

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 28, 2021—9:30 AM EDT]** Global equity markets are generally higher this morning. The EuroStoxx 50 is currently up 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 closed up 0.1%. Chinese markets were higher, with the Shanghai Composite up 0.4% from prior close and the Shenzhen Composite up 0.8%. U.S. equity index futures are signaling a flat open. With 153 companies having reported, the S&P 500 Q4 earnings stand at \$43.50, higher than the \$37.94 forecast for the quarter. The forecast reflects a 23.3% increase from Q1 2020 earnings. Thus far this quarter, 87.6% of the companies have reported earnings above forecast, while 11.1% have reported earnings below forecast.

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](#) (4/26/2021): Irish Border Revisited
- [Weekly Energy Update](#) (4/22/2021)
- [Asset Allocation Weekly](#) with associated [chart book](#) and [podcast](#) (4/23/2021)
- [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

Today's *Comment* opens with key U.S. policy news. The Federal Reserve wraps up its latest policy meeting this afternoon, with no change expected in its massive monetary stimulus program. This evening, President Biden will propose his latest new spending program, but this time with a proposed series of tax hikes to pay for it. We next turn to international news items, including lots of interesting developments in the Middle East. Finally, we present the latest in the coronavirus pandemic.

**U.S. Monetary Policy:** The Fed will wrap up its latest two-day policy meeting this afternoon. The officials are [expected to make no change in the benchmark fed funds interest rate or the central bank's massive asset purchases](#), but we will be closely watching the post-meeting press conference for [clues about future policy changes](#). A few things to watch can be found [here](#).

**U.S. Fiscal Policy:** At a joint session of Congress this evening, President Biden [will lay out his third major economic proposal](#). It follows his \$1.9 trillion pandemic relief package, passed into law early this year, and his \$2.3 trillion package of spending on infrastructure and other programs that is still working its way through Congress.

- The “American Families Plan” to be presented tonight [focuses on measures designed to improve educational outcomes and ease childcare concerns that can make it difficult for women to participate in the workforce](#). It proposes spending \$1.0 trillion over the next decade on child care, education (including universal preschool for 3- and 4-year-olds and two years of tuition-free community college for all Americans), paid leave, and other benefits, in addition to extending tax breaks worth some \$800 million over the coming ten years.
- To pay for the new programs, the administration proposes raising the top income-tax rate from 37% to 39.6%. For households making more than \$1 million, the plan would also raise the top rate on capital gains and dividends to 39.6% from 20%.
  - Including existing payroll and investment taxes—each 3.8%—the top rates on wages and capital gains would reach 43.4%, up from 23.8%.
  - The plan would also adjust inheritance taxes. Unrealized gains would be treated as sold and taxable at death, with an exemption of \$1 million per person, in addition to the existing exclusion of up to \$500,000 for a married couple’s primary residence.
- As we’ve noted before, Republicans and even some Democrats in Congress are expected to push back against the latest proposals. Biden has signaled flexibility, which will probably serve him well and may help get some of his package passed into law, but whatever legislation emerges from the new proposal will probably be much more heavily skewed toward spending than new taxes. To the extent that the final product adds to the current level of fiscal stimulus already in the system, it could help juice the economy further and add to the positive environment for risk assets. However, if Biden has more success than expected regarding tax hikes, it will likely create headwinds for the stock market.

**United States-Iran:** Following an incident involving Iranian harassment of U.S. Navy ships in the Persian Gulf earlier this month, a U.S. patrol boat [was forced on Monday to fire warning shots against three Iranian fast-attack boats swarming and harassing it](#). One possible theory behind the harassment is that Iranian leaders are testing President Biden’s mettle. They could also be trying to build leverage for the Vienna talks on resuming Iran’s 2015 nuclear deal. Of course, the incidents could also have been touched off by rogue commanders. In any case, the incidents are risky, and an accidental violent confrontation that would roil risk assets and boost oil prices can’t be ruled out.

**Saudi Arabia-Iran:** Saudi Crown Prince Mohammed bin Salman [claimed in a television interview that Saudi Arabia wants to resolve its differences with rival Iran](#), saying, “At the end of the day, Iran is a neighboring country. All what we ask for is to have a good and distinguished relationship with Iran.” The statement comes just days after the *Financial Times* revealed that top Saudi and Iranian intelligence officials held secret talks this month in Baghdad in an effort to repair relations between the regional powerhouses. While any rapprochement between the Saudis and the Iranians could help ease geopolitical risks in the Middle East, another important aspect of the story is that it appears to be more evidence that the Biden administration is having significant success in resetting its security relationships around the globe, from repairing or

building new alliances against China to reining in longstanding allies who sometimes seemed to get out of control during the Trump administration. It isn't immediately clear what sticks or carrots Biden is using to pull this off. All the same, a reinvigorated U.S. leadership position in geopolitics could help create a more predictable environment for global investors.

**European Union:** With the governments of Germany, France, Italy, and Spain ready this week to submit plans for spending their part of the EU's €750 billion pandemic relief fund, German Finance Minister Scholz and French Finance Minister Le Maire [issued a warning that Brussels must approve the plans quickly and get the funds flowing as soon as possible](#). Otherwise, they warned, the EU would continue to lag behind the rebounding U.S. and Chinese economies.

**Brexit:** The European Parliament today [gave its final approval to the post-Brexit trade deal](#) reached in late December between the U.K. and the EU. Like people around the world, we're thrilled that we don't have to think too much about Britain's exit from the EU anymore! However, we still expect to see a few snarly issues come up between the two sides from time to time, such as the recent ones relating to vaccine shipments and the impact on Northern Ireland.

**Russia-Slovakia, et al.:** The Russian foreign ministry [expelled seven diplomats](#) from Slovakia, Lithuania, Latvia, and Estonia over their countries' support for the Czech Republic when it recently expelled Russian diplomats over a 2014 spying and sabotage incident.

**China:** The government is reportedly [delaying the release of its 2020 census as it struggles to come to terms with the first apparent Chinese population decline](#) since the famine that accompanied the Great Leap Forward in the late 1950s. The tally is expected to show that the country's population fell back below 1.4 billion last year, after surpassing that level in 2019.

**China-Hong Kong:** The Hong Kong municipal government [has amended its immigration law](#) in a move that lawyers warn could increase business risks by handing the government broad powers to prevent individuals from leaving the Chinese territory.

**COVID-19:** Official data show confirmed cases [have risen to 148,834,824 worldwide, with 3,138,421 deaths](#). In the United States, confirmed cases rose to 32,177,167, with 573,383 deaths. [Vaccine doses delivered in the U.S. now total 297,543,635, while the number of people who have received at least their first shot totals 141,751,857](#). 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 [totaled just over 50,000 yesterday](#), compared with the seven-day moving average of 55,272 and the 14-day moving average of 61,197. However, on a less positive note, new deaths related to the virus jumped to 863. At the same time, mass vaccinations continue, and official data indicates 42.7% of U.S. residents have now received at least one shot, and 29.1% are fully vaccinated.
- The CDC [issued new guidelines saying people who are fully vaccinated don't need to wear a facemask when walking, hiking, biking, running alone, or gathering](#) in small

groups outside. Officials said they hope the ease in recommendations will encourage more people to get vaccinated.

- According to the revised guidelines, vaccinated people can also dispense with masks when exercising with household members, dining at restaurants outside, and gathering outdoors with small groups that include some unvaccinated people.
  - At the same time, the guidelines recommend that fully vaccinated people still wear a mask at indoor gatherings with unvaccinated people and when visiting a barber, hair salon, shopping mall, museum, movie theater, or crowded house of worship, due to lingering concerns that even vaccinated people could potentially transmit COVID-19.
- In New York, Governor Cuomo [announced that state mass-vaccination centers will open to walk-ins beginning on Thursday](#), just as New York City's centers did last week. The move to walk-ins reflects the impact of rising vaccine supplies as the initial wave of demand moderates.
  - In Japan, new infections [continue to surge in Tokyo and Osaka](#), and several other metropolitan areas. Adding to the problems: the government reports that only about [1.1% of the country's population has been fully vaccinated so far](#).
  - As infections continue to surge in India, driven in part by new mutations, the B.1.617 variant first identified there [has now been identified in the U.S.](#) and 18 other countries. In a promising sign, however, Indian scientists said a vaccine developed by the country's Bharat Biotech proved effective, in a small lab study, against the B.1.617 variant.
  - Infections are spreading from India to its neighbors, so the Chinese government is [offering vaccine doses and other assistance](#) in a bid to burnish its reputation and increase its influence in the region.
  - Finally, in a move that will surely irritate Xi Jinping, the Biden administration is [preparing to exert greater influence over the next phase of the World Health Organization's inquiry into the origins of the pandemic](#). Experts from the Department of Health and Human Services, the Department of State, the Agriculture Department, and five other federal agencies are reportedly developing action recommendations to be submitted to the WHO for the second phase of the investigation.
    - In addition, the administration plans to push back on China's hypothesis that the virus could have spread via frozen food products, according to people familiar with the work.
    - Instead, the experts are expected to urge the release of more data and more testing of animals and humans for early evidence of the new coronavirus, including in parts of southern China where related viruses were previously found.

## U.S. Economic Releases

Mortgage applications declined during the week ending April 23, falling 2.5% from the previous week. Purchase and refinance applications fell 1% and 5%, respectively. The average 30-year fixed-rate mortgage fell 3 bps from 3.20% to 3.17%.

The advance trade goods trade deficit came in at \$90.6B compared to expectations of \$88.0 billion. The prior report was revised from \$86.7 billion to \$87.1B. Wholesale inventories rose 1.4% from the prior month compared to expectations of a 0.5% rise. Retail inventories fell 1.4% from the prior month compared to expectations of a decline of 0.2%.



The chart above shows the advance trade balance. The widening deficit is likely a reflection of an increase in consumption. As mentioned in prior reports, we expect the deficit to widen in response to fiscal stimulus during the pandemic.

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

<b>Economic Releases</b>		
No economic releases today		
<b>Fed Speakers or Events</b>		
<b>EST</b>	<b>Speaker or event</b>	<b>District or position</b>
14:00	FOMC Rate Decision	Federal Reserve Board
14:30	Jerome Powell Holds Press Conference following Meeting	Chairman of Board of Governors of Federal Reserve

## 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>								
<b>Japan</b>	Retail Sales	y/y	Mar	5.2%	-1.5%	4.7%	**	Equity bullish, bond bearish
	Dept. Store, Supermarket Sales	y/y	Mar	3.0%	-4.7%	5.2%	**	Equity and bond neutral
<b>Australia</b>	CPI	q/q	1Q	0.6%	0.9%	0.9%	***	Equity bullish, bond bearish
<b>EUROPE</b>								
<b>Germany</b>	GfK Consumer Confidence	m/m	May	-8.8	-6.2	-4.2	***	Equity bearish, bond bullish
<b>France</b>	Consumer Confidence	m/m	Apr	94.0	94.0	93.0	***	Equity and bond neutral
<b>UK</b>	BRC Shop Price Index	m/m	y/y	-1.3%	-2.4%		**	Equity and bond neutral
<b>Switzerland</b>	Credit Suisse Survey Expectations	m/m	Apr	68.3	66.7		**	Equity bullish, bond bearish
<b>AMERICAS</b>								
<b>Brazil</b>	FGV Construction Costs	m/m	Apr	1.0%	2.0%	1.3%	***	Equity and bond neutral
	IBGE Inflation IPCA-15	m/m	Apr	0.6%	0.9%	0.7%	**	Equity and bond neutral
<b>Mexico</b>	Trade Balance	m/m	Mar	-3003.6m	2681.1m	3400.0m	**	Equity bearish, bond bullish
	International Reserves Weekly	w/w	23-Apr	\$195373m	\$195247m		*	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
<b>3-mo Libor yield (bps)</b>	18	18	0	Up
<b>3-mo T-bill yield (bps)</b>	0	1	-1	Neutral
<b>TED spread (bps)</b>	18	17	1	Up
<b>U.S. Libor/OIS spread (bps)</b>	8	9	-1	Up
<b>10-yr T-note (%)</b>	1.65	1.62	0.03	Neutral
<b>Euribor/OIS spread (bps)</b>	-54	-54	0	Neutral
<b>EUR/USD 3-mo swap (bps)</b>	4	4	0	Down
<b>Currencies</b>				
dollar	Up			Down
euro	Down			Up
yen	Down			Up
pound	Down			Up
franc	Down			Up
<b>Central Bank Action</b>		<b>Prior</b>	<b>Expected</b>	
FOMC Rate Decision (Lower Bound)		0.000%	0.000%	On forecast
FOMC Rate Decision (Upper Bound)		0.250%	0.250%	On forecast
Interest Rate on Excess Reserves		0.100%	0.100%	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.

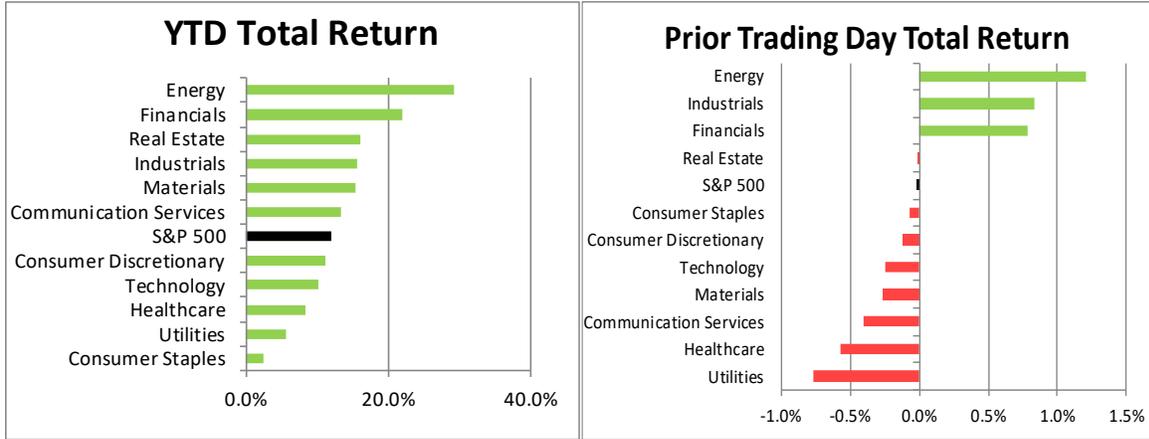
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$66.47	\$66.42	0.08%	
WTI	\$62.99	\$62.94	0.08%	
Natural Gas	\$2.88	\$2.87	0.35%	
Crack Spread	\$20.44	\$20.72	-1.39%	
12-mo strip crack	\$18.63	\$18.92	-1.53%	
Ethanol rack	\$2.50	\$2.51	-0.46%	
<b>Metals</b>				
Gold	\$1,766.55	\$1,776.60	-0.57%	
Silver	\$25.98	\$26.27	-1.09%	
Copper contract	\$445.55	\$448.55	-0.67%	
<b>Grains</b>				
Corn contract	\$634.50	\$654.50	-3.06%	
Wheat contract	\$714.75	\$732.75	-2.46%	
Soybeans contract	\$1,494.25	\$1,519.50	-1.66%	
<b>Shipping</b>				
Baltic Dry Freight	2889	2808	81	
<b>DOE inventory report</b>				
	<b>Actual</b>	<b>Expected</b>	<b>Difference</b>	
Crude (mb)		-1.0		
Gasoline (mb)		-0.4		
Distillates (mb)		-1.0		
Refinery run rates (%)		0.20%		
Natural gas (bcf)		11.0		

## Weather

The 6-10 and 8-14 day forecasts currently call for warmer than normal temperatures for most of the country, with cooler temperatures on the West Coast. The forecast calls for wetter than normal conditions throughout the Northern region.

**Data Section**

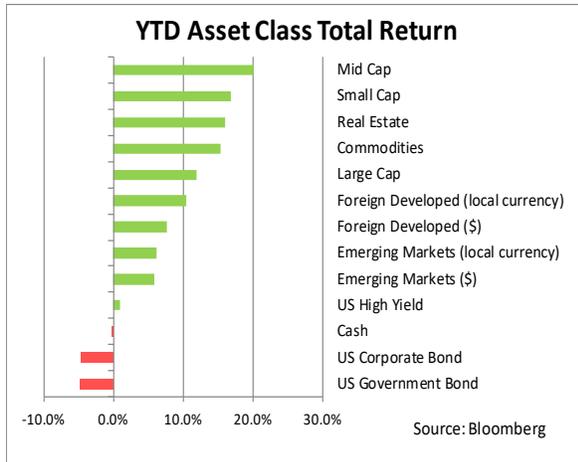
**U.S. Equity Markets – (as of 4/27/2021 close)**



(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 4/27/2021 close)**

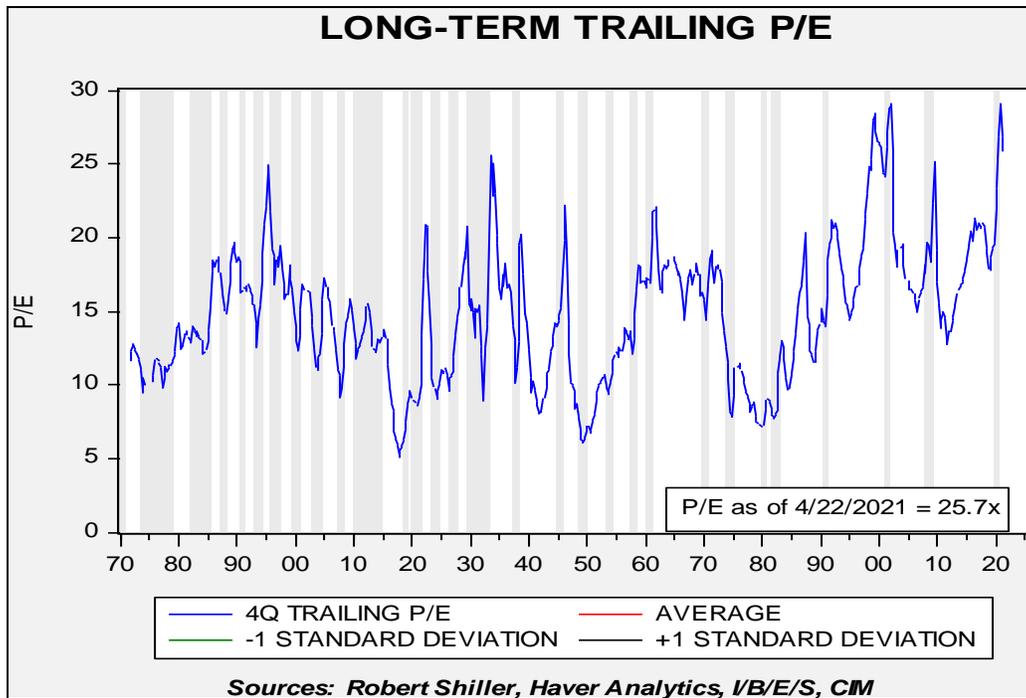


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 23, 2021



Based on our methodology,<sup>1</sup> the current P/E is 25.7x, unchanged 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 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.