

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: March 25, 2024—9:30 AM EDT] Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.4%. Chinese markets were lower, with the Shanghai Composite down 0.7% from its previous close and the Shenzhen Composite down 1.9%. US 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](#) (3/11/2024) (with associated [podcast](#)): “Rebirth of US Nuclear 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](#) (3/18/2024) (with associated [podcast](#)): “The Fed’s Other Policy Tool”
- [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 a note on Congress’s passing of the last funding bills for the federal government on Friday and the resulting political clashes in the Republican Party. We next review a wide range of other international and US developments with the potential to affect the financial markets today, including an aggressive new European Union antitrust probe into several top US technology firms and new data showing strong investor interest in US corporate bond funds.

US Politics: On Saturday, the Senate [passed the last of the bills funding the federal government through the end of the fiscal year on September 30](#), sending the bills to President Biden to sign into law to avoid a partial shutdown of the government. Despite that victory, passage of the bills in the House on Friday with almost unanimous support from the Democrats and a minority of the

Republicans [has left the chamber in disarray](#). As a result, the Republican majority in the chamber has narrowed to the point where the Democrats could take control.

- Far-right, hardline Republicans in the House are enraged that Speaker Johnson allowed a vote on the spending plan that was a compromise agreed to by President Biden and House leaders last spring. Republican Rep. Marjorie Taylor Greene of Georgia filed a motion to vacate the leadership, serving notice that Johnson could be ousted.
- Perhaps more important, Republican Rep. Mike Gallagher of Wisconsin announced he will leave Congress early in mid-April. That will leave the Republicans in the House with a majority of just one, meaning they could easily fail to push the Republican agenda in the chamber and could lose their majority if just one more Republican member leaves Congress early.
- To the extent that voters see the Republicans in the House as dysfunctional, the drama is a reminder that former President Trump does not necessarily have a lock on the November election, despite current polling showing that he has a slight advantage in public support. It remains too early to tell whom the next president will be.

European Union-United States: The European Commission today [announced it is launching official antitrust investigations into US technology giants Apple, Meta, and Google owner Alphabet](#). The probes are based on the EU's new Digital Markets Act, which aims to limit the market power of big, on-line "gatekeeper" platforms. They will focus on whether the firms favor their own apps and how they use personal data for marketing. The probes will raise regulatory risks for a range of technology companies operating in the big European market.

Japan-United States: The *Financial Times* said yesterday that the US and Japanese governments [are preparing to make the biggest upgrade to their security relationship since their mutual defense treaty was signed in 1960](#). The moves, which are aimed at more effectively fighting China in case of a conflict, will focus on giving US commanders in Japan greater operational authority to improve US-Japanese joint operations.

China-United States: In yet another sign of economic decoupling brought on by US-China tensions, Beijing [has issued new procurement guidelines that will phase out the use of foreign technology in government computers and servers](#). For example, the new rules will outlaw computer chips from Intel and AMD, as well as operating and database software from Microsoft. Instead, the government will seek to buy more Chinese-made technology, further limiting Chinese market opportunities for Western companies.

China: In his keynote address to the China Development Forum yesterday, Premier Li Qiang [tried to assure top foreign business leaders that the government is focused on removing obstacles to foreign investment](#) in China. Li specifically mentioned key issues such as fair market access, public contracts, and cross-border data flows. Nevertheless, we suspect that the range of entrenched structural headwinds in China will continue to weigh on foreign investment in the coming years.

Russia: The death toll from Friday evening's attack by Islamic State on a crowded concert near Moscow [has now surpassed 130](#). Russia officials say they have arrested 11 people involved in the attack, including the attackers themselves. Importantly, Russian officials [continue to push a narrative that the Ukrainian government was involved, potentially with the intention to use the attacks to justify stepped-up aggression](#) against Ukraine.

- Despite a laudable US effort to warn the Russians about the attacks ahead of time, we have seen little or no indication that the Kremlin respected the warnings or appreciated the US effort to avert civilian casualties.
- The fact that the attackers were able to carry out their plans despite the US warning to Russia suggests the Russian security services did not take the US warnings seriously and/or were incompetent in trying to stop the attacks.

Brazil: New reporting shows left-wing populist President Lula da Silva [is stepping up his interference in major companies](#). For example, Lula reportedly forced partially state-owned oil giant Petrobras to backtrack on a plan to issue extraordinary dividends earlier this month. The move helped push the company's stock price by some 10% in a single day. The moves are reviving concern that state intervention will eventually undermine Brazilian economic growth and prompt investors to flee the market.

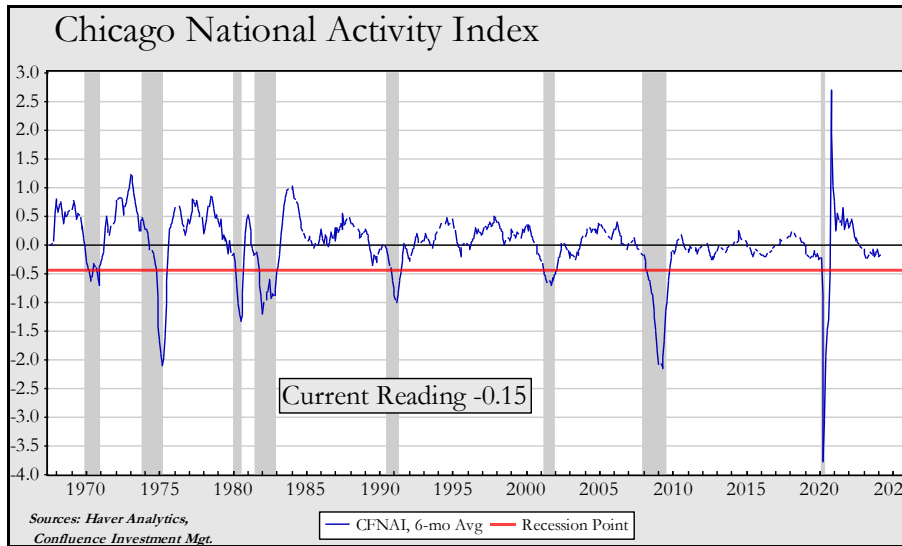
US Bond Market: New data from fund tracker EPFR [shows investors have channeled about \\$22.8 billion into exchange-traded funds focused on corporate bonds so far this year](#), marking the first positive year-to-date inflows since 2019. The inflows appear to reflect investors hoping to lock in high yields ahead of the Federal Reserve's expected interest-rate cuts later this year.

US Media Industry: Axios today carries an interesting article showing that the common news sources of the past [have splintered into at least a dozen new information "bubbles" favored by different types of people](#). For example, the report describes the "Instagrammers" bubble as consisting mostly of young to middle-aged women in college and the professional class. In contrast, it describes the "Right-wing grandpas" bubble as mostly male older people who still watch Fox News, especially in prime time.

- It can be fun to read the article and ask yourself which bubble you fit into, or which bubble your family members or co-workers favor.
- On the other hand, the article illustrates the cleavages and mutually exclusive information sources that are driving political discussions these days. As people sink into their own bubble and keep themselves insulated from alternative viewpoints, the concern is that the new media landscape increases polarization and makes the country harder to govern.

US Economic Releases

Economic activity in the US showed signs of stabilization last month, ending its decline but remaining stagnant. The Chicago Fed National Activity Index (CFNAI) rose from a revised -0.54 to 0.05 in February. While this is a positive development, the index remaining near zero suggests the economy isn't expanding yet. The consensus estimate for the index was -0.34.



The chart above shows the six-month moving average of the CFNAI. The index improved from -0.20 to -0.15.

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	New Home Sales	m/m	Feb	675k	661k	***	
10:00	New Home Sales MoM	m/m	Feb	2.1%	1.5%	**	
10:30	Dallas Fed Manufacturing Activity	m/m	Mar	-10.0	-11.3	**	
Federal Reserve							
EST	Speaker or Event	District or Position					
10:30	Lisa Cook Speaks on Dual Mandate	Members 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	Leading Economic Index	m/m	Jan F	109.5	109.9		**	Equity and bond neutral
	Coincident Index	m/m	Jan F	112.1	110.2		*	Equity bullish, bond bearish
EUROPE								
Switzerland	Domestic Sight Deposits CHF	w/w	22-Mar	460.8b	461.0b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	22-Mar	469.2b	469.2b		*	Equity and bond neutral
AMERICAS								
Canada	Retail Sales	m/m	Jan	-0.3%	0.9%	-0.4%	**	Equity and bond neutral
	Retail Sales Ex-Autos	m/m	Jan	0.5%	0.6%	-0.4%	**	Equity and bond neutral

Financial Markets

The table below highlights some of the indicators that we follow daily. 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	558	-1	Down
3-mo T-bill yield (bps)	521	522	-1	Up
U.S. Sibor/OIS spread (bps)	531	531	0	Down
U.S. Libor/OIS spread (bps)	532	531	1	Down
10-yr T-note (%)	4.23	4.20	0.03	Down
Euribor/OIS spread (bps)	390	393	-3	Down
Currencies	Direction			
Dollar	Down			Up
Euro	Up			Down
Yen	Flat			Down
Pound	Up			Down
Franc	Flat			Down

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.

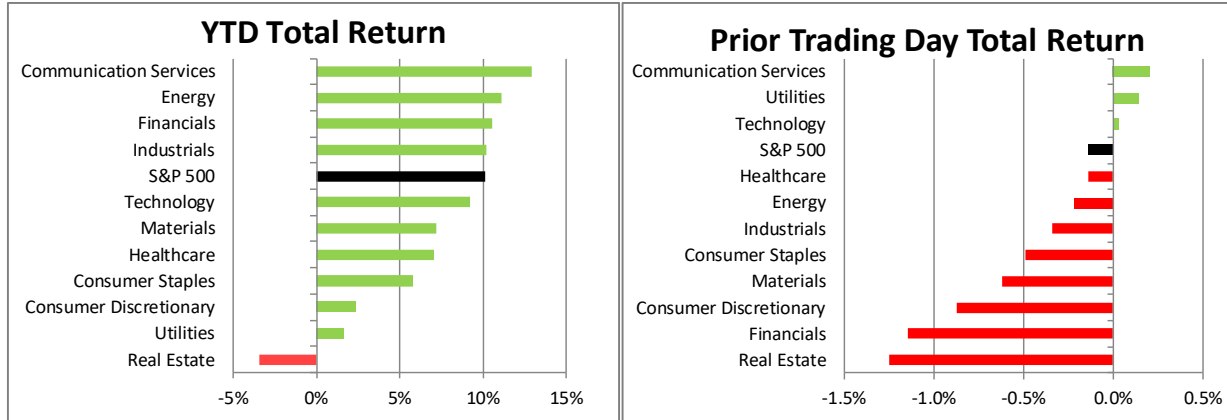
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$85.83	\$85.78	0.06%	
WTI	\$81.13	\$81.07	0.07%	
Natural Gas	\$1.69	\$1.68	0.53%	
Crack Spread	\$32.08	\$31.96	0.37%	
12-mo strip crack	\$25.38	\$25.31	0.27%	
Ethanol rack	\$1.76	\$1.75	0.25%	
Metals				
Gold	\$2,166.02	\$2,181.33	-0.70%	
Silver	\$24.58	\$24.74	-0.64%	
Copper contract	\$401.50	\$405.85	-1.07%	
Grains				
Corn contract	\$438.50	\$440.75	-0.51%	
Wheat contract	\$544.00	\$546.75	-0.50%	
Soybeans contract	\$1,199.50	\$1,212.00	-1.03%	
Shipping				
Baltic Dry Freight	2,240	2,284	-44	

Weather

The 6-10 and 8-14 day forecasts currently call for cooler-than-normal temperatures for most states west of the Great Plains, with warmer temperatures in the Midwest, which will gradually ease towards the East Coast in the latter part of the forecast period. Precipitation outlooks call for wetter-than-normal conditions to spread throughout most of the country.

Data Section

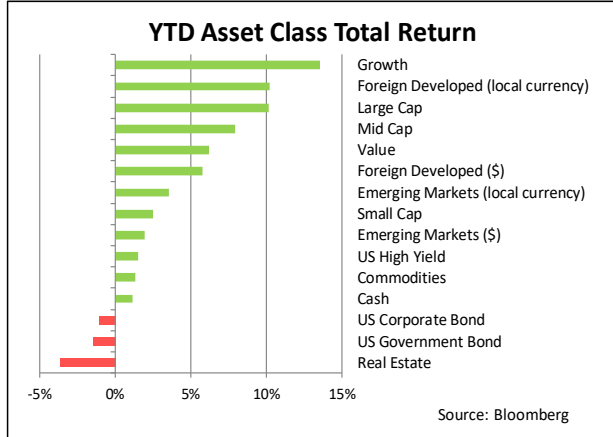
US Equity Markets – (as of 3/22/2024 close)



(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 3/22/2024 close)

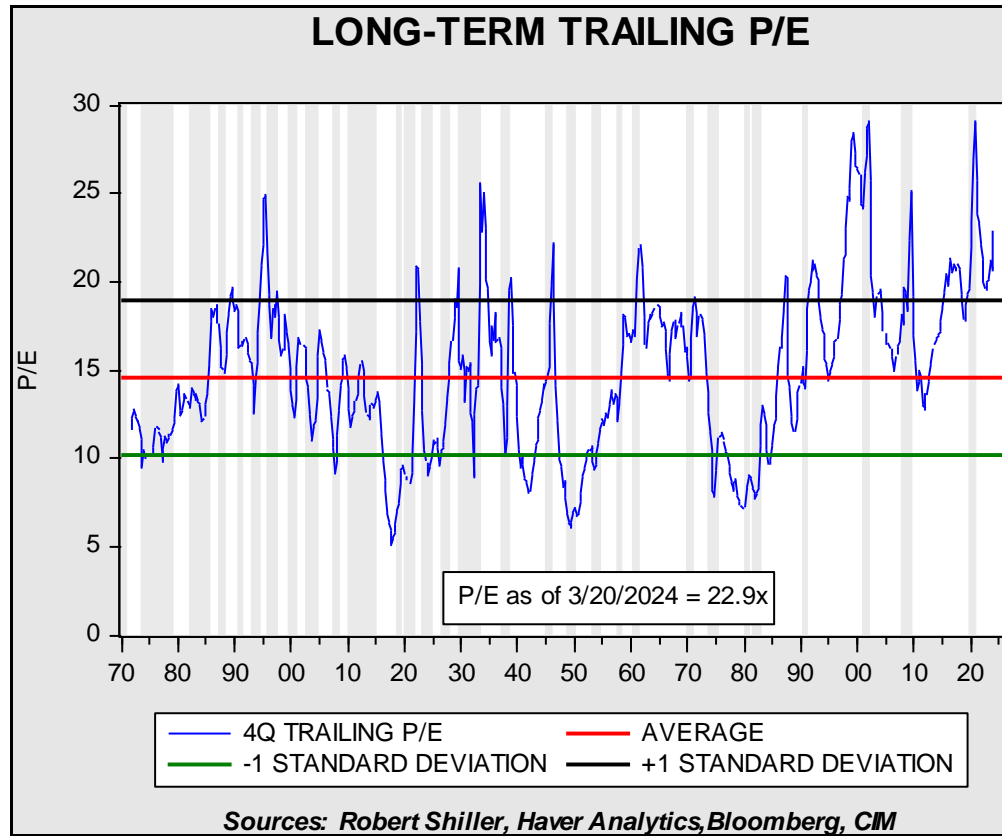


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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), 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

March 21, 2024



Based on our methodology,¹ the current P/E is 22.9x, up 0.5x from our last report. The improvement in the multiple reflects an increase in the stock price index, and a decrease in earnings.

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