

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: April 1, 2021—9:30 AM EDT] Global equity markets are generally higher this morning. The EuroStoxx 50 is currently up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 closed down 0.6%. Chinese markets were higher, with the Shanghai Composite up 0.7% from its prior close and the Shenzhen Composite up 1.1%. U.S. equity index futures are signaling a higher open.

We have published our latest [Weekly Geopolitical Report](#), which constitutes Part III of our series on the Geopolitics of Central Bank Digital Currencies (CBDC). We also have several other recent multimedia offerings. There is a new [chart book](#) recapping the recent changes we made to our Asset Allocation portfolios. Here is our latest [Confluence of Ideas podcast](#). Our most recent [Asset Allocation Weekly](#), [chart book](#), and [podcast](#) are also available. Note: Due to the upcoming Good Friday and Easter holidays, we will not publish an AAW this week; it will resume on April 9. Being Thursday, there is a new [Weekly Energy Update](#). You can find all this research and more on our [website](#). As a reminder, due to the Good Friday market closures, there will be no Daily Comment tomorrow; we will be back on Monday and recap the employment report on that day.

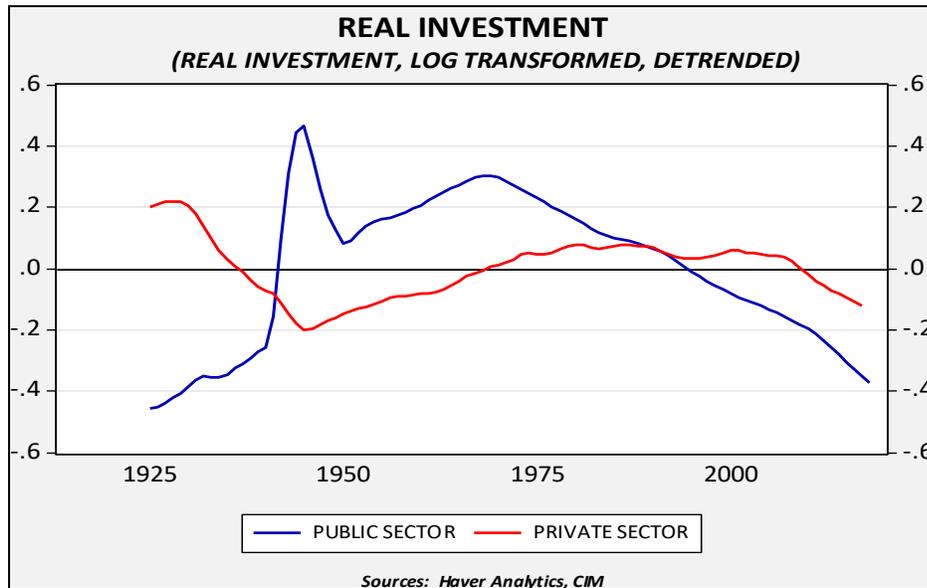
Good morning. It's Opening Day! [Major League Baseball kicks off its season to mostly restricted crowds](#). On the first day of Q2, [U.S. equity futures are ticking higher](#). Our coverage begins with economics and policy the day after the infrastructure package was revealed. An update on the Archegos event comes next. China and international news follow. Technology is next, and we close with a pandemic update.

Economics and policy: The infrastructure package dominates this sector's news.

- Yesterday, we discussed the proposed [infrastructure package, which was formally released yesterday](#). Although a spending package of this [size and breadth](#) will always be controversial, the fact that it includes tax increases means that opposition will likely escalate. The [opposition is already preparing to oppose tax hikes](#). We note that the [wealth tax didn't make the cut](#); such taxes are devilishly difficult to enforce (wealth can slip across borders, as can wealth holders). The [experience in other nations suggests wealth taxes are not all that effective](#).
 - The underlying thesis of what the White House is doing is that [government spending is necessary to boost economic growth](#). This idea was uncontroversial from the Great Depression into the 1970s, but the inflation that occurred in that decade was partly blamed on the disincentives to private sector investment. This

cycling of ideas is part of our thesis that societies move through equality and efficiency cycles. We have been in an efficiency cycle since 1978 but have been slowly trending toward an equality cycle over the last decade. This presidency is accelerating that trend.

- Although there are concerns about “crowding out” a situation where rising public investment displaces private investment, we are currently in a situation where both public and private investment are below trend.



This chart shows real public and private investment against the trend. There was clear displacement during the Great Depression and the war years, although the cause of the drop in private investment probably had more to do with weak demand and excessive investment as the industrial revolution came to a close. But, in the 1950s, both rose against trend. What we have been experiencing this century is unusual; public sector investment has been falling against trend since the early 1970s, but since the Great Financial Crisis, both are below trend. Thus, we are probably in a position where (a) we probably have too little public investment, and (b) there is probably room for both rising public and private investment. In fact, one could argue that in the 1950- the 60s, we were able to increase both.

- There is another item of note. We have been accumulating research on the semiconductor industry. It is a highly efficient industry that is becoming a notable geopolitical risk. Not only are parts of the industry strung out around the world, but Taiwan is absolutely essential, and China has a large segment as well. The package attempts to [reduce this geopolitical risk by proposing to spend \\$50 billion on building capacity in the U.S.](#)
- All that being said, it is critically important to remember two points. First, although the [need for investment is reasonably clear](#), [getting it right is really hard](#). Investment is one of the hardest things society does because it requires some

projection into the future. [If one gets it right, he or she is blessed with stronger growth and lower inflation](#). Getting it wrong means resources are squandered.¹ So, if the investment allocation is done well, this investment will effectively pay for itself. If it isn't, we will expand debt for little purpose. In reality, what has been proposed will probably fall somewhere in between. It should also be remembered that private sector investment carries the same risks. What tends to make private sector investment preferred is that the threat of ruin makes investors careful. Public sector investment lacks a profit motive, and thus, it is even more difficult to get right. Second, this package, paradoxically, could end up acting as a drag on growth. It should be noted the spending is spread over eight years, but the tax increases hit immediately. It will take years for the benefits of the spending to be felt but paying for it will occur now. We can debate if this makes sense (actually, it doesn't), but this is the structure of the current bill.

- So, will it pass? [We have our doubts](#). The GOP would probably be on board for parts of the package and might even go along with a smaller increase in the corporate tax rate. We don't see any member of the opposition voting for the package as currently constructed. However, within the majority, there are deep divisions. The populist left has figured out the [second point above and wants even more spending](#). [Centrist Democrats are already balking at the tax hikes](#).
- Although we are poised for really strong GDP growth, this growth is coming from a place of [weakness for many parts and sectors of the U.S.](#) Thus, the ability of the economy to absorb fiscal spending may be unusually high. That isn't to say this situation is permanent, but at present, we are not all that concerned about overheating the economy.
- The administration has [suspended collections on defaulted student loans](#) of over 1.0 million borrowers as part of pandemic relief.
- [The EU and U.K. are locked in a fight over swaps clearing](#), a business that has been dominated by London for some time. We look for New York to offer to appease both sides.
- [South Korea is reporting a surge in ship orders](#), suggesting that international trade will likely rebound.
- Fortunately, the shipping snag in the Suez has been resolved; unfortunately, [those in Long Beach and Los Angeles remain](#). Pandemic-related capacity reduction and an increase in goods demand contributed to the backup.
- Supply constraints are also showing up in other industries. [Autos continue to be hampered by the lack of semiconductors](#). [Consumer staples prices](#) are poised to rise on increasing input costs. Even [cardboard boxes](#) are becoming scarce.

¹ Although a whole different story, this is why China's economy is such a "high wire act." China relies on investment to grow, and, as Michael Pettis has pointed out, it has probably reached the point where the true value of its investment is close to zero if not negative. In other words, high-speed rail to nowhere increases GDP at the time of the investment but should be written to zero upon completion to account for the waste.

- [Housing regulators are moving to reduce the availability of mortgages](#) for vacation and second homes. This area of residential real estate has been active but may be under threat due to these changes.

Archegos: So far, the good news is that the collapse of Archegos Capital has not been systemic. Although [a number of investment banks have suffered losses \(some more than others\)](#), it doesn't appear that anyone is in enough trouble to require a bailout. Still, the event highlighted the problems within the non-bank financial system ("shadow banking"), namely, leverage is widespread. [Servicing banks don't seem to have a good idea about the security of their collateral](#). It also showed how the financial services industry is extremely adept at creating products that (a) [allow for high levels of leverage to occur](#) and (b) [seem structured to avoid regulatory scrutiny](#). The event also shows that [regulators always seem to be chasing situations](#) and making new rules that would have protected the markets from what just happened but do little to affect future events. The [SEC is examining](#) what occurred with Archegos; reports suggest that the [family office space](#) may be riskier than generally perceived.

China: China's lending practices and messaging control dominate the headlines.

- A [new report](#) that investigates the terms and conditions of Chinese loans to emerging and frontier markets suggests that Beijing lends similar to a 19th century imperialist. [Terms include](#) confidentiality clauses and measures that exclude China's loans from global resolution bodies, such as the Paris Club. Our position is that the belt and road project is a modern version of 19th century imperialism, a natural progression given China's excess capacity. Essentially, China can no longer rely on the wider world to buy its exports, and thus, is creating colonies through debt and investment to force smaller, less-developed nations to be a conduit for its excess production.
- China is increasing pressure on foreign correspondents who publish reports that Beijing doesn't like. A [British](#) and an [Irish](#) journalist have left the country, citing excessive pressure. Increasingly, Beijing is controlling the message and is intolerant to positions that stray from the CPC's line.
- The U.S. and Taiwan have announced a cooperative agreement among their respective coast guards. [Beijing isn't pleased](#). Adding to the pressure, [Taiwan is purchasing Patriot missile systems](#).
- [Huawei \(002502, CNY, 2.94\) reported falling revenue in Q4](#), as U.S. sanctions weigh on the company. In a surprising development, Ericsson (ERIC, USD, 13.19), who generally benefits from sanctions on Huawei, has been lobbying against sanctions on the Chinese company. As sanctions hit Huawei, China has been threatening Ericsson's business in China and has also expanded to other Swedish businesses that operate in China. This situation highlights the difficulty of sanctioning China; unlike the Soviet Union, China is a major international economic force and has multiple ways to not only evade sanctions but retaliate.
- We are noting a [steady number of articles quoting U.S. officials](#) expressing concern that China is considering an invasion of Taiwan. This is a topic we will be investigating in the coming weeks.

International news: The Taliban is winning; the U.S. restricts trade with Myanmar, and the EU takes aim at Poland.

- As the conflict in Afghanistan winds down, [it looks like the Taliban is poised to return to power](#). The lesson learned in conflicts with superpowers is that the cost/benefits eventually tilt towards withdrawal, especially if the country in conflict isn't a key security risk to the superpower. The Taliban simply waited the U.S. out. In some respects, it's amazing the U.S. stayed as long as it did, but in the end, Afghanistan just isn't a big enough problem to maintain the conflict.
- In light of the [continued problems in Myanmar](#), the [USTR announced that the U.S. was suspending trade engagement with the country](#). It isn't clear if this action will sway the generals (given China's deep involvement, it's doubtful), but the U.S. action may allow other nations to also restrict trade until the situation is resolved.
- The [European Commission](#) has referred [Poland to the ECJ](#) to investigate the independence of the Polish judiciary. The right-wing populist (RWP) government in Poland has taken [steps to reduce the power and independence of its judiciary](#). This has been a sticking point for the EU for some time. It appears that the EU is formally moving to deal with this issue. As the EU moves against the RWP in Poland, we note that [Hungarian PM Orban is trying to build an EU coalition](#) of like-minded political movements.
- Russia has seen a series of intelligence gaffes as its spies in [Italy](#), the [Netherlands](#), and [Bulgaria](#) have been outed gathering data on NATO and the EU. It is unclear why counterintelligence across Europe is suddenly uncovering these actions by Russia. It could be that they have become so widespread that they are hard to not find. Or, another possibility is that Russian intelligence has a mole, and that person has revealed sources. The fact that they are all now being captured may mean that the mole has moved on.
- [Alexei Navalny has announced a hunger strike](#) to protest his lack of medical treatment.
- Ireland's PM is calling on the EU and U.K. to "[reset](#)" relations as tensions in Northern Ireland increase.
- There was an [attempted coup in Niger](#) in an apparent effort to prevent the swearing-in of Mohamed Bazoum, the president-elect, tomorrow. The outgoing president, who lost in a disputed vote, may be behind the coup attempt. Niger is the [world's sixth-largest miner](#) of uranium.
- [Canada is moving to aggressively attract immigrants](#). Although increasing immigration is unpopular with many Western nations, Canada remains sparsely populated², and immigration may be the only way to [significantly boost population growth](#).
- It's not easy being green; Green parties across Europe are popular but have [a hard time turning environmental concerns into political power](#). This is a problem with single-issue parties. Other parties can easily co-opt the message.

Technology: We don't trust or particularly like tech firms.

² [Canada has 10 people per mi² compared to the U.S. at 87 per mi².](#)

- [Recent surveys show a drop in trust held in technology firms](#). Data collected by Edelman shows that trust in tech firms fell globally but plummeted in the U.S. The rising lack of trust will tend to increase the odds of higher regulation. In a related issue, [taking tech money in Washington is becoming toxic](#).
- In cyberwar, the U.S. has tended to mostly “play offense,” focusing on attacking rather than defending. A rash of hacks has shown the weakness of that position. [The government agency tasked with protecting America is underfunded and understaffed](#), raising fears of continued vulnerability.

COVID-19: The [number of reported cases](#) is 129,032,284 with 2,818,245 fatalities. In the U.S., there are 30,461,312 confirmed cases with 552,073 deaths. For illustration purposes, the *FT* has created an [interactive chart](#) that allows one to compare cases across nations using similar scaling metrics. The *FT* has also issued an [economic tracker](#) that looks across countries with high-frequency data on various factors. The [CDC reports](#) that 195,581,725 doses of the vaccine have been distributed with 150,273,725 doses injected. The number receiving at least one dose is 97,593,290, while the number of second doses, which would grant the highest level of immunity, is 54,607,041. The *FT* has a page on [global vaccine distribution](#). The [Axios map](#) shows that infections are starting to increase again [despite accelerating vaccinations](#).

Virology

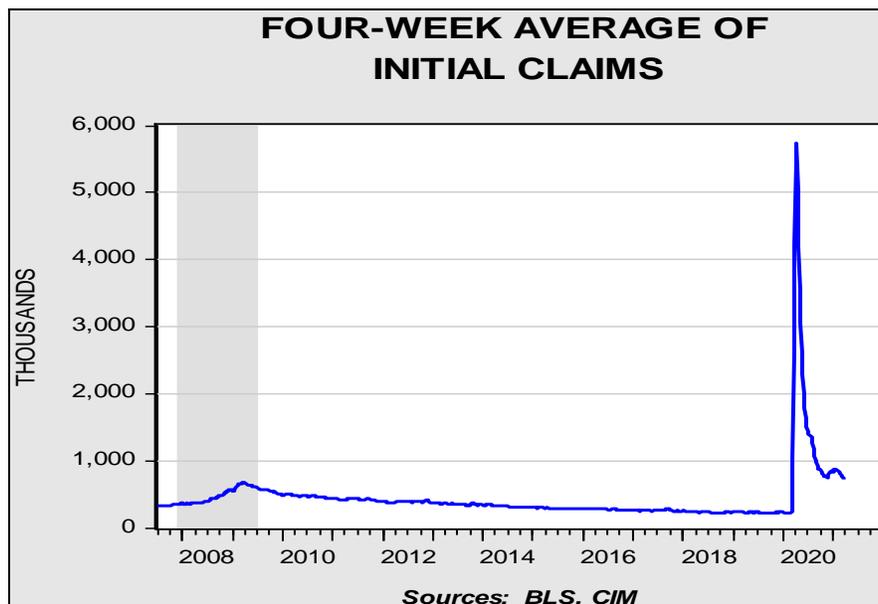
- Although the focus remains on vaccines, it is highly likely that COVID-19 [will remain endemic after the pandemic ends](#). That means it will continue to circulate and have the potential for outbreaks. Widespread vaccination will tend to reduce the impact on the medical system (we would expect that fewer hospitalizations will result), but the nature of the virus means that mutations will emerge, and vaccines won’t offer persistent sterilizing immunity. That is why antiviral treatments will continue to be important. Recently, [a cocktail of various treatments was tested and showed some promise](#) in reducing the effects of the virus.
- The next debate will likely be over vaccine “passports.” So far, the U.S. has no digital or central repository monitoring who has been vaccinated. The [card one receives when vaccinated](#) is the only record a person will have to show they have received the shot. It is not hard to imagine that industries with high levels of close contact—airlines, casinos, [sports arenas](#), cruise ships—will want their patrons to be vaccinated to prevent outbreaks. However, this desire will run [into vaccine hesitancy](#). Already, [there are calls to outlaw vaccine passports](#). This situation could be complicated by the insurance industry; it would not be a stretch to see insurance companies insisting that the aforementioned industries require passports for protection against lawsuits resulting from outbreaks.
- Some vaccine “good news”—[mothers who are vaccinated and become pregnant](#) give protection to their offspring. Pfizer (PFE, USD, 36.25) is testing a [freeze-dried version](#) of the vaccine that would reduce the costs of storage and handling. The freeze-dried version would only require refrigeration and not the super-cold temperatures of the current vaccine. The company also announced its vaccine could [protect for at least six months](#). Another study shows it to be very [effective in adolescents](#).

- Russia claims it has developed a [veterinary version of a COVID-19 vaccine](#).
- Some unfortunate vaccine news—Johnson & Johnson (JNJ, USD, 164.35) had [15 million doses ruined](#) due to a manufacturing error.
- The [EU announced it would not send any more vaccines to the U.K.](#) until its quotas are met.
- [France announced new lockdowns](#).
- In the wake of the WHO study on the origins of COVID-19, [the U.S. and others are calling for a new, independent study](#). We doubt China will cooperate; in fact, [Beijing is calling for investigations of other countries](#) to see if the virus originated there.
- [India has halted vaccine exports](#) in a bid to build domestic supplies.

U.S. Economic Releases

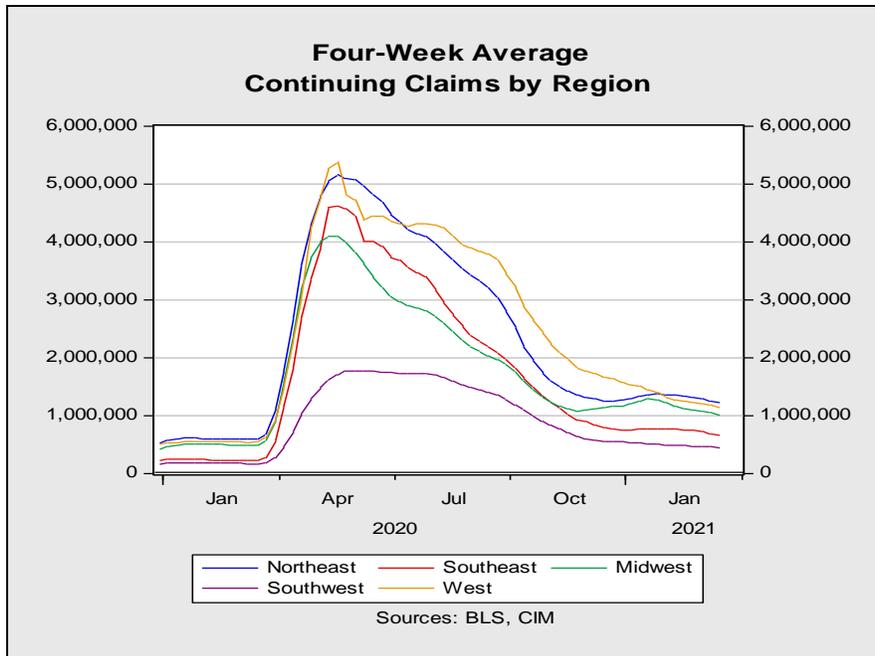
The number of job cuts announced declined from the previous year. The Challenger Job Cuts Report showed an 86.9% decline in job cuts.

Initial claims unexpectedly rose during the week ending March 27, suggesting that some employers may still be struggling to manage their payrolls during the pandemic. Initial claims came in at 719K compared to expectations of 675K. The previous report was revised downward from 684K to 650K.



The chart above shows the four-week moving average of initial claims. The four-week moving average rose from 651.0K to 714.5K.

Despite the uptick in initial claims, continuing claims sustained the trend downward for the week ending March 20. Continuing claims came in at 3.794MM, below the previous report of 3.84MM, but above expectations of 3.750MM. The prior report was revised downward from 3.870MM to 3.840MM.



The chart above shows the four-week moving average for regional continuing claims.

The table below lists the domestic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EDT	Indicator			Expected	Prior	Rating
9:45	Langer Consumer Comfort	w/w	28-Mar		49.1	***
10:00	Markit US Manufacturing PMI	m/m	Mar	59.2	59	***
10:00	Construction Spending MoM	m/m	Feb	-1.0%	1.7%	**
10:00	ISM Manufacturing	m/m	Mar	61.5	60.8	***
10:00	ISM Prices Paid	m/m	Mar	83.5	86	**
10:00	ISM New Orders	m/m	Mar		64.8	**
10:00	ISM Employment	m/m	Mar		54.4	**
	Wards Total Vehicle Sales	m/m	Mar	16.40m	15.67m	**
Fed Speakers or Events						
EST	Speaker or event	District or position				
13:00	Patrick Harker Discusses Community Bank and Fintech	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
ASIA-PACIFIC								
China	Non-manufacturing PMI	m/m	Mar	56.3	51.4	52.0	**	Equity bullish, bond bearish
Japan	Tankan Large Mfg Index	q/q	1Q	5	-10	-1	**	Equity bullish, bond bearish
	Tankan Large Non-Mfg Index	q/q	1Q	-1	-5	-4	**	Equity and bond neutral
	Tankan Large Mfg Outlook	q/q	1Q	4	-8	4	**	Equity and bond neutral
	Tankan Large Non-Mfg Outlook	q/q	1Q	-1	-6	-1	**	Equity and bond neutral
	Tankan Large All Industry Capex	q/q	1Q	3.0%	-1.2%	-1.4%	**	Equity bullish, bond bearish
	Jibun Bank Japan PMI Mfg	m/m	Mar	52.7	52.0		**	Equity bullish, bond bearish
India	BoP Current Account Balance	q/q	4Q	-\$1.70b	\$15.53b	-\$2.35b	**	Equity and bond neutral
	Eight Infrastructure Industries	m/m	Feb	-4.6%	0.1%		**	Equity and bond neutral
	Fiscal Deficit INR Crore	m/m	Feb	171543	75535		**	Equity and bond neutral
New Zealand	CoreLogic House Prices	y/y	Mar	16.1%	14.5%		**	Equity and bond neutral
	ANZ Consumer Confidence Index	m/m	Mar	110.8	113.1		**	Equity and bond neutral
Australia	AiG Perf of Mfg Index	m/m	Mar	59.9	58.8		**	Equity and bond neutral
	Retail Sales	m/m	Feb	-0.8%	-1.1%	-1.1%	**	Equity and bond neutral
	Trade Balance	m/m	Feb	A\$7529m	A\$10142m	A\$9872m	**	Equity and bond neutral
	Job vacancies	m/m	Feb	14%	23%		**	Equity and bond neutral
EUROPE								
Eurozone	Markit Eurozone Manufacturing PMI	m/m	Mar	62.5	62.4	62.4	***	Equity and bond neutral
France	Markit France Manufacturing PMI	m/m	Mar	59.3	58.8	58.8	***	Equity bullish, bond bearish
	Retail Sales	m/m	Feb	1.2%	-4.5%	2.0%	***	Equity and bond neutral
Germany	Markit/BME Germany Manufacturing PMI	m/m	Mar	66.6	66.6	66.6	***	Equity and bond neutral
Italy	Markit Italy Manufacturing PMI	m/m	Mar	59.8	56.9	59.8	***	Equity and bond neutral
UK	Markit UK PMI Manufacturing SA	m/m	Mar	58.9	57.9	57.9	**	Equity bullish, bond bearish
Switzerland	CPI	y/y	Mar	-0.2%	-0.5%	-0.3%	**	Equity and bond neutral
	CPI EU Harmonized	y/y	Mar	-0.2%	-0.4%		***	Equity and bond neutral
	CPI Core	y/y	Mar	-0.4%	-0.3%	-0.2%	***	Equity and bond neutral
	PMI Manufacturing	m/m	Mar	66.3	61.3	64.5	***	Equity bullish, bond bearish
Russia	Markit Russia PMI Mfg	m/m	Mar	51.1	51.5	51.4	***	Equity and bond neutral
AMERICAS								
Brazil	National Unemployment Rate	m/m	Jan	14.2%	13.9%	14.1%	**	Equity and bond neutral
	Primary Budget Balance	m/m	Feb	-11.8b	58.4b	-20.0b	**	Equity and bond neutral
	Nominal Budget Balance	m/m	Feb	-41.0b	17.9b	-43.3b	**	Equity and bond neutral
	Net Debt % GDP	m/m	Feb	61.6%	61.6%	61.8%	**	Equity and bond neutral
Canada	Industrial Product Price	m/m	Feb	2.6%	2.0%	2.5%	***	Equity and bond neutral
	GDP	m/m	Jan	0.7%	0.1%	0.5%	**	Equity bullish, bond bearish
	Raw Materials Price Index	m/m	Feb	6.6%	5.7%		**	Equity and bond neutral
Mexico	Net Outstanding Loans	m/m	Feb	4596b	4590b		**	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.

	Today	Prior	Change	Trend
3-mo Libor yield (bps)	20	20	0	Up
3-mo T-bill yield (bps)	1	2	-1	Neutral
TED spread (bps)	19	19	0	Up
U.S. Libor/OIS spread (bps)	7	7	0	Up
10-yr T-note (%)	1.72	1.74	-0.02	Neutral
Euribor/OIS spread (bps)	-54	-54	0	Neutral
EUR/USD 3-mo swap (bps)	3	4	-1	Down
Currencies				
dollar	Down			Down
euro	Flat			Up
yen	Down			Up
pound	Down			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.

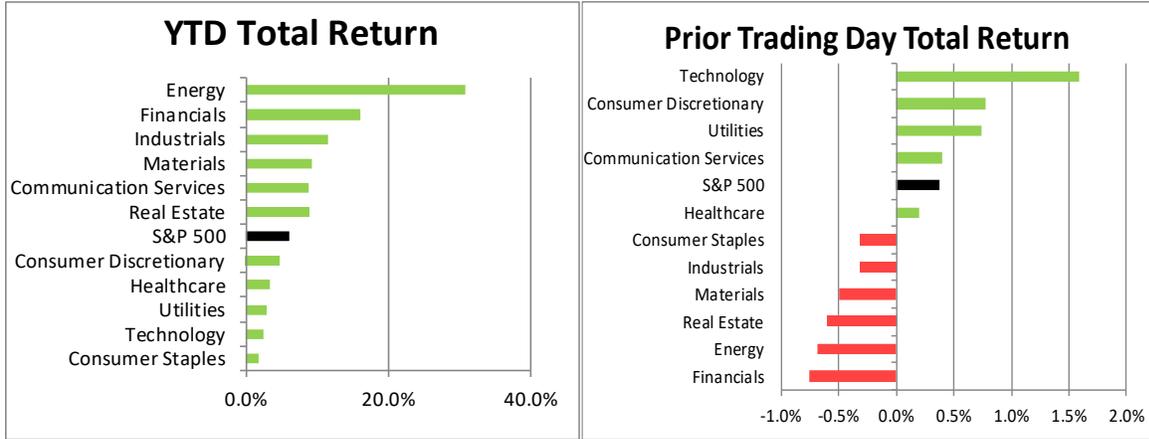
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$63.95	\$62.74	1.93%	Economic Optimism
WTI	\$60.40	\$59.16	2.10%	
Natural Gas	\$2.61	\$2.61	0.08%	
Crack Spread	\$20.69	\$20.44	1.23%	
12-mo strip crack	\$18.36	\$18.17	1.05%	
Ethanol rack	\$2.03	\$2.01	1.28%	
Metals				
Gold	\$1,714.92	\$1,707.71	0.42%	
Silver	\$24.38	\$24.42	-0.16%	
Copper contract	\$396.45	\$399.55	-0.78%	
Grains				
Corn contract	\$574.75	\$564.25	1.86%	
Wheat contract	\$614.75	\$618.00	-0.53%	
Soybeans contract	\$1,436.25	\$1,436.75	-0.03%	
Shipping				
Baltic Dry Freight	2046	2103	-57	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)	-0.9	-1.7	0.8	
Gasoline (mb)	-1.7	0.7	-2.4	
Distillates (mb)	2.5	0.5	2.0	
Refinery run rates (%)	2.30%	1.50%	0.80%	

Weather

The 6-10 and 8-14 day forecasts currently call for warmer than normal temperatures for most of the country, with cooler temps on the West coast. The forecast calls for wetter than normal conditions in the Southeast region with dry conditions expected everywhere else.

Data Section

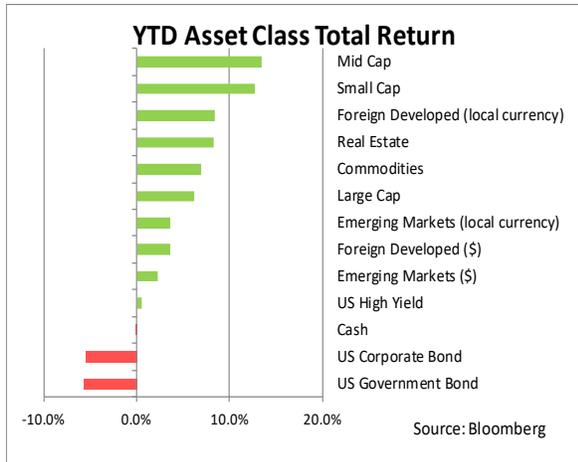
U.S. Equity Markets – (as of 3/31/2021 close)



(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 3/31/2021 close)

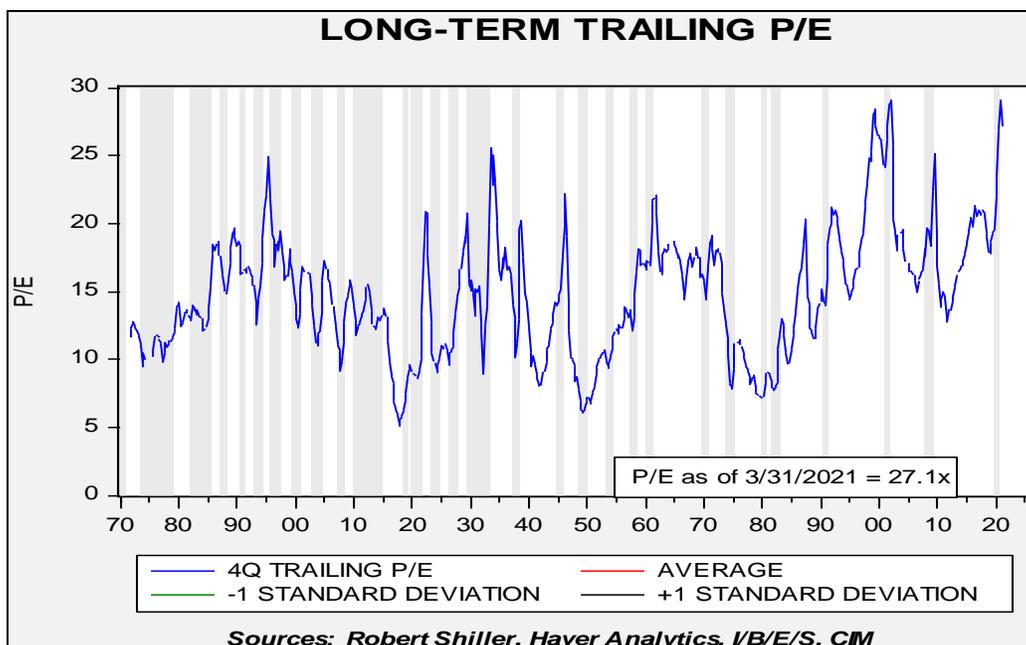


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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).

P/E Update

April 1, 2021



Based on our methodology,³ the current P/E is 27.1x, up 0.1x from last week.

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.

³ 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 I/B/E/S 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.