

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: May 7, 2024—9:30 AM EDT] Global equity markets are 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 0.5%. Chinese markets were higher, with the Shanghai Composite up 0.2% from its previous close and the Shenzhen Composite also up 0.2%. US equity index futures are signaling a higher open.

With 413 companies having reported so far, S&P 500 earnings for Q1 are running at \$56.30 per share compared to estimates of \$54.24, which is up 0.9% from Q1 2023. Of the companies that have reported thus far, 79.2% have exceeded expectations, while 16.7% 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](#) (5/6/2024) (with associated [podcast](#)): “Middle East: Land of Fault Lines”**
- [Asset Allocation Quarterly – Q2 2024](#) (4/25/2024): Discussion of our asset allocation process, Q2 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](#) (4/29/2024) (no accompanying podcast): “The Peace Dividend, Government Debt, and Yield Curve Control”
- [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 projections that global exports and imports are set to grow faster again in 2024 and 2025. We next review several other international and US developments with the potential to affect the financial markets today, including a readout on Chinese General Secretary Xi’s visit to Paris, weak factory orders in Germany, and the latest financial projections for the US social security system.

Global Trade: The International Monetary Fund, the World Trade Organization, and the Organization for Economic Cooperation and Development [are all predicting that growth in international trade will accelerate in 2024 and 2025](#). Overall, the organizations are calling for trade growth to accelerate from about 1% in 2023 to almost 3% in 2024 and even more in 2025.

- The expected acceleration in trade largely reflects the booming US economy, which is benefiting from higher wage growth, increased productivity, reindustrialization, and fiscal stimulus.
- Higher US demand is likely to draw in increased imports, which will likely help stimulate many foreign economies and give a boost to their financial markets.

European Union-China: In his visit to Paris yesterday, Chinese General Secretary Xi called for a global ceasefire during this summer's Olympic Games and offered a few minor concessions on China-EU trade. Nevertheless, European Commission President von der Leyen and French President Macron [warned Xi that the EU would defend its domestic industries](#) if China keeps dumping excess production on the Continent at unfairly low prices. The warnings suggest trade tensions between the two economies will continue to worsen, perhaps eventually to a trade war.

Eurozone: As Europeans mull how to fund stronger armed forces to deter Russian aggression, top eurozone leaders [have proposed re-purposing the European Stability Mechanism \(ESM\) to make low-interest defense loans](#) to member countries. The ESM was established in 2012 to help struggling countries that had lost access to global debt markets, such as Greece. The fund now has about 422 billion euros (\$454 billion) and no new economic need, so some officials think it could be a relatively painless way for eurozone nations to hike their defense spending.

- Nevertheless, re-purposing the ESM for defense loans would likely require a major political and bureaucratic effort.
- The fact that officials are considering such a move serves as more evidence that the Europeans are genuinely worried about possible Russian aggression against them.

Germany: March factory orders [fell by a seasonally adjusted 0.4%, far weaker than expected](#). In addition, February orders were revised down to show a fall of 0.8%. Orders over the three months ended in March were down a whopping 4.3%, largely reflecting weaker demand for aircraft, ships, and train cars. The figures underscore that German economic growth remains quite tepid, which is likely to pull down activity and profits throughout the EU.

Australia: The Reserve Bank of Australia today [held its benchmark short-term interest rate unchanged at 4.35%](#). The policymakers noted that consumer price inflation continues to moderate, but much slower than previously anticipated. They also raised their inflation forecasts and warned that interest rates may not change until mid-2025. That adds to the evidence that major developed-country central banks are increasingly likely to hold interest rates "higher for longer," dashing investor hopes for rate cuts that would boost stock and bond prices.

Israel-Hamas Conflict: As it had warned, Israel last night [began striking Hamas targets in the southern Gaza city of Rafah](#), shortly after the Israelis said a truce deal accepted by Hamas was insufficient. The Israelis [have sent tanks into the area this morning and seized a key border](#)

[crossing](#) into Egypt. As we noted in our *Comment* yesterday, the new Israeli attacks will likely rekindle worries that the conflict could broaden and further isolate Israel politically.

Russia: After winning re-election in March, President Putin today [was inaugurated for yet another six-year term](#). In his inaugural address, Putin signaled he will double down on his effort to maintain close ties with China and help it build a “multi-polar” world that would no longer be dominated by the US.

Russia-United States: Russian police in the far eastern city of Vladivostok [have arrested a visiting US Army soldier on charges of stealing from a local woman](#). The arrest of the soldier, who had just finished a tour of duty at a US military base in South Korea, gives the Kremlin another prisoner that it will likely try to use as leverage against the US in various bilateral disputes.

US Social Security System: The trustees of the Social Security system yesterday [said the fund for retirees should be able to pay all scheduled benefits until 2033, unchanged from last year’s projection](#). Due to the increasing number of retirees and slower growth in the cohort of younger workers paying into the system, benefits would then have to be cut some 17% [unless Congress took steps to transfer general tax revenues into the system](#).

US Artificial Intelligence Industry: The *Wall Street Journal* today carries an article saying Apple [has been working to develop a specialized processing chip for running AI programs in the company’s data center servers](#). The chip would not be used for training AI models, but for implementing AI applications that Apple will offer its customers. The project illustrates the evolving division of labor among different firms looking for a competitive advantage in the evolving AI industry.

US Economic Releases

There were no economic releases prior to the publication of this report. 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
14:00	Consumer Credit	m/m	Jul	\$32.000b	\$40.154b	*
Federal Reserve						
EST	Speaker or Event	District or Position				
11:30	Neel Kashkari Participates in Fireside Chat	President of the Federal Reserve Bank of Minneapolis				
13:00	Neel Kashkari Speaks on Bloomberg TV	President of the Federal Reserve Bank of Minneapolis				

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	Jibun bank Composite PMI	m/m	Apr F	52.3	52.6		*	Equity and bond neutral
	Jibun Bank Services PMI	m/m	Apr F	54.3	54.6		**	Equity and bond neutral
Australia	Retail Sales Ex Inflation	q/q	Q1	-0.40%	0.40%	-0.30%	*	Equity and bond neutral
South Korea	Foreign Reserves	m/m	Apr	\$413.26b	\$419.25b		***	Equity and bond neutral
China	Foreign Reserves	m/m	Apr	\$3200.83b	\$3229.50b	\$3229.50b	***	Equity and bond neutral
EUROPE								
Eurozone	Retail Sales	y/y	Mar	0.7%	-0.7%	-0.2%	*	Equity bullish, bond bearish
Germany	Factory Orders WDA	y/y	Mar	-1.9%	-10.6%	-0.7%	***	Equity bearish, bond bullish
France	Current Account Balance	m/m	Mar	1.3b	0.9b		**	Equity and bond neutral
	Trade Balance	m/m	Mar	-£5473m	-£5244m	-£5614m	**	Equity and bond neutral
UK	New Car Registrations	y/y	Apr	1.0%	10.4%		*	Equity and bond neutral
	S&P/CIPS Construction PMI	m/m	Apr	53.0	50.2	50.4	**	Equity bullish, bond bearish
Switzerland	Unemployment Rate	m/m	Apr	2.3%	2.4%	2.3%	**	Equity and bond neutral
	Foreign Currency Reserves	m/m	Apr	720.4b	715.6b		***	Equity and bond neutral
Russia	Gold and Forex Reserves	m/m	26-Apr	\$596.8b	\$603.2b		***	Equity and bond neutral
AMERICAS								
Brazil	S&P Global Composite PMI	y/y	Apr	54.8	55.1		**	Equity and bond neutral
	S&P Global Services PMI	y/y	Apr	53.7	54.8		**	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)	559	560	-1	Up
3-mo T-bill yield (bps)	523	524	-1	Up
U.S. Sibor/OIS spread (bps)	533	533	0	Up
U.S. Libor/OIS spread (bps)	534	534	0	Up
10-yr T-note (%)	4.47	4.49	-0.02	Down
Euribor/OIS spread (bps)	382	383	-1	Down
Currencies	Direction			
Dollar	Up			Up
Euro	Flat			Flat
Yen	Down			Down
Pound	Down			Down
Franc	Down			Down
Central Bank Action	Current	Prior	Expected	
RBA Cash Rate Target	4.350%	4.350%	4.350%	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.

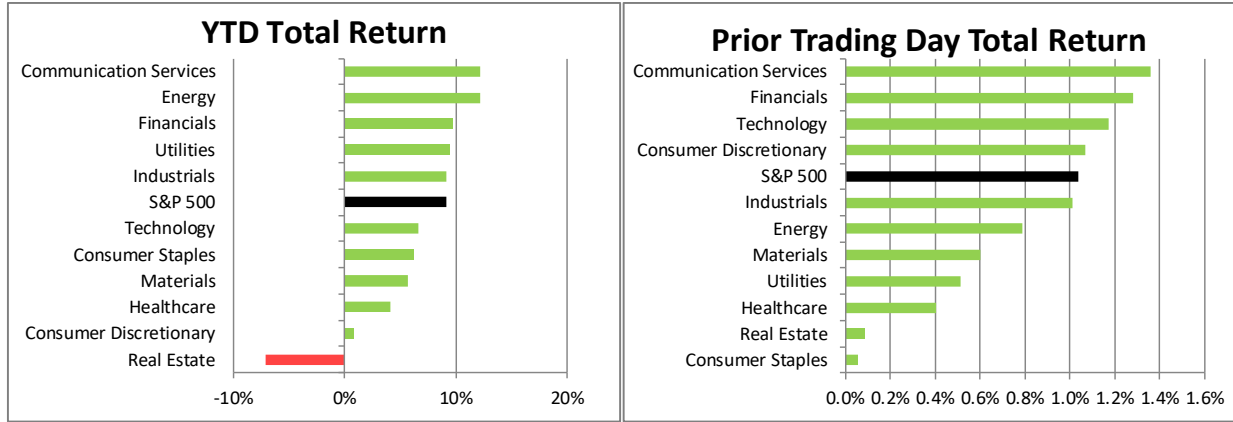
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$83.12	\$83.33	-0.25%	
WTI	\$78.29	\$78.48	-0.24%	
Natural Gas	\$2.21	\$2.20	0.82%	
12-mo strip crack	\$23.21	\$23.51	-1.26%	
Ethanol rack	\$1.87	\$1.87	0.20%	
Metals				
Gold	\$2,311.83	\$2,323.97	-0.52%	
Silver	\$27.34	\$27.44	-0.39%	
Copper contract	\$457.75	\$461.50	-0.81%	
Grains				
Corn contract	\$467.75	\$469.00	-0.27%	
Wheat contract	\$642.50	\$648.75	-0.96%	
Soybeans contract	\$1,243.75	\$1,248.75	-0.40%	
Shipping				
Baltic Dry Freight	1,876	1,774	102	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-2.5		
Gasoline (mb)		-1.0		
Distillates (mb)		1.0		
Refinery run rates (%)		0.5%		
Natural gas (bcf)		58		

Weather

The 6-10 and 8-14 day forecasts call for warmer-than-normal temperatures in the Pacific and Rocky Mountain regions, with cooler-than-normal temperatures in the Southeast. The precipitation outlook call for wetter-than-average conditions for most of the country, with dry conditions expected in the Pacific Northwest.

Data Section

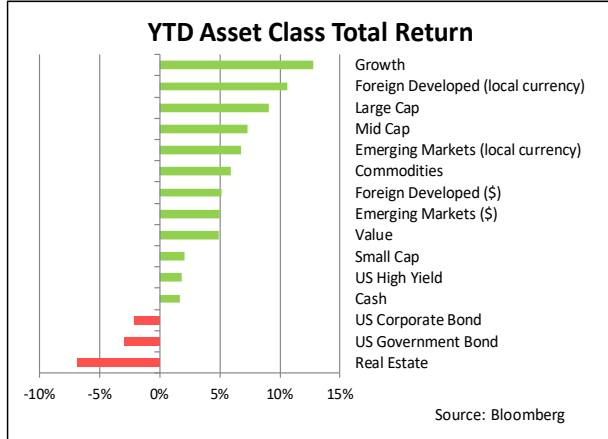
US Equity Markets – (as of 5/6/2024 close)



(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 5/6/2024 close)

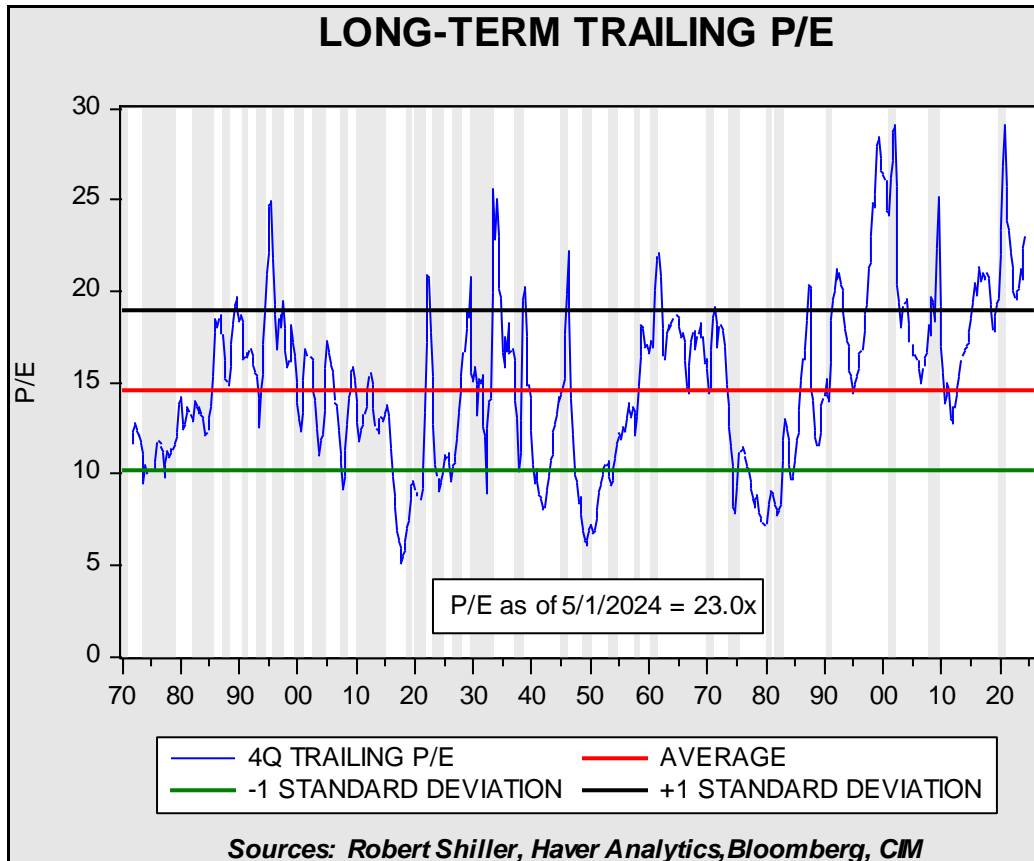


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

May 2, 2024



Based on our methodology,¹ the current P/E is 23.0x, down 0.2x from our last report. The decrease in the multiple reflects a decline in the S&P 500 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 (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.