

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 23, 2024—9:30 AM EST] Global equity markets are mostly higher this morning. In Europe, the Euro Stoxx 50 is down 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.2%. Chinese markets were higher, with the Shanghai Composite up 0.5% from its previous close and the Shenzhen Composite up 1.0%. U.S. equity index futures are signaling a higher open.

With 54 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, 87.0% have exceeded expectations while 9.3% 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 signs that European leaders are getting more concerned about future Russian aggression. We next review a range of other international and U.S. developments with the potential to affect the financial markets today, including a potential new stock-market stimulus program in China and a few words on U.S. politics.

NATO-Russia: Illustrating how Russia’s invasion of Ukraine has prompted increased defense efforts by European members of the North Atlantic Treaty Organization, the Baltic states of Estonia, Latvia, and Lithuania last week [agreed to start building strongpoints, bunkers, and other fixed defensive installations along their border with Russia](#). The move mirrors a recent decision by Finland to start building defense works on its border with Russia.

- As we wrote in our recent [Bi-Weekly Geopolitical Report](#), an emboldened Russia may eventually be tempted to grab more territory in Europe despite its mauling at the hands of the Ukrainians so far. The possibility of further Russian aggression means the global investment environment will face elevated geopolitical risks in the coming years, but also potential opportunities in assets such as defense stocks and precious metals.
- Separately, German Defense Minister Boris Pistorius [has warned that Russia might attack NATO territory even within the next five to eight years](#). Swedish officials have also been warning their citizens that a war with Russia could be coming. (By the way, we note that Turkey’s parliament [is set to vote today on Sweden’s bid to join NATO](#). If the vote is positive, Sweden would only need a final approval from Hungary to join the alliance.)
- We want to emphasize that we don’t think further Russian aggression is certain. However, these reports do suggest that officials in Europe are becoming more concerned.

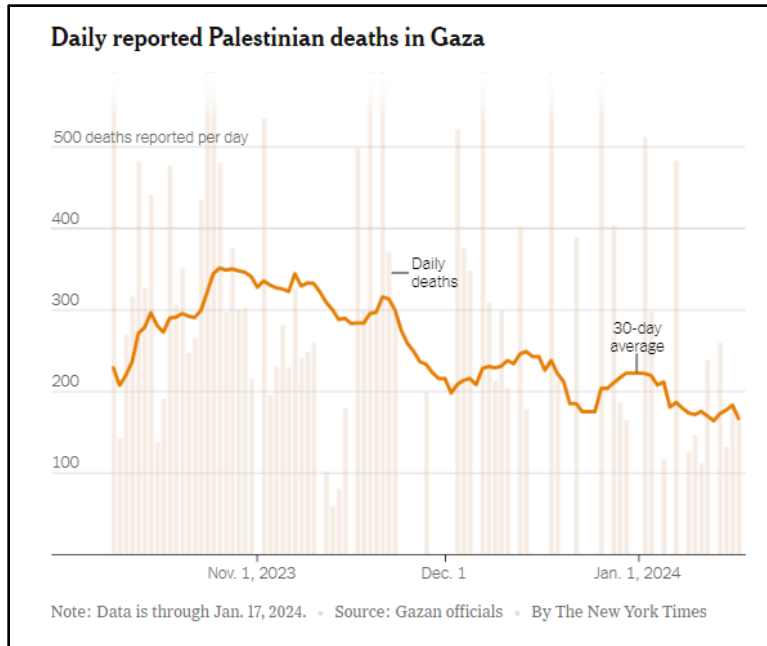
China: Responding to the ongoing slide in Chinese stock values, the State Council yesterday [called on authorities to take stronger and more effective measures to stabilize markets and boost confidence](#). They also called for better regulations, more transparency, and additional measures to improve the quality of listed companies. Coupled with a recent surge in stock buying by state-owned firms, the cabinet statement has raised hopes that the government will soon embark on a program to lift prices. Chinese stocks therefore closed modestly higher today.



Israel-Hamas Conflict: While Prime Minister Netanyahu has publicly and privately resisted U.S. pressure to tone down Israel’s attacks on Hamas militants in the Gaza Strip, new analysis

from the *New York Times* [suggests the intensity of the attacks has indeed declined](#). The analysis shows that average Palestinian deaths in Gaza are now down to less than 200 per day.

- Of course, the death and destruction is still high enough to spur anti-Israeli attacks by militants around the region, [including in southern Lebanon](#), keeping alive the risk that the conflict could broaden.
- Nevertheless, reduced violence and a more targeted approach by Israel could help to eventually reduce tensions and risks.



Red Sea Shipping: Despite the drop in casualties in Gaza, Iran-backed Houthi rebels in Yemen continue to threaten sympathy strikes on commercial ships in the Red Sea. In response, the U.S. and the U.K. [launched a new round of airstrikes on Houthi missile sites and other targets this morning](#). The strikes mark the U.S.’s eighth attack on Houthi targets over the last several weeks.

European Union: Jean-François van Boxmeer, head of the European Round Table for Industry, [has issued a complaint that the 800-billion EUR \(\\$869 billion\) NextGen EU pandemic recovery fund is far too difficult to access](#). According to van Boxmeer, the EU needs to cut the red tape and restructure the fund to get money into its targeted digital and green-tech projects more quickly.

- Indeed, halfway through its planned 2021-2026 life, only about 30% of the fund has been spent on loans and grants.
- That has left the EU with far less fiscal stimulus than the U.S. has had in the same period, which probably helps explain the stronger relative economic growth in the U.S.

France: Farmers’ union FNSEA [is launching multiple road blockades and other measures today to protest government red tape and rising production costs](#). The protests follow similar actions

recently in Germany, the Netherlands, Poland, and Romania. They also illustrate some of the rural frustrations that have boosted the support for right-wing populist movements throughout Europe.

Argentina: Key labor unions have announced that hundreds of thousands of workers [will go out on strike this week to protest the libertarian economic reforms pushed by President Milei](#). The country’s courts have already suspended some key reforms, and Milei lacks control of the Argentine legislature, so the mass strike could be a further big impediment to Milei’s effort to reform the crisis-prone economy.

U.S. Politics: New Hampshire today [holds the first presidential primary vote of the election season, following Iowa’s caucuses last week](#). On the Republican side, the latest opinion polls give former President Trump a healthy lead, but former UN Ambassador Nikki Haley is hoping for an upset and follow-on victory in her native South Carolina later.

- In our geopolitical analysis, we write a lot about the rise of right-wing populists around the world, including leaders such as Trump, Italian Prime Minister Giorgia Meloni, and Hungarian Prime Minister Viktor Orbán. However, we usually focus on the populists’ isolationist policies and how they affect international relations.
- An [interesting opinion piece in the Financial Times today](#) explores the economic impact of the populists. Specifically, the article notes that even though populist policies could theoretically be negative for the economy, most of today’s populists have presided over good economic growth. The article doesn’t give a definitive answer as to why that has happened, but it’s worth reading the author’s exploration of the topic.

U.S. Fiscal Policy: While it’s widely recognized that expansive federal fiscal policy has been helping buoy U.S. economic growth (reflecting both reduced income taxes and higher spending, especially for various types of entitlements), new analysis reminds us that state and local governments [have also been increasing their spending](#). Key factors boosting state and local spending (and hiring) include infrastructure investment and stronger teacher hiring as schools get back to normal following the COVID-19 pandemic.

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	Richmond Fed Manufact. Index	m/m	Jan	-11	-8	**
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
ASIA-PACIFIC								
Australia	NAB Business Confidence	m/m	Dec	-1	-9	-8	**	Equity bullish, bond bearish
	NAB Business Conditions	m/m	Dec	7	9		**	Equity and bond neutral
South Korea	PPI	y/y	Dec	1.2%	0.6%		**	Equity bullish, bond bearish
EUROPE								
UK	Public Finances (PSNCR)	y/y	Dec	12.9b	12.5b	12.6b	*	Equity and bond neutral
	Public Sector Net Borrowing	m/m	Dec	6.8b	13.4b	12.8b	*	Equity and bond neutral
	PSNB ex Banking Groups	m/m	Dec	7.8b	14.3b	13.7b	**	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)	558	558	0	Down
3-mo T-bill yield (bps)	518	520	-2	Flat
U.S. Sibor/OIS spread (bps)	532	532	0	Down
U.S. Libor/OIS spread (bps)	532	532	0	Down
10-yr T-note (%)	4.13	4.11	0.02	Flat
Euribor/OIS spread (bps)	395	396	-1	Down
Currencies	Direction			
Dollar	Up			Down
Euro	Down			Up
Yen	Flat			Up
Pound	Flat			Up
Franc	Flat			Up
Central Bank Action	Current	Prior	Expected	
BOJ Policy Balance Rate	-0.100%	-0.100%	-0.100%	On Forecast
BOJ 10-yr Yield Target	0.000%	0.000%	0.000%	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.

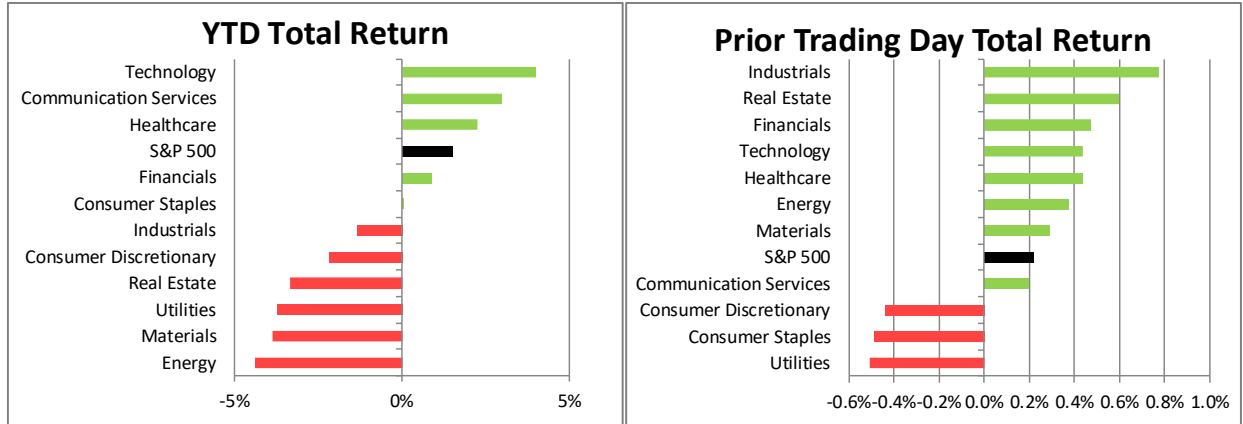
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$79.36	\$80.06	-0.87%	
WTI	\$74.13	\$74.76	-0.84%	
Natural Gas	\$2.38	\$2.42	-1.69%	
Crack Spread	\$25.34	\$25.30	0.18%	
12-mo strip crack	\$24.84	\$25.59	-2.95%	
Ethanol rack	\$1.76	\$1.76	0.02%	
Metals				
Gold	\$2,024.76	\$2,021.70	0.15%	
Silver	\$22.28	\$22.10	0.83%	
Copper contract	\$378.85	\$376.35	0.66%	
Grains				
Corn contract	\$447.00	\$445.75	0.28%	
Wheat contract	\$598.00	\$596.50	0.25%	
Soybeans contract	\$1,228.50	\$1,224.25	0.35%	
Shipping				
Baltic Dry Freight	1,518	1,503	15	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.3		
Gasoline (mb)		1.8		
Distillates (mb)		1.0		
Refinery run rates (%)		-0.6%		
Natural gas (bcf)		-165		

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 that is expected to move eastward to the Midwest, with dry conditions in the Mid-Atlantic and New England.

Data Section

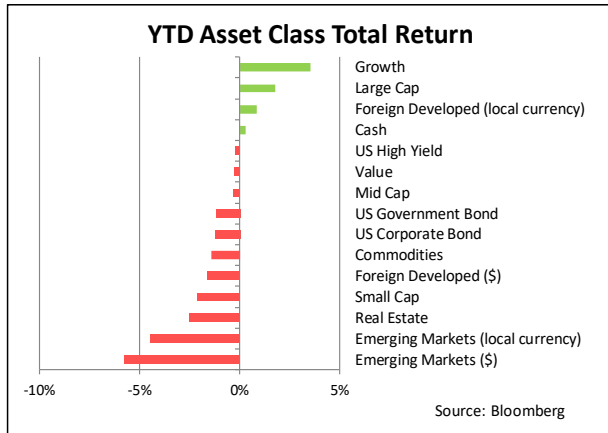
U.S. Equity Markets – (as of 1/22/2024 close)



(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 1/22/2024 close)

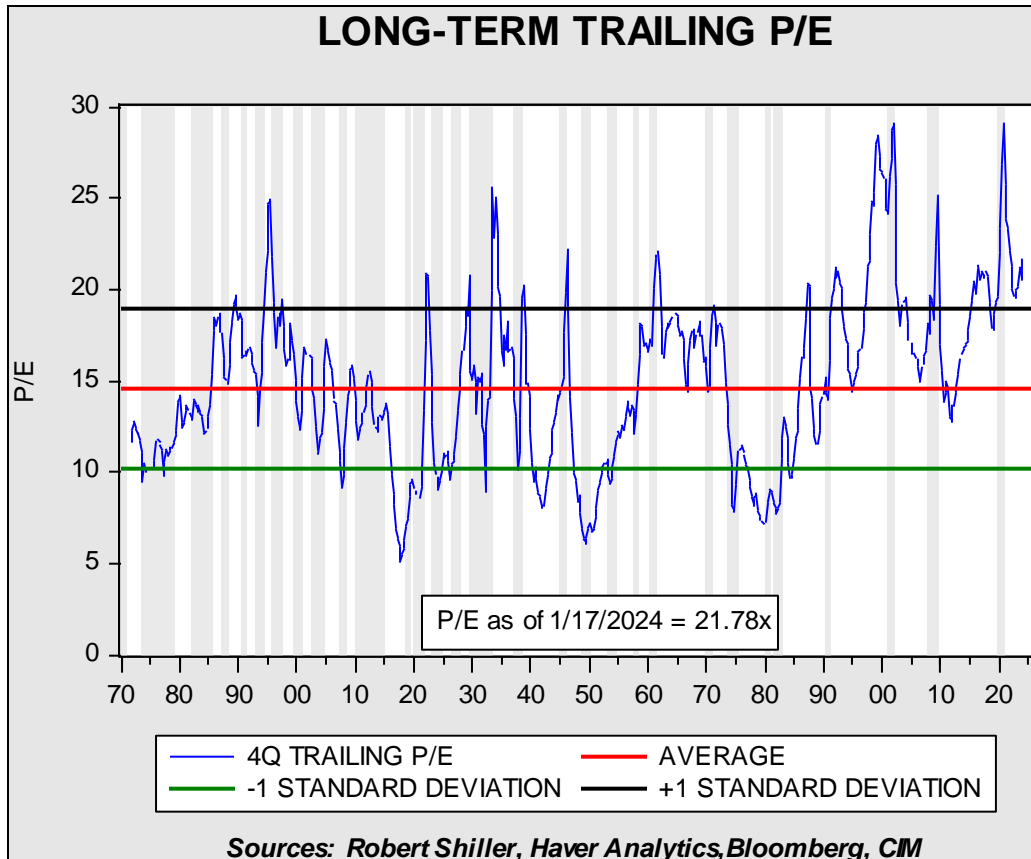


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.