

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: February 14, 2024—9:30 AM EST]** Global equity markets are higher 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 up 0.1%. Chinese markets were closed for the Chinese Lunar New Year. US equity index futures are signaling a higher open.

With 359 companies having reported so far, S&P 500 earnings for Q4 are running at \$57.30 per share compared to estimates of \$55.15, which is up 1.6% from Q3 2023. Of the companies that have reported thus far, 78.8% have exceeded expectations, while 15.6% 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:

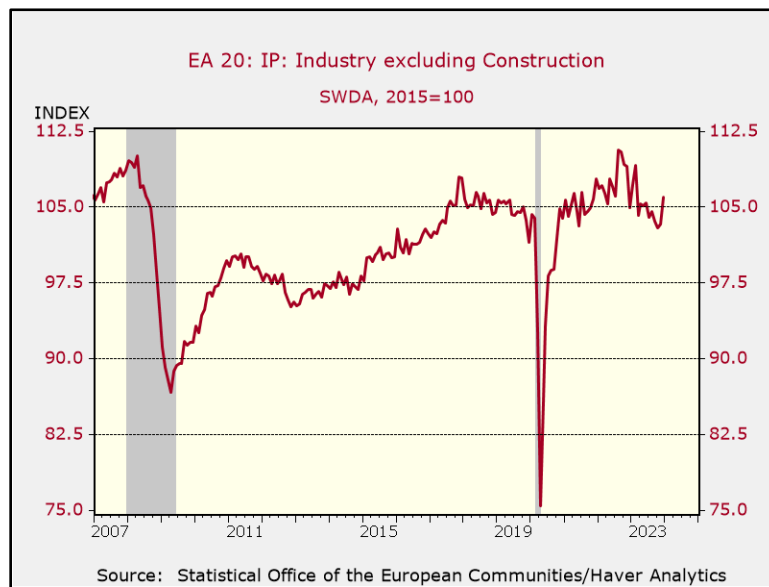
- [Bi-Weekly Geopolitical Report](#) (2/12/2024) (with associated [podcast](#)): “Thinking About Deterrence”
- [Asset Allocation Quarterly – Q1 2024](#) (1/26/2024): Discussion of our asset allocation process, Q1 2024 portfolio changes, and our outlook for the markets.
- [Asset Allocation Q1 2024 Rebalance 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](#) (2/5/2024) (with associated [podcast](#)): “US Oil Production at a Record High”
- [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 new forecasts showing continued growth in the demand for liquified natural gas and how populist politics in the West could nix the resulting export opportunities. We next review a range of other international and US developments with the potential to affect the financial markets today, including surprisingly good industrial production figures out of Europe and a few words on yesterday’s market rout in the US.

**Global Energy Market:** In a report yesterday, oil-and-gas giant Shell [said global demand for liquified natural gas will keep rising through at least 2040, when it will be more than 50% higher than it is today](#). According to the report, the continued rise in LNG demand will come largely from China, as that country's industrial sector transitions from coal to gas, and from fast-growing countries in southern and southeastern Asia.

- Despite the projected demand growth, however, populist policies in the developed countries could limit the West's export potential. One example of that is the Biden administration's recent decision to pause approvals for new LNG export terminals. Besides appeasing the members of his political base who are against fossil fuels, Biden's decision probably also aimed at bottling up gas supplies and keeping down energy prices in the US. A populist Republican administration could be tempted to do the same.
- In such a world, the natural gas and other key commodity markets could become fractured, with radically different prices between regions. The result would probably be a less efficient global economy and slower economic growth.

**Eurozone:** December industrial production [rose by a seasonally adjusted 2.6%, beating expectations for a small decline and accelerating from the revised 0.4% gain in November](#). Output was up 1.2% from December 2022, marking its first year-over-year rise since last February. Along with surprisingly good purchasing managers' index numbers recently, the production figures suggest the eurozone economy may be starting to bottom out, even if it is still struggling with issues such as high energy costs, elevated interest rates, and poor demand.



**United Kingdom:** Just a day after data showed continued strong wage growth that could discourage the Bank of England from cutting interest rates soon, a separate report showed the January consumer price index [was up 4.0% year-over-year, matching its increase in the year to December instead of accelerating to the expected annual rise of 4.2%](#). The report will likely rekindle hopes of a near-term cut in interest rates despite yesterday's data on wage increases.

**India:** With national elections coming up in just a few weeks, Prime Minister Modi's government [is scrambling to defuse mass protests by farmers demanding guaranteed crop prices and loan waivers](#). Negotiations yesterday between officials and protest organizers were unsuccessful, and thousands of farmers from across the country are marching on New Delhi, where the government is setting up roadblocks. To preserve [his frontrunner status](#), Modi could well offer concessions that would expand the budget deficit and weigh on Indian asset prices.

**Indonesia:** In an election today, preliminary results [show a big lead for controversial Defense Minister Prabowo Subianto](#), who commanded special operations forces when the country was a dictatorship decades ago and was accused of kidnapping democracy activists. Subianto has vowed that, if elected, he will continue the current government's nonaligned foreign policy, as well as its economic policy focused on boosting nickel production to leverage the global shift toward electric vehicles.

**Russia-Ukraine War:** Kyiv today [said it sank another large Russian navy ship in the Black Sea, this time using Ukrainian-made Magura V5 sea attack drones](#). Besides demonstrating Ukraine's increasingly capable and sophisticated domestic defense industry capabilities, the sinking also illustrates how Kyiv's most successful military efforts these days are in the maritime domain. Nevertheless, Ukraine's military is increasingly on the defensive as it loses Western aid, and the Russians ramp up their military resources.

**United States-China:** In another piece of evidence that the Pentagon is preparing for a potential conflict with China in the Indo-Pacific region, the US Army [has established its first overseas watercraft unit in decades](#). Based at Yokohama, Japan, the 5<sup>th</sup> Transportation Company will have 13 vessels (including landing craft, support vessels, and tugboats) and 285 Army mariners. While the Army remains focused on land warfare, the move shows how it is preparing to also fight in an Indo-Pacific maritime environment if needed.

**US Stock Market:** Following yesterday's report that the January Consumer Price Index was up a stronger-than-expected 3.1% from one year earlier, and the core CPI was up 3.9%, a range of US assets [sold off strongly yesterday](#). The S&P 500 stock price index dropped 1.4%, while the NASDAQ index fell 1.8% and the small-cap Russell 2000 price index plunged 4.0%. Bond prices also fell sharply, driving the yield on the benchmark 10-year Treasury note up to 4.32%. Most key commodity prices weakened, and the dollar surged.

- The selloffs reflected concern that sticky inflation will prompt the Federal Reserve to delay cutting interest rates. Indeed, market indicators showed that investors now expect policymakers to implement their first rate cut in June rather than May.
- The inflation data and the shifting expectations for rate cuts are consistent with our oft-stated view that investors have probably gotten ahead of themselves in expecting rate cuts in the near term. With egg on their faces for letting inflation get too high in 2021 and 2022, the Fed policymakers now want to be absolutely certain that price pressures have eased before they cut interest rates. As that continues to sink in with investors, the market could face further bouts of volatility.

**US Politics:** In a special election yesterday, voters in New York [elected Democrat Tom Suozzi](#) to replace ousted Republican Representative George Santos. Once Suozzi takes his oath, the Republicans in the House will be left with an even slimmer majority of 219 to 213 (three vacancies will remain). Suozzi's healthy victory margin of 54% to 46% [has also left Democrats optimistic that they can win despite being on the back foot on immigration issues](#) as migrants continue to flow into the US across the border from Mexico.

## US Economic Releases

The Mortgage Bankers Association today said its overall index for *mortgage applications* in the week ended February 9, 2024, slipped 2.3%. The index of applications for home purchase mortgages fell 2.5%, while applications for refinancing fell 2.1%. According to the report, the average interest rate on a 30-year mortgage rose to a two-month high, rising 7 basis points to 6.87%. This is the highest rate since early December.

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	
9:30	Austan Goolsbee Speaks in Q&A	President of the Federal Reserve Bank of Chicago	
16:00	Michael Barr Speaks at NABE Conference	Federal Reserve Board Vice Chair for Supervision	

## 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>								
New Zealand	REINZ House Sales	y/y	Jan	4.9%	14.1%		**	Equity bearish, bond bullish
	Food Prices	m/m	Jan	0.9%	-0.1%		***	Equity bearish, bond bullish
India	Trade Balance	m/m	Jan	--	-\$19803.3m	-\$20000.0m	*	Equity and bond neutral
	Exports	y/y	Jan	--	1.0%	--	**	Equity and bond neutral
	Imports	y/y	Jan	--	-4.8%	--	**	Equity and bond neutral
<b>EUROPE</b>								
Eurozone	GDP	y/y	4Q P	0.1%	0.1%	0.1%	***	Equity and bond neutral
	Industrial Production WDA	y/y	Dec	1.2%	-6.8%	-5.4%	**	Equity bullish, bond bearish
UK	CPI YoY	y/y	Jan	4.0%	4.0%	4.1%	***	Equity and bond neutral
	CPI Core YoY	y/y	Jan	5.1%	5.1%	5.2%	***	Equity and bond neutral
	Retail Price Index	y/y	Jan	378.0	379.0	378.9	***	Equity and bond neutral
	RPI YoY	y/y	Jan	4.9%	5.2%	5.2%	**	Equity bullish, bond bearish
<b>AMERICAS</b>								
Mexico	International Reserves Weekly	w/w	9-Feb	\$213177m	\$213464m		*	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)	557	557	0	Down
3-mo T-bill yield (bps)	522	523	-1	Up
U.S. Sibor/OIS spread (bps)	532	533	-1	Down
U.S. Libor/OIS spread (bps)	534	534	0	Down
10-yr T-note (%)	4.30	4.32	-0.02	Down
Euribor/OIS spread (bps)	390	391	-1	Down
Currencies	Direction			
Dollar	Flat			Up
Euro	Flat			Down
Yen	Up			Down
Pound	Down			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.

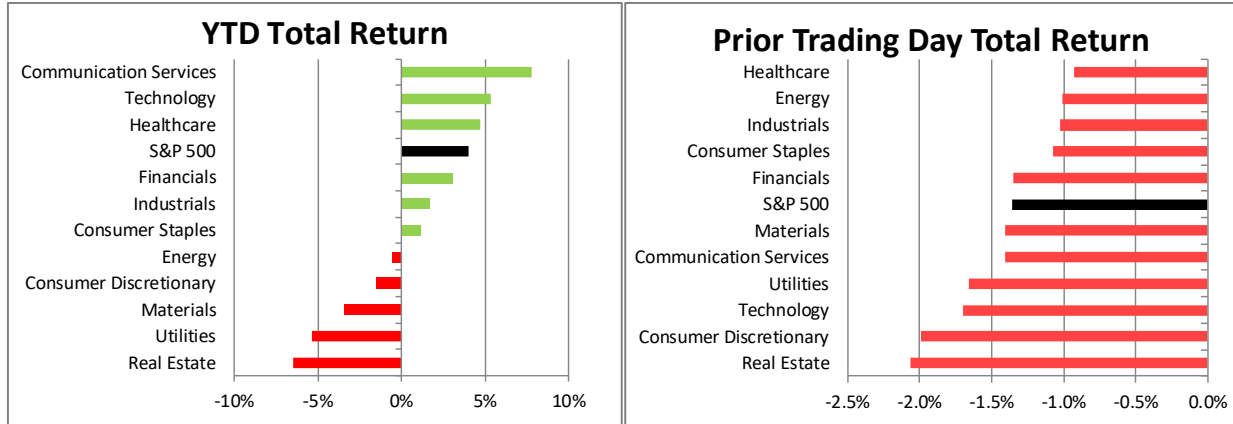
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$82.87	\$82.77	0.12%	
WTI	\$77.91	\$77.87	0.05%	
Natural Gas	\$1.67	\$1.69	-1.07%	
Crack Spread	\$29.53	\$29.97	-1.45%	
12-mo strip crack	\$27.48	\$27.87	-1.37%	
Ethanol rack	\$1.70	\$1.71	-0.66%	
<b>Metals</b>				
Gold	\$1,990.35	\$1,993.15	-0.14%	
Silver	\$22.03	\$22.12	-0.42%	
Copper contract	\$371.80	\$371.10	0.19%	
<b>Grains</b>				
Corn contract	\$428.00	\$430.75	-0.64%	
Wheat contract	\$583.25	\$597.00	-2.30%	
Soybeans contract	\$1,183.75	\$1,191.75	-0.67%	
<b>Shipping</b>				
Baltic Dry Freight	1,585	1,572	13	
<b>DOE Inventory Report</b>				
	Actual	Expected	Difference	
Crude (mb)		3.4		
Gasoline (mb)		-1.6		
Distillates (mb)		-1.7		
Refinery run rates (%)		0.1%		
Natural gas (bcf)		-65		

## **Weather**

The 6-10 and 8-14 day forecasts currently call for colder-than-normal temperatures across the northern Great Plains, New England, and Florida, with warmer-than-normal temperatures in the southern and central Great Plains. The precipitation outlook calls for wetter-than-normal conditions throughout the Pacific and Mountain time zones, with dry conditions in Texas, Oklahoma, Arkansas, and Louisiana.

**Data Section**

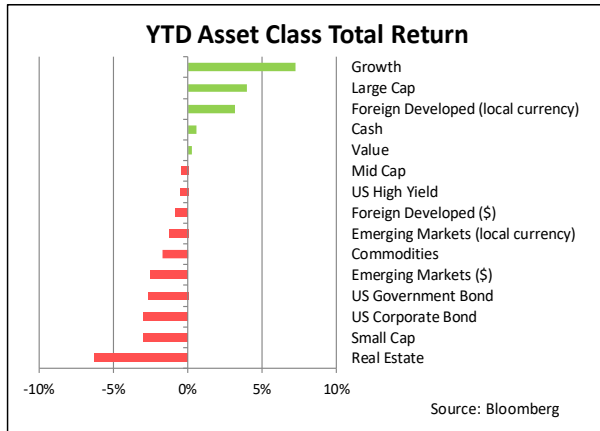
**US Equity Markets – (as of 2/13/2024 close)**



(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 2/13/2024 close)**

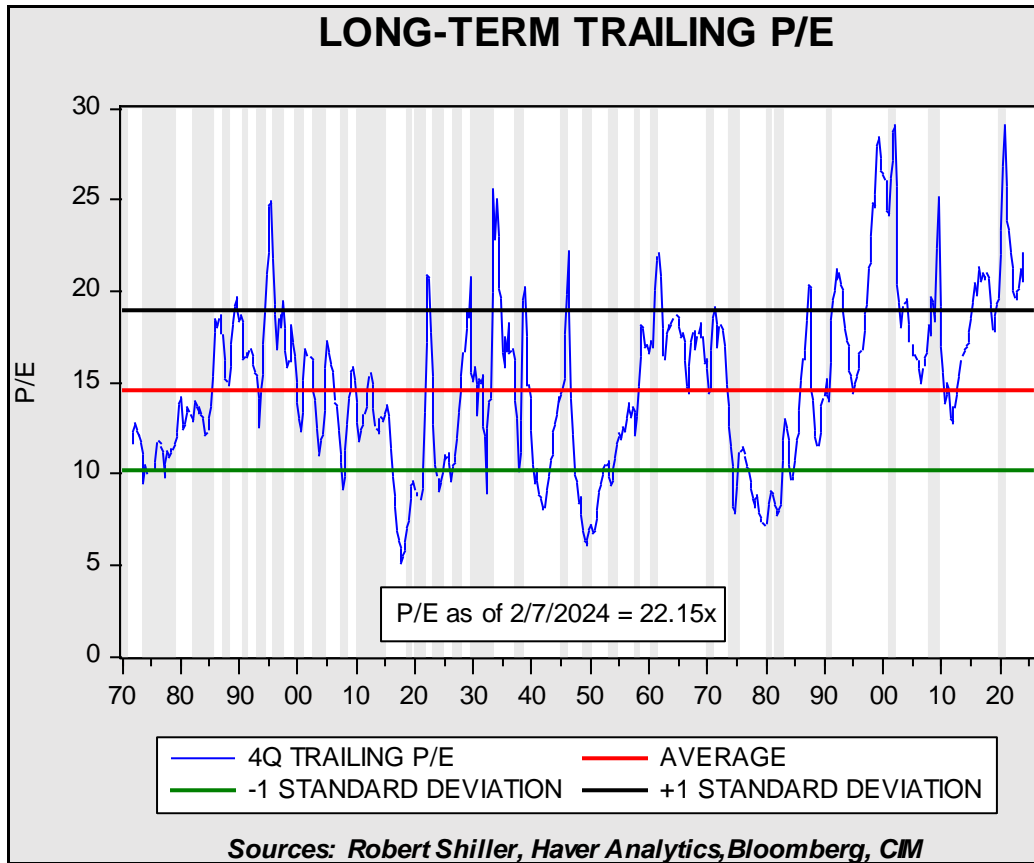


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

February 8, 2024



Based on our methodology,<sup>1</sup> the current P/E is 22.15x, up 0.16x from our last report. The rise in the multiple was driven primarily by an increase in the 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.*

<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 (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.