

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 7, 2021—9:30 AM EDT] Global equity markets are lower this morning. The EuroStoxx 50 is currently down 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 closed down 0.8%. Chinese markets were lower, with the Shanghai Composite was down 0.1% from its prior close and the Shenzhen Composite is down 0.4%. U.S. equity index futures are signaling a flat 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](#).

Today's *Comment* opens with various observations concerning monetary and fiscal policy and their implications for U.S. economic growth. We next look at the new report of a possible U.S. and allied boycott of the 2022 Winter Olympics in Beijing over China's mistreatment of its Uighur minority. We also note ominous troop and equipment movements by Russia along its border with Ukraine. We wrap up with the latest developments regarding the coronavirus pandemic.

U.S. Fiscal Policy: Jeff Bezos, the Chief Executive of Amazon (AMZN, USD, 3,223,82), [threw his weight behind President Biden's plan to hike corporate taxes and unleash massive new spending](#) on infrastructure and other economic investments. In a memo to his employees, Bezos wrote, "We recognize this investment will require concessions from all sides—both on the specifics of what's included as well as how it gets paid for . . . [Amazon] is supportive of a rise in the corporate tax rate."

- Separately, new reports indicate that the roughly \$213 billion for affordable housing in Biden's proposed infrastructure plan [includes a competitive grant program aiming to coax state and county government into easing restrictions on new home construction](#).
- The proposal targets so-called exclusionary zoning laws that the administration says have inflated housing and construction costs and have locked families out of areas with more opportunities.

U.S. Monetary Policy: Dallas FRB President Kaplan [said it isn't yet time for the central bank to pull back on its support of the economy](#). However, he also said that when it eventually

becomes clear that the coronavirus pandemic is abating and the economy is meeting the Fed's goals, paring back the Fed's stimulus measures will be important to keep the recovery on track.

United States-China: As the Biden administration continues to flesh out its China policy and works to build up a network of alliances in Asia to counter China, it turns out that a coordinated boycott of the 2022 Winter Olympics in Beijing over China's mistreatment of its Uighur minority [is under much more serious consideration than previously realized](#). Sources indicate that administration officials, including President Biden himself, have brought up the idea multiple times in meetings with [allied governments](#). It is not clear what form such a boycott might take, and no firm decision has been made. In any case, this will add to the growing number of stress points between the U.S. and China, which have the potential to catch investors in the crossfire at some point.

United Kingdom: The British government [launched a new regulatory body aimed at policing allegations of anticompetitive behavior among the world's largest technology companies](#). The new Digital Markets Unit will be tasked with making sure tech giants don't exploit any market dominance to crowd out competition. As we've often warned, such steps around the world are raising regulatory risks, particularly for major U.S. tech firms.

Iran: A ship believed to be conducting surveillance for the Iranian military off the coast of Yemen in the Red Sea [has reportedly been attacked by limpet mines placed on its hull](#). No country has claimed responsibility, but the timing of the attack on the first day of multilateral talks in Vienna aimed at reviving the 2015 nuclear weapons deal with Iran will cast suspicion on Israel and Saudi Arabia, both of which would like to disrupt those talks.

Russia-Ukraine: [Concerns about a new Russian conflict with Ukraine remain elevated](#) after Russia transferred large numbers of troops and heavy weapons close to the Ukrainian border in recent weeks, ostensibly for exercises. Russian separatists in the breakaway Donbas region have also traded fire recently with Ukrainian military forces, leading to the deaths of several Ukrainian soldiers. Various theories have been considered as to what President Putin is trying to accomplish with the new tensions, including the possibility that he is trying to test President Biden's resolve.

COVID-19: Official data show confirmed cases [have risen to 132,557,605 worldwide, with 2,876,192 deaths](#). In the United States, confirmed cases rose to 30,847,926, with 556,529 deaths. [Vaccine doses delivered in the U.S. now total 219,194,215, while the number of people who have received at least their first shot totals 108,301,234](#). 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 [fell to approximately 61,000 yesterday](#). Perhaps just as important, the seven-day moving average of new infections came in at 64,662, falling below the 14-day moving average of 65,224. Deaths related to the virus came in at 896.

- As expected, President Biden [announced yesterday that all U.S. adults should be eligible for COVID-19 vaccines by April 19](#), speeding up a timeline he set last month. He also urged Americans to be patient and continue taking precautions against the disease as the vaccine rollout continues and new variants spread.
 - According to administration officials, the new target was set only after consulting with state governments.
 - So far, all states except Hawaii said they will be able to meet the new timeline.
- Despite strongly pressing forward with its vaccination program, the White House said it [would not support any mandatory “vaccine passport” or federal vaccination database](#) similar to those being considered in some foreign countries.
- In California, Governor Newsome [announced that the state would fully reopen its economy](#) on June 15, assuming there is enough vaccine supply for everyone ages 16 and older, and COVID-19 hospitalizations remain low. Given the size of California’s economy, the complete removal of pandemic restrictions there will likely give a noticeable boost to the nation’s economic data and corporate finances.
- As a reminder that pandemic trends continue to worsen in some other countries, Tokyo Governor Yuriko Koike said the metropolitan government [is preparing to request that Japanese Prime Minister Suga apply quasi-emergency measures to the nation’s capital](#) similar to the state of emergency that it exited on March 21.
- In yet another blow to the vaccine from AstraZeneca (AZN, USD, 49.22), its partner Oxford University [paused a small trial of the compound on children and teenagers](#) in response to concerns about the rare blood clotting issues observed among some adults who got the shot.
 - Meanwhile, the Serum Institute of India, the world’s largest vaccine manufacturer, [said it would resume exports of the AstraZeneca vaccine in June](#), as long as domestic coronavirus cases decline.
 - India suspended vaccine exports in March in an attempt to balance surging domestic demand with international orders.
- As the European Medicines Agency continues to review Russia’s Sputnik V vaccine for possible use in the EU, sources say the regulator next week will also begin to [investigate whether the clinical trials supporting the vaccine met ethical and scientific standards](#). If not, the shot would probably not be approved for use in the EU. Despite some officials’ assurances that Sputnik V is not needed in Europe, disapproval could exacerbate the current shortage of potential doses in the bloc. Just as important, disapproval would be a black eye for Russia and increase EU-Russia geopolitical tensions.

Economic and Financial Market Impacts

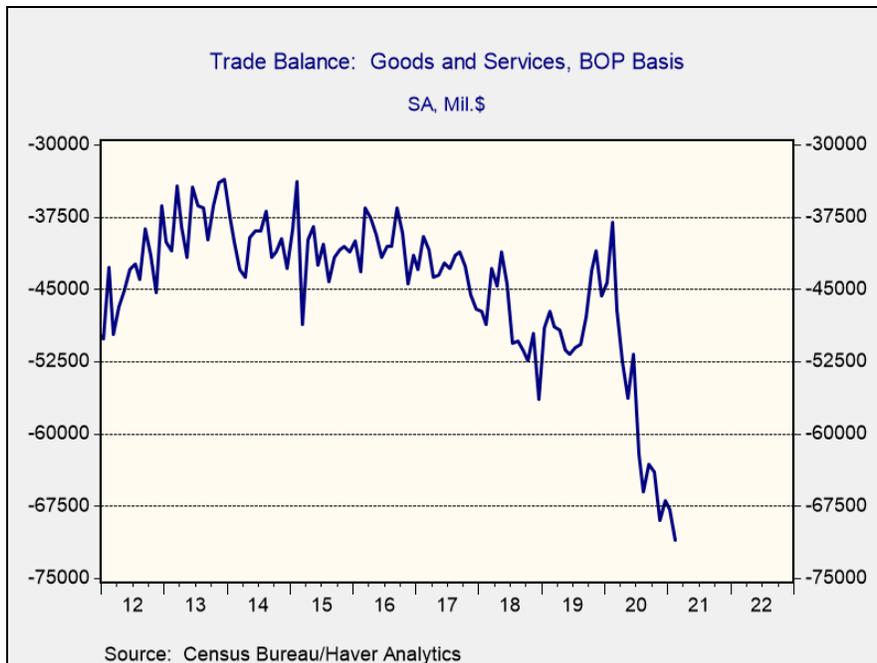
- Jamie Dimon, the Chief Executive of JPMorgan Chase (JPM, USD, 152.54), [predicted in his widely read annual letter](#) that “euphoria around the end of the pandemic,” high excess savings, enormous fiscal stimulus, and a potential infrastructure program will spark strong economic growth in the U.S. over the coming year. Indeed, Dimon wrote, “It is possible that we will have a Goldilocks moment — fast growth, inflation that moves up

gently (but not too much) and interest rates that rise (but not too much).” In particular, Dimon argued that if this scenario plays out, today’s high valuations for equities would be justified.

U.S. Economic Releases

For the week ending April 2, mortgage applications fell 5.1% from the prior week. Applications for purchases and refinancing fell 4.6% and 5.3%, respectively. The average 30-year fixed-rate mortgage rose by 3 bps from 3.33% to 3.36%.

In February, the U.S. trade deficit widened to a record high as the rise in imports outpaced exports. The trade deficit came in at \$71.1B, above expectations of \$70.5B. The trade deficit from the previous month’s report was revised from \$68.2B to \$67.8B.



The chart above shows the trade balance. The widening of the deficit was led by an increase in imports of industrial supplies and materials.

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

Economic Releases						
EDT	Indicator			Expected	Prior	Rating
15:00	Consumer Credit	m/m	Feb	-\$1.315b	\$2.800b	***
Fed Speakers or Events						
EST	Speaker or event	District or position				
9:00	Charles Evans Speaks at Economic Forecast Event	President of the Federal Reserve Bank of Chicago				
11:00	Robert Kaplan to speak at Forecasters Club of New York	President of the Federal Reserve Bank of Dallas				
12:00	Thomas Barkin Takes Part in Online Discussion	President of the Federal Reserve Bank of Richmond				
13:00	Mary Daly Discusses the Future of Education	President of the Federal Reserve Bank of San Francisco				
14:30	FOMC Meeting Minutes	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								
Japan	Leading Index CI	m/m	Feb	99.7	98.5	99.7	**	Equity and bond neutral
	Coincident Index	m/m	Feb	89.0	90.3	89.0	**	Equity and bond neutral
India	Markit India PMI Services	m/m	Mar	54.6	55.3		***	Equity and bond neutral
	Markit India PMI Composite	m/m	Mar	56.0	57.3		***	Equity and bond neutral
New Zealand	ANZ Commodity Price	m/m	Mar	6.1%	3.3%		**	Equity and bond neutral
Australia	AiG Perf of Construction Index	m/m	Mar	61.8	57.4		**	Equity bullish, bond bearish
	Markit Australia PMI Services	m/m	Mar	55.5	56.2		**	Equity and bond neutral
	Markit Australia PMI Composite	m/m	Mar	55.5	56.2		**	Equity and bond neutral
	ANZ Roy Morgan Consumer Confidence	w/w	4-Apr	107.7	112.3		**	Equity and bond neutral
EUROPE								
Eurozone	Markit Eurozone Services PMI	m/m	Mar	49.6	48.8	48.8	**	Equity bullish, bond bearish
	Markit Eurozone Composite PMI	m/m	Mar	53.2	52.5	52.5	**	Equity bullish, bond bearish
Italy	Markit Italy Services PMI	m/m	Mar	48.6	48.8	49.0	**	Equity and bond neutral
	Markit Italy Composite PMI	m/m	Mar	51.9	51.4	52.2	**	Equity and bond neutral
France	Markit France Services PMI	m/m	Mar	48.2	47.8	47.8	**	Equity and bond neutral
	Markit France Composite PMI	m/m	Mar	50.0	49.5	49.5	**	Equity and bond neutral
Germany	Markit Germany Services PMI	m/m	Mar	51.5	50.8	50.8	**	Equity bullish, bond bearish
	Markit/BME Germany Composite PMI	m/m	Mar	57.3	56.8	56.8	**	Equity bullish, bond bearish
UK	Official Reserves Changes	m/m	Mar	-\$392m	-\$1070m		*	Equity bullish, bond bearish
	Markit/CIPS UK Services PMI	m/m	Mar	56.3	56.8	56.8	**	Equity and bond neutral
	Markit/CIPS UK Composite PMI	m/m	Mar	56.4	56.6	56.6	**	Equity and bond neutral
Russia	Light Vehicle Car Sales	y/y	Mar	-5.7%	0.8%	-0.9%	**	Equity bearish, bond bullish
	Consumer Confidence Index	m/m	1Q	-21	-26		***	Equity and bond neutral
	CPI	y/y	Mar	5.8%	5.7%	5.8%	***	Equity and bond neutral
	CPI Core	y/y	Mar	5.4%	5.0%	5.1%	***	Equity bearish, bond bullish
	Wellbeing Fund	m/m	Mar	\$182.3b	\$182.1b		*	Equity and bond neutral
AMERICAS								
Mexico	Vehicle Domestic Sales	m/m	Mar	95487	82323		*	Equity and bond neutral
	Leading Indicators	m/m	Feb	0.24	0.37		***	Equity and bond neutral
	Consumer Confidence	m/m	Mar	40.4	38.4		***	Equity and bond neutral
	International Reserves Weekly	w/w	31-Mar	\$194774m	\$194934m		*	Equity and bond neutral
Brazil	Vehicle Sales Fenabrave	m/m	Mar	189405	167384		*	Equity and bond neutral
	Markit Brazil PMI Composite	m/m	Mar	45.1	49.6		**	Equity bearish, bond bearish
	Markit Brazil PMI Services	m/m	Mar	44.1	47.1		**	Equity bearish, 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)	1	2	-1	Neutral
TED spread (bps)	19	18	1	Up
U.S. Libor/OIS spread (bps)	7	7	0	Up
10-yr T-note (%)	1.64	1.66	-0.02	Neutral
Euribor/OIS spread (bps)	-54	-54	0	Neutral
EUR/USD 3-mo swap (bps)	1	1	0	Down
Currencies				
dollar	Flat			Down
euro	Flat			Up
yen	Down			Up
pound	Flat			Up
franc	Up			Up
Central Bank Action	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%	4.000%	On forecast
RBI Reverse Repo Rate	3.350%	3.350%	3.350%	On forecast
RBI Cash Reserve Ratio	3.500%	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.

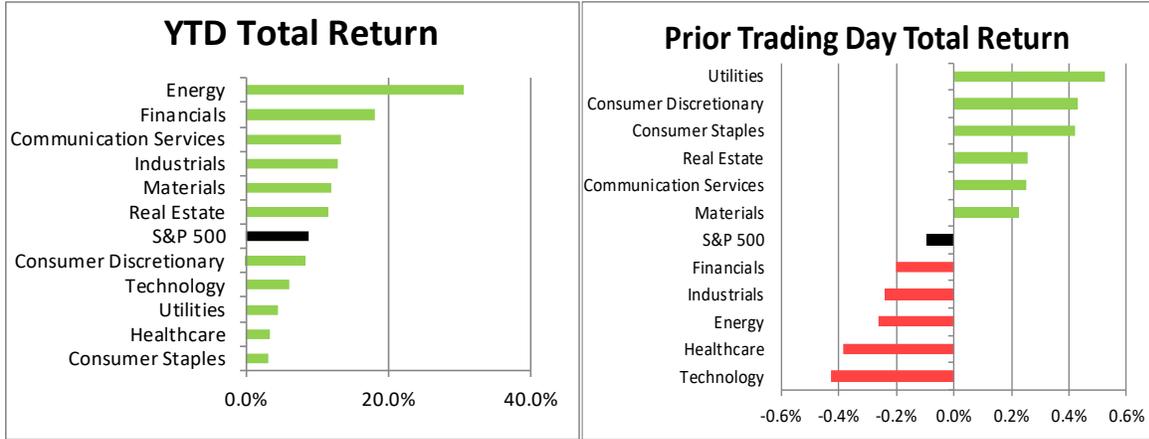
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$63.28	\$62.74	0.86%	
WTI	\$59.82	\$59.33	0.83%	
Natural Gas	\$2.48	\$2.46	0.94%	
Crack Spread	\$20.83	\$20.76	0.33%	
12-mo strip crack	\$18.10	\$18.04	0.30%	
Ethanol rack	\$2.06	\$2.06	0.18%	
Metals				
Gold	\$1,738.50	\$1,743.27	-0.27%	
Silver	\$25.04	\$25.16	-0.50%	
Copper contract	\$408.40	\$411.65	-0.79%	
Grains				
Corn contract	\$557.25	\$554.25	0.54%	
Wheat contract	\$615.75	\$615.50	0.04%	
Soybeans contract	\$1,422.00	\$1,418.75	0.23%	
Shipping				
Baltic Dry Freight	2092	2072	20	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)		-2.0		
Gasoline (mb)		0.2		
Distillates (mb)		1.0		
Refinery run rates (%)		0.75%		
Natural gas (bcf)		22.0		

Weather

The 6-10 and 8-14 day forecasts currently call for cooler than normal temperatures for most of the country, with warmer temps in the Pacific region. The forecast calls for wetter than normal conditions along eastern and southwestern states, dry conditions are expected for most of the country.

Data Section

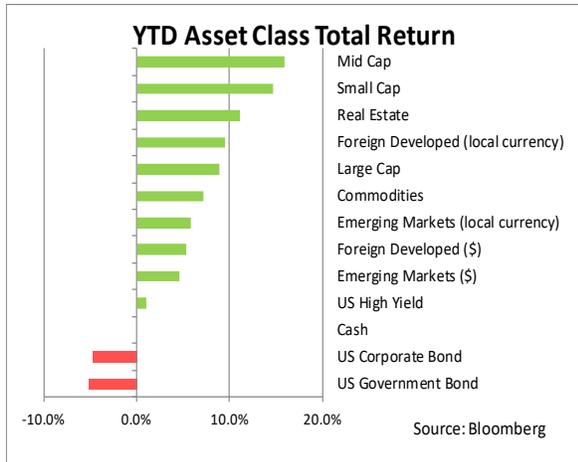
U.S. Equity Markets – (as of 4/6/2021 close)



(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 4/6/2021 close)

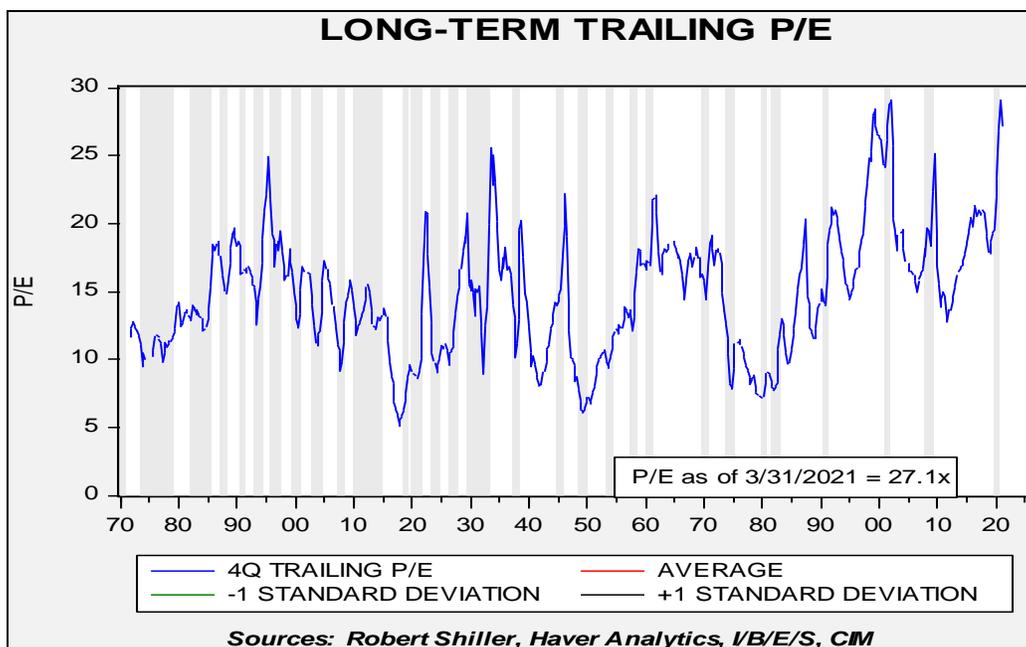


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.