

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: September 25, 2023—9:30 AM EDT]** Global equity markets are lower this morning. In Europe, the Euro Stoxx 50 is down 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 1.0%. Chinese markets were lower, with both the Shanghai Composite and the Shenzhen Composite down 0.5% from their previous close. U.S. 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](#) (9/18/2023) (with associated [podcast](#)): “Goodbye Prigozhin”
- [Weekly Energy Update](#) (9/21/2023): Crude oil prices remain elevated due to the recent OPEC+ supply restrictions. The Iranian prisoner swap has been completed, but Iran’s relations with the IAEA remain strained due to the expelling of about a third of the nuclear weapons inspectors.
- [Asset Allocation Quarterly – Q3 2023](#) (7/20/2023): Discussion of our asset allocation process, Q3 2023 portfolio changes, and our outlook for the markets.
- [Asset Allocation Q3 2023 Rebalance Presentation](#) (8/18/2023): 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](#) (9/25/2023) (with associated [podcast](#)): “Where’s the Recession? A Recap”**
- [Confluence of Ideas podcast](#) (8/22/2023): “The Economics of Defense in Great Power Competition”

Our *Comment* today opens with the latest on Canada’s allegations that India assassinated a Canadian citizen in British Columbia in June. The resulting strain on Canadian-Indian relations could have big implications for the U.S.’s effort to use India as an economic and geopolitical counterbalance to China. We next review a range of other international and U.S. developments that could affect the financial markets today, including an effort by China to boost its stock market by limiting insider share sales and a tentative deal to end the U.S. screenwriters’ strike.

**United States-Canada-India:** Reports over the weekend said U.S. intelligence [helped Canada conclude that Indian agents were involved in the June assassination of Sikh separatist leader](#)

[Hardeep Singh Nijjar](#) near Vancouver. The U.S. information included not only the regular reports provided to Canada as a member of the “Five Eyes” intelligence-sharing partnership that includes the U.S., the U.K., Canada, Australia, and New Zealand, but it also included additional reports specifically aimed at providing further context for the reports related to the assassination.

- Despite the U.S. assistance, the reports indicate that Canada’s conclusion about India’s involvement relied mostly on Canada’s own communication intercepts.
- Nevertheless, the U.S. role could complicate the Biden administration’s effort to draw India closer to the U.S.-led geopolitical and economic bloc as a counterweight against China’s growing power.

**China-Philippines:** China’s coast guard and maritime militia forces [have installed a 300-meter floating barrier to keep Philippine fishing boats out of a disputed shoal in the South China Sea](#) just 140 miles from the Philippine coast. The development is additional evidence that China is ratcheting up its harassment of Philippine interests in the area as punishment for Manila’s recent move to rebuild its security alliance with the U.S.

**China:** In a further move to bolster China’s flagging stock market, authorities in Beijing [have reportedly banned controlling shareholders of listed companies from selling their stock](#) if their firm hasn’t paid a dividend for the last three years or if the company is trading below its initial public offering price or net asset value. The new rules reportedly apply to more than half of the 5,000 or so stocks listed on Shanghai and Shenzhen. The rules have also already led to the cancelling of insider share sales at more than 200 companies.

**Russia-Ukraine War:** On Saturday, the *New York Times* revealed that the U.S. Army’s Landstuhl Regional Medical Center in Germany [is treating a small number of Americans who were wounded in Ukraine after volunteering to help fight the invading Russians](#). According to the report, the Defense Department last summer authorized the hospital to treat up to 18 members of the Ukrainian armed forces at a time, but a substantial percentage of those treated have been Americans who had previously served in the U.S. military or had served as former soldiers of other NATO allies. The report has the potential to be seen as further evidence of creeping U.S. involvement in the war.

- Separately, Ukraine [continued its recent missile and drone attacks](#) on Russian-occupied Crimea over the weekend, forcing Kremlin-allied authorities there to issue air raid warnings. The attacks appear designed to disrupt Russia’s ability to launch its own air [attacks against Ukraine’s grain exports](#) and energy infrastructure.
- Importantly, Ukraine [has stepped up use of its newly declared safe corridor for food shipments out of its southeastern ports](#). Last week, two ships laden with Ukrainian wheat successfully used the corridor, and three more ships are expected to use it to carry Ukrainian food exports in the coming week. Continued Ukrainian food exports would help preclude a spike in global grain prices.

**Japan:** Start-up pharmaceutical company Toregem BioPharma [said it’s preparing to start clinical trials for a new drug that would spur the growth of new teeth](#) in people who have lost

both their baby and adult teeth. The drug, which the firm hopes to have on the market by 2030, could help take a bite out of a problem many older people have in aging societies like Japan.

**U.S. Economic Data:** As a “heads up,” the Bureau of Economic Analysis [will issue updated and corrected figures on Thursday for gross domestic product, price inflation, corporate profits, and other key indicators for the last ten years](#), along with its third regular estimate of second-quarter GDP growth. There is a significant chance that the revisions will show recent GDP growth has been weaker than initially reported. Just as important, the figures for consumer inflation as measured by the price index for personal consumption expenditures could be revised upward, which would likely affect how policymakers at the Federal Reserve approach monetary policy in the coming months.

**U.S. Fiscal Policy:** The House of Representatives [has again failed to start passing the funding bills needed to avert a partial government shutdown this coming weekend](#). Top Republican and Democratic lawmakers yesterday warned that time is running out to pass the appropriations bills that would keep operations funded after the current fiscal year ends on Friday. Several House Republicans who are insisting on deep spending cuts are the key holdups.

**U.S. Labor Market:** The Writers Guild of America and the major Hollywood studios [have struck a tentative deal on a new labor contract, potentially ending the screenwriters’ strike](#) that has hobbled movie and television production for months. The negotiators are still ironing out the final details of the three-year contract before putting it to a vote by the union members, but it looks like the workers will win a number of concessions, such as increased royalties, minimum staffing levels, and protections related to artificial intelligence. In turn, those concessions would likely encourage the still-striking Screen Actors Guild to hold out for a better deal.

**U.S. Energy Market:** Data last week showed the average price for regular unleaded gasoline [has reached \\$3.88 per gallon, up more than 25% from the start of the year](#). The increase in cost reflects a recent surge in global crude oil prices stemming from strong demand, low inventories, and production cuts by countries such as Saudi Arabia and Russia.

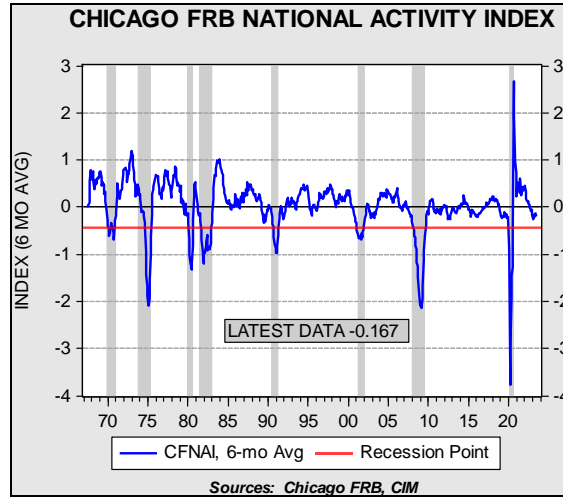
- The jump in energy costs is especially concerning given that U.S. economic growth is already moderating in response to the Federal Reserve’s interest-rate hikes. When growth is slow, it may only take a small hiccup in demand to push it into recession.
- We call this the “slow bicycle economy,” since it’s so similar to the situation where it becomes very hard to keep your balance on a bike when you slow down too much.
- For all of today’s talk among investors about a hoped-for soft landing (in which growth slows enough to bring down consumer price inflation), that would also be something like a slow-bicycle economy where activity could be at risk if energy prices rise too much, if there is a partial government shutdown, or if there are some other [hits](#) to demand.

**Global Artificial Intelligence:** If you think the wonders of artificial intelligence are simply divine, you’re going to love this. Clerics in Iran’s theocracy [are reportedly exploring the use of AI to write fatwas, or religious edicts](#). Even the country’s supreme leader, Ayatollah Khamenei,

has urged the clergy to pay more attention to the possibilities of AI, saying he wants Iran to be “at least among the top-10 countries in the world in terms of artificial intelligence.”

### U.S. Economic Releases

U.S. economic activity was sluggish in August, according to the Federal Reserve Board of Chicago. The Chicago Fed National Activity Index came in at -0.16 last month, slightly under zero, suggesting that growth was below its long-term trend. August’s report was below the previous month’s reading of +0.12 and the consensus estimate of +0.05.



The chart above shows the Chicago Fed National Activity Index and its six-month moving average. The moving average is currently at -0.16, indicating that economic activity is still above the contraction signal of -0.40.

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
10:30	Dallas Fed Manufacturing Activity	m/m	Sep	-13.0	-17.2	**
Federal Reserve						
EST	Speaker or Event	District or Position				
18:00	Neel Kashkari Speaks at University of Pennsylvania Wharton School	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
<b>ASIA-PACIFIC</b>								
Japan	Nationwide Dept Sales YoY	y/y	Aug	11.8%	8.6%		*	Equity and bond neutral
<b>EUROPE</b>								
Germany	IFO Business Climate	m/m	Sep	85.7	85.7	85.8	***	Equity and bond neutral
	IFO Current Assessment	m/m	Sep	88.7	89.0	88.0	**	Equity and bond neutral
	IFO Expectations	m/m	Sep	82.9	82.6	82.7	***	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	22-Sep	465.3b	463.6b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	22-Sep	475.1b	473.0b		*	Equity and bond neutral
<b>AMERICAS</b>								
Canada	Retail Sales	m/m	Jul	0.3%	0.1%	0.4%	**	Equity and bond neutral
	Retail Sales Ex-Autos	m/m	Jul	1.0%	-0.8%	-0.7%	**	Equity and bond neutral
Brazil	FGV Consumer Confidence	y/y	Sep	97.0	96.8		*	Equity and bond neutral
	Foreign Direct Investment	m/m	Aug	\$4270m	\$4244m	\$5000m	**	Equity and bond neutral
	Current Account Balance	m/m	Aug	-\$1750m	-\$778m	-\$4032m	**	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)	566	566	0	Up
3-mo T-bill yield (bps)	531	532	-1	Up
TED spread (bps)	LIBOR and the TED Spread have been discontinued.			
U.S. Sibor/OIS spread (bps)	538	538	0	Up
U.S. Libor/OIS spread (bps)	540	540	0	Up
10-yr T-note (%)	4.50	4.43	0.07	Flat
Euribor/OIS spread (bps)	396	396	0	Up
<b>Currencies</b>	<b>Direction</b>			
Dollar	Flat			Up
Euro	Down			Down
Yen	Down			Down
Pound	Down			Down
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.

DOE Inventory Report	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$93.21	\$93.27	-0.06%	
WTI	\$89.85	\$90.03	-0.20%	
Natural Gas	\$2.62	\$2.64	-0.57%	
Crack Spread	\$25.65	\$26.07	-1.59%	
12-mo strip crack	\$26.76	\$27.00	-0.89%	
Ethanol rack	\$2.50	\$2.50	0.20%	
<b>Metals</b>				
Gold	\$1,923.95	\$1,925.23	-0.07%	
Silver	\$23.56	\$23.56	-0.03%	
Copper contract	\$367.15	\$369.60	-0.66%	
<b>Grains</b>				
Corn contract	\$477.00	\$477.25	-0.05%	
Wheat contract	\$583.00	\$579.50	0.60%	
Soybeans contract	\$1,294.00	\$1,296.25	-0.17%	
<b>Shipping</b>				
Baltic Dry Freight	1,593	1,569	24	

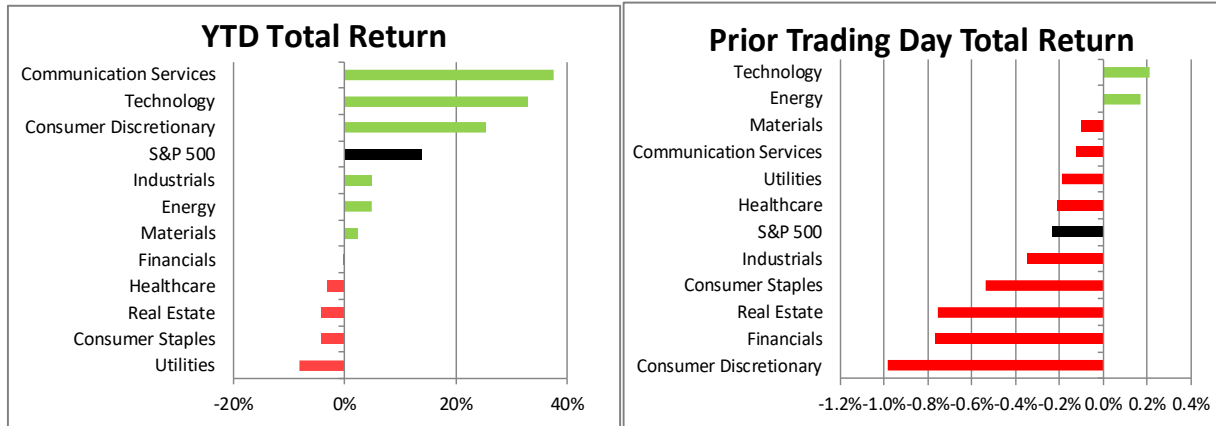
## Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures throughout most of the country with below-normal temperatures in the Far West. The precipitation outlook calls for wetter-than-normal conditions in the Pacific Northwest, the northern Rocky Mountains, and the northern Great Plains with dry conditions in the Southwest, the Mississippi Valley region, and the Northeast.

There are currently three atmospheric disturbances in the Atlantic Ocean, with one major storm. Tropical Storm Philippe is in the central Atlantic Ocean. There is also a disturbance in the Gulf of Mexico and another off the coast of Africa. These storms have at most a 30% chance of cyclone formation. On average, Atlantic hurricane activity peaks on September 15.

**Data Section**

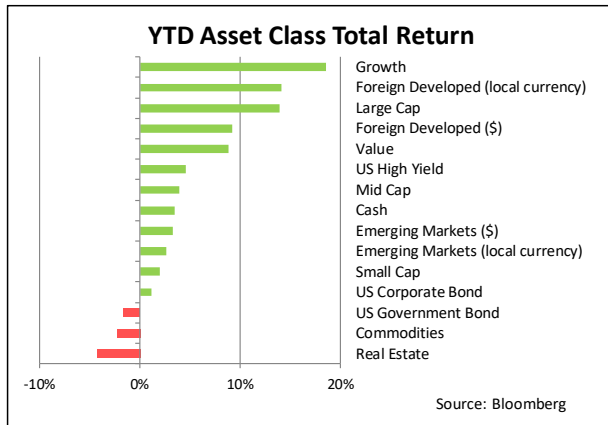
**U.S. Equity Markets – (as of 9/22/2023 close)**



(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 9/22/2023 close)**

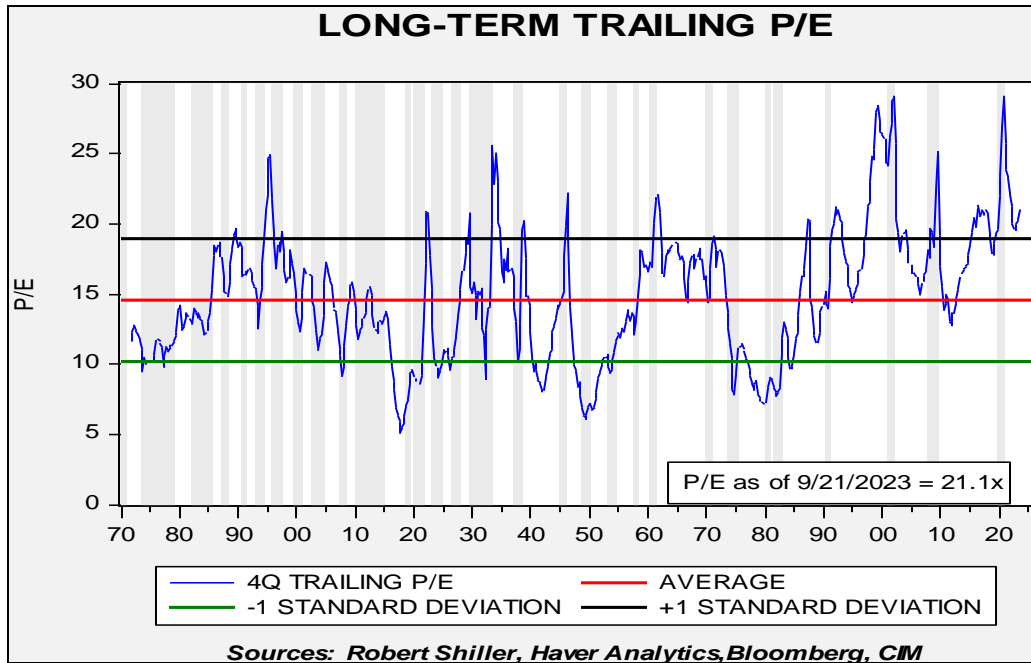


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

September 21, 2023



Based on our methodology,<sup>1</sup> the current P/E is 21.1x, up 0.1x from last week. Weaker earnings estimates led to the rise in the multiple.

*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.*

<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 two actual quarters (Q3 and Q4) and two estimates (Q1 and Q2). 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.