

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 5, 2021—9:30 AM EDT] Global equity markets are higher this morning. The EuroStoxx 50 is currently up 0.7% from its prior close. In Asia, the MSCI Asia Apex 50 closed up 0.1%. Chinese markets were higher, with the Shanghai Composite up 0.5% from its prior close and the Shenzhen Composite up 0.9%. 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. There is a new [Weekly Energy Update](#). You can find all this research and more on our [website](#).

Good morning and happy Monday! The S&P 500 moved above 4,000 last week, and equity futures are [moving further higher this morning](#). Some of the upward pressure is coming from Friday's employment data, which we recap in today's comment. BTW, the [IMF meeting is on the docket this week](#). Our coverage begins with Jordan; it appears there was a coup plot underway that was apparently thwarted. Economics and policy follow, with an update of the pandemic next. We close an international news roundup.

Jordan: At least [20 people have been arrested](#) in what appears to be a [conspiracy to overthrow the government of King Abdullah II, king of Jordan](#). The half-brother of the king and former crown prince, [Prince Hamzah bin Hussein](#), was included in those arrested. He is reportedly under house arrest. Their father, the late King Hussein, had four wives and 11 children, meaning that there are numerous family members with royal lineage but no path to power. Prince Hamzah bin Hussein has emerged as a prominent critic of the king, accusing the government of corruption and incompetence. He has developed a strong online following for his comments. He has also fostered strong ties to tribal leaders in Jordan who have considerable informal power. The king has [accused the prince of involvement in the coup](#); the prince is arguing that his [arrest is an attempt to silence his criticism](#). In addition to the prince, there [were several high-ranking](#), and former high-ranking, officials and members of the royal family arrested. The government has suggested "[foreign involvement](#)" in the plot, although it is unclear who that foreign power is exactly. Interestingly enough, most of the nations in the region responded with supporting King Abdullah, suggesting the foreign power may be outside the region. Jordan is a small country with a small economy, but it is a source of stability for the region. The country has an accord with Israel and has mostly been a neutral party in the region's numerous

conflicts. It has housed refugees from the Syrian civil war. Instability in Jordan would unsettle the region, and thus, we would expect a rush of economic support for the king.

Economics and policy: Housing and the infrastructure bill lead the news.

- Strong demand and low supply are rapidly lifting home prices, creating the [strongest conditions](#) since the housing bubble. The demand part is being driven, to some extent, by the Millennial generation moving into their home-buying years. The supply problem is caused mostly by two issues. First, boomers are hanging on to their homes longer. The pandemic has stalled the usual generational shift to downsizing. Second, homebuilding is just now reaching normal levels in the wake of the housing collapse in 2006.



The drop in building from 2009 until recently means there is a dearth of supply.

- Although such strong conditions naturally raise concerns about a repeat of the housing bubble, so far, [lenders are maintaining strong lending standards](#). By avoiding weaker credits, the likelihood of a replay of the “naughts” is low.
- Unfortunately, the combination of high prices and tight lending standards are pricing out less affluent buyers. This situation may lead them into home renting, and [residential real estate has captured the attention of the capital markets](#).
- There are reports of [rising delinquencies on subprime auto loans](#). We will be watching to see if the aid payments address this issue.
- The White House’s infrastructure package is facing criticism from various parts of the political spectrum. We are watching [centrist Democrat opposition to corporate tax hikes](#). It would not be a surprise to see a tax rate compromise coupled with a lift in the gasoline tax.
 - One of the criticisms of raising the corporate tax rate, along with other proposed measures, is that it would make U.S. corporate taxes among the world’s highest

again. A way to resolve this issue would be to moderate the rate hikes or the other taxing provisions. Another way would be to encourage other nations to raise their corporate taxes as well. It appears [Treasury Secretary Yellen is quietly pushing the second option](#).

- As we have noted for some time, the affiliations of the political parties are in flux. Capital owners have traditionally been Republicans, although the Democrats made inroads into the group in the 1990s. Now, as the GOP adopts a more blue-collar appeal, [corporate interests are finding they are less influential in the party](#).

COVID-19: The [number of reported cases](#) is 131,401,449 with 2,854,727 fatalities. In the U.S., there are 30,706,531 confirmed cases with 555,001 deaths. Both [cases and fatalities in the U.S.](#) are declining. 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 207,891,295 doses of the vaccine have been distributed with 165,053,746 doses injected. The number receiving at least one dose is 106,214,924, while the number of second doses, which would grant the highest level of immunity, is 61,416,536. [Around 3 million Americans are being vaccinated daily](#). The *FT* has a page on [global vaccine distribution](#).

Virology

- The COVID passport issue isn't just an American one. [PM Johnson is also facing criticism](#) on this issue, but it isn't [stopping a pilot project](#). Israel has created a "Green Pass," a document designed to carry on a smartphone. It has become the document that allows its holder to participate in mass events, e.g., concerts, sporting events, religious gatherings, etc. Although political resistance to such passports remains strong, meaning it is unlikely that governments will force their adoption, we think it is highly likely that the private sector will insist, meaning that for practical purposes, the vaccination card in the U.S. will become the *de facto* passport.
- Meanwhile, in Europe, [a third wave of infections is underway](#). New variants and the lack of vaccination progress are leading to lockdowns and another downturn in economic activity.
- In vaccine news:
 - There are additional reports of blood clotting being tied to the AstraZeneca (AZN, USD, 49.53) vaccine; [these reports are coming from the U.K.](#)
 - A study of the Pfizer (PFE, USD, 36.30) vaccine shows it to be effective against the South African variant.
- [The pandemic has fueled a teacher shortage](#). The pandemic led to early retirements and a decline in the population of substitute teachers. There are rising concerns about the [future impact of those students affected by the past year](#).

China and international news: A roundup.

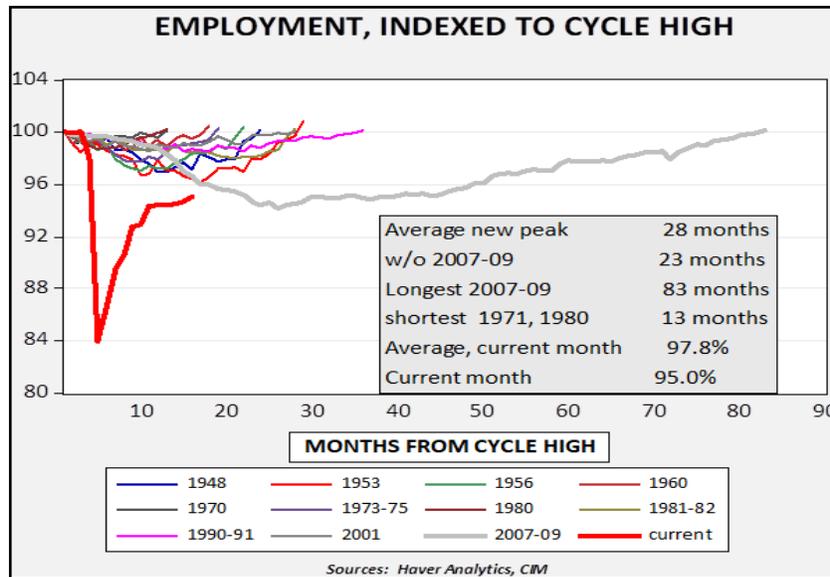
- For the past decade, we have seen China move through a cycle of credit restrictions, a consequent drop in growth, and a resurgence in borrowing to offset the slower growth. [We are moving into another credit crunch cycle](#). China has a serious debt problem, but it

can't really address the debt issue without accepting slower growth. Since it hasn't been able to accept slower growth, the debt issue continues.

- [Western multinationals are facing a dilemma](#); to maintain their business in China, they must adhere to Beijing's protocols. However, by doing so, they run afoul of Western mores and restrictions. Companies will likely try to avoid the limelight so as to continue current operations, but eventually, they will be forced to choose.
- The U.S. is scheduled to pull its remaining troops from Afghanistan on May 1. [American negotiators are trying to create conditions that will allow that withdrawal to occur](#).
- [The U.S. and other signatories to the Iran nuclear deal](#) are set to meet next week to discuss two goals. First, the Europeans want the U.S. to remove Trump-era sanctions, and second, Iran must roll back its nuclear activities to bring it back into compliance. American negotiators won't be in the formal talks but will be in the background. We doubt much will come of this. Iran has little reason to trust that the U.S. will continue to maintain the arrangement, and the political cost of easing sanctions for the White House will be high.
- Cuba has been seeing a rise in political dissent. The latest is a [hunger strike](#) where dissidents have been using this method to protest the government's actions.

U.S. Economic Releases

In a key report issued Friday, March nonfarm payrolls rose by a seasonally adjusted 916,000, handily beating both the expected increase of 675,000 and the upwardly revised February gain of 468,000. Despite the increase in March, the number of filled nonfarm jobs in the U.S. is still down approximately 8.4MM from the cycle peak more than a year ago. On a more positive note, however, employment, as measured by the household survey, has now reached 95.0% of its level at the last peak, only slightly below the average of 97.8% at this point in previous cycles (see chart below).



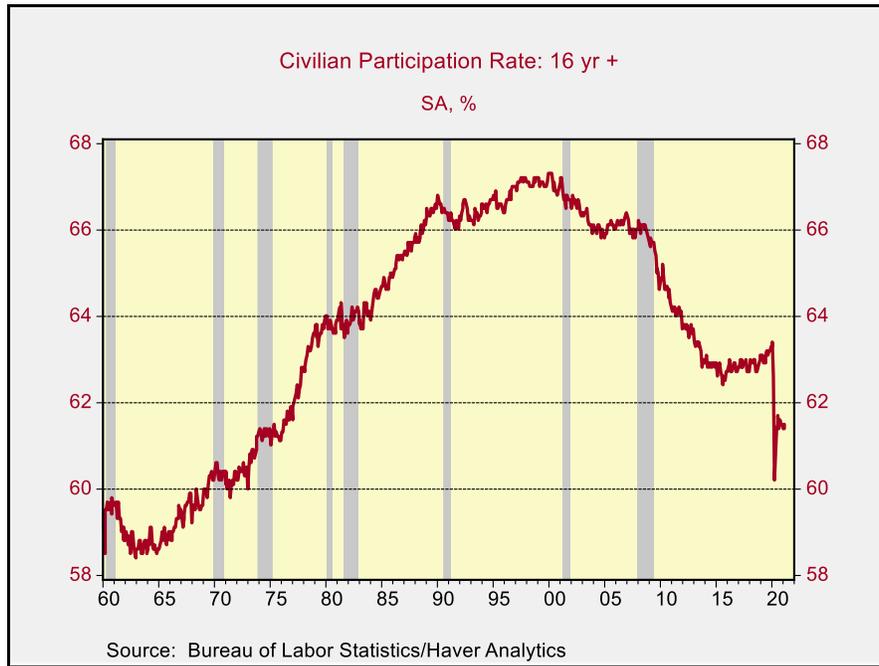
The report also showed that the March unemployment rate fell to 6.0%, coming in lower than both the expected rate and the February figure of 6.2%. For comparison, the rate of joblessness had stood at just 3.5% in February 2020 before spiking to 14.8% in April. The chart below shows the trajectory of the U.S. unemployment rate since right before the prior recession.



The employment report also showed average hourly earnings in March edged down to \$29.96. In all probability, that merely reflected strong hiring among relatively lower-paid workers in the service sector. Average hourly earnings were still up 4.2% from the same month one year earlier. The chart below shows the year-over-year change in average hourly earnings since just before the previous recession.



Finally, the employment report showed a slight uptick in the share of adult, noninstitutionalized civilians who were either working or looking for work. The “labor force participation rate” increased to 61.5% from 61.4% in each of the previous two months and a cycle low of 60.2% last April. However, as shown in the chart below, that’s still well below the previous cycle peak of 63.4% at the beginning of 2020. Since many older employees who had kept working in the strong, pre-pandemic labor force may now have decided to finally retire, it’s not entirely clear when or if the participation rate will rebound all the way back to its previous level.



The table below lists the domestic data releases scheduled for the rest of today.

Economic Releases						
EDT	Indicator			Expected	Prior	Rating
9:45	Markit US Services PMI	m/m	Mar	60.2	60.0	***
9:45	Markit US Composite PMI	m/m	Mar		59.1	**
10:00	ISM Services Index	m/m	Mar	59	55.3	***
10:00	Factory Orders	m/m	Feb	-0.5%	2.6%	**
10:00	Factory Orders Ex Trans	m/m	Feb	-1.1%	1.7%	**
10:00	Durable Goods Orders	m/m	Feb	-1.1%	-1.1%	**
10:00	Durables Ex Transportation	m/m	Feb	-0.9%	-0.9%	**
10:00	Cap Goods Orders Nondef Ex Air	m/m	Feb		-0.8%	**
10:00	Cap Goods Ship Nondef Ex Air	m/m	Feb		-1.0%	**
Fed Speakers or Events						
No speakers or events scheduled						

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 Japan PMI Services	m/m	Mar	48.3	46.5		**	Equity bullish, bond bearish
	Jibun Bank Japan PMI Composite	m/m	Mar	49.9	48.3		**	Equity bullish, bond bearish
India	Markit India PMI Mfg	m/m	Mar	55.4	57.5		**	Equity and bond neutral
Australia	Melbourne Institute Inflation	m/m	Mar	0.4%	0.1%		**	Equity and bond neutral
EUROPE								
Russia	Markit Russia PMI Services	m/m	Mar	55.8	52.2	53.1	**	Equity bullish, bond bearish
	Markit Russia PMI Composite	m/m	Mar	54.6	52.6		**	Equity bullish, bond bearish
AMERICAS								
Brazil	FIPE CPI - Monthly	m/m	Mar	0.7%	0.2%	0.8%	**	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.

	Today	Prior	Change	Trend
3-mo Libor yield (bps)	20	19	1	Up
3-mo T-bill yield (bps)	2	2	0	Neutral
TED spread (bps)	18	18	0	Up
U.S. Libor/OIS spread (bps)	7	7	0	Up
10-yr T-note (%)	1.72	1.72	0.00	Neutral
Euribor/OIS spread (bps)	-54	-54	0	Neutral
EUR/USD 3-mo swap (bps)	3	2	1	Down
Currencies				
dollar	Flat			Down
euro	Down			Up
yen	Up			Up
pound	Up			Up
franc	Flat			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.

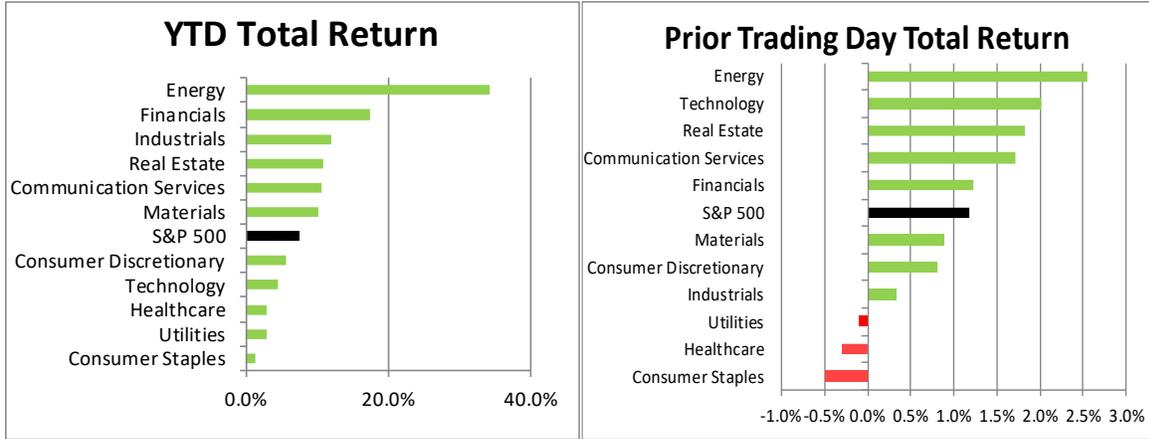
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$63.65	\$64.86	-1.87%	
WTI	\$60.35	\$61.45	-1.79%	
Natural Gas	\$2.58	\$2.64	-2.39%	
Crack Spread	\$20.28	\$20.79	-2.48%	
12-mo strip crack	\$17.70	\$18.31	-3.35%	
Ethanol rack	\$2.05	\$2.05	0.04%	
Metals				
Gold	\$1,723.94	\$1,728.87	-0.29%	
Silver	\$24.79	\$25.01	-0.88%	
Copper contract	\$409.55	\$399.05	2.63%	
Grains				
Corn contract	\$560.00	\$559.75	0.04%	
Wheat contract	\$614.75	\$611.00	0.61%	
Soybeans contract	\$1,415.50	\$1,402.00	0.96%	
Shipping				
Baltic Dry Freight	2072	2046	26	

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 Great Plains region with dry conditions expected everywhere else.

Data Section

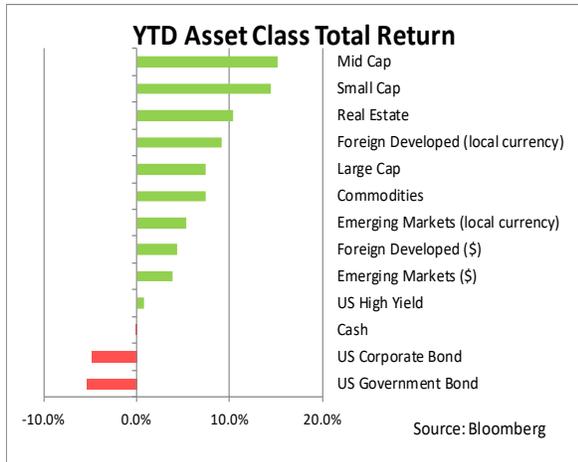
U.S. Equity Markets – (as of 4/1/2021 close)



(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 4/1/2021 close)

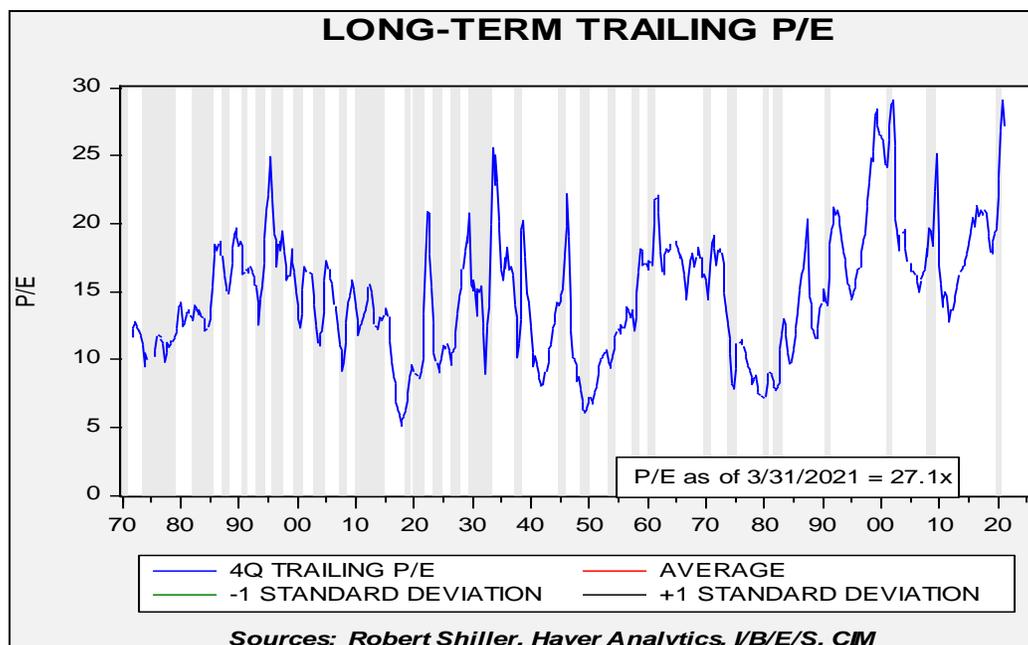


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,¹ 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.

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 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.