

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: November 28, 2023—9:30 AM EST] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 0.2%. Chinese markets were higher, with the Shanghai Composite up 0.2% from its previous close and the Shenzhen Composite up 0.6%. U.S. equity index futures are signaling a lower open.

With 482 companies having reported so far, S&P 500 earnings for Q3 are running at \$58.70 per share compared to estimates of \$57.42, which is up 1.7% from Q2 2023. Of the companies that have reported thus far, 81.5% have exceeded expectations while 14.7% 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](#)** (11/13/2023) (with associated [podcast](#)): “The Archetypes of American Foreign Policy: A Reprise” (Note: the next BWGR will be published on 12/11/2023)
- **[Weekly Energy Update](#)** (11/16/2023): After the EIA delayed last week’s data, we are seeing higher crude oil inventories. The Gaza conflict remains contained. The IEA boosts its demand forecasts.
- **[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](#)** (11/20/2023) (with associated [podcast](#)): “Reflections on Earnings”

Our *Comment* today opens with hints of further tightening in the eurozone’s monetary policy, despite the continuing slowdown in the region’s economic growth. We next review a wide range of other international and U.S. developments with the potential to affect the financial markets today, including an extended ceasefire in the Israel-Hamas conflict and positive remarks on the U.S. labor market by popular former Federal Reserve economist Claudia Sahm.

Eurozone: In a hearing at the European Parliament yesterday, European Central Bank President Lagarde [said her policymakers are likely to consider an early end to the reinvestment of maturing bonds related to the ECB's pandemic stimulus efforts](#), rather than continuing them to the end of 2024 as currently planned. Allowing the ECB's bond holdings to mature without reinvesting the proceeds would effectively soak up liquidity and further tighten eurozone monetary policy even if the ECB stops raising interest rates. However, it's entirely possible the policymakers will keep reinvesting the proceeds if the eurozone economy continues to slow.

United Kingdom-Greece: The British and Greek governments [are embroiled in a bitter feud over the "Elgin Marbles" held at the British Museum in London](#). The Greek government has long wanted to repatriate the 2,500-year-old, fragmentary sculptures from the Parthenon in Athens after they were taken to Britain in the 18th century, but Prime Minister Sunak and many others in Britain believe they are an essential part of the British Museum's permanent collection.

Russia-Ukraine-Turkey: New data [shows that Turkish imports and exports of certain dual-use, civilian/military goods needed for Russian military production have surged this year](#), suggesting Ankara is playing both sides in the showdown between Russia and Western-supported Ukraine. As the world fractures into relatively separate geopolitical and economic blocs, we would expect to see exactly this kind of behavior among countries situated on the borderlands between rival camps. On the other hand, the move is risky for Turkey, as it could invite a backlash from its Western allies and complicate the trade and investment relations it needs to make the most of its economic potential.

Israel-Hamas Conflict: The Israelis and Hamas [agreed to extend their ceasefire and hostage exchanges for an additional two days](#), rather than letting them expire yesterday as originally planned. If implemented, the extension should lead to Hamas releasing another 20 of its Israeli hostages, while Israel will release 60 of the Palestinians it holds in its jails. More important for investors, the extended ceasefire may further reduce the risk of the conflict spreading, although we don't think it would eliminate the risk.

- Egyptian and Qatari officials say the current ceasefire [is helping build trust that could be turned into a longer-term ceasefire and perhaps even negotiations toward a truce](#) that would end the fighting.
- However, given the compromises Israel and Hamas would likely need to make for such a truce, it's probably much too soon to look for such a development.

United States-China: David Solomon, CEO of Goldman Sachs (GS, \$337.71) [said this week that the worsening U.S.-China rivalry has prompted his firm to abandon its previous China strategy of "growth at all costs."](#) According to Solomon, "Today, it's a more conservative approach [in China] and we've probably pared back some of our financial resources there, simply because there's more uncertainty." The statement is consistent with our view that the U.S.-China competition has raised risks for investors, whether they're direct investors like Goldman or portfolio investors holding assets exposed to China.

U.S. Labor Market: In one of her "Stay-At-Home Macro" posts over the weekend, popular former Fed economist Claudia Sahm [offers a comprehensive argument that most U.S. workers](#)

[are better off now than they were before the coronavirus pandemic](#). While few of her individual observations are groundbreaking, the overall picture she paints probably helps explain the current resilience in U.S. economic growth and the possibility that the country will avoid a recession outright or have only a modest dip in the coming year.

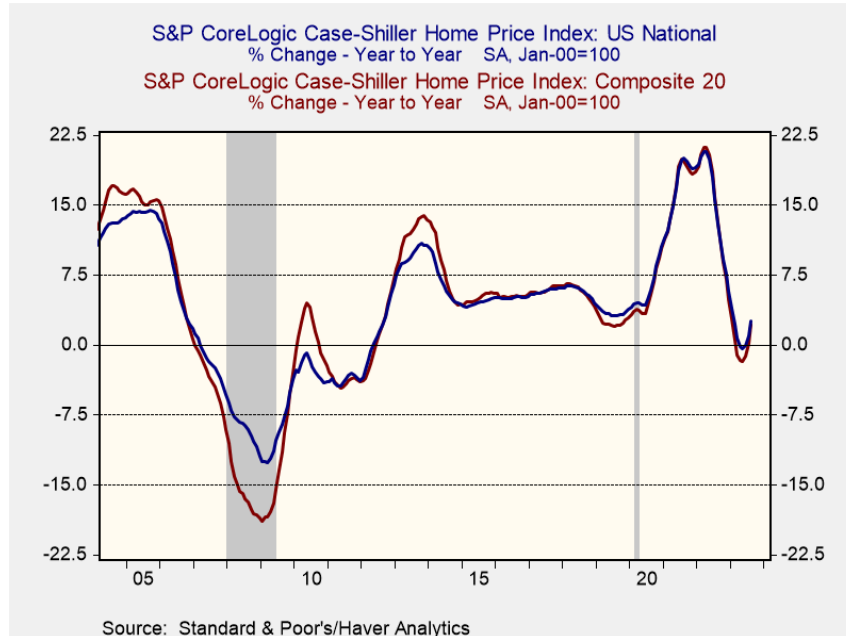
U.S. Pharmaceutical Industry: President Biden [announced yesterday that he will invoke the Defense Production Act to allow government investment in pharmaceutical supply chains](#) as a way to help ensure the availability of key drugs and related medical supplies such as insulin, morphine, vaccines, and ventilators. The move will allow the Department of Health and Human Services to provide about \$35 million for capital investments and other needs in the medical supply chains.

- The move is consistent with similarly modest DPA investments in the traditional defense industry.
- With many reports showing defense firms are having trouble ramping up their output of advanced weapons, ammunition, and other supplies, a key question is why the government isn't making even stronger use of the DPA.

U.S. Green Technology Industry: As governments around the world keep pushing policies to cut the amount of carbon in the atmosphere, they've mostly focused on cutting carbon emissions. Now, a rising new set of technologies aims to take the carbon out of the air after it's been emitted. For example, a start-up firm called Graphyte [has developed a product that uses agricultural waste products such as sawdust or tree bark to naturally absorb carbon dioxide](#). The product can reportedly remove carbon from the air at a cost of about \$100 per metric ton, well below the main competing technology, direct-air capture, which costs about \$675 per metric ton.

U.S. Economic Releases

Two closely watched residential real estate indexes showed that the housing market heated up in September. The Federal Home Finance Agency's House Price Index rose 6.1% from the previous year. The reading was above estimates of 5.3% and the previous month's rise of 5.8%. Meanwhile, S&P CoreLogic's National Home Price Index and the 20-City Composite Index surged by 3.9% in the same period.



The chart above shows the annual change in the National and 20-City S&P CoreLogic Home Price Index.

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	Conf. Board Consumer Confidence	m/m	Nov	101.0	102.6	***	
10:00	Conf. Board Present Situation	m/m	Nov		143.1	**	
10:00	Conf. Board Expectations	m/m	Nov		75.6	**	
10:00	Richmond Fed Manufact. Index	m/m	Nov	1.0	3.0	**	
Federal Reserve							
EST	Speaker or Event		District or Position				
10:00	Austin Goolsbee Delivers Opening Remarks		President of the Federal Reserve Bank of Chicago				
10:00	Chris Waller Speaks on the Economic Outlook		Member of the Board of Governors				
10:45	Michelle Bowman Speaks on Monetary Policy		Member of the Board of Governors				
13:05	Michael Barr Speaks on Community Reinvestment Act		Federal Reserve Board Vice Chair for Supervision				
14:30	Kathleen Paese Speaks About FedNow Payments System		Interim President of the Federal Reserve Bank of St. Louis				
15:30	Michael Barr Speaks on Community Reinvestment Act Regulations		Federal Reserve Board Vice Chair for Supervision				
17:00	Austin Goolsbee Speaks on Marketplace Radio		President of the Federal Reserve Bank of Chicago				

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	Retail Sales	m/m	Oct	-0.2%	0.9%	-1.0%	***	Equity and bond neutral
South Korea	Discount Store Sales	y/y	Oct	-4.1%	10.0%		*	Equity bearish, bond bullish
	Depart. Store Sales	y/y	Oct	-2.6%	3.1%		*	Equity bearish, bond bullish
	Retail Sales	y/y	Oct	604.0%	9.5%		**	Equity bearish, bond bullish
EUROPE								
Eurozone	M3 Money Supply	y/y	Oct	-1.0%	-1.2%	-0.9%	***	Equity and bond neutral
Germany	GfK Consumer Confidence	m/m	Dec	-27.8	-28.1	-28.3	**	Equity and bond neutral
France	Consumer Confidence	m/m	Nov	87.0	84.0	84.0	**	Equity and bond neutral
AMERICAS								
Brazil	IBGE Inflation IPCA - 15	y/y	Nov	4.8%	5.1%	4.8%	*	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)	565	564	1	Flat
3-mo T-bill yield (bps)	525	525	0	Down
TED spread (bps)	LIBOR and the TED Spread have been discontinued.			
U.S. Sibor/OIS spread (bps)	539	538	1	Down
U.S. Libor/OIS spread (bps)	538	538	0	Down
10-yr T-note (%)	4.40	4.39	0.01	Flat
Euribor/OIS spread (bps)	395	394	1	Up
Currencies	Direction			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Up			Down
Pound	Flat			Up
Franc	Down			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.

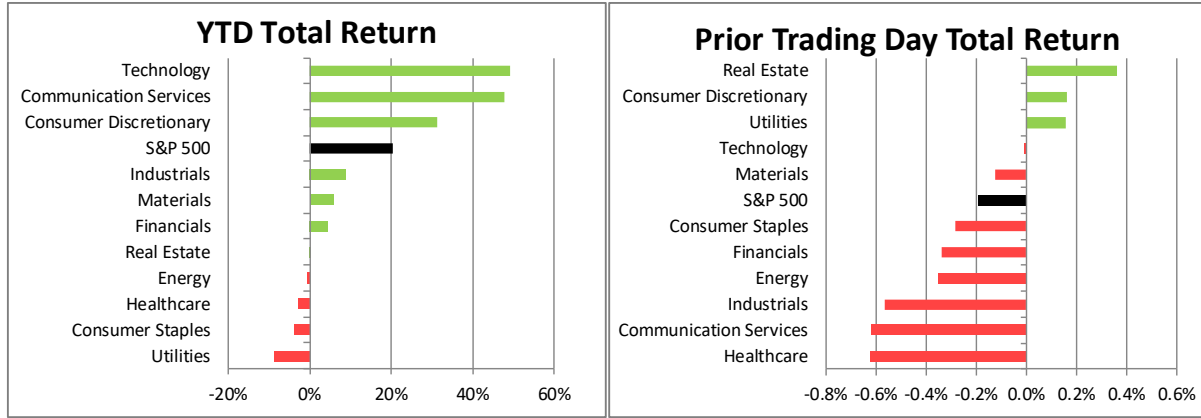
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$80.66	\$79.98	0.85%	
WTI	\$75.56	\$74.86	0.94%	
Natural Gas	\$2.78	\$2.79	-0.47%	
Crack Spread	\$23.95	\$23.95	-0.01%	
12-mo strip crack	\$24.43	\$24.35	0.32%	
Ethanol rack	\$2.01	\$2.03	-1.00%	
Metals				
Gold	\$2,014.37	\$2,014.13	0.01%	
Silver	\$24.65	\$24.65	-0.01%	
Copper contract	\$380.65	\$380.00	0.17%	
Grains				
Corn contract	\$476.50	\$475.25	0.26%	
Wheat contract	\$563.00	\$561.00	0.36%	
Soybeans contract	\$1,338.25	\$1,329.75	0.64%	
Shipping				
Baltic Dry Freight	2,259	2,102	157	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-1.7		
Gasoline (mb)		-0.4		
Distillates (mb)		-1.0		
Refinery run rates (%)		1.0%		
Natural gas (bcf)		3		

Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures for most the country, with cooler temperatures in the Southwest. The precipitation outlook is calling for wetter-than-normal conditions throughout the Rocky Mountains and the East Coast, with dry conditions expected to spread from Southern California into the Great Plains and Midwest regions.

Data Section

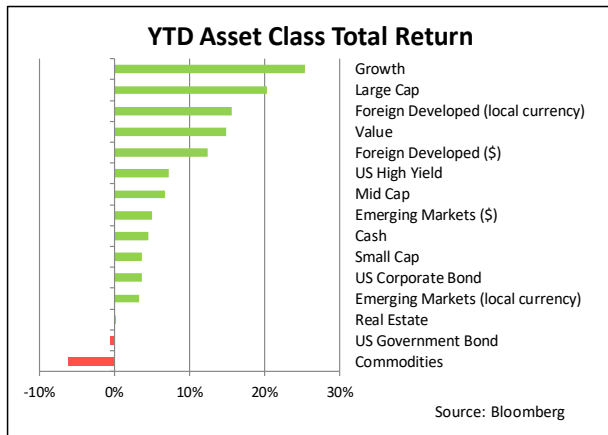
U.S. Equity Markets – (as of 11/27/2023 close)



(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 11/27/2023 close)

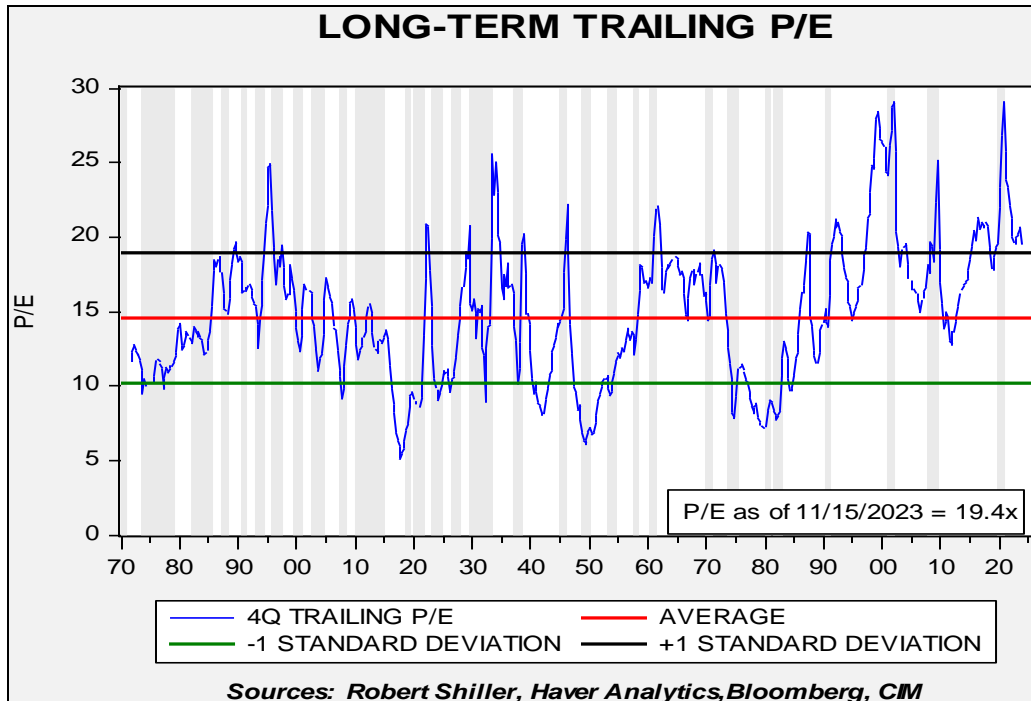


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

November 16, 2023



Based on our methodology,¹ the current P/E is 19.4x, up 0.1x from last week. The multiple rose on the rise in index values.

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 two actual quarters (Q1 and Q2) and two estimates (Q3 and 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.