

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: January 22, 2024—9:30 AM EST] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.9%. Chinese markets were lower, with the Shanghai Composite down 2.7% from its previous close and the Shenzhen Composite down 4.5%. U.S. equity index futures are signaling a higher open.

With 52 companies having reported so far, S&P 500 earnings for Q4 are running at \$54.80 per share, compared to estimates of \$55.15, which is up 1.6% from Q3 2023. Of the companies that have reported thus far, 84.6% have exceeded expectations while 11.5% 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](#) (1/16/2024) (with associated [podcast](#)): “What If Russia Wins in Ukraine?”
- [Weekly Energy Update](#) (12/14/2023): Oil prices have been under pressure as geopolitical risk premium evaporates; COP28 ended with a deal to “shift” from fossil fuels, softer language than the “phase out” comment that was rejected by oil producers. (N.B. The *Weekly Energy Update* will go on indefinite hiatus following this report.)
- [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](#) (1/22/2024) (with associated [podcast](#)): “How Does Powell Define Restrictive Monetary Policy?”**
- [The 2024 Outlook: Slow-Bicycle Economy](#) (12/18/2023) (with associated *Confluence of Ideas* [podcast](#))

Our *Comment* today opens with a short discussion of Japan’s surging stock market and one potential reason for its strong rise. We next review a wide range of other international and U.S. developments with the potential to affect the financial markets today, including an apparent

Israeli airstrike in Syria that killed members of Iran's Revolutionary Guard and multiple developments in U.S. politics and financial markets.

Japan: Japanese stock prices [continue to surge](#), with the Nikkei 225 price index now up about 9% year-to-date and within easy striking distance of its record high in the bubble of 1989. In contrast, mainland China's CSI 300 index is down about 6%, and Hong Kong's Hang Seng index is down 12%. The *Wall Street Journal* today notes that part of the reason for Japan's strong performance may be that Chinese investors are pouring money into the Japanese market.

India: Prime Minister Modi today [officially dedicated a controversial Hindu temple built on the site of a 15th-century mosque that was destroyed amid sectarian violence](#) several years ago. The ceremony was attended by many top business leaders, celebrities, and film stars, highlighting how popular the temple's construction has been with the 80% or so of India's population that is Hindu. The move has therefore further boosted Modi's political position. However, the move has been strongly resisted by Muslims and some opposition politicians.

Israel-Hamas Conflict: An apparent Israeli airstrike on a residence in Syria over the weekend [killed five members of Iran's Revolutionary Guard](#), raising further concerns that the conflict between Israel and Hamas could broaden to draw in Iran. Indeed, Iran-backed militants in Iraq later fired missiles at a U.S. military base in that country, causing several minor injuries.

Germany: Hundreds of thousands of people [staged protests around the country yesterday](#) after reports indicated the far-right populist Alternative for Germany party has been exploring a plan for mass deportations of people of foreign origin if its rising popularity puts it in power. Separately, AfD leader Alice Weidel [said in a *Financial Times* interview that the party would hold a Brexit-style referendum on leaving the European Union](#) if it comes to power. These developments show how populism is fracturing societies in the EU as well as the U.S.

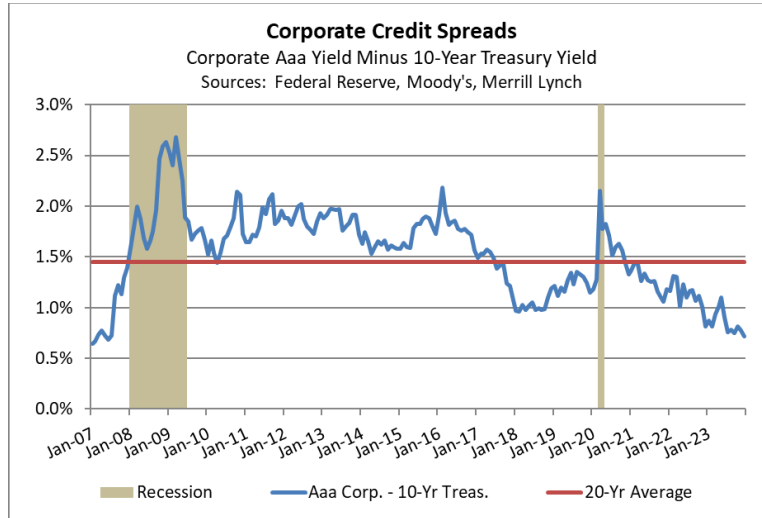
U.S. Politics: Yesterday, Florida Governor Ron DeSantis [said he is suspending his campaign to be the Republican nominee for president](#), leaving tomorrow's New Hampshire primary a two-person race between former President Trump and former UN Ambassador Haley. Although DeSantis endorsed Trump in his statement, one key question is how many of his supporters will now shift their votes to Haley. As we've said before, it still looks like Trump will eventually be the Republican nominee, but Haley probably can't be counted out just yet.

U.S. Stock Market: The S&P 500 price index [closed at a new all-time high on Friday](#), meaning the uptrend that began in late 2022 now meets the conventional definition of a bull market. Since its low on October 12, 2022, the index is now up 35.3%. Importantly, the upswing has recently broadened beyond the "Magnificent 7" large-cap growth stocks that had dominated the market last year. For example, 70.8% of the stocks in the S&P 500 are now trading above their 200-day moving average.

- Momentum indicators also point to possible further gains in the near term.
- Nevertheless, as we noted in our recent "[2024 Outlook](#)" publication, moderating growth will leave the U.S. economy at greater risk of a recession this year. A recession, concern

about the November elections, or negative geopolitical developments could all push stock prices lower again later in 2024.

U.S. Bond Market: A report in the *Financial Times* reveals that investment-grade corporate bond sales [have topped \\$150 billion so far in 2024, marking the strongest year-to-date issuance in three decades](#). The strong pace of issuance so far reflects both the big decline in yields since last autumn and extraordinarily strong demand by investors. Because of the strong demand, the spread between high-grade corporate bond yields and 10-year Treasury note yields has fallen to its lowest since before the Great Financial Crisis.



U.S. Commercial Real Estate Market: RXR, one of New York City’s biggest property developers, and alternative investment manager Ares Management (ARES, \$116.43) [are reportedly teaming up to launch a \\$1-billion fund to invest in the city’s distressed office buildings](#). Officials involved in the fund say they now sense an opportunity because building owners have finally accepted that they will have to accept losses to restructure or unload their assets, while the fund officials think they can assess where interest rates are going and what assets offer good value.

- The new office fund illustrates one benefit from the vast sums of money that have flowed into U.S. private equity and private debt funds in recent years. The bespoke deals and hands-on management of these investments may give private funds the confidence to seize evolving opportunities more quickly, channeling funds into the office sector and potentially helping to put a floor underneath it before it causes broader economic harm.
- Of course, it could also be the case that such investments are too early. Investing in distressed office properties is likely to be very risky as the market continues to adjust to work-from-home dynamics and high interest rates.

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
10:00	Leading Index	m/m	Dec	-0.5%	-0.3%	***
Federal Reserve						
No Fed speakers or events for the rest of today						

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
EUROPE								
France	Retail Sales SA	y/y	Dec	-2.4%	-3.8%	-3.7%	*	Equity bullish, bond bearish
Switzerland	M3 Money Supply	y/y	Dec	-2.0%	-3.3%	-3.1%	**	Equity bearish, bond bullish
	Domestic Sight Deposits CHF	w/w	19-Jan	464.4b	467.8b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	19-Jan	473.4b	476.3b		*	Equity and bond neutral
AMERICAS								
Canada	Retail Sales	m/m	Nov	-0.2%	0.7%	0.5%	**	Equity bearish, bond bullish
	Retail Sales Ex-Autos	m/m	Nov	-0.5%	0.6%	0.4%	**	Equity bearish, bond bullish

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)	558	558	0	Down
3-mo T-bill yield (bps)	520	520	0	Flat
U.S. Sibor/OIS spread (bps)	532	532	0	Down
U.S. Libor/OIS spread (bps)	532	531	1	Down
10-yr T-note (%)	4.09	4.12	-0.03	Flat
Euribor/OIS spread (bps)	396	397	-1	Down
Currencies	Direction			
Dollar	Down			Down
Euro	Flat			Up
Yen	Up			Up
Pound	Up			Up
Franc	Flat			Up
Central Bank Action	Current	Prior	Expected	
PBOC 1-Year Loan Prime Rate	3.450%	3.450%	3.450%	On Forecast
PBOC 5-Year Loan Prime Rate	4.200%	4.200%	4.200%	On Forecast

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.

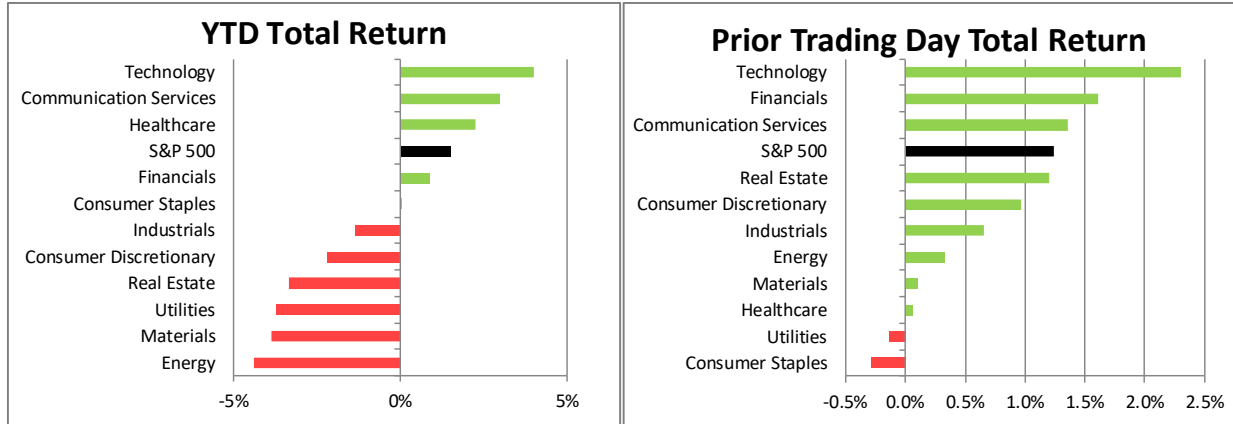
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$78.69	\$78.56	0.17%	
WTI	\$73.74	\$73.41	0.45%	
Natural Gas	\$2.37	\$2.52	-5.99%	Supply Optimism and Demand Pessimism
Crack Spread	\$24.82	\$24.47	1.45%	
12-mo strip crack	\$25.04	\$24.96	0.34%	
Ethanol rack	\$1.75	\$1.75	0.26%	
Metals				
Gold	\$2,027.44	\$2,029.49	-0.10%	
Silver	\$22.20	\$22.62	-1.85%	
Copper contract	\$376.85	\$378.65	-0.48%	
Grains				
Corn contract	\$445.00	\$445.50	-0.11%	
Wheat contract	\$588.25	\$593.25	-0.84%	
Soybeans contract	\$1,211.25	\$1,213.25	-0.16%	
Shipping				
Baltic Dry Freight	1,503	1,357	146	

Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures for the entire country, with temperatures especially high east of the Mississippi River. The forecasts call for wetter-than-normal conditions in the Pacific and Southwest regions, with dry conditions east of the Mississippi river.

Data Section

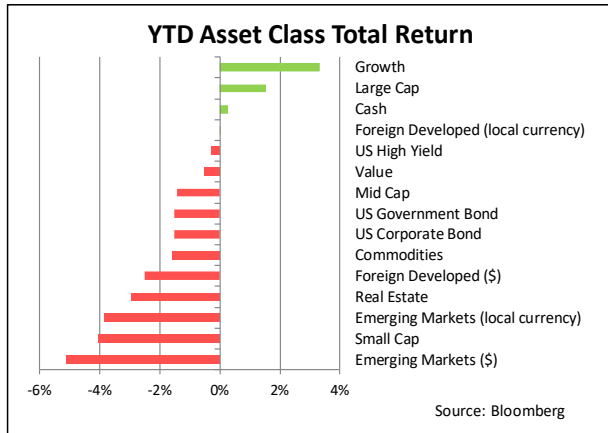
U.S. Equity Markets – (as of 1/19/2024 close)



(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 1/19/2024 close)

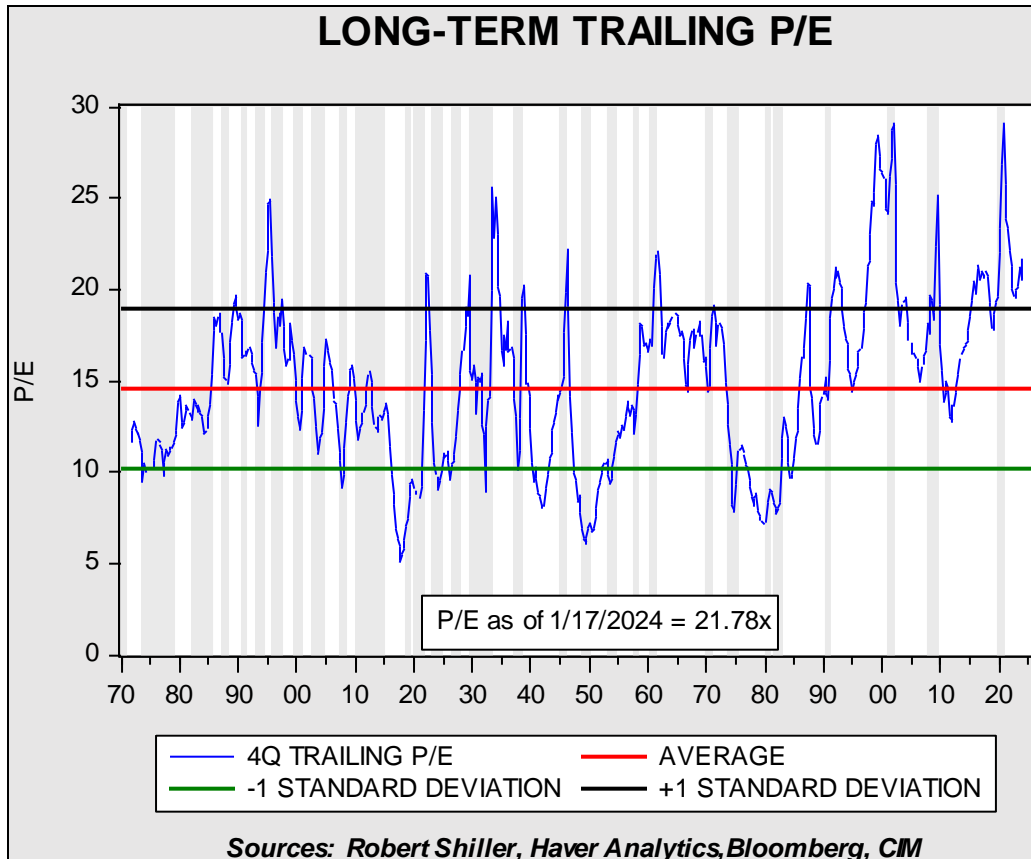


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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), 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

January 18, 2024



Based on our methodology,¹ the current P/E is 21.78x, up 0.17x 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.

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.