

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, 2022—9:30 AM EDT] Global equity markets are mostly higher this morning. In Europe, the EuroStoxx 50 index is currently up 1.6% from its prior close. In Asia, the MSCI Asia Apex 50 closed up 1.2%. Chinese markets were mixed, with the Shanghai Composite up 0.6% from the prior day and the Shenzhen Composite down 0.7%. U.S. equity index futures are signaling a higher open. With 201 companies having reported, the S&P 500 Q1 2022 earnings stand at \$53.20, lower than the \$54.70 forecast for the quarter. The forecast reflects a 4.7% increase from Q1 2021 earnings. Thus far this quarter, 79.1% of the companies have reported earnings above forecast, while 16.9% 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:

- [Bi-Weekly Geopolitical Report](#) (4/25/2022) (with associated [podcast](#)): “The Russians Respond”
- **[Weekly Energy Update \(4/28/2022\)](#): We update the EU situation related to the Ukraine War.**
- [Asset Allocation Quarterly - Q2 2022](#) (4/21/2022): Discussion of our asset allocation process, Q2 2022 portfolio changes, and our outlook for the markets
- [Asset Allocation Bi-Weekly](#) (4/18/2022) (with associated [podcast](#)): “The Bank of Japan Cocks the Trigger”
- [Confluence of Ideas podcast](#) (3/25/2022): “The 2022 Outlook: Update #1”
- [Current Perspectives](#): “[2022 Outlook: Update #1](#)” (2/18/2022)
- **[Charts Worth Noting](#): We look at the relationship between the policy rate, unemployment, and inflation.**

Good morning! Today's report begins with an update on the War in Ukraine, while Europe is coping with Russia cutting off gas supplies. Next, we discuss international news, followed by our economics and policy coverage, and we close with the latest COVID-19 news.

Russian forces, learning from their earlier mistakes, have changed tactics as it tries to take over Ukraine. Earlier in the conflict, Russian troops tried to blitz Kyiv, attempting to overwhelm the Ukraine forces and bring down the capital. After that plan failed, Moscow became more systematic in its fight to take over the country. Although Russia is still relying heavily on air bombardments, it is trying to encircle Ukraine's forces on the [ground as it seeks to take over](#)

[areas around the city of Iziium](#) in eastern Ukraine. So far, the new approach has had limited success, but it is still unclear whether the Russian forces [are capable of achieving their objective](#).

Additionally, Russia may be opening another front in its war. Russian proxies in the Moldovan territory of Transnistria are falsely claiming Ukrainian forces are planning to attack the region. The accusation has prompted concerns that the Kremlin could be preparing to launch a missile strike on Moldova. By attacking Transnistria, the Kremlin may seek to escalate the war to include other areas in Europe. Ukraine has adopted a similar strategy as it broadens attacks on Russian cities along its border.

After Russia decided to [cut off gas flows to Bulgaria and Poland](#), the European Union described the move as blackmail and maintained it would not comply with the Russian demand for natural gas payments to be made in rubles. Responding to rising gas prices, the Italian government has moved to fund a [\\$6.3 billion aid package to protect consumers and companies](#) from the increases. Greece announced [it would deliver natural gas to Bulgaria](#) to compensate for the gap. Poland has already been preparing for this scenario. Despite the early signs of unity, there is some evidence that the European coalition is fracturing. [Brussel's ambiguous advice on ways to pay for Russian energy](#) while avoiding sanctions has led to complaints from member countries. Meanwhile, European firms have started [exploring ways to comply with Russian demands](#). However, the energy problem cuts both ways, as the end of winter means the demand for Russian natural gas is falling. There is speculation that a compromise between the sides is possible; however, countries in Europe, particularly Germany, will look to diversify their supply away from Russia.

Other Russia-Ukraine News

- The U.S. and Russia [agreed to a prisoner swap](#) on Wednesday in a rare gesture of compromise. The move shows the two sides are in communication with each other. This development is a positive sign given the escalating tensions over Ukraine.
- The West is still trying to ramp up pressure on Moscow. The EU [is expected to impose sanctions on Russian Sberbank](#) (SBER, RUB 132.00), and the U.S. House of Representatives [passed a nonbinding resolution](#) that will allow the government to sell seized Russian assets to fund the Ukraine war.
- Russian government data appears to [be hiding the war's impact on the economy](#). Information reported by the government and private data providers shows conflicting stories. The Kremlin may be looking to hide the war's impact on the economy, or private firms find it harder to access accurate data. Either way, conflicting data suggest that investing in Russia will be difficult.
- U.K. foreign minister Liz Truss hinted [the West could impose sanctions on China](#) if evidence shows Beijing is providing support to Russia.
- Russia [has deployed trained dolphins at its Sevastopol](#) naval base in Crimea.

International News

- China is looking to stimulate its economy [to avoid another pandemic-related slowdown](#). Earlier this week, President Xi Jinping promised new [infrastructure spending](#) to promote growth. On Wednesday, China's State Council pledged to allow internet platforms to grow and give out cash handouts to the poor. The move comes as the communist party looks to boost morale before the 20th National Congress of the Chinese Communist Party.
- In a speech, Kim Jong-un announced North Korea is willing to use Nuclear force not only to deter actions but against any country [that moves against “Pyongyang’s interest.”](#) The threat is another sign that North Korea has growing confidence in its nuclear capabilities.
- At \$1.05, [the euro is trading at its lowest level](#) against the dollar in nearly 20 years. The Ukraine crisis and a lack of monetary tightening have prevented the currency from appreciating. Although the European Central Bank is signaling that it is prepared to raise rates sometime this year, fears of an economic slowdown could lead to a rethink. Overall, a weaker euro should make equities within the EU attractive for dollar-based investors.

U.S. Economics and Policy

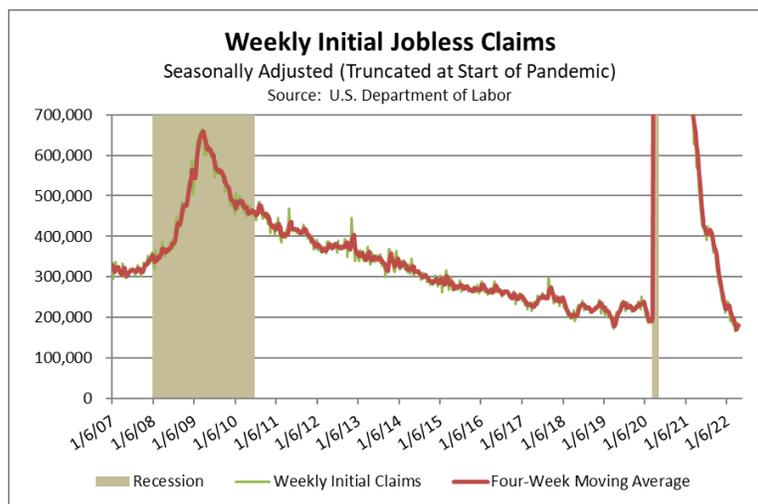
- The Democrats [are reluctant to push President Biden’s Build Back Better](#) plan, given the closeness of the midterm elections and the president's low approval ratings. Democrats are expected to lose control over the House and the Senate in November; thus, Democrats need to act sooner rather than later if it wants to get the law passed.

COVID-19: The [number of reported cases](#) is 511,562,837, with 6,228,088 fatalities. In the U.S., there are 81,188,133 confirmed cases with 992,721 deaths. For illustration purposes, the *FT* has created an [interactive chart](#) that allows one to compare cases across nations using similar scaling metrics. The [CDC reports](#) that 724,696,315 doses of the vaccine have been distributed, with 574,232,736 doses injected. The number receiving at least one dose is 257,423,254, while the number of second doses is 219,483,386 and the number of the third dose, granting the highest level of immunity, is 100,316,900. The *FT* has a page on [global vaccine distribution](#).

- Chief Medical Advisor Dr. Anthony Fauci [announced the U.S. is out of the pandemic phase and is entering the transition phase](#). He noted that this does not mean that the pandemic is over, but rather, the virus does not pose as serious of a threat as it has over the last two years. This development suggests that the remaining COVID-related restrictions could end soon. Therefore, the lack of regulations should lead to more economic activity.
- Moderna (MRNA, USD, 142.43) is pushing to have its [vaccine authorized for young children](#).
- COVID-19 cases are [starting to pick up across the country](#).

U.S. Economic Releases

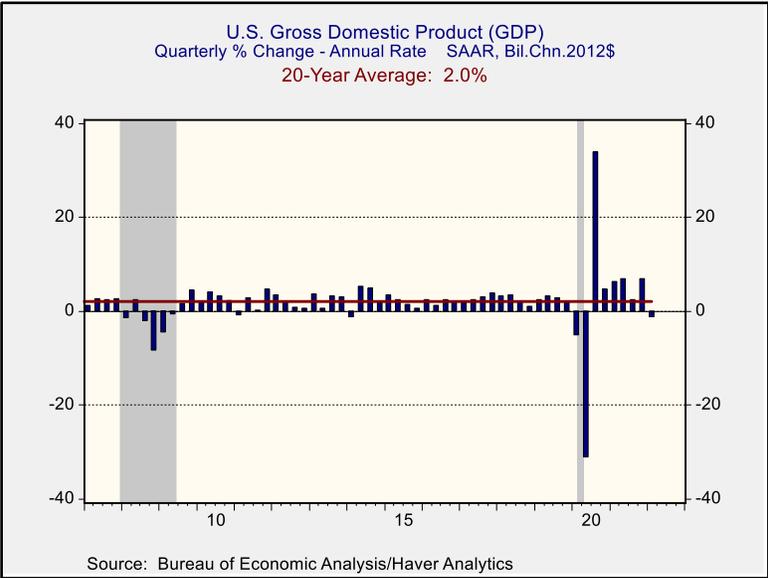
Initial applications for unemployment benefits in the week ended April 23 fell to a seasonally adjusted 180K from a revised 185K in the prior week, exactly as expected. The four-week moving average of initial jobless claims, which helps strip out some of the volatility in the series, rose to 179.75K, but that was still near the lowest level in decades. The data indicates that employers facing today's severe labor shortage remain very reluctant to lay off their workers. Meanwhile, continuing claims in the week ended April 16 edged down to 1.408 million from 1.409M in the previous week, although that wasn't quite as good as the anticipated level of 1.399M. The chart below shows how initial jobless claims have fluctuated since just before the prior recession. The chart is truncated through much of the pandemic because of the extremely high level of initial claims in that period.



To provide more detail on the most recent period, the chart below shows how initial jobless claims have changed since the beginning of 2021.



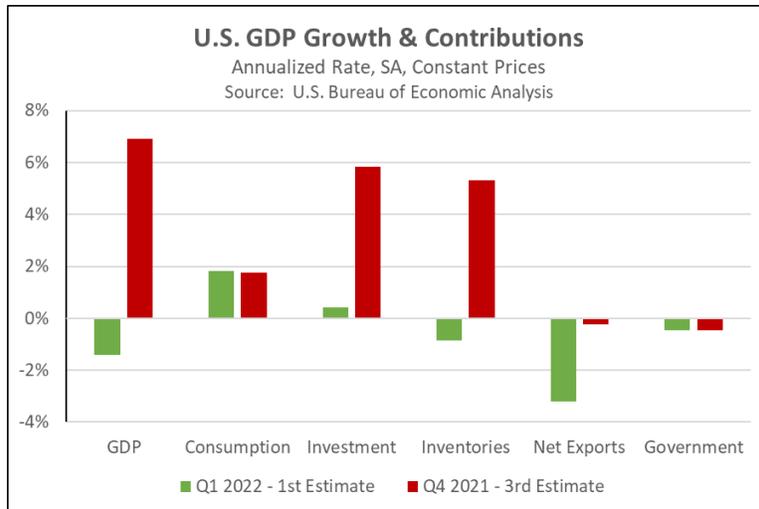
Separately, an initial estimate showed U.S. economic activity unexpectedly declined at the start of 2022. After stripping out price changes and normal seasonal fluctuations, the first-quarter gross domestic product (GDP) fell at an annualized rate of 1.4%. That reversed only a small part of the fourth quarter’s rise at a rate of 6.9%, but it highlighted the challenges the economy is now facing in terms of supply chain disruptions and high inflation. The data showed that personal consumption spending grew slightly faster in the first quarter than in the previous period, but that was more than offset by big slowdowns in investment and exports. The chart below shows the quarterly growth rate of GDP since just before the previous recession.



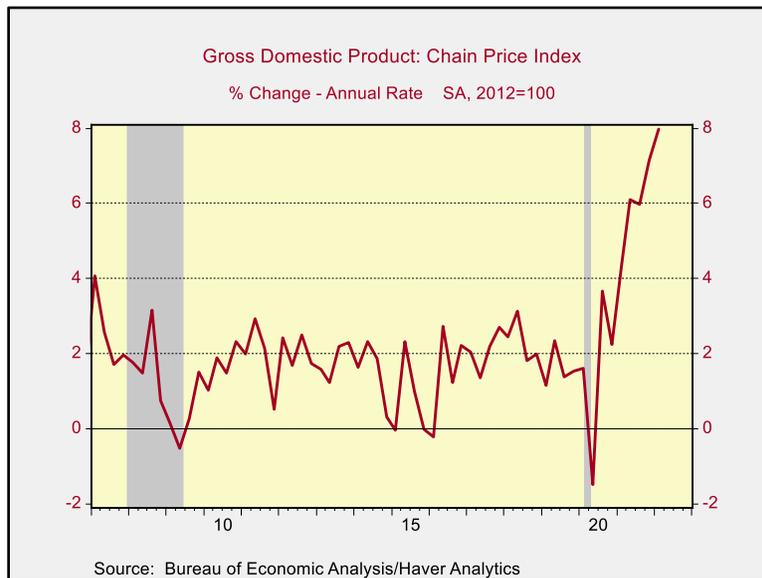
The table below shows how the various components of GDP contributed to the first-quarter growth rate.

	Q1 2022 - 1st Estimate	Q4 2021 - 3rd Estimate	Difference
GDP	-1.4%	6.9%	-8.3%
Consumption	1.8%	1.8%	0.1%
Investment	0.4%	5.8%	-5.4%
Inventories	-0.8%	5.3%	-6.2%
Net Exports	-3.2%	-0.2%	-3.0%
Government	-0.5%	-0.5%	0.0%

The chart below shows the same information on contributions to GDP growth in graphical form.



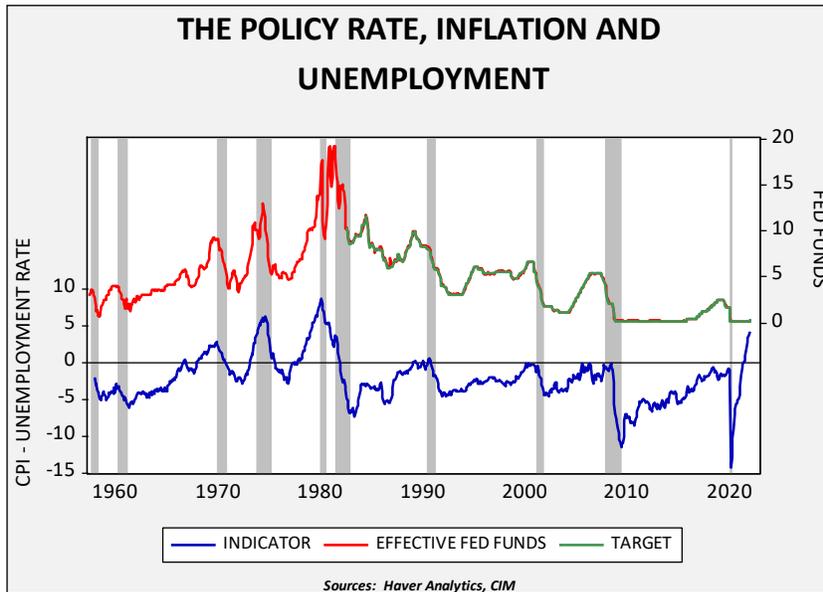
Finally, the GDP report also included the broadest measure of price inflation in the economy. The first-quarter GDP price index rose at a strong rate of 8.0%, beating both the expected rate of increase of 7.2% and the previous quarter’s rate of 7.1%. The chart below shows the year-over-year change in the GDP price index since just before the prior recession.



The table below lists the economic releases and/or Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
11:00	Kansas City Fed Manufacturing Index	m/m	Apr	35	37	*
Federal Reserve						
No Fed speakers or events today						

Charts Worth Noting: With the FOMC meeting next week, we wanted to preview the challenges facing policymakers. The chart below is based on research from Larry Summers, who argues that when the spread between unemployment and inflation is wide, recessions are difficult to avoid. In this chart, we look at fed funds relative to the difference between the yearly change in CPI and the unemployment rate.



This chart stands out because problems develop when this difference between CPI and the unemployment rate is positive. In the 1967-81 period, when inflation became a problem, this relationship was often positive. And, when it was positive, a recession resulted in each event. After 1980, the Fed didn't let this relationship become positive, that is, until now. After the experience of the 1970s, the FOMC tended to move preemptively; as the CPI-

unemployment measure approached zero, the committee began raising the policy rate. However, Chair Powell has disavowed preemption, arguing that the policy needlessly suppressed employment. By not moving to raise rates as CPI rose above the unemployment rate, policymakers now find themselves in the same position they were on three occasions during the 1970s. This data argues the FOMC will need to raise rates rather aggressively, increasing the risk of recession.

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	Industrial Production	y/y	Mar P	-1.7%	0.5%	-1.3%	***	Equity bearish, bond bullish
	Retail Sales	y/y	Mar	0.9%	-0.9%	0.3%	**	Equity bullish, bond bearish
	Depart. Store & Supermarket Sales	y/y	Mar	1.5%	0.1%	1.7%	*	Equity and bond neutral
	Foreign Buying Japan Stocks	w/w	8-Apr	¥595.1b	¥406.2b		*	Equity and bond neutral
	Foreign Buying Japan Bonds	w/w	8-Apr	-¥1508.0b	¥1225.4b		*	Equity and bond neutral
	Japan Buying Foreign Stocks	w/w	8-Apr	¥246.3b	¥58.5b		*	Equity and bond neutral
	Japan Buying Foreign Bonds	w/w	8-Apr	-¥1155.6b	-¥73.1b		*	Equity and bond neutral
	Housing Starts	y/y	Mar	6.0%	6.3%	-0.5%	**	Equity bullish, bond bearish
	Annualized Housing Starts	y/y	Mar	0.927m	0.872m	0.857m	*	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	Apr	8.0	3.3		**	Equity bullish, bond bearish
	ANZ Business Confidence	m/m	Apr	-42.0	-41.9		**	Equity and bond neutral
	Trade Balance NZD	m/m	Mar	-0.392b	-0.691b		**	Equity bullish, bond bearish
	Exports NZD	m/m	Mar	6.67b	5.220b		**	Equity bullish, bond bearish
	Imports NZD	m/m	Mar	7.06b	5.910b		**	Equity bullish, bond bearish
South Korea	Business Survey - Manufacturing	m/m	Apr	88	85		**	Equity bullish, bond bearish
	Business Survey - Non-Manufacturing	m/m	Apr	85	82		*	Equity bullish, bond bearish
	Retail Sales	y/y	Mar	7.1%	4.7%		**	Equity bullish, bond bearish
	Depart. Store Sales	y/y	Mar	7.8%	9.3%		*	Equity and bond neutral
	Discount Store Sales	y/y	Mar	0.0%	-24.0%		*	Equity and bond neutral
EUROPE								
Germany	CPI	y/y	Apr P	7.4%	7.3%	7.2%	***	Equity bearish, bond bearish
	CPI, EU Harmonized	y/y	Apr P	7.8%	7.6%	7.6%	**	Equity bearish, bond bearish
Italy	Consumer Confidence	m/m	Apr	100.0	100.8	100.0	***	Equity and bond neutral
	Manufacturing Confidence	m/m	Apr	110.0	110.3	109.0	***	Equity and bond neutral
	Economic Sentiment	m/m	Apr	105.5	105.4		**	Equity and bond neutral
	Industrial Sales WDA	y/y	Feb	20.9%	16.9%		*	Equity bullish, bond bearish
AMERICAS								
Mexico	Unemployment Rate NSA	m/m	Mar	2.97%	3.74%	3.40%	***	Equity bullish, bond bearish
Brazil	FGV Inflation IGPM	y/y	Apr	14.66%	14.77%	14.98%	***	Equity and bond neutral
	Total Outstanding Loans	m/m	Feb	4711b	4671b	4700b	**	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.

Fixed Income	Today	Prior	Change	Trend
3-mo Libor yield (bps)	124	122	2	Up
3-mo T-bill yield (bps)	80	81	-1	Neutral
TED spread (bps)	44	41	3	Widening
U.S. Sibor/OIS spread (bps)	109	102	7	Up
U.S. Libor/OIS spread (bps)	114	107	7	Up
10-yr T-note (%)	2.82	2.83	-0.01	Up
Euribor/OIS spread (bps)	-45	-43	-2	Neutral
Currencies	Direction			
Dollar	Up			Up
Euro	Down			Down
Yen	Down			Down
Pound	Down			Down
Franc	Down			Down
Central Bank Action	Current	Prior	Expected	
Bank of Japan Policy Balance Rate	-0.100%	-0.100%	-0.100%	On Forecast
Bank of Japan 10-Year Yield Target	0.000%	0.000%	0.000%	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.

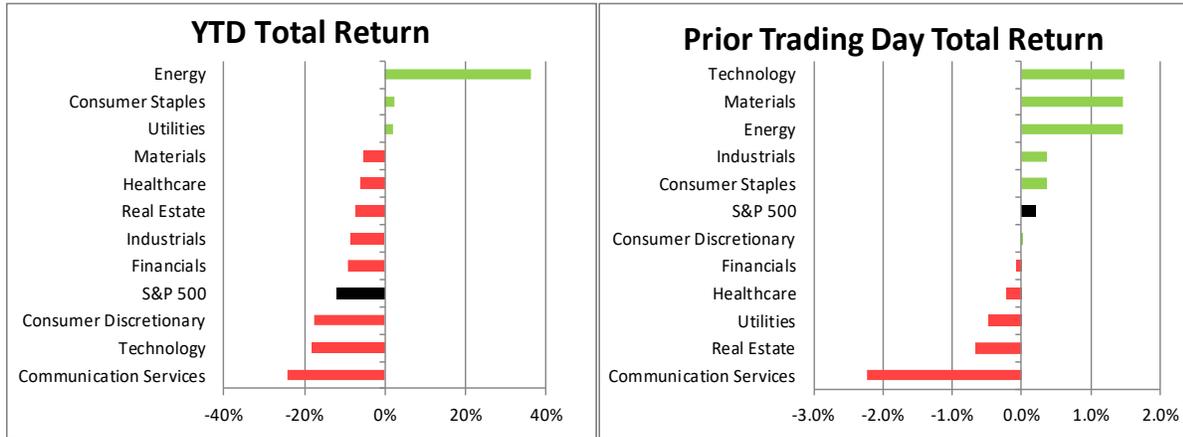
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$104.85	\$105.32	-0.45%	
WTI	\$101.66	\$102.02	-0.35%	
Natural Gas	\$7.25	\$7.34	-1.20%	
Crack Spread	\$48.58	\$48.89	-0.63%	
12-mo strip crack	\$33.24	\$33.37	-0.41%	
Ethanol rack	\$2.90	\$2.90	-0.22%	
Metals				
Gold	\$1,886.96	\$1,886.10	0.05%	
Silver	\$23.08	\$23.30	-0.95%	
Copper contract	\$446.10	\$447.50	-0.31%	
Grains				
Corn contract	\$818.75	\$812.25	0.80%	
Wheat contract	\$1,104.50	\$1,091.25	1.21%	
Soybeans contract	\$1,695.25	\$1,692.75	0.15%	
Shipping				
Baltic Dry Freight	2,425	2,404	21	
DOE Inventory Report				
	Actual	Expected	Difference	
Crude (mb)	0.7	0.0	0.7	
Gasoline (mb)	-1.6	1.0	-2.6	
Distillates (mb)	-1.4	-1.0	-0.4	
Refinery run rates (%)	-0.7%	0.0%	-0.7%	
Natural gas (bcf)		38.0		

Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures throughout the Southeast, with cooler-than-normal temperatures in the Pacific Northwest and the Upper Midwest. The forecasts call for wetter-than-normal conditions in the Northern Rockies, the Great Plains, and the Midwest, with dry conditions in the Southwest.

Data Section

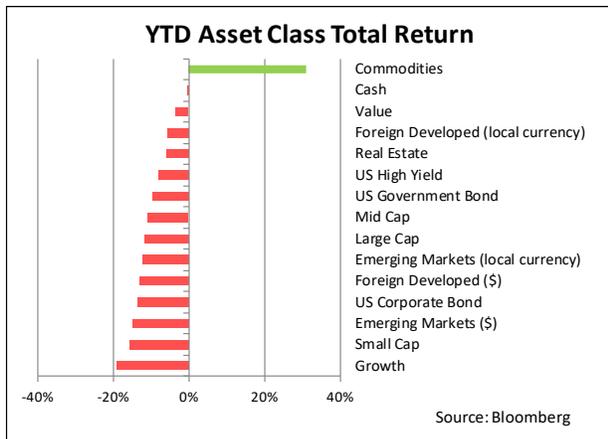
U.S. Equity Markets – (as of 4/27/2022 close)



(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 4/27/2022 close)

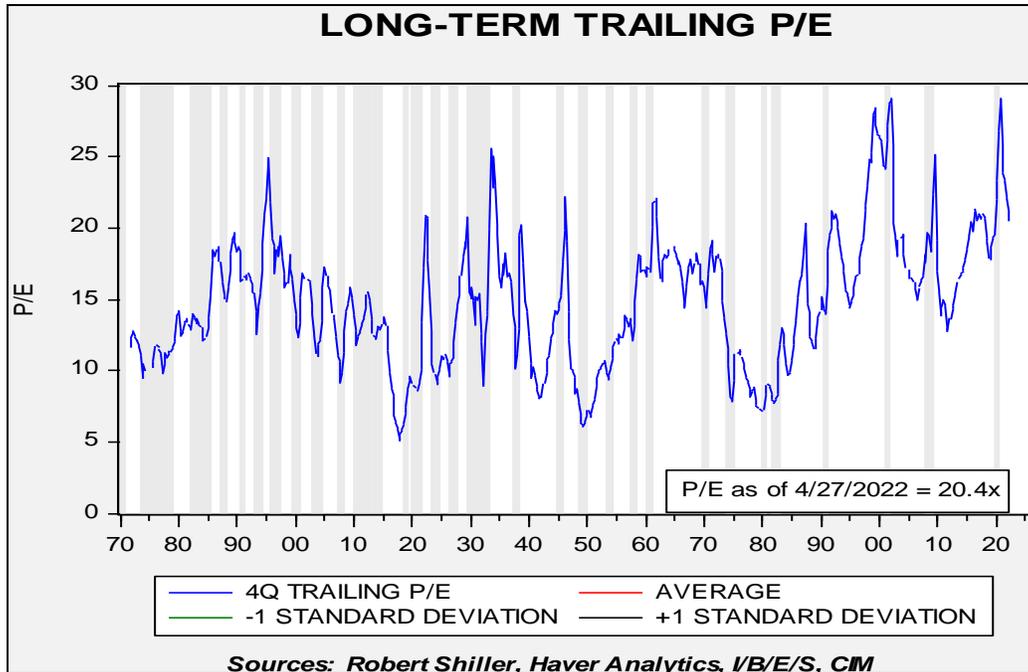


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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), Value (S&P 500 Value), Growth (S&P 500 Growth).

P/E Update

April 28, 2022



Based on our methodology,¹ the current P/E is 20.4x, down 0.3x from last week. Lower index values lowered the multiple.

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.