

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 4, 2024—9:30 AM EST]** Global equity markets are generally 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 1.6%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its previous close and the Shenzhen Composite up 0.2%. Conversely, 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](#) (2/26/2024) (with associated [podcast](#)): “Posen vs. Pettis”
- [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](#) (3/4/2024) (with associated [podcast](#)): “Uranium Demand, Supply, and Investment Prospects”**
- [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 several items touching on the global outlook for consumer price inflation and interest rates. We next review a wide range of other international and US developments with the potential to affect the financial markets today, including a preview of some important government policy meetings in China and a discussion of new rules aimed at improving the functioning of the US Treasury bond market.

**Global Price Inflation and Monetary Policy:** The Bank for International Settlements today warned that the recovery in supply chains and weaker commodity prices since the coronavirus pandemic won’t necessarily be enough to bring price inflation down to the major central banks’ targets. Instead, the BIS [warns that price inflation in the labor-intensive services sector tends to be stickier, which could limit how quickly overall inflation falls](#). In turn, that could inhibit central banks from cutting interest rates as aggressively as investors expect.

**Global Oil Market:** At a meeting yesterday, the Organization of the Petroleum Exporting Countries and their Russia-led partners [agreed to maintain their voluntary cuts to oil production for another three months to June](#). The cuts are intended to buoy global oil prices, but rising output in the US and weak economic growth in some countries has nevertheless kept a lid on prices.

- The cuts have only boosted Brent crude prices by about 6% and WTI crude by about 8% since they were first announced in late November. So far today, near futures prices are down slightly, with Brent at \$83.54 per barrel and WTI at \$79.90.
- Since the cuts have left major OPEC+ producers with plenty of excess capacity, it's important to remember that even if prices rise substantially from here, those producers would have the incentive and the ability to open the floodgates again, driving prices back down. In sum, the near-term prospects for oil prices remain modest.

**Global Nuclear Energy Industry:** Ahead of a first-of-its-kind nuclear energy summit in Brussels later this month, International Atomic Energy Agency chief Rafael Grossi [has castigated multilateral lenders such as the World Bank and the Asian Development Bank for not making their loans available for new nuclear projects](#). According to Grossi, the summit in Brussels will debate how to overcome opposition from a small number of nations, such as Germany, to using development banks to fund nuclear projects.

- Despite the lack of funding from multilateral lenders, we believe the use of nuclear energy to generate electricity will grow markedly in the coming decades, even as uranium supplies are crimped. As we examine in our latest [Asset Allocation Bi-Weekly report](#), published today, that should result in rising uranium prices and strong returns for uranium miners going forward.
- Indeed, investors have recently begun to bid uranium prices up strongly, as shown in the chart below.

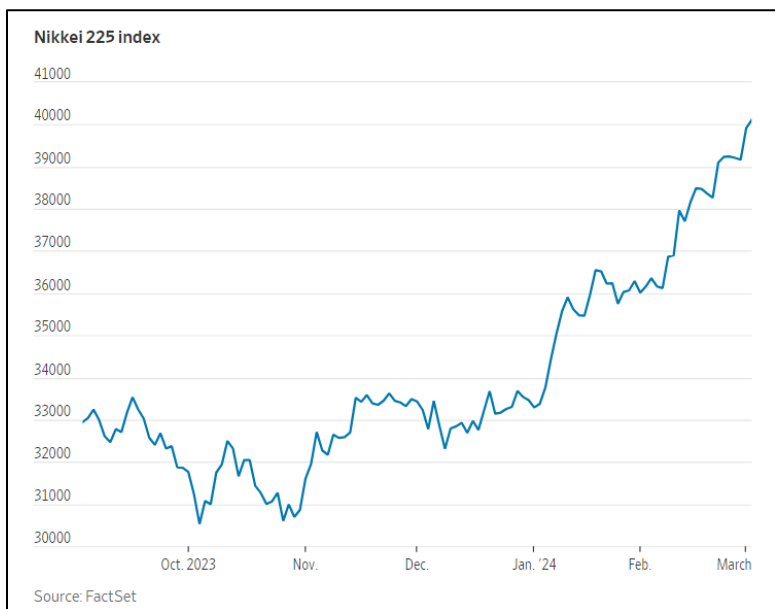


(Source: Tradingeconomics.com)

**Germany-Russia:** The government of German Chancellor Sholtz [is facing a scandal today after a Russian website released intercepted phone calls of German military officials discussing the possible transfer of Taurus cruise missiles to Ukraine](#) to help it repel Russia’s invasion of the country. The intercepts have raised concerns about Germany’s ability to keep its high-level communications secret.

- More broadly, the scandal also will probably make Sholtz even more resistant to sending the missiles to Ukraine. Sholtz has been extremely reluctant to do anything that might provoke the ire of the Kremlin, and he recently argued that the missiles would have to be targeted by German soldiers, bringing Germany into the conflict.
- Indeed, to exploit the scandal, the Kremlin today accused Germany of plotting to attack Russia. The assertion likely aims to put the German government on the back foot and make it even more reluctant to provide the missiles to Ukraine.

**Japan:** Not only has the main Japanese stock index finally started setting new record highs again, but today it [surpassed 40,000 for the first time](#). We’ve also noted that a lot of the gains are coming from technology stocks expected to benefit from artificial intelligence, as in the US. The Japanese leaders include stocks the likes of Tokyo Electron, which makes semiconductor manufacturing equipment, Advantest, a maker of semiconductor testing equipment, and Renesas Electronics, a semiconductor manufacturer.



**China:** The annual “two sessions” meetings, consisting of the National People’s Congress and the Chinese People’s Political Consultative Conference, [opened today in Beijing](#). The annual economic growth target [is typically released at the sessions](#), and analysts this year appear to be expecting a target of around 5%, like last year.

- Top leaders will also provide some hints about their political and economic strategies. For example, they are likely to offer ideas about how they want to tackle China’s big structural problems, such as excess capacity and debt.

- However, General Secretary Xi [is widely expected to resist offering any major new stimulus programs to address those problems](#). Rather, Xi is likely to continue trying to end China's past practice of addressing economic growth shortfalls by adopting new debt-driven investment.

**United States-China:** The Biden administration on Friday issued its 2024 trade policy agenda and report to Congress, in which it [vowed to double down on efforts to reverse the harms wrought by Beijing's "trade and economic abuses."](#) The document indicated the administration will keep trying to enlist foreign countries to push back against Beijing's trade abuses, including its stringent barriers to the Chinese market and massive subsidies for exporters in strategic industries, such as electric vehicles, solar energy, and lithium.

- The trade policy statement will be a disappointment for anyone dreaming of cooler tensions between the US and China.
- As we've noted so many times before, US-China tensions continue to spiral upward, so on any given day, investors could be faced with a sudden, disruptive new restriction on trade, capital, technology, or travel flows between the two countries, with potentially negative consequences for US and/or Chinese companies.

**US Treasury Bond Market:** The *Financial Times* today carries an in-depth analysis of recent rule changes by the Securities and Exchange Commission [that are aimed at buttressing the market for Treasury obligations but will impose new costs on financial market participants](#). One goal of the change is to ensure that the Treasury market remains attractive for institutional and other investors around the world even as some countries in the China/Russia bloc and beyond work to reduce their use of the dollar.

- One such change is a requirement that Treasury trades go through a clearing house. The change aims to increase oversight and improve investor protections during market volatility.
- The second rule change described in the article brings high-speed traders and potentially some hedge funds under regulatory scrutiny.

**US Weather:** Following a major blizzard that dropped some 60 inches of snow on the Sierra Nevada over the weekend, California [is bracing for another major storm later today](#). The storm over the weekend closed a major freeway and knocked out power for thousands of businesses and homes. Although storms like this can certainly be disruptive and have a local economic impact, they typically have only minor effects on national economic activity and those effects are usually quickly reversed.

## US Economic Releases

No major US economic reports have been released so far today. The table below lists the economic releases and/or Fed events scheduled for the rest of the day.

<b>Economic Releases</b>	
No economic releases for the rest of today	
<b>Federal Reserve</b>	
<b>EST</b>	<b>Speaker or Event</b>
<b>District or Position</b>	
11:00	Patrick Harker Remarks on Economic Impact of Higher Education
	President of the Federal Reserve Bank of Philadelphia

## 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>								
Japan	Capital Spending	y/y	4Q	16.4%	3.4%	2.8%	***	Equity bullish, bond bearish
	Monetary Base	y/y	Feb	2.4%	4.8%		*	Equity and bond neutral
Australia	Melbourne Institute Inflation	m/m	Feb	4.0%	4.6%		***	Equity and bond neutral
	Building Approvals	m/m	Jan	-1.0%	-9.5%	-10.1%	***	Equity bearish, bond bullish
New Zealand	Terms of Trade	q/q	4Q	-7.8%	-0.6%	-0.10	**	Equity bearish, bond bullish
South Korea	Industrial Production	y/y	Jan	12.9%	6.2%	6.1%	***	Equity and bond neutral
	S&P Global Global Manufacturing PMI	m/m	Feb	50.7	51.2		***	Equity and bond neutral
<b>EUROPE</b>								
Switzerland	CPI	y/y	Feb	1.2%	1.3%	1.1%	***	Equity and bond neutral
	CPI EU Harmonized	y/y	Feb	1.2%	1.5%	1.2%	*	Equity and bond neutral
	Core CPI	y/y	Feb	1.1%	1.2%	1.0%	*	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	1-Mar	467.9b	471.4b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	1-Mar	478.5b	480.5b		*	Equity and bond neutral
<b>AMERICAS</b>								
Canada	S&P Global Canada Manufacturing PMI	m/m	Feb	49.7	48.3		***	Equity and bond neutral
Mexico	S&P Global Manufacturing PMI	m/m	Feb	52.3	50.2		***	Equity and bond neutral
	Gross Fixed Investment	y/y	Dec	13.4%	19.2%	18.6%	**	Equity bearish, bond bullish

## 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)	559	560	-1	Down
3-mo T-bill yield (bps)	521	522	-1	Up
U.S. Sibor/OIS spread (bps)	532	532	0	Down
U.S. Libor/OIS spread (bps)	534	533	1	Down
10-yr T-note (%)	4.20	4.18	0.02	Down
Euribor/OIS spread (bps)	394	394	0	Down
Currencies	Direction			
Dollar	Flat			Up
Euro	Flat			Up
Yen	Down			Down
Pound	Up			Up
Franc	Down			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.

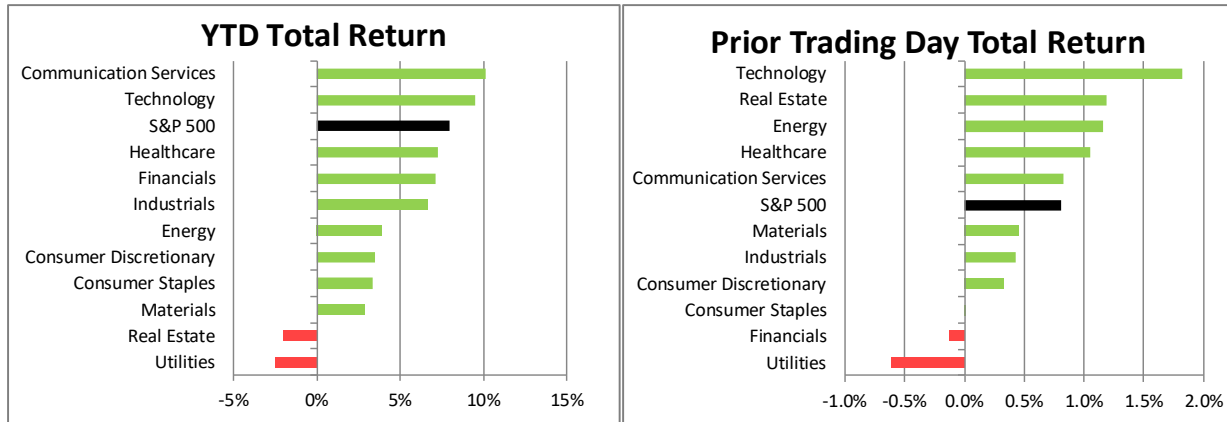
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$83.07	\$83.55	-0.57%	
WTI	\$79.40	\$79.97	-0.71%	
Natural Gas	\$1.96	\$1.84	6.65%	Supply Pessimism
Crack Spread	\$30.45	\$31.11	-2.11%	
12-mo strip crack	\$24.64	\$25.09	-1.77%	
Ethanol rack	\$1.62	\$1.62	0.17%	
<b>Metals</b>				
Gold	\$2,083.02	\$2,082.92	0.00%	
Silver	\$23.14	\$23.12	0.06%	
Copper contract	\$387.05	\$386.15	0.23%	
<b>Grains</b>				
Corn contract	\$426.50	\$424.75	0.41%	
Wheat contract	\$553.75	\$557.75	-0.72%	
Soybeans contract	\$1,158.50	\$1,151.25	0.63%	
<b>Shipping</b>				
Baltic Dry Freight	2,203	2,111	92	

## Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures in most states east of the Great Plains, with cooler temperatures in the Pacific region. The forecasts call for wetter-than-normal conditions on both coasts and parts of the Midwest and Rocky Mountain regions.

**Data Section**

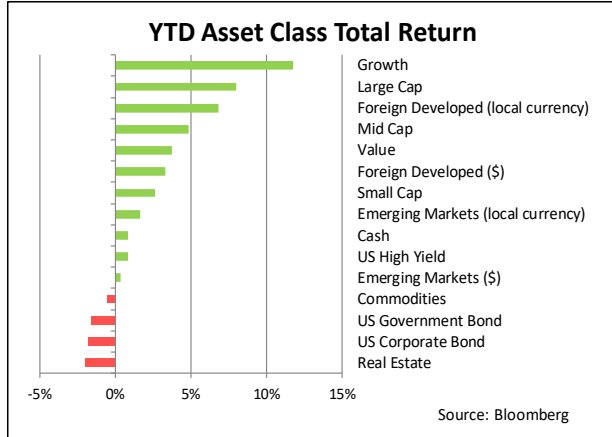
**US Equity Markets – (as of 3/1/2024 close)**



(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 3/1/2024 close)**

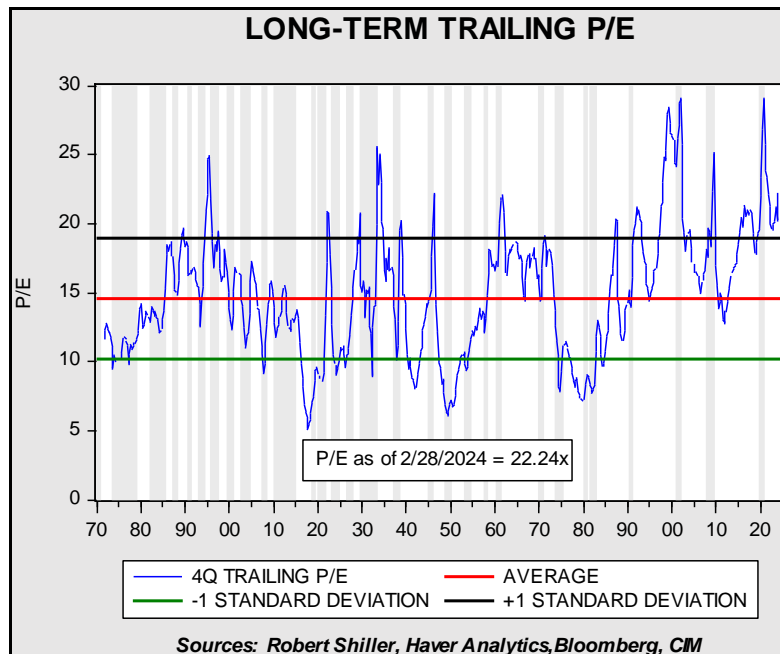


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 29, 2024



Based on our methodology,<sup>1</sup> the current P/E is 22.24x, up 0.09x from our last report. The improvement in the multiple reflects an increase in the stock price index, outweighing a modest increase 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.*

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<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.