

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 29, 2023—9:30 AM EST] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.6%. Chinese markets were lower, with the Shanghai Composite up 0.6% from its previous close and the Shenzhen Composite down 0.8%. U.S. equity index futures are signaling a higher open.

With 485 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, 81.6% have exceeded expectations while 14.6% have fallen short of expectations.

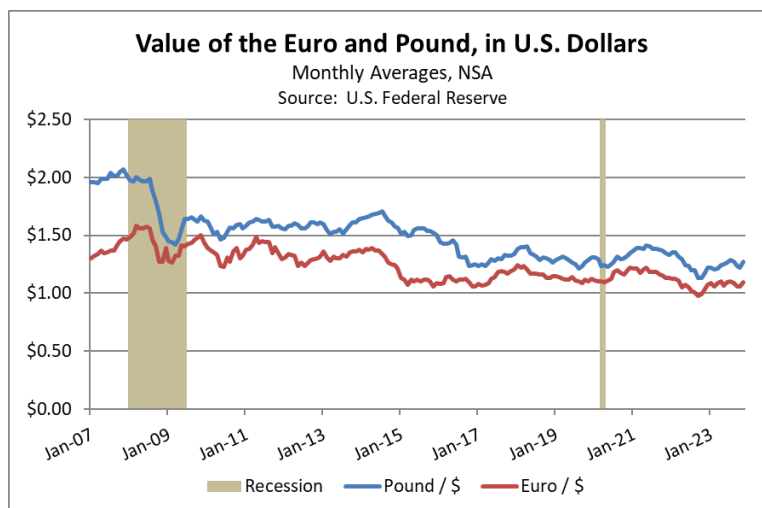
The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below, with new items of the day emphasized in bold:

- **[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 new projections of global interest rates from the Organization for Economic Cooperation and Development. We next review a wide range of other international and U.S. developments with the potential to affect the financial markets today, including potential territorial aggression by Venezuela against its neighbor Guyana and an important case being heard today by the U.S. Supreme Court that could potentially dismantle much of the modern U.S. regulatory system.

Global Monetary Policy: In its latest economic outlook, published today, the OECD warned that both the European Central Bank and the Bank of England [may need to keep interest rates high until early 2025](#)—much longer than investors are expecting—to guard against stubborn inflation pressures. In contrast, the OECD projected the Federal Reserve will start cutting U.S. interest rates by the second half of 2024.

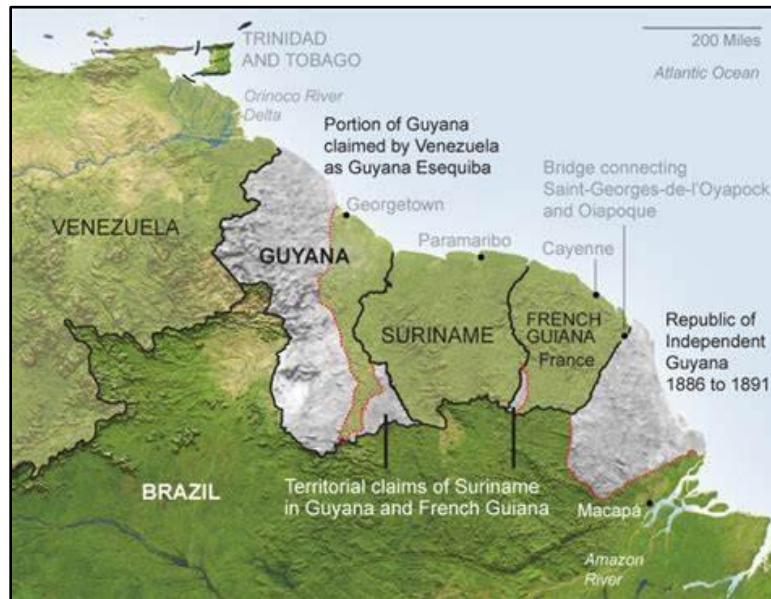
- The prospect of earlier rate cuts in the U.S. [is probably a key reason why the euro \(EUR\) and pound \(GBP\) have appreciated so far this quarter](#), while the dollar has declined. As of early this morning, the EUR is valued at a nearly four-month high of \$1.0984, up 3.9% from the end of September. The GBP is trading at \$1.2696, up 4.1% for the quarter.
- If the dollar continues to weaken, it could provide a boost to foreign stocks and some commodities.



Venezuela-Guyana-Brazil: Venezuela’s National Assembly, dominated by the ruling party, has recently [approved a national referendum on the status of the Essequibo territory—the western two-thirds of oil-rich Guyana](#) that Venezuela has claimed for more than a century. The planned referendum may simply be a ploy to help the government of Nicolas Maduro in Venezuela’s coming elections, but it could also be an example of Chinese- and Russian-style “lawfare” ahead of an attempt to seize Essequibo. Since Venezuelan forces would likely have to traverse Brazilian territory for any such invasion, the Brazilian military [has reportedly been put on alert and is massing troops along its border with Venezuela](#).

- Over the last decade, dozens of new oil fields have been discovered in Guyana, setting it up to be a key source of new energy in the coming decades. The country is currently estimated to have the equivalent of more than 11 billion barrels of oil deposits, similar to the number of deposits in Kuwait and the United Arab Emirates.
- If Venezuela did try to invade Guyana, the potential damage to its oil fields and the risk that they would fall into Venezuela’s hands could spark a significant jump in global oil prices.

- If Venezuelan forces traversed Brazilian territory to reach Essequibo, such an invasion could also spark a broader conflict, potentially drawing in more South American countries or even the U.S.



(Source: New York Times)

China-Lithuania: In another sign that Beijing is trying to ease tensions with the West, at least temporarily, Lithuanian Foreign Minister Gabrielius Landsbergis [said China has now lifted most of the economic sanctions it imposed on the Baltic country in 2021](#) in retaliation for its approval of a de facto Taiwanese embassy in Vilnius. Separate data from Beijing shows Lithuanian exports to China in the first 10 months of 2023 were up 54% from the same period one year earlier.

India: Despite Beijing’s recent efforts to ease its international relations and rekindle stronger economic growth, its ongoing military buildup continues to spur reactions in neighboring countries. According to recent reports, Indian officials on Friday [plan to formally approve the construction of their country’s second indigenous aircraft carrier](#). Along with India’s first indigenous carrier and a Russian-built vessel, that would lift New Delhi’s total carrier force to three, enough to eventually ensure a continuous power projection capability throughout the Indian Ocean.

Vietnam: The government [announced it will raise its income tax on multinational firms to 15%](#), in line with an OECD-led effort to set a minimum rate on companies to avoid tax evasion and tax-rate shopping. The move threatens to slow the recent surge of foreign direct investment into Vietnam as more multinational firms look to diversify their production out of China.

United States-Argentina: The newly elected president of Argentina, populist libertarian Javier Milei, [has announced that he held fruitful meetings with U.S. officials in Washington yesterday](#), as he tries to set the groundwork for restructuring his country’s troubled \$43-billion loan from

the International Monetary Fund. In addition, Luis Caputo, a former Argentine finance minister considered the frontrunner to lead Milei's economy ministry, met U.S. Treasury and IMF officials.

- Milei has said he will postpone his controversial reform, which would replace the Argentine peso (ARS) with the U.S. dollar.
- On the other hand, he plans to send a package of “shock therapy” reforms to Argentina’s congress on December 11, including spending cuts to balance the budget in 2024.

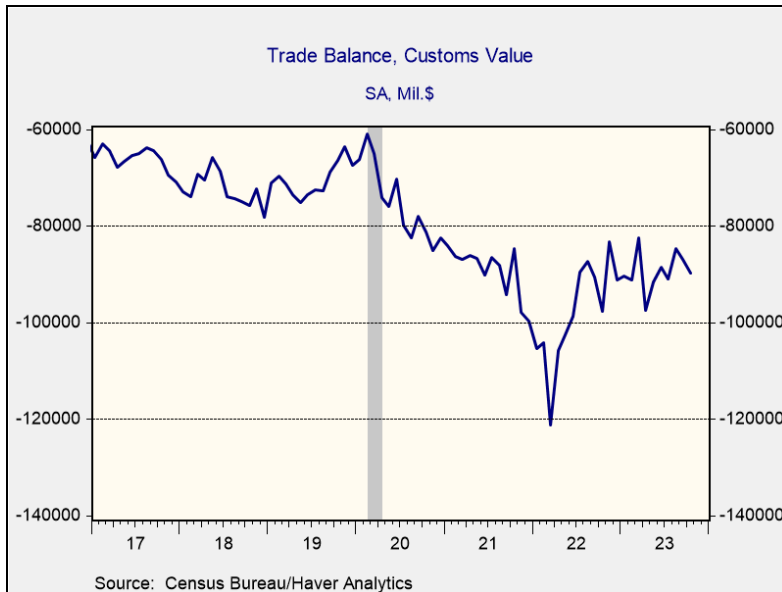
U.S. Regulatory Policy: In a case that could undermine administrative courts in multiple sectors, the Supreme Court today [will hear a challenge to the Security and Exchange Commission’s use of such panels](#). The courts, which are presided over by administrative law judges, are being challenged on grounds that the judges aren’t impartial and that the courts rob defendants of their right to a trial by jury. A decision is expected by next July.

U.S. Investing Pantheon: Investing legend Charlie Munger, vice chairman of Berkshire Hathaway (BRK-B, \$360.05) and key lieutenant of Warren Buffett, [died yesterday](#) in a California hospital at the age of 99. Munger is often credited with convincing Buffett to abandon his early-career focus on cheap “cigar butt” investments and instead focus on buying great businesses at reasonable prices, an approach we largely share here at Confluence!

U.S. Economic Releases

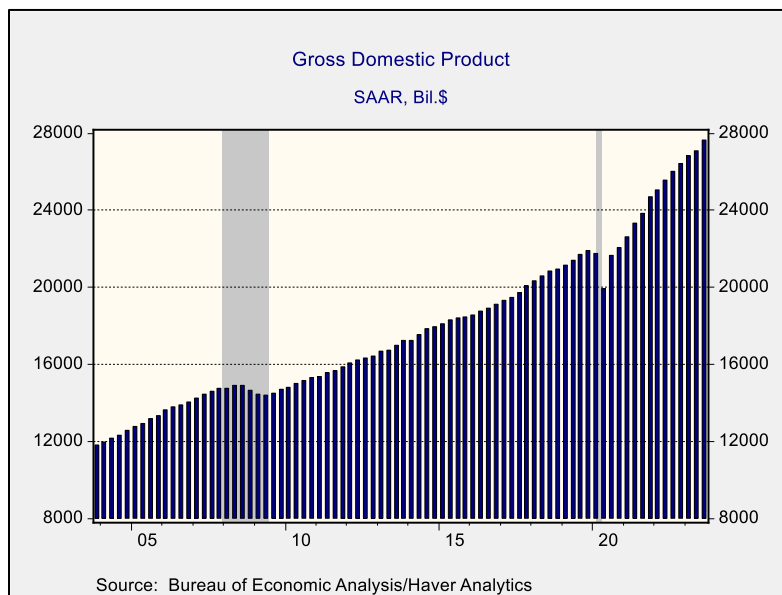
Residential loan demand received a boost due to a decline in borrowing costs, according to the Mortgage Bankers Association. It’s mortgage applications index rose 0.3% in the week ending November 24. The rise was supported by a decline in the average 30-year fixed-rate mortgage which fell 4 bps from 7.41% to 7.37%. As a result, the tracker for the MBA purchase index rose 4.7% from the prior week, while the refinance application index fell 8.9%.

Preliminary data from the U.S. Census Bureau indicates a widening trade deficit in goods for October, primarily driven by a decline in exports. Last month, the U.S. deficit in traded goods rose from \$86.8 billion to \$89.8 billion, above estimates of \$86.5 billion. A separate report showed that wholesale inventories fell 0.2% from the prior month, while retail inventories remained relatively unchanged.

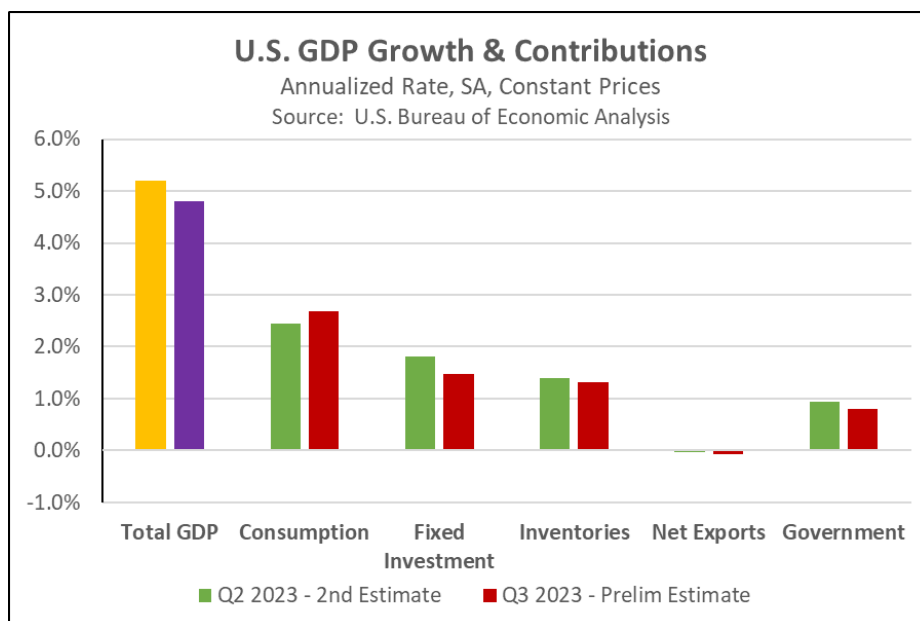


The chart above the level of the U.S. trade balance. Exports fell 1.7% from the prior month, while imports remained relatively unchanged.

Meanwhile, the Bureau of Economic Analysis (BEA) released revised data showcasing a more robust U.S. economy in the third quarter of 2023. The annualized seasonally adjusted rate of GDP growth was revised upward from 4.9% to 5.2%, surpassing expectations of 5.0%. However, personal consumption was revised downward from 4.0% to 3.6%. Additionally, the GDP price index was revised upward from 3.5% to 3.6%, while the core PCE price index was revised downward from 2.4% to 2.3%.



The chart above shows nominal GDP for the U.S. The latest figures shows that the economy is currently sitting at \$27.6 trillion.



The chart above shows the GDP by contributions. Although personal consumption decreased, it was offset by gains in investment and government spending.

The table below lists the economic releases and/or Fed events scheduled for the rest of the day.

Economic Releases	
No economic releases for the rest of today	
Federal Reserve	
EST	Speaker or Event
13:45	Loretta Mester Speaks on Financial Stability
14:00	U.S. Federal Reserve Releases Beige Book
District or Position	
	President of the Federal Reserve Bank of Cleveland
	Federal Reserve Board

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	CPI	y/y	Oct	4.9%	5.6%	5.2%	--	Equity and bond neutral
South Korea	Business Survey - Manufacturing	m/m	Dec	68	69		**	Equity and bond neutral
	Business Survey - Non-Manufacturing	m/m	Dec	71	69		*	Equity and bond neutral
EUROPE								
Eurozone	Consumer Confidence	m/m	Nov F	-16.9	-16.9		**	Equity and bond neutral
	Economic Confidence	m/m	Nov	93.8	93.3	93.5	***	Equity and bond neutral
	Industrial Confidence	m/m	Nov	-9.5	-9.3	-9.2	***	Equity and bond neutral
	Services Confidence	m/m	Nov	4.9	4.5	4.6	**	Equity and bond neutral
Germany	Import Price Index	y/y	Oct	-13.0%	-14.3%	-13.2%	**	Equity and bond neutral
	CPI	y/y	Nov P	3.2%	3.8%	3.5%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Nov P	2.3%	3.0%	2.5%	**	Equity and bond neutral
Italy	Consumer Confidence	m/m	Nov	103.6	101.6	102.0	***	Equity and bond neutral
	Manufacturing Confidence	m/m	Nov	96.6	96.0	96.1	***	Equity and bond neutral
	Economic Sentiment	m/m	Nov	103.4	103.9		**	Equity and bond neutral
	PPI	y/y	Oct	-12.4%	-18.3%		**	Equity bullish, bond bearish
UK	Mortgage Approvals	m/m	Oct	47.4k	43.3k	43.7k	***	Equity and bond neutral
AMERICAS								
Mexico	International Reserves Weekly	w/w	24-Nov	\$206278m	\$205623m		*	Equity and bond neutral
Brazil	FGV Inflation IGPM	y/y	Nov	-3.46%	-4.57%	-4.88%	***	Equity bullish, bond bearish

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	565	0	Down
3-mo T-bill yield (bps)	525	526	-1	Down
TED spread (bps)	LIBOR and the TED Spread have been discontinued.			
U.S. Sibor/OIS spread (bps)	537	537	0	Down
U.S. Libor/OIS spread (bps)	537	537	0	Down
10-yr T-note (%)	4.29	4.32	-0.03	Flat
Euribor/OIS spread (bps)	396	395	1	Up
Currencies	Direction			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Flat			Down
Pound	Flat			Up
Franc	Up			Up
Central Bank Action	Current	Prior	Expected	
RBNZ Official Cash Rate	5.500%	5.500%	5.500%	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.

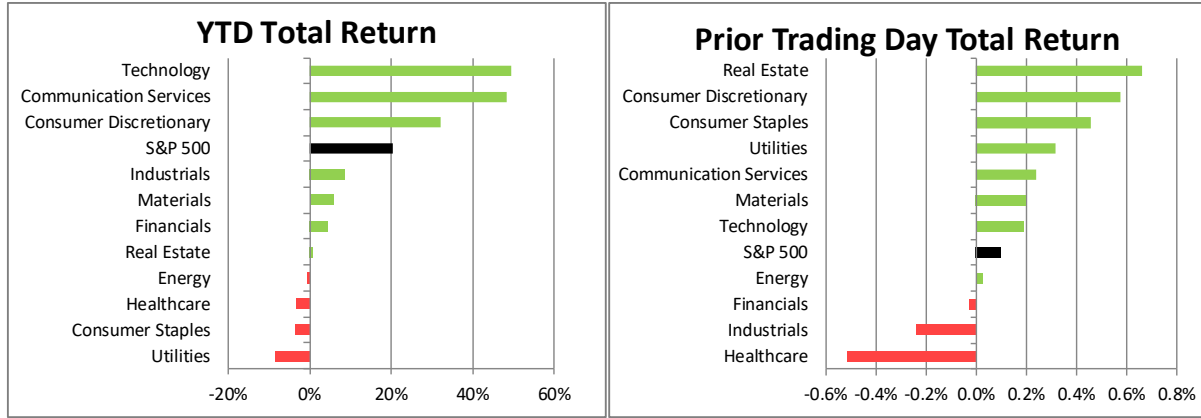
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$82.95	\$81.68	1.55%	
WTI	\$77.79	\$76.41	1.81%	
Natural Gas	\$2.81	\$2.84	-1.06%	
Crack Spread	\$23.97	\$24.22	-1.05%	
12-mo strip crack	\$24.58	\$24.73	-0.64%	
Ethanol rack	\$1.99	\$2.00	-0.40%	
Metals				
Gold	\$2,041.40	\$2,040.97	0.02%	
Silver	\$24.98	\$25.03	-0.19%	
Copper contract	\$385.00	\$383.95	0.27%	
Grains				
Corn contract	\$473.75	\$473.50	0.05%	
Wheat contract	\$577.25	\$572.00	0.92%	
Soybeans contract	\$1,348.25	\$1,346.50	0.13%	
Shipping				
Baltic Dry Freight	2,391	2,259	132	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)		-0.1		
Gasoline (mb)		-0.7		
Distillates (mb)		-1.3		
Refinery run rates (%)		0.9%		
Natural gas (bcf)		0		

Weather

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

Data Section

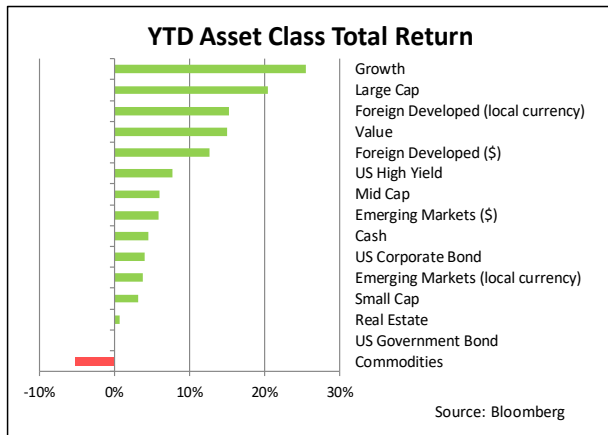
U.S. Equity Markets – (as of 11/28/2023 close)



(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 11/28/2023 close)

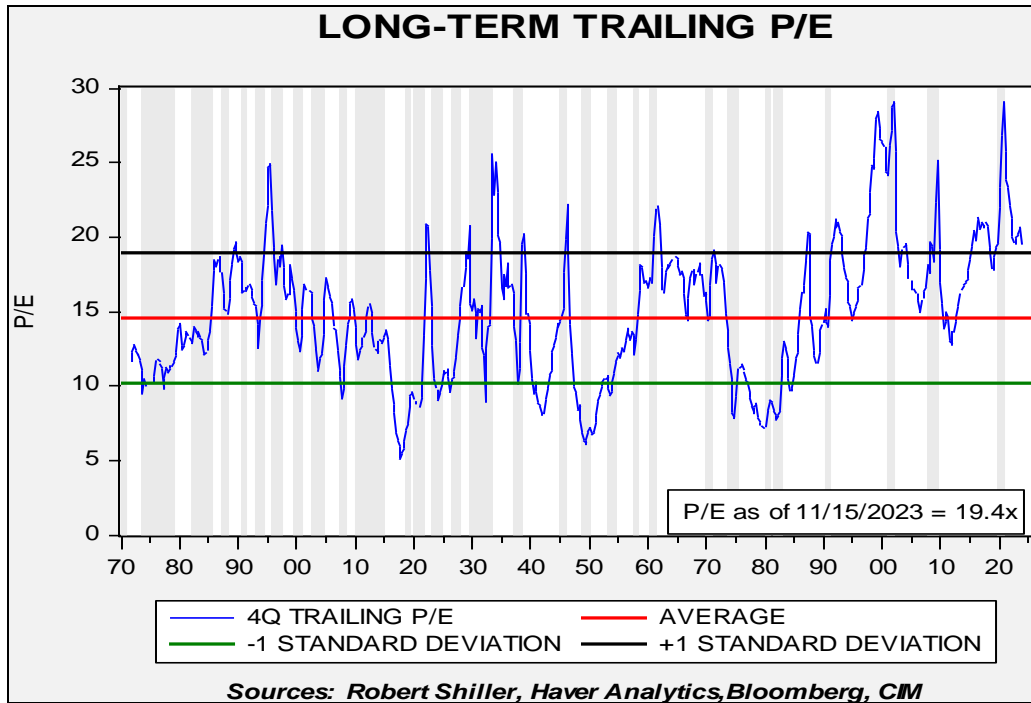


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.