

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 6, 2021—9:30 AM EDT]** Global equity markets are mixed this morning. The EuroStoxx 50 is currently up 0.8% from its prior close. In Asia, the MSCI Asia Apex 50 closed up 0.5%. Chinese markets were mixed, with the Shanghai Composite relatively unchanged from its prior close and the Shenzhen Composite up 0.2%. U.S. equity index futures are signaling a lower 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](#).

In today's *Comment*, we open with new developments that suggest Democrats in Congress could have more options to push through their economic and tax agendas than previously thought. Increased fiscal stimulus, rapidly expanding vaccinations, and economic reopening continue to buoy risk markets, as we saw with yesterday's record highs, even with the risk of higher taxes and coronavirus mutations that could slow progress against the disease. We also discuss key news from overseas and the latest on the pandemic itself, including the International Monetary Fund's latest projection of how fast the global economy will recover from the crisis.

**U.S. Fiscal Policy:** The Senate's nonpartisan parliamentarian [ruled in favor of a Democratic effort to pass additional legislation through the process of reconciliation](#), which only requires 50 votes to pass a bill, rather than the 60 needed to overcome a filibuster. The ruling turns on the idea that any time a fiscal year budget resolution is amended, it can be passed via reconciliation. That opens the door for Democrats to approve more fiscal measures along party lines in the Senate this year.

- Meanwhile, several Senate Democrats [offered proposals on how U.S. companies should be taxed on foreign income and export income and how foreign companies should be taxed on U.S. income](#). In some respects, the proposals are more friendly to companies than the plan released by President Biden, but it also leaves some important details for later debate. Officials in the Biden administration [have signaled they are open to a deal](#) regarding taxes to pay for the president's infrastructure and other plans.

- To create further space for raising revenues, Treasury Secretary Yellen [formally proposed a global minimum tax rate on corporations](#). The idea is to prevent a race to the bottom on tax rates as different countries try to lure new business.

**U.S. Antitrust and Technology Law:** Trade groups representing small hardware stores, office suppliers, booksellers, grocers, and others, along with business groups from 12 cities, [are forming a coalition to lobby Congress for stricter antitrust laws](#), including measures that could force Amazon (AMZN, USD, 3,226.73) to spin off some of its business lines. The move highlights the growing regulatory risks facing high-flying technology companies.

**United States-China-Japan:** In a sign that the Japanese government is willing to help the U.S. pressure China over its human rights record and other transgressions, Japanese Foreign Minister Motegi [used a 90-minute phone call with Chinese Foreign Minister Wang to press for improved treatment of ethnic Uyghurs in Xinjiang](#). In a statement after the call, the Chinese government warned Japan not to interfere in its internal affairs or be influenced by countries that are “prejudiced against China.”

**India-Pakistan:** In back-channel negotiations launched in January and facilitated by the United Arab Emirates, Indian and Pakistani military leaders [are preparing the ground for peace talks](#) between the two countries’ prime ministers. Although peace deals have been discussed between the two nuclear powers in the past, they have faltered. If the new negotiations lead to a lasting deal, it could have major implications for the geopolitics of South Asia. For example, not only would a peace deal promote trade ties between India and Pakistan, but it could reduce India’s incentives to work with the U.S. in its competition with China. Indeed, China may well have played a key role in nudging its ally Pakistan toward better ties with India.

**United States-Iran:** Diplomats from Iran, France, Germany, the U.K., Russia, and China [will meet in Vienna today to discuss reviving the 2015 deal limiting Iranian nuclear weapons](#), with the U.S. taking part indirectly from a separate location.

**Russia:** Jailed opposition leader Alexei Navalny, who said several other inmates in his quarters have come down with tuberculosis, [has himself been moved to a medical ward](#) after complaining of a cough and fever. Navalny had complained that he was not being afforded medical care by prison authorities, despite growing health issues. Now, the question arises as to whether the Putin government purposefully exposed him to tuberculosis, hoping he would contract it.

**Jordan:** The court of King Abdullah II announced that former crown prince Hamzah, accused of plotting with foreign countries against the government, [met with senior members of the royal family and pledged his loyalty](#). It’s not yet clear whether the kingdom has really nipped Hamzah’s opposition in the bud or whether it will have continuing issues with Hamzah’s accusations of corruption and incompetence.

**Central Bank Digital Currencies:** Today’s *Wall Street Journal* carries an informative review of China’s [effort to create an official digital currency](#). For more on the geopolitics of this trend around the world, see our ongoing *Weekly Geopolitical Report* series [here](#).

**COVID-19:** Official data show confirmed cases [have risen to 131,907,441 worldwide, with 2,862,885 deaths](#). In the United States, confirmed cases rose to 30,786,016, with 555,619 deaths. [Vaccine doses delivered in the U.S. now total 207,891,395, while the number of people who have received at least their first shot totals 107,515,428](#). Finally, here is the [interactive chart](#) from the *Financial Times* that allows you to compare cases and deaths among countries, scaled by population.

### *Virology*

- Newly confirmed U.S infections [rose to more than 78,000 yesterday](#), although some of the increase apparently reflected several states catching up after not reporting cases over the Easter weekend. More encouraging, the seven-day moving average of new infections, at 63,283, is now only slightly above the 14-day moving average of 63,260. New deaths related to the virus, 603 yesterday, remain much lower than at the beginning of the year. More than 32% of people in the country have received at least one dose of a vaccine, while almost 20% are fully vaccinated.
- President Biden today [will announce that all U.S. adults should be eligible for a coronavirus vaccine by April 19](#), speeding up a timeline he set last month. Biden had previously called for states and territories to make all adults eligible for a shot by May 1. The president will also say that the U.S. has surpassed 150 million shots since he took office.
- Moderna (MRNA, USD, 129.91) [has struck a deal for 80 million additional doses of its vaccine to be produced by contract drug manufacturer Catalent \(CTLT, USD, 105.75\)](#). The expansion will help Moderna reach its goal of supplying an additional 100 million doses to the U.S. by the end of May and another 100 million doses by the end of July, all of which would help ensure that the U.S. has ample vaccine supplies in the coming months.
- Even the U.S. Army is getting into the vaccine game, as it [begins small-scale testing](#) of a compound it developed at the Walter Reed Army Institute of Research in Maryland. Initial results of the study could become available by midsummer. If the data are positive, the Army likely will try to join with a drug company to further test and develop the vaccine.
- British Prime Minister Johnson said the U.K. [will begin to relax more public-health restrictions starting next week and remains on course to fully reopen its economy](#) by the summer, in contrast with the worsening picture elsewhere in Europe.
- Ground zero of the pandemic [shifted to India](#) on Monday, as it recorded more than 100,000 fresh cases for the first time, topping the daily totals everywhere else in the world. New infections in India are now even greater than in Brazil. The Indian government is therefore locking down neighborhoods and restricting travel again, even as it tries to ratchet up its vaccination program.
- North Korea [said it would not participate in the Tokyo Olympic Games this summer](#), citing concerns about the pandemic.

### *Economic and Financial Market Impacts*

- In its flagship [World Economic Outlook](#) publication, the IMF [boosted its forecast for global economic growth to 6.0% in 2021](#), up from 5.5% previously, as the overall recovery from the pandemic proceeds faster than expected. The organization also boosted its forecast for 2022 to 4.4% from 4.2% previously.
  - U.S. gross domestic product is projected to expand 6.4% this year and regain its pre-pandemic size after an estimated contraction of 3.5% last year. The IMF earlier projected 5.1% growth in 2021.
  - China’s economy is projected to expand 8.4% this year, up from an earlier forecast of 8.1%.
- In China, the government’s effort to get its people spending again got a boost over the three-day traditional tomb-sweeping holiday, with official and private data showing travel [back up to pre-coronavirus levels by some metrics](#).

### **U.S. Economic Releases**

There were no new releases prior to the publication of this report. The table below lists the domestic data releases and Fed events scheduled for the rest of today.

Economic Releases						
EDT	Indicator			Expected	Prior	Rating
10:00	JOLTS Job Openings	m/m	Feb	6900	6917	***
Fed Speakers or Events						
EST	Speaker or event	District or position				
14:30	Thomas Barkin Takes Part in Online Discussion	President of the Federal Reserve Bank of Richmond				

### **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>								
China	Caixin China PMI Composite	m/m	Mar	53.1	51.7		**	Equity and bond neutral
	Caixin China PMI Services	m/m	Mar	54.3	51.5	52.1	**	Equity bullish, bond bearish
Japan	Labor Cash Earnings	y/y	Feb	-0.2%	-0.8%	-0.6%	***	Equity and bond neutral
	Real Cash Earnings	y/y	Feb	0.2%	-0.1%	-0.1%	***	Equity bullish, bond bearish
	Household Spending	y/y	Feb	-6.6%	-6.1%	-5.0%	**	Equity and bond neutral
Australia	ANZ Job Advertisements	m/m	Mar	7.4%	7.2%		**	Equity and bond neutral
<b>EUROPE</b>								
Eurozone	Sentix Investor Confidence	m/m	Apr	13.1	5	6.7	***	Equity bullish, bond bearish
	Unemployment Rate	m/m	Feb	8.3%	8.1%	8.1%	***	Equity and bond neutral
Italy	Unemployment Rate	m/m	Feb	10.2%	9.0%	8.9%	***	Equity bullish, bond bearish
UK	New Car Registrations	y/y	Mar	11.5%	-35.5%		**	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	2-Apr	626.0b	630.0b		***	Equity and bond neutral
	Total Sight Deposits CHF	w/w	2-Apr	701.8b	702.7b		***	Equity and bond neutral
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
	Light Vehicle Car Sales	y/y	Mar	-5.7%	0.8%	-0.9%	**	Equity and bond neutral
<b>AMERICAS</b>								
Mexico	Remittances Total	m/m	Feb	\$3173.5m	\$3297.9m	\$3375.3m	**	Equity and bond neutral
	Markit Mexico PMI Mfg	m/m	Mar	45.6	44.2		**	Equity and bond neutral
	IMEF Manufacturing Index SA	m/m	Mar	50.7	49.1		**	Equity bullish, bond bearish
	IMEF Non-Manufacturing Index SA	m/m	Mar	52.8	49.4		**	Equity bullish, bond bearish
Canada	Bloomberg Nanos Confidence	w/w	2-Apr	64.1	63.7		***	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.

	Today	Prior	Change	Trend
3-mo Libor yield (bps)	20	19	1	Up
3-mo T-bill yield (bps)	0	1	-1	Neutral
TED spread (bps)	20	18	2	Up
U.S. Libor/OIS spread (bps)	7	7	0	Up
10-yr T-note (%)	1.70	1.70	0.00	Neutral
Euribor/OIS spread (bps)	-54	-54	0	Neutral
EUR/USD 3-mo swap (bps)	2	3	-1	Down
<b>Currencies</b>				
dollar	Up			Down
euro	Flat			Up
yen	Down			Up
pound	Down			Up
franc	Down			Up
<b>Central Bank Action</b>				
	Current	Prior	Expected	
RBA Cash Rate Target	0.100%	0.100%	0.100%	On forecast
RBA 3-Yr Yield Target	0.100%	0.100%	0.100%	On forecast
RBI Repurchase Rate		4.000%	4.000%	On forecast
RBI Reverse Repo Rate		3.350%	3.350%	On forecast
RBI Cash Reserve Ratio		3.500%	3.500%	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.

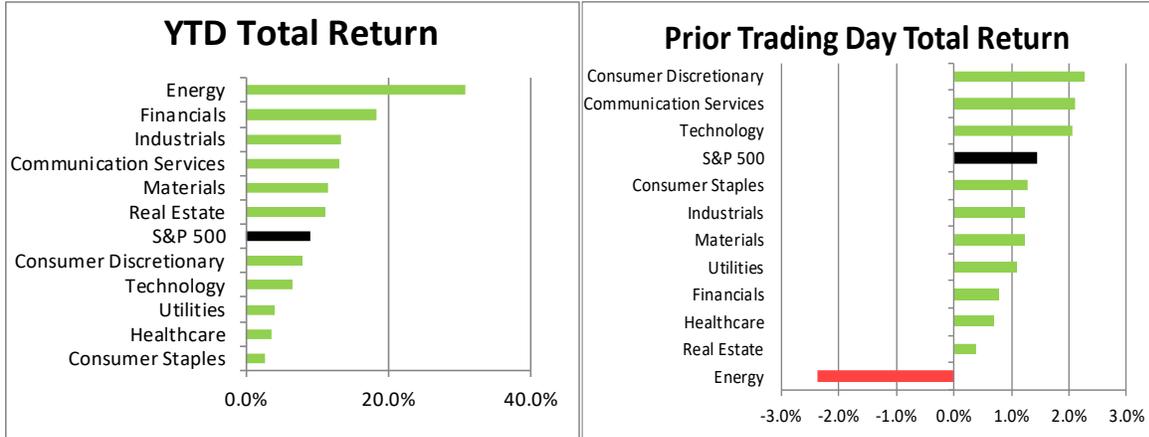
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$63.00	\$62.15	1.37%	Demand Optimism
WTI	\$59.52	\$58.65	1.48%	
Natural Gas	\$2.52	\$2.51	0.44%	
Crack Spread	\$21.30	\$21.20	0.44%	
12-mo strip crack	\$18.37	\$18.27	0.53%	
Ethanol rack	\$2.05	\$2.05	0.08%	
<b>Metals</b>				
Gold	\$1,734.10	\$1,728.27	0.34%	
Silver	\$24.98	\$24.88	0.42%	
Copper contract	\$411.90	\$413.75	-0.45%	
<b>Grains</b>				
Corn contract	\$555.25	\$553.25	0.36%	
Wheat contract	\$619.75	\$618.00	0.28%	
Soybeans contract	\$1,418.25	\$1,412.75	0.39%	
<b>Shipping</b>				
Baltic Dry Freight	2072	2046	26	
<b>DOE inventory report</b>				
	<b>Actual</b>	<b>Expected</b>	<b>Difference</b>	
Crude (mb)		-2.0		
Gasoline (mb)		0.2		
Distillates (mb)		1.0		
Refinery run rates (%)		0.75%		

## 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**

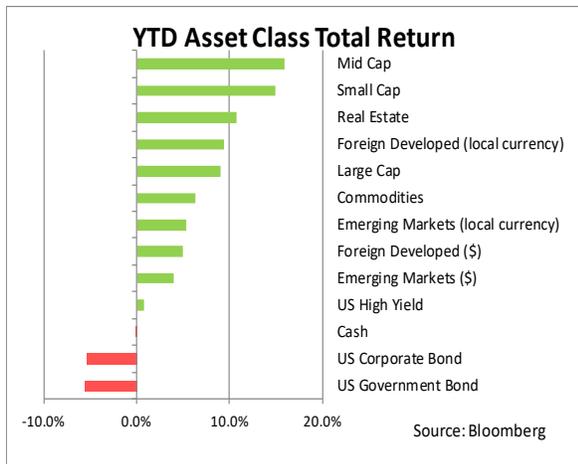
**U.S. Equity Markets – (as of 4/5/2021 close)**



(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 4/5/2021 close)**

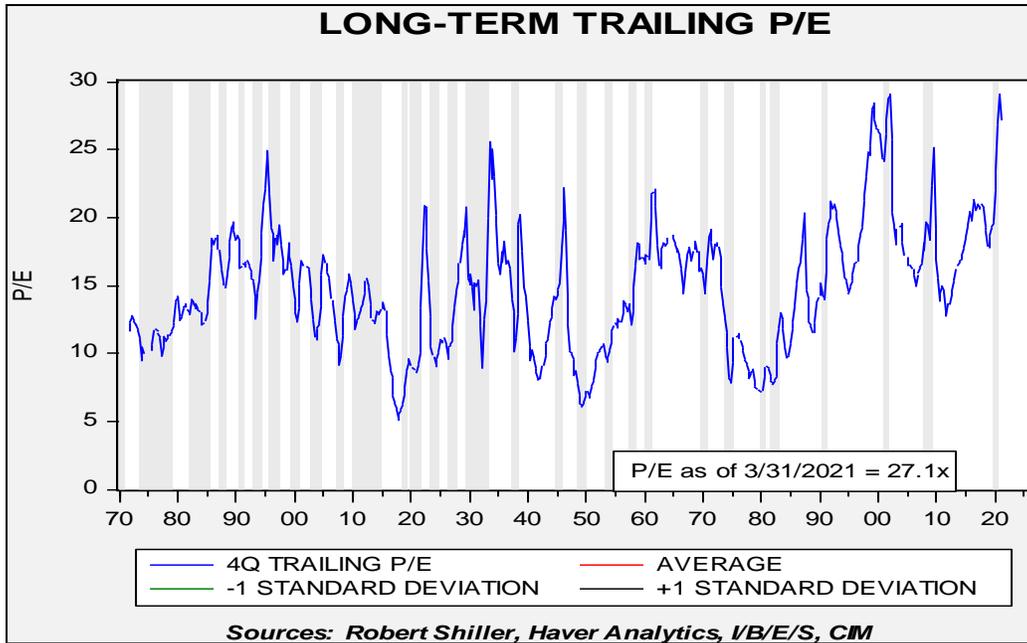


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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,<sup>1</sup> 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.*

<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 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.