

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 12, 2021—9:30 AM EDT] Global equity markets are lower this morning. The EuroStoxx 50 is currently down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 closed down 1.0%. Chinese markets were down, with the Shanghai Composite falling 1.1% from its prior close and the Shenzhen Composite dropping 2.1%. 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:

- [Weekly Geopolitical Report](#) (3/29/201): Part III of our series on the Geopolitics of Central Bank Digital Currencies (CBDC)
- [Weekly Energy Update](#) (4/8/2021)
- [Asset Allocation Weekly](#) with associated [chart book](#) and [podcast](#) (4/9/2021)
- [Confluence of Ideas podcast](#) (4/7/2021): “The U.S.-China Balance of Power: Part I”
- [Asset Allocation Quarterly Rebalance Chart Book](#) (Q1 2021): recaps recent changes to our Asset Allocation portfolios

Good morning all, and Happy Monday! [U.S. equity futures are lower this morning](#), pausing to refresh after a series of new highs. Our coverage begins with economics and policy. Amazon (AMZN, USD, 3372.22) avoided a unionization vote in Alabama, and real estate remains hot. Next up is international news, including an explosion in Iran. China news follows with new information about Alibaba (BABA, USD, 223.31), and we close with the pandemic update.

Economics and policy: Amazon prevails; Powell is bullish on the economy, and worries about the labor force continue.

- [Workers at the Amazon Bessemer, AL](#) warehouse facility [overwhelmingly decided against joining a union](#). Although we do expect the union to file a challenge to the vote, it was so overwhelming (71% opposed joining) that we [doubt the challenge will stick](#). The fact that the [clear majority of workers](#) opposed joining the union in a company that has faced concerns about the [treatment of its workforce](#) may say more about the disenchantment with unions than the working conditions at the company. We doubt this will be the last attempt the company faces, but without a change in perception about unions, the chances of success for the labor movement remain small.

- Chair Powell on “60 Minutes” last night gave an upbeat view of the economy, saying we were near an [“inflection point”](#) in growth. Despite this optimism, the Chair maintains his dovish policy stance.
- In addition to the recent stimulus package and the proposed infrastructure bill, the White House offered an [outline of its budget proposals](#). Although the plan lacked details, overall, the [proposed spending continues](#).
 - One factor the Democrats appear to be banking on is [that corporate taxes are so complicated that few on Capitol Hill understand it](#). This is an underlying complaint from populists; the establishment uses complication to mask its proposals that favor them.
 - At the same time, [the business sector is coming out firmly against the proposed corporate tax measures](#). This opposition will complicate the goal of raising corporate taxes.
- Despite rising vaccination rates, one of the problems in the labor market is the continued slow expansion of the labor force. The JOLTS data show robust job openings, but much slower hires. [Fears of COVID-19 are playing a role in keeping workers home](#); stimulus checks and generous unemployment insurance are also likely contributing to this trend.
- Housing continues to be a bright spot in the economy, [but the sector isn’t without its problems](#). [High demand has hit tight supply](#), sending home prices soaring. The best outcome (and the one we expect over time) is a lift in building activity.
 - Millennials are entering the market in large numbers. Like earlier generations, they are [moving away from the Northeast and California to the Southwest and Southeast](#).
- Senator Hawley (R-MO) is out with [his trust busting proposals](#).

International news: Iran suffers an explosion at a nuclear facility, Brazil is in a difficult situation, and German conservatives are in a political fight.

- [Iran’s Natanz facility](#), where much of its uranium enrichment occurs, [was hit with an explosion over the weekend](#). Although no one has claimed responsibility for the event, it is widely thought that [Israel was behind the bombing](#). The fact that the attack occurred while discussions surrounding a return to the nuclear deal is probably not just a coincidence.
- The situation in Brazil is deteriorating rapidly. The country has been rocked by new variants of COVID-19, which has increased hospitalizations. The combination of economic disruption caused by the pandemic and a weaker currency is [pushing inflation higher](#), especially for food. Inflation is harming the less affluent.
- In Germany, the CDU/CSU coalition is preparing for the autumn elections with new leadership. Chancellor Merkel has anointed Armin Laschet for party leader. He is considered a rather colorless figure, raising doubts he can carry the party to victory. Over the weekend, the PM of Bavaria, [Markus Söder, declared his candidacy](#). He is the leader of the smaller CSU wing of the coalition. So far, the CDU leadership, loyal to Merkel, has continued to support Laschet to succeed Merkel. But, CDU polling is weak, and

[Söder is no doubt a stronger candidate](#). If he does get control of the coalition, it would be a clear signal that the Merkel era has ended.

- [The U.S. is considering sending warships to the Black Sea](#) in a period of heightened tensions in Ukraine.
 - The U.S. military is growing increasingly worried about the [lack of direction from the White House on Afghanistan](#).
- As protests continue unabated, the [Myanmar economy has ground to a halt](#).
- Amid rising tensions in Northern Ireland, the [U.K. and EU report that progress](#) is being made on trade rules.

China: Regulators corral Alibaba, and more on Taiwan.

- Last year, Ant Financial's IPO was postponed. Slowly the dust is clearing. First, the parent of Ant, Alibaba, was hit with a [massive fine for antitrust violations](#). Perhaps even more important, [Ant will be regulated as a financial firm](#) which will severely weaken its profit potential.
- The concerns over human rights issues in Xinjiang have hit textiles; [next up may be solar power](#). The industry is apparently dependent on components from this disputed region. A key reason for the broader adoption of solar power has been low-cost components from China; if they are restricted, expansion will be adversely affected.
- China's credit growth fell in March compared to a year ago. Bank loan growth fell from 12.9% to 12.6%. The PBOC is trying to curtail credit expansion; given the U.S. fiscal expansion, if China is putting on the monetary brakes, it is highly likely the trade deficit with China will expand.
- [Research from Australia](#) shows that China's trade measures have had less effect than expected. Essentially, China is avoiding taking steps that would severely harm economic growth.
- With the EU/China investment pact hanging in the balance, one might expect China's foreign policy apparatus to take a conciliatory position. [That hasn't been the case](#), suggesting Beijing either (a) expects the EU to back down or (b) doesn't care all that much either way.
- New administration guidelines will make it [easier for U.S. and Taiwan officials to meet](#), a measure that will not go over well in Beijing.

COVID-19: The [number of reported cases](#) is 136,141,318 with 2,938,439 fatalities. In the U.S., there are 31,198,230 confirmed cases with 562,066 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 237,796,105 doses of the vaccine have been distributed with 187,047,131 doses injected. The number receiving at least one dose is 119,242,902, while the number of second doses, which would grant the highest level of immunity, is 72,630,892. The *FT* has a page on [global vaccine distribution](#).

Virology

- Although the vaccination data in the U.S. show continued progress, there are growing concerns that, due to vaccine hesitancy, [further progress may slow](#). Essentially, those who were inclined to take the vaccine have mostly been vaccinated. Those who are reluctant may be the majority of Americans that remain without the vaccine. If this group remains reluctant, progress will stall, and a vulnerable population will remain, thwarting potential herd immunity.
 - If this is the case, then the most likely outcome is that [COVID-19 will remain endemic](#). That doesn't mean conditions won't normalize to some degree. Vaccinations will probably mean fewer serious cases of the disease. [Progress on anti-viral treatments](#) will reduce the impact too. And, there is a history of coronaviruses mutating to a less virulent form over time. However, if this is correct, the odds that we will ever be fully "rid" of COVID-19 are probably low, meaning that we won't fully return to a pre-COVID world.
- [China is finally admitting that its vaccine just isn't that good](#). Chinese officials are considering [mixing its vaccines](#) with Western ones to [improve efficacy](#). What is concerning is that Brazil and Chile have been deploying China's vaccines, and both are facing a resurgence in cases. If the Chinese vaccine is ineffective, these vaccination efforts have been futile.

U.S. Economic Releases

There were no domestic 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
14:00	Monthly Budget Statement	m/m	Mar	-\$658.0b	-\$310.9b	**
Fed Speakers or Events						
EST	Speaker or event	District or position				
13:00	Eric Rosengren Speaks at Yale Economic Symposium	President of the Federal Reserve Bank of Boston				

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	Aggregate Financing CNY	m/m	Mar	3340.0b	1710.0b	3700.0b	**	Equity and bond neutral
	New Yuan Loans CNY	m/m	Mar	2730.0b	1360.0b	2300.0b	**	Equity and bond neutral
	Money Supply M0	y/y	Mar	4.2%	4.2%	5.0%	**	Equity and bond neutral
	Money Supply M1	y/y	Mar	7.1%	7.4%	8.0%	**	Equity and bond neutral
	Money Supply M2	y/y	Mar	9.4%	10.1%	9.5%	**	Equity and bond neutral
Japan	PPI	y/y	Mar	1.0%	-0.7%	0.5%	**	Equity bearish, bond bullish
	Bank Lending Incl Trusts	y/y	Mar	6.3%	6.2%		**	Equity and bond neutral
	Bank Lending Ex-Trusts	y/y	Mar	5.9%	5.9%		**	Equity and bond neutral
	Machine Tool Orders	y/y	Mar	65.0%	36.7%		*	Equity and bond neutral
EUROPE								
Eurozone	Retail Sales	m/m	Feb	3.0%	-5.9%	1.7%	**	Equity bullish, bond bearish
Switzerland	Domestic Sight Deposits CHF	w/w	9-Apr	627.5b	626.0b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	9-Apr	701.3b	701.8b		*	Equity and bond neutral
AMERICAS								
Mexico	Nominal Wages	m/m	Mar	5.5%	4.3%		***	Equity bearish, bond bullish

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)	19	19	0	Up
3-mo T-bill yield (bps)	0	1	-1	Neutral
TED spread (bps)	19	18	1	Up
U.S. Libor/OIS spread (bps)	8	8	0	Up
10-yr T-note (%)	1.65	1.66	-0.01	Neutral
Euribor/OIS spread (bps)	-54	-55	1	Neutral
EUR/USD 3-mo swap (bps)	3	3	0	Down
Currencies				
dollar	Flat			Down
euro	Flat			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.

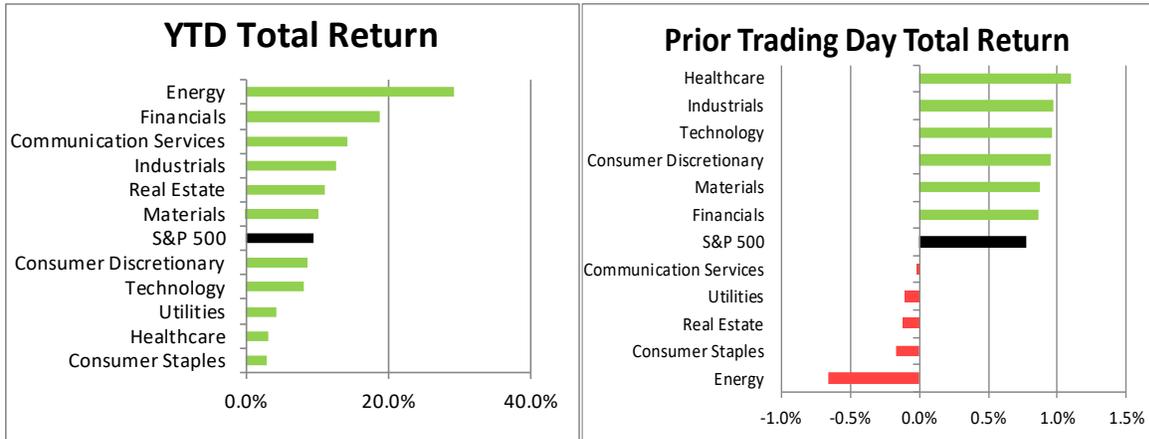
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$63.31	\$62.95	0.57%	
WTI	\$59.56	\$59.32	0.40%	
Natural Gas	\$2.58	\$2.53	2.02%	
Crack Spread	\$21.03	\$20.97	0.31%	
12-mo strip crack	\$18.34	\$18.30	0.21%	
Ethanol rack	\$2.10	\$2.10	0.16%	
Metals				
Gold	\$1,740.92	\$1,743.88	-0.17%	
Silver	\$25.19	\$25.27	-0.29%	
Copper contract	\$402.40	\$404.00	-0.40%	
Grains				
Corn contract	\$579.00	\$577.25	0.30%	
Wheat contract	\$633.25	\$640.50	-1.13%	
Soybeans contract	\$1,393.75	\$1,403.00	-0.66%	
Shipping				
Baltic Dry Freight	2085	2088	-3	

Weather

The 6-10 and 8-14 day forecasts currently call for cooler than normal temperatures for most of the country with warmer temperatures in the Far West and Florida. The forecast calls for wetter than normal conditions in the Deep South and along the East Coast, with dry conditions in the northern reaches of the West Coast, Rocky Mountain, and Northern Plains regions.

Data Section

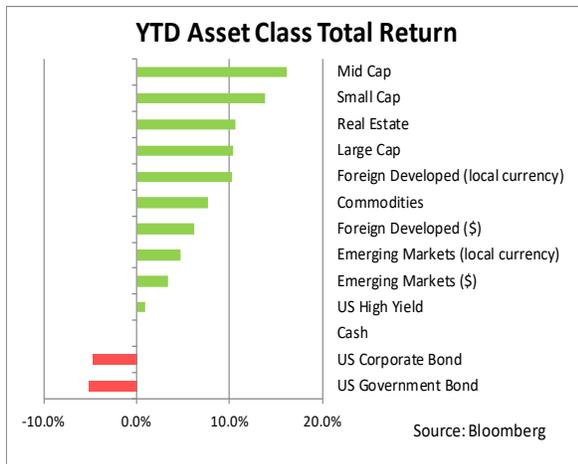
U.S. Equity Markets – (as of 4/9/2021 close)



(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 4/9/2021 close)

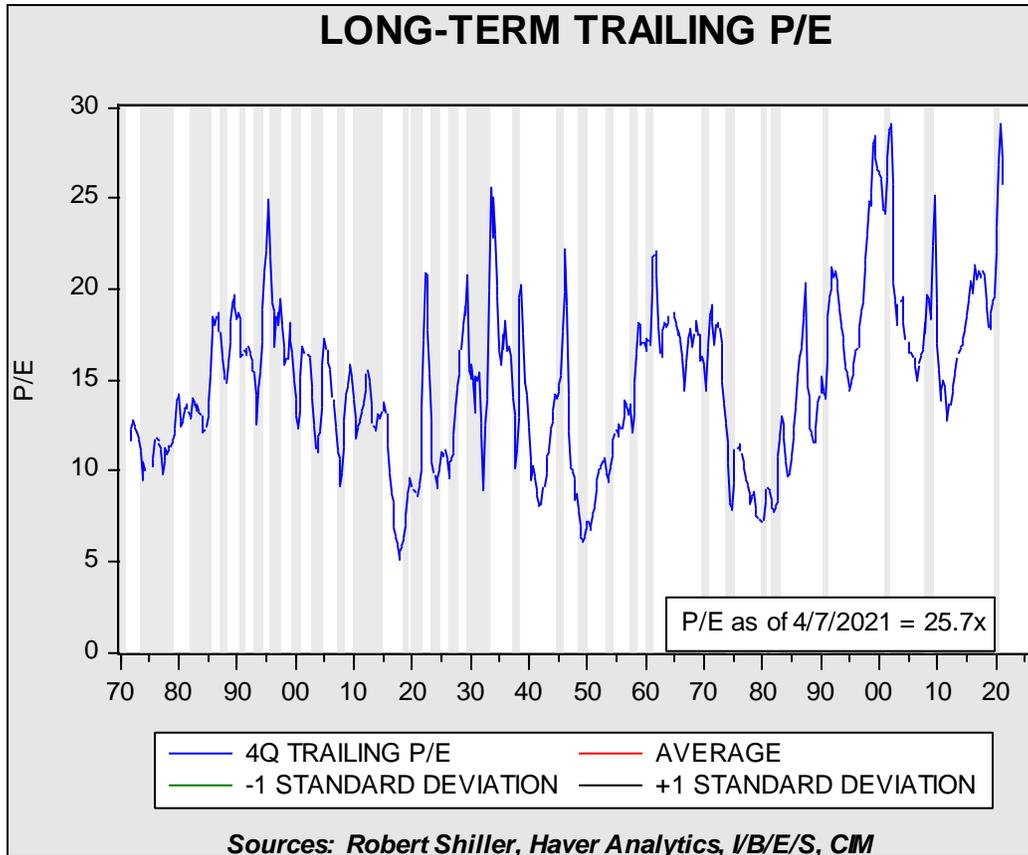


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 25.7x, down 1.4x from last week. We have moved into Q2, which affected the ratio.

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 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.