additionally, [there are concerns about Moscow's preparations, including the accumulation of missiles](#), which could potentially target Ukraine's power grids. The actions taken by both Ukraine and Russia signal a readiness to persist in the conflict, indicating that neither side is inclined to cease hostilities.
- At the same time, Israel has stated that it is preparing for a prolonged conflict with Hamas. The remarks come [after a seven-day cease-fire ended and the two sides resumed fighting early Friday morning](#). Although the timing may vary, Israel is expected to [maintain its ground offensive until at least early 2024](#). The objective of the attack will be to kill three of the top Hamas leaders—Yahya Sinwar, Mohammed Deif, and Marwan Issa—and dismantle the group's capacity to govern effectively in Gaza. Israeli officials caution that the resolution of the conflict won't be sudden, emphasizing their commitment to prevent the group from regaining influence.



- Facing mounting fiscal pressures, U.S. lawmakers will likely face heightened scrutiny when justifying foreign military aid, particularly for prolonged conflicts. While Americans generally support limited assistance to other nations, their tolerance may dwindle, especially when faced with persistent domestic challenges. These concerns likely explain the recent instances where lawmakers [have conditioned military aid for Israel and Ukraine on the inclusion of funding for border security](#). Hence, we may be moving toward a world in which countries will be forced to be less reliant on the U.S. for protection. This scenario should lead to greater trade and supply chain uncertainty, which should favor commodity prices in the longer term.

Other News: [Oil prices are also being impacted by the use of bot traders.](#) This highlights technology's growing influence on markets and raises questions about potential risks. In a separate event, Florida Governor Ron DeSantis' one-on-one debate with California Governor Gavin Newsom fell short of expectations. While DeSantis hoped the debate would reinvigorate his campaign, he [failed to clearly differentiate himself from Republican frontrunner Donald Trump.](#)

U.S. Economic Releases

No major U.S. reports have been released so far this morning. 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 Manufacturing PMI | m/m | Nov F | 49.5 | 49.4 | *** |
| 10:00 | Construction Spending MoM | m/m | Oct | 0.3% | 0.4% | ** |
| 10:00 | ISM Manufacturing PMI | m/m | Nov | 47.9 | 46.7 | ** |
| 10:00 | ISM Manufacturing PMI - Prices Paid | m/m | Nov | 46.0 | 45.1 | ** |
| 10:00 | ISM Manufacturing PMI - Employment | m/m | Nov | 47.6 | 46.8 | * |
| 10:00 | ISM Manufacturing PMI - New Orders | m/m | Nov | 46.7 | 45.5 | ** |
| | Wards Total Vehicle Sales | m/m | Nov | 15.50m | 15.50m | * |
| Federal Reserve | | | | | | |
| EST | Speaker or Event | District or Position | | | | |
| 10:00 | Austan Goolsbee Participates in Moderated Discussion | President of the Federal Reserve Bank of Chicago | | | | |
| 11:00 | Jerome Powell Speaks in Fireside Chat | Chair of the Board of Governors | | | | |
| 14:00 | Jerome Powell and Lisa Cook Take Part in Roundtable Discussion | Chair and Member of the Board of Governors | | | | |

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 | Jobless Rate | m/m | Oct | 2.6% | 2.6% | 2.6% | *** | Equity and bond neutral |
| | Job-To-Applicant Ratio | m/m | Oct | 1.3% | 1.3% | 1.3% | ** | Equity and bond neutral |
| | Capital Spending | y/y | 3Q | 3.4% | 4.5% | 3.4% | *** | Equity and bond neutral |
| New Zealand | ANZ Consumer Confidence | m/m | Nov | 91.9 | 88.1 | | ** | Equity and bond neutral |
| South Korea | Trade Balance | m/m | Nov | \$3800m | \$1636m | \$1627m | * | Equity and bond neutral |
| | Exports | y/y | Nov | 7.8% | 5.1% | 5.0% | *** | Equity bullish, bond bearish |
| | Imports | y/y | Nov | -11.6% | -9.7% | -8.6% | ** | Equity bearish, bond bullish |
| South Korea | S&P Global Manufacturing PMI | m/m | Nov | 50.0 | 49.8 | | *** | Equity and bond neutral |
| China | Caixin Manufacturing PMI | m/m | Nov | 50.7 | 49.5 | 49.6 | *** | Equity and bond neutral |
| India | S&P Global Manufacturing PMI | m/m | Nov | 56.0 | 55.5 | | *** | Equity and bond neutral |
| EUROPE | | | | | | | | |
| Eurozone | HCOB Eurozone Manufacturing PMI | m/m | Nov F | 44.2 | 43.8 | 43.8 | *** | Equity and bond neutral |
| Germany | HCOB Germany Manufacturing PMI | m/m | Nov F | 42.6 | 42.3 | 42.3 | ** | Equity and bond neutral |
| France | HCOB France Manufacturing PMI | m/m | Nov F | 422.9 | 42.6 | 42.6 | ** | Equity and bond neutral |
| Italy | HCOB Italy Manufacturing PMI | m/m | Nov | 44.4 | 44.9 | 44.4 | *** | Equity and bond neutral |
| | GDP WDA | y/y | 3Q F | 0.1% | 0.0% | 0.0% | ** | Equity and bond neutral |
| UK | Nationwide House Price Index | y/y | Nov | -2.0% | -3.3% | -2.3% | *** | Equity and bond neutral |
| UK | S&P Global/CIPS UK Manufacturing PMI | m/m | Nov F | 47.2 | 46.7 | 46.7 | *** | Equity and bond neutral |
| Switzerland | GDP | y/y | 3Q | 0.3% | 0.5% | 0.3% | ** | Equity and bond neutral |
| | Manufacturing PMI | m/m | Nov | 42.1 | 40.6 | 42.0 | *** | Equity and bond neutral |
| Russia | S&P Global Manufacturing PMI | m/m | Nov | 53.8 | 53.8 | 54.0 | *** | Equity and bond neutral |
| | Money Supply, Narrow Definition | w/w | 24-Nov | 18.22t% | 18.39t | | * | Equity and bond neutral |
| AMERICAS | | | | | | | | |
| Canada | GDP | y/y | Sep | 0.6% | 0.9% | 0.8% | ** | Equity and bond neutral |
| Brazil | Industrial Production | y/y | Oct | 1.2% | 0.6% | 2.0% | *** | Equity bearish, bond bullish |
| | S&P Global Manufacturing PMI | m/m | Nov | 49.9 | 48.6 | | *** | 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) | 564 | 565 | -1 | Down |
| 3-mo T-bill yield (bps) | 523 | 524 | -1 | Down |
| TED spread (bps) | LIBOR and the TED Spread have been discontinued. | | | |
| U.S. Sibor/OIS spread (bps) | 537 | 537 | 0 | Down |
| U.S. Libor/OIS spread (bps) | 536 | 536 | 0 | Down |
| 10-yr T-note (%) | 4.34 | 4.33 | 0.01 | Flat |
| Euribor/OIS spread (bps) | 396 | 398 | -2 | Up |
| Currencies | Direction | | | |
| Dollar | Down | | | Down |
| Euro | Flat | | | Up |
| Yen | Flat | | | Down |
| Pound | Up | | | Up |
| Franc | Flat | | | 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.

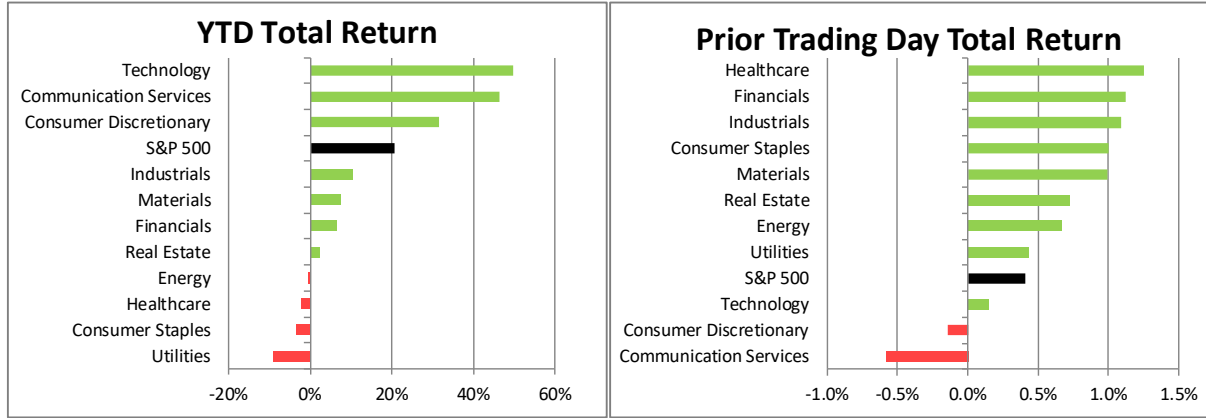
| | Price | Prior | Change | Explanation |
|-----------------------------|---------------|-----------------|-------------------|-------------|
| Energy Markets | | | | |
| Brent | \$80.81 | \$80.86 | -0.06% | |
| WTI | \$75.94 | \$75.96 | -0.03% | |
| Natural Gas | \$2.76 | \$2.80 | -1.36% | |
| Crack Spread | \$23.24 | \$23.34 | -0.44% | |
| 12-mo strip crack | \$24.12 | \$24.17 | -0.23% | |
| Ethanol rack | \$2.00 | \$1.99 | 0.23% | |
| Metals | | | | |
| Gold | \$2,038.22 | \$2,036.41 | 0.09% | |
| Silver | \$25.17 | \$25.27 | -0.39% | |
| Copper contract | \$388.55 | \$385.05 | 0.91% | |
| Grains | | | | |
| Corn contract | \$480.50 | \$482.75 | -0.47% | |
| Wheat contract | \$590.25 | \$598.00 | -1.30% | |
| Soybeans contract | \$1,326.50 | \$1,342.75 | -1.21% | |
| Shipping | | | | |
| Baltic Dry Freight | 2,937 | 2,696 | 241 | |
| DOE Inventory Report | | | | |
| | Actual | Expected | Difference | |
| Crude (mb) | 1.6 | -0.1 | 1.7 | |
| Gasoline (mb) | 1.8 | -0.7 | 2.5 | |
| Distillates (mb) | 5.2 | -1.3 | 6.6 | |
| Refinery run rates (%) | 2.8% | 0.9% | 1.9% | |
| Natural gas (bcf) | 10 | -8 | 18 | |

Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures in the western two-thirds of the country, with cooler-than-normal temperatures only in South Florida. The forecasts call for wetter-than-normal conditions in the Pacific Northwest, the northern Rocky Mountains, and the northern Great Plains, with dry conditions in southern California and Arizona.

Data Section

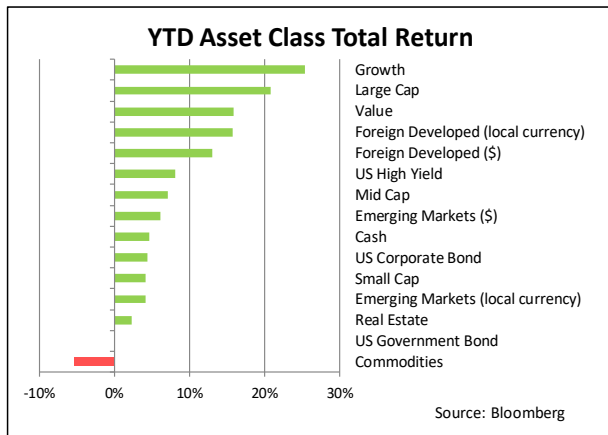
U.S. Equity Markets – (as of 11/30/2023 close)



(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 11/30/2023 close)

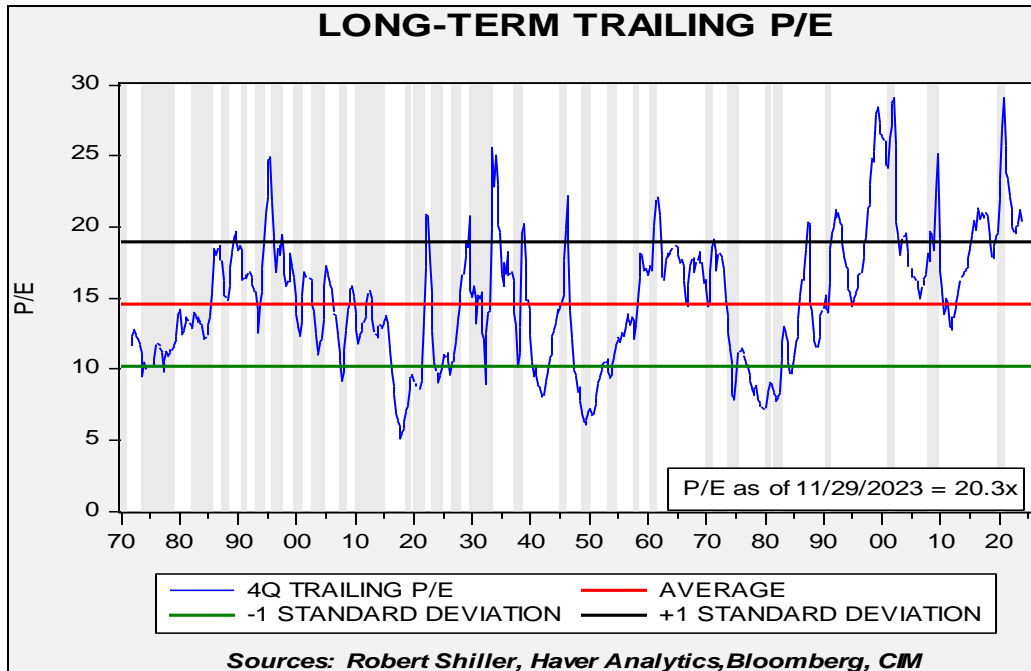


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

November 30, 2023



Based on our methodology,¹ the current P/E is 20.3x, up 0.9x from our last report. The large increase in the multiple is due mostly to implementing the actual earning number for Q3 from Standard and Poor's compared to the estimate from Bloomberg. This quarter's divergence was unusually large but not unprecedented. Our historical data is from Standard and Poor's; we use the Bloomberg estimated earnings data for the current and subsequent quarters. Overall, the multiple remains elevated.

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 (Q1, Q2 and Q3) and one estimate (Q4). 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.