

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 24, 2024—9:30 AM EST] Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 1.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.7%. Chinese markets were higher, with the Shanghai Composite up 1.8% from its previous close and the Shenzhen Composite up 1.3%. U.S. equity index futures are signaling a higher open.

With 71 companies having reported so far, S&P 500 earnings for Q4 are running at \$54.90 per share, compared to estimates of \$55.15, which is up 1.6% from Q3 2023. Of the companies that have reported thus far, 84.5% have exceeded expectations while 11.3% 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 items related to the Russia-Ukraine war. We next review a wide range of other international and U.S. developments with the potential to affect the financial markets today, including a surprise easing of monetary policy in China and the latest on the U.S. presidential election following New Hampshire’s primary election yesterday.

Russia-Ukraine War: Reports today [suggest a Russian military plane may have been shot down by Ukrainian forces over Russian territory close to the border with Ukraine](#), with no survivors. According to Russian officials, the plane was carrying 65 Ukrainian prisoners of war who were about to be part of a Russia-Ukraine POW exchange. That hasn't yet been verified, but if found to be true, it could be a major embarrassment for Ukrainian President Zelensky and potentially increase domestic pressure on him to begin peace talks.

NATO-Sweden: As we flagged in yesterday's *Comment*, the Turkish parliament last night [approved Sweden's bid to join the North Atlantic Treaty Organization](#). Once Turkish President Erdoğan signs the accession protocol in the coming days, the only hurdle left for Sweden would be to gain Hungary's approval. Hungarian Prime Minister Orbán has invited Swedish officials to discuss the accession, but a vote still hasn't been scheduled in the Hungarian parliament.

Israel-Hamas Conflict: Hamas officials yesterday told international mediators that they would [consider trading some of the Israeli hostages the group still holds in return for a significant pause in fighting](#). The statement marks a shift for Hamas, as it had previously said it would only consider releasing more hostages as part of a permanent, comprehensive peace deal with Israel. Nevertheless, it isn't clear whether the Israeli government will accept the deal, or under what terms. For now, the fighting is set to continue, as will the risk of a broader regional conflict.

- Separately, the U.S. [carried out three different airstrikes last night against Iran-backed Kataib Hezbollah militants in Iraq](#), just as it has been carrying out strikes on Iran-backed Houthi rebels in Yemen.
- The strikes against Kataib Hezbollah follow multiple attacks the group has staged against U.S. forces in the region, which have caused multiple injuries to U.S. personnel. To reiterate, such strikes and counterstrikes mean there is still a risk that the fighting between Israel and Hamas could spread throughout the region.

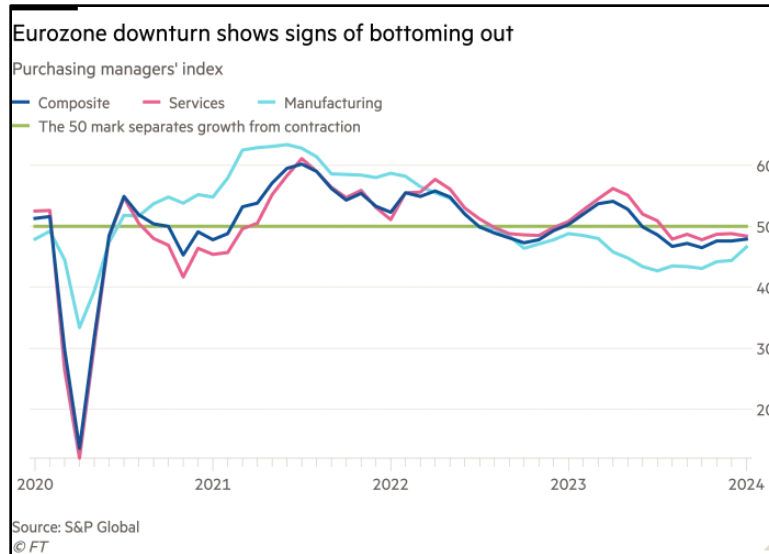
China: The People's Bank of China today [unexpectedly slashed its bank reserve requirement for the third time since last September, cutting the standard to 7.0%](#) from 7.4% previously. PBOC chief Pan Gongsheng also signaled the central bank will soon cut key interest rates. The moves may give some boost to the Chinese economy and financial markets, but slightly looser monetary policy is unlikely to overcome the big economic headwinds China is currently facing.

- Separately, technology giant Alibaba (BABA, \$74.02) [saw its share price jump 7.9% yesterday, and pre-market activity suggests the price gains will continue today](#). That follows reports that co-founders Jack Ma and Joe Tsai have been aggressively buying shares.
- As we noted in yesterday's *Comment*, the Chinese government has reportedly been pressuring state-owned firms to buy shares and buoy the flagging market. It's not inconceivable that high-profile individual owners and investors could also be under pressure to buy.

South Korea: Conservative President Yoon Suk Yeol [is facing a growing scandal](#) after a left-wing pastor secretly recorded a video of Yoon's wife accepting the gift of a \$2,200 handbag in

violation of the country's anti-graft laws. The scandal is important because it could complicate Yoon's effort to ensure his party gains control of the national legislature in the April elections.

Eurozone: The composite "flash" purchasing managers' index for January [rose to a seasonally adjusted 47.9, marking its highest level in six months and improving from 47.6 in December](#). Like most major PMIs, the eurozone's is designed so that readings above 50 indicate expanding activity. With its improvement in January, the composite PMI suggests the eurozone's recent economic downturn is easing a bit, but output is still falling overall. The improvement in January came as manufacturing improved a bit but service activity weakened.



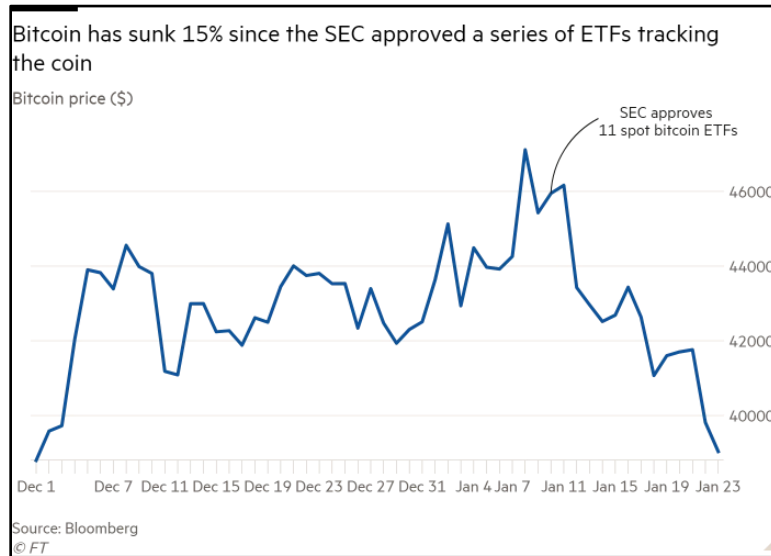
Germany: Deutsche Bahn train conductors today [launched a six-day strike over working hours, marking the worst labor action at the railroad in thirty years](#). The strike is already disrupting freight and passenger service in Germany and could be a further headwind for the country's struggling economy.

U.S. Politics: In yesterday's New Hampshire primary election for the Republican Party, former President Trump [won with about 54.5% of the vote](#), while former UN Ambassador Haley came in second with about 43.2%. Nevertheless, Haley vowed to fight on, so it looks like the pair will again face off in Haley's home state of South Carolina, which holds its primary on February 24.

- While it increasingly appears that Trump will be the ultimate Republican nominee, Haley's performance in New Hampshire and in last week's Iowa caucuses have highlighted her strength with right-leaning independents and moderate Republicans.
- Resistance from those groups could be a weakness for Trump in his likely rematch with President Biden in November's general election.

U.S. Cryptocurrency Market: The price of Bitcoin (BTC, \$39,709.17) [fell about another 3% yesterday, bringing its total decline over the last two weeks to approximately 15%](#). In part, the drop in value reflects investors taking profits after the Securities and Exchange Commission

approved spot exchange-traded Bitcoin funds on January 11. The drop also probably reflects some disappointment as flows into those ETFs haven't met expectations.



U.S. Entertainment Industry: The Academy of Motion Picture Arts and Sciences yesterday [released its Oscar award nominees, with “Oppenheimer” pulling in 13 different nominations.](#) Among other top films, “Poor Things” got 11 nominations, “Killers of the Flower Moon” received 10, and “Barbie” got eight. Release of the nominees often gives a short-term boost to the films and movie attendance.

U.S. Economic Releases

A slight rebound in mortgage rates led to a slowdown in demand for home loans. According to an index tracked by the Mortgage Bankers Association, mortgage applications softened from a gain of 10.4% to 3.7% in the week ending January 19. The moderation was due to a slight uptick in borrowing costs, with the average 30-year fixed-rate mortgage rising 3 bps to 6.78%. As a result, the index for refinance applications fell 7% from the previous week, while the MBA tracker for purchase applications increased 7.5%.

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 US Manufacturing PMI	m/m	Jan P	47.6	47.9	***
9:45	S&P Global US Services PMI	m/m	Jan P	51.5	51.4	**
9:45	S&P Global US Composite PMI	m/m	Jan P	51.0	50.9	**
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								
Japan	Trade Balance	m/m	Dec	¥62.1b	-¥776.9b	-¥780.4b	***	Equity and bond neutral
	Exports	m/m	Dec	9.8%	-0.2%	9.2%	*	Equity and bond neutral
	Imports	m/m	Dec	-6.8%	-11.9%	-5.4%	*	Equity and bond neutral
	Jibun bank Composite PMI	m/m	Jan P	51.1	50.0		*	Equity and bond neutral
	Jibun Bank Manufacturing PMI	m/m	Jan P	48.0	47.9		***	Equity and bond neutral
	Jibun Bank Services PMI	m/m	Jan P	52.7	51.5		**	Equity and bond neutral
Australia	Westpac Leading Index	m/m	Dec	-0.4	0.0		***	Equity and bond neutral
New Zealand	CPI	y/y	4Q	4.7%	5.6%	4.7%	**	Equity and bond neutral
South Korea	Consumer Confidence	y/y	Jan	101.6	99.5	99.7	**	Equity bullish, bond bearish
India	HCOB India Manufacturing PMI	m/m	Jan P	56.9	54.9		***	Equity and bond neutral
	HCOB India Services PMI	m/m	Jan P	61.2	59.0		**	Equity and bond neutral
	HCOB India Composite PMI	y/y	Jan P	51.2	59		**	Equity and bond neutral
EUROPE								
Eurozone	HCOB Eurozone Manufacturing PMI	m/m	Jan P	46.6	44.4	44.7	***	Equity bullish, bond bearish
	HCOB Eurozone Services PMI	m/m	Jan P	48.4	48.8	49.0	**	Equity and bond neutral
	HCOB Eurozone Composite PMI	m/m	Jan P	47.9	47.6	48.0	*	Equity and bond neutral
Germany	HCOB Germany Manufacturing PMI	m/m	Jan P	45.4	43.3	43.7	***	Equity bullish, bond bearish
	HCOB Germany Services PMI	m/m	Jan P	47.6	49.3	49.3	**	Equity bearish, bond bullish
	HCOB Germany Composite PMI	m/m	Jan P	47.1	47.4	47.8	**	Equity and bond neutral
France	HCOB France Manufacturing PMI	m/m	Jan P	43.2	42.1	42.5	***	Equity and bond neutral
	HCOB France Services PMI	m/m	Jan P	45.0	45.7	46.0	**	Equity and bond neutral
	HCOB France Composite PMI	m/m	Jan P	44.2	44.8	45.1	**	Equity and bond neutral
UK	S&P Global UK Manufacturing PMI	m/m	Jan P	47.3	46.2	46.7	***	Equity and bond neutral
	S&P Global UK Services PMI	m/m	Jan P	53.8	53.4	53.2	**	Equity and bond neutral
	S&P Global UK Composite PMI	m/m	Jan P	52.5	52.1	52.1	**	Equity and bond neutral
AMERICAS								
Mexico	Economic Activity IGAE	y/y	Nov	2.3%	4.24%	4.40%	**	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)	531	532	-1	Down
U.S. Libor/OIS spread (bps)	531	531	0	Down
10-yr T-note (%)	4.11	4.13	-0.02	Flat
Euribor/OIS spread (bps)	395	395	0	Down
Currencies	Direction			
Dollar	Down			Down
Euro	Up			Up
Yen	Up			Up
Pound	Up			Up
Franc	Up			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.

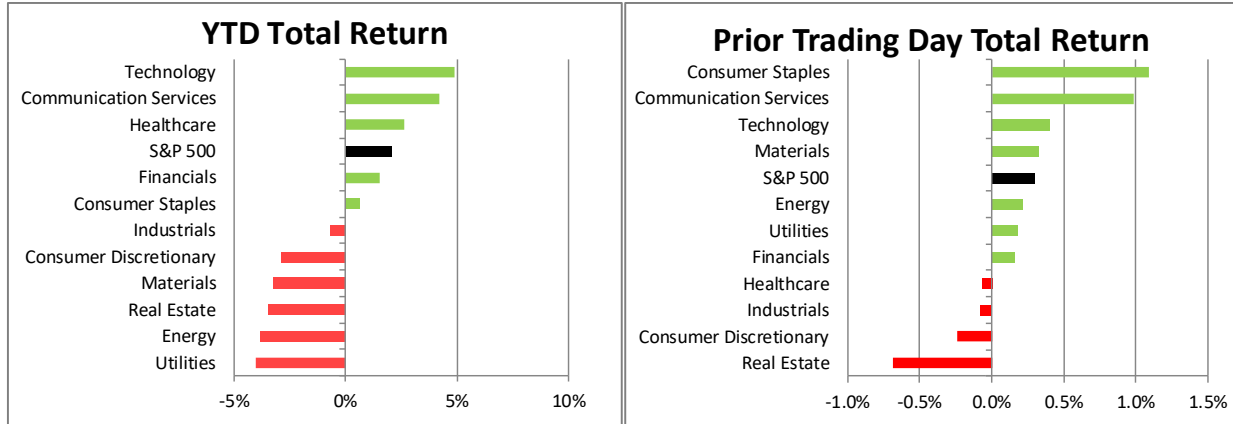
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$79.74	\$79.55	0.24%	
WTI	\$74.66	\$74.37	0.39%	
Natural Gas	\$2.52	\$2.45	2.90%	
Crack Spread	\$25.11	\$25.13	-0.10%	
12-mo strip crack	\$24.64	\$24.69	-0.22%	
Ethanol rack	\$1.75	\$1.75	-0.01%	
Metals				
Gold	\$2,033.68	\$2,029.28	0.22%	
Silver	\$22.80	\$22.44	1.58%	
Copper contract	\$386.60	\$379.35	1.91%	
Grains				
Corn contract	\$447.75	\$446.50	0.28%	
Wheat contract	\$601.25	\$596.50	0.80%	
Soybeans contract	\$1,240.50	\$1,239.50	0.08%	
Shipping				
Baltic Dry Freight	1,473	1,518	-45	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.4		
Gasoline (mb)		2.0		
Distillates (mb)		1.0		
Refinery run rates (%)		-0.6%		
Natural gas (bcf)		-324		

Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures for the entire country, with temperatures especially elevated east of the Mississippi River. The precipitation outlook calls for wetter-than-normal conditions in the Pacific and Southwest regions that is expected to move eastward to the Mid-Atlantic. However, dry conditions are expected in New England throughout the two-week period.

Data Section

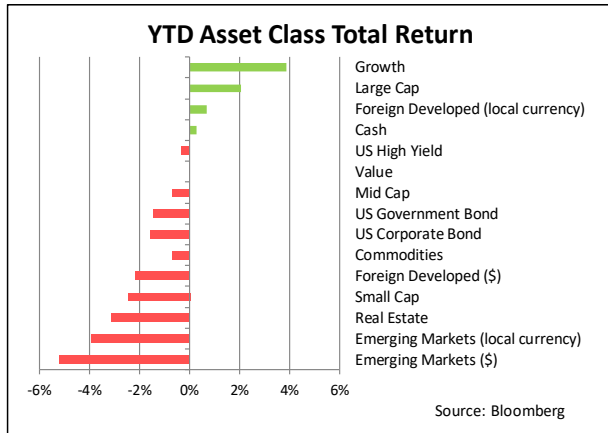
U.S. Equity Markets – (as of 1/23/2024 close)



(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 1/23/2024 close)

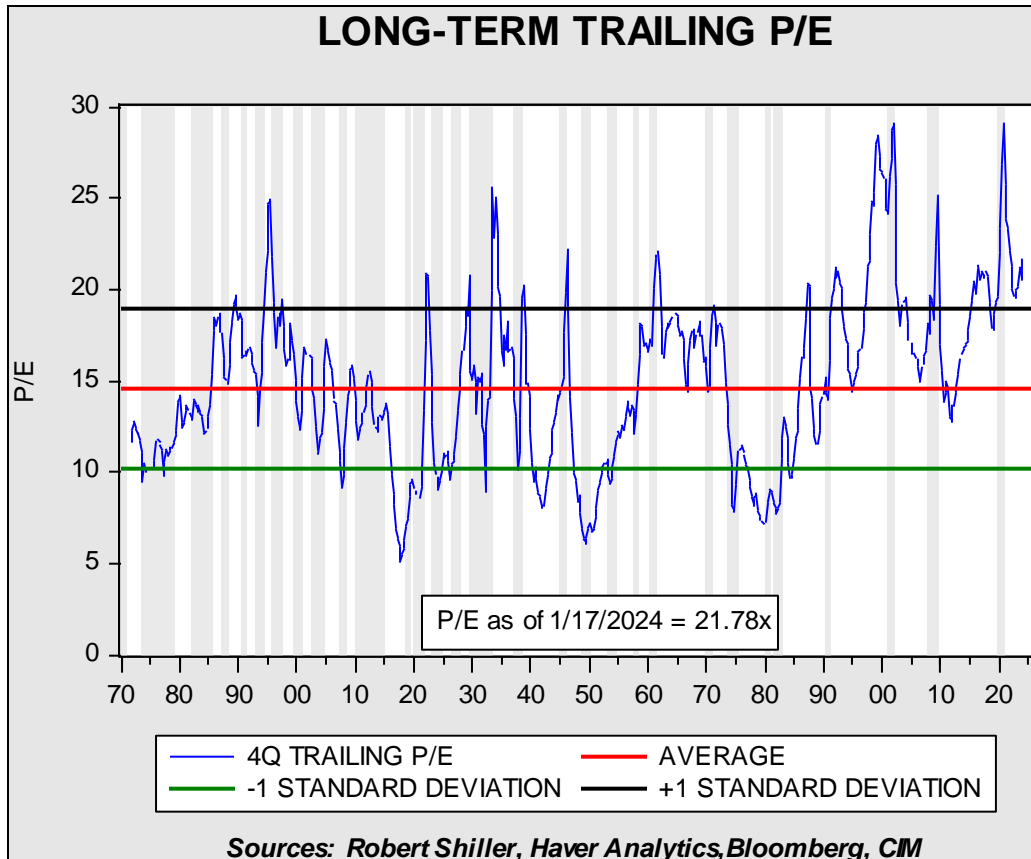


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.