

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 14, 2021—9:30 AM EDT] Global equity markets are higher this morning. The EuroStoxx 50 is currently up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 closed relatively unchanged. Chinese markets were higher, with the Shanghai Composite up 0.6% from its prior close and the Shenzhen Composite up 1.4%. U.S. equity index futures are signaling a higher 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](#) (4/12/201): Part IV 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

In today's *Comment*, we open with multiple geopolitical developments relating mostly to China, Russia, and the Middle East. In general, the developments point to continued tensions, but that may not be enough to spoil the positive vibe that the quarter's initial earnings reports seem to be providing today. We wrap up with the latest news on the coronavirus pandemic.

United States-China: An [unclassified report from the Director of National Intelligence](#) says China is the top threat facing the U.S. and warns that it “will continue its whole-of-government efforts to spread China's influence, undercut that of the United States, drive wedges between Washington and its allies and partners, and foster new international norms that favor the authoritarian Chinese system.” The report [warns that China is also seeking to at least double its nuclear weapons stockpile during the next decade](#) and will keep pursuing foreign military bases.

- As the Biden administration continues trying to revitalize U.S. alliances to counter China, it [is reportedly pressuring Japanese Prime Minister Suga to join with President Biden in issuing a statement of support for Taiwan](#) when he visits the White House on Friday. If Suga agrees, it would be the first U.S.-Japanese joint statement on Taiwan since 1969.
- A joint Biden-Suga statement would reinforce the recent joint message from U.S. Secretary of State Blinken, U.S. Secretary of Defense Austin, Japanese Foreign Minister Motegi, and Japanese Defense Minister Kishi, which stressed the “importance of peace

and stability in the Taiwan Strait.” However, some Japanese officials worry that another such statement from the level of Biden and Suga would be too provocative and could prompt China to retaliate against Japanese economic interests.

United States-Russia: In a telephone call between President Biden and Russian President Putin yesterday, Biden [proposed a summit between the two leaders in a third country sometime in the coming months](#). According to a White House readout of the call, Biden stressed to Putin that the U.S. [is committed to Ukrainian sovereignty and territorial integrity, regardless of Russia massing military forces on its border](#). Separately, Germany’s defense minister assessed that the Russian military moves [are an effort to provoke a Ukrainian or NATO reaction](#) that would justify further incursions into Ukraine. All the same, it’s important that some administration officials want to cool tensions with Russia so that it is less inclined to support China, and the U.S. can concentrate its energy on Chinese aggression.

United States-Afghanistan: President Biden today [is expected to announce that he will withdraw all remaining U.S. troops from Afghanistan](#) no later than September 11. In reality, officials said the withdrawal of all U.S. and NATO troops will likely be completed well before the September target date, possibly by this summer.

Iran: Responding to what was apparently an Israeli cyberattack that knocked out several centrifuges at its Natanz uranium enrichment facility, Iran’s deputy foreign minister said the country [would start enriching uranium there to 60% purity](#), close to the 90% purity required for nuclear weapons. The announcement appeared to be intended to counter the notion that Iran’s nuclear program had suffered a major setback and to fortify the country’s negotiating hand at the current Vienna talks on restarting its 2015 nuclear limitation deal.

Global Oil Market: In its [monthly report](#), the International Energy Agency boosted its estimate of global oil demand in 2021 by 230,000 barrels per day (bpd) to a total of 96.7 million bpd, representing a gain of 6.3% from 2020. The increased forecast came one day after OPEC also boosted its forecast for 2021 demand to a similar amount. Rising demand, gradually declining inventories, a potential renewed weakening in the dollar, and rising U.S.-Iran tensions continue to buoy oil prices, despite OPEC and its partners recently agreeing to gradually increase their output again.

COVID-19: Official data show confirmed cases [have risen to 137,559,799 worldwide, with 2,962,066 deaths](#). In the United States, confirmed cases rose to 31,347,470, with 563,453 deaths. [Vaccine doses delivered in the U.S. now total 245,364,805, while the number of people who have received at least their first shot totals 122,295,530](#). 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 77,000 yesterday](#), well above both the seven-day moving average of 68,960 and the 14-day moving average of 66,824. Infection rates continue to rebound in response to factors such as new, more transmissible

mutations, the easing of pandemic restrictions, and fatigue over social distancing. On a more positive note, however, deaths related to the virus came in at just 907, well below the peak levels earlier in the pandemic. Vaccinations also continue to rise quickly. As of yesterday, some 36.8% of U.S. residents have received at least one vaccine shot, and 22.7% are fully inoculated.

- A federal advisory panel [will meet this afternoon](#) to debate whether and how the vaccine from Johnson & Johnson (JNJ, USD, 159.48) should continue to be used in the U.S., following reports this week of rare but severe blood clots among a few recipients. Meanwhile, responding to the government's recommendation for a pause in administering the vaccine, Johnson & Johnson [has postponed its planned rollout of the shot to Europe](#). Still, the development [has raised fears that the recent progress in reducing people's vaccine hesitancy could be reversed](#).
- Amid surging infections and hospitalizations, India's drug regulators [have granted emergency approval to Russia's Sputnik V vaccine](#), paving the way for both local production and potential imports of the vaccine. The government also said it would grant emergency authorization to any foreign COVID-19 vaccines approved for use in the U.S., the UK, Europe, or Japan, waiving the previous requirement for time-consuming local "bridging trials." Separately, the resurgence of infections in India and renewed lockdowns [are again prompting migrant workers to return to their homes](#) in the countryside.
- In Italy, where infections and deaths per capita are also extremely high, a new analysis indicates part of the problem is that regional governments [too often failed to prioritize the vaccination of the elderly](#), leaving them vulnerable.
- In Canada, resurgent infections and a slow vaccine rollout mean that hospitalizations are surging and [putting more pressure on the healthcare system than at any other time in recent history](#). Hospitals in the country's most populous province, Ontario, are canceling surgeries, transferring patients, and preparing for the possible need to ration care as they face a surge in COVID-19 patients.

Economic and Financial Market Impacts

- As the pandemic-driven surge in demand for consumer goods continues, trucking companies [are struggling with tight shipping capacity and skyrocketing wage rates](#) for drivers, all of which will likely feed into inflation concerns.

U.S. Policy Response

- Overwhelmed state and local authorities [are grappling with how to allocate \\$25 billion in federal rental relief](#), leaving many tenants and landlords waiting weeks or months for their share.

U.S. Economic Releases

For the week ending April 9, mortgage applications fell 3.7% from the prior week. Applications for home purchases and refinancing fell 1.4% and 5.3% from the prior week, respectively. The average 30-year fixed-rate fell for the first time in 10 weeks from 3.36% to 3.27%.

Trade prices continue to become more favorable for the U.S. economy as the rise in export prices exceeded the rise in import prices. Import prices were up 1.2% from the prior month compared to expectations of a 0.9% increase. Excluding petroleum, import prices rose 0.9% from the previous month compared to expectations of a rise of 0.4%. The export price index rose 2.1% from the prior month compared to expectations of 1.0%



The chart above shows the ratio of export prices to import prices, also known as the terms of trade. The index rose from 102.2 to 103.1 in March.

The table below lists the Fed events scheduled for the rest of today.

| Economic Releases | | |
|----------------------------|---|--|
| No economic releases today | | |
| Fed Speakers or Events | | |
| EST | Speaker or event | District or position |
| 12:00 | Jerome Powell Speaks to the Economic Club of Washington | Chairman of Board of Governors of Federal Reserve |
| 14:00 | Federal Reserve Releases Beige Book | Federal Reserve Board |
| 14:30 | John Williams Takes Part in Moderated Discussion | President of the Federal Reserve Bank of New York |
| 15:45 | Richard Clarida Speaks to Shadow Open Market Committee | Vice Chairman of Board of Governors of Federal Reserve |
| 16:00 | Raphael Bostic Discusses Cities and Systemic Racism | President of the Federal Reserve Bank of Atlanta |

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 | Core Machine Orders | m/m | Feb | -8.5% | -4.5% | 2.5% | * | Equity and bond neutral |
| New Zealand | Net Migration SA | m/m | Feb | 674 | 631 | | * | Equity and bond neutral |
| Australia | Westpac Consumer Conf Index | m/m | Apr | 118.8 | 111.8 | | *** | Equity and bond neutral |
| | Westpac Consumer Conf SA | m/m | Apr | 6.2% | 2.6% | | ** | Equity and bond neutral |
| EUROPE | | | | | | | | |
| Eurozone | Industrial Production WDA | y/y | Feb | -1.4% | -1.6% | 0.1% | ** | Equity and bond neutral |
| UK | Output Per Hour | y/y | 4Q F | -0.7% | -1.1% | | * | Equity and bond neutral |
| | Unit Labor Costs | y/y | 4Q | 7.2% | 5.9% | | * | Equity bearish, bond bullish |
| AMERICAS | | | | | | | | |
| Brazil | Retail Sales | y/y | Feb | -3.8% | -0.3% | -3.1% | *** | Equity and bond neutral |
| | Retail Sales Broad | y/y | Feb | -1.9% | -2.9% | -4.1% | ** | Equity and bond neutral |
| Mexico | International Reserves Weekly | w/w | 9-Apr | \$195002m | \$194774m | | ** | 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) | 19 | 19 | 0 | Up |
| 3-mo T-bill yield (bps) | 1 | 2 | -1 | Neutral |
| TED spread (bps) | 18 | 17 | 1 | Up |
| U.S. Libor/OIS spread (bps) | 8 | 8 | 0 | Up |
| 10-yr T-note (%) | 1.63 | 1.62 | 0.01 | Neutral |
| Euribor/OIS spread (bps) | -54 | -54 | 0 | 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 |
| Central Bank Action | | | | |
| RBNZ Official Cash Rate | 0.250% | 0.250% | 0.250% | 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.

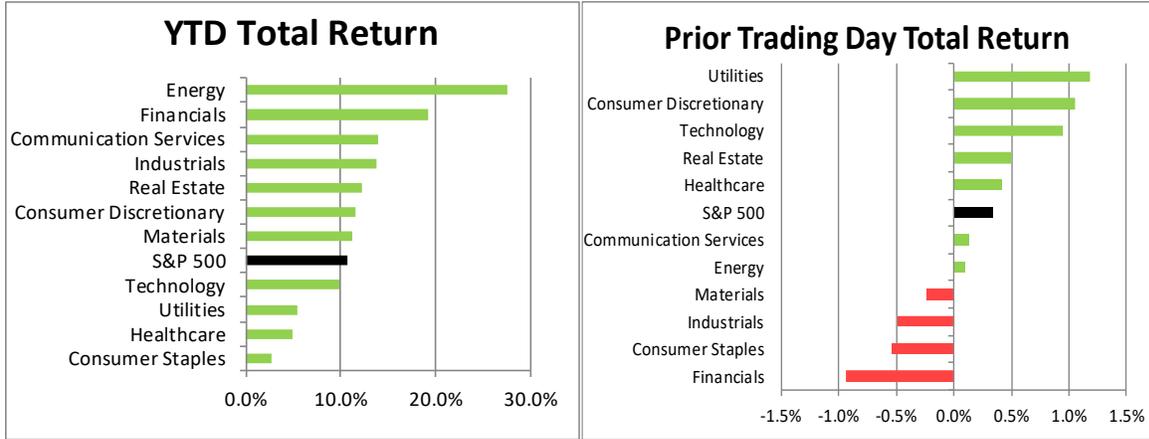
| | Price | Prior | Change | Explanation |
|-----------------------------|------------|------------|------------|-------------|
| Energy Markets | | | | |
| Brent | \$63.98 | \$63.67 | 0.49% | |
| WTI | \$60.49 | \$60.18 | 0.52% | |
| Natural Gas | \$2.63 | \$2.62 | 0.27% | |
| Crack Spread | \$20.27 | \$20.27 | 0.03% | |
| 12-mo strip crack | \$17.94 | \$17.85 | 0.52% | |
| Ethanol rack | \$2.10 | \$2.10 | -0.09% | |
| Metals | | | | |
| Gold | \$1,746.14 | \$1,745.51 | 0.04% | |
| Silver | \$25.44 | \$25.35 | 0.35% | |
| Copper contract | \$404.55 | \$403.15 | 0.35% | |
| Grains | | | | |
| Corn contract | \$566.75 | \$566.50 | 0.04% | |
| Wheat contract | \$636.50 | \$633.50 | 0.47% | |
| Soybeans contract | \$1,385.25 | \$1,384.75 | 0.04% | |
| Shipping | | | | |
| Baltic Dry Freight | 2145 | 2085 | 60 | |
| DOE inventory report | | | | |
| | Actual | Expected | Difference | |
| Crude (mb) | | -2.4 | | |
| Gasoline (mb) | | 0.8 | | |
| Distillates (mb) | | 1.3 | | |
| Refinery run rates (%) | | 0.20% | | |
| Natural gas (bcf) | | 66.0 | | |

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

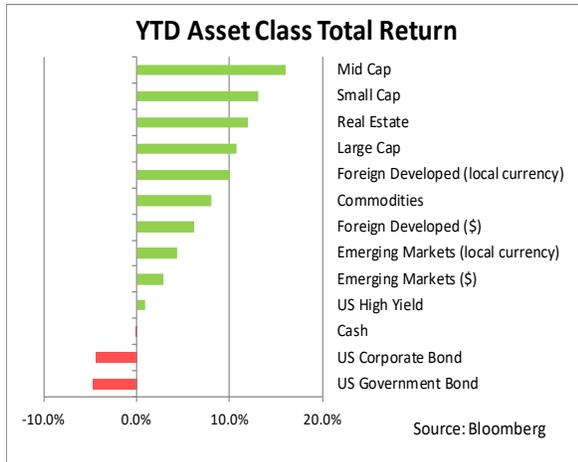
U.S. Equity Markets – (as of 4/13/2021 close)



(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 4/13/2021 close)

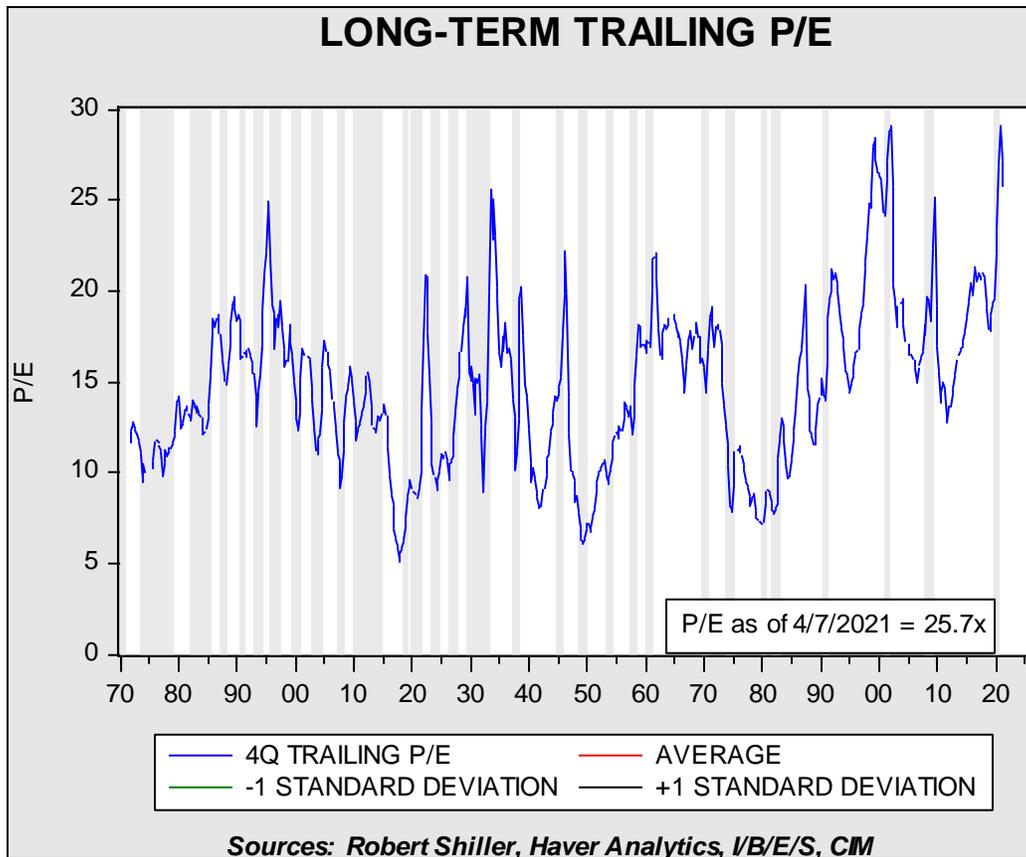


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.