

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: August 31, 2021—9:30 AM EDT] Global equity markets are generally higher this morning. In Europe, the EuroStoxx 50 is up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 closed up 2.0%. Chinese markets were mixed, with the Shanghai Composite up 0.5% from its prior close and the Shenzhen Composite down 0.5%. U.S. equity index futures are signaling a slightly lower open. With 490 companies having reported, the S&P 500 Q2 2021 earnings stand at \$52.70, higher than the \$45.31 forecast for the quarter. The forecast reflects a 60.0% increase from Q2 2020 earnings. Thus far this quarter, 87.1% of the companies have reported earnings above forecast, while 11.2% 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 \(8/30/2021\): “A Storm Before the Calm: A Review”](#)**
- [Weekly Energy Update \(8/26/2021\)](#): Oil prices snapped back this week as crude oil inventories declined.
- [Asset Allocation Q3 2021 Rebalance Presentation \(8/26/2021\)](#): A video discussion of our asset allocation process, portfolio changes in Q3, and the macro environment
- [Asset Allocation Weekly \(8/27/2021\)](#) (with associated [podcast](#)): we look at the composition of the FOMC and the history of monetary policy in past recoveries, focusing on job recoveries
- [Confluence of Ideas podcast \(7/7/2021\)](#): “The Geopolitics of Taiwan and the Issue of Globalization”

In today's *Comment*, we open with the latest news on the U.S. pullout from Afghanistan and the damage from Hurricane Ida on the Gulf of Mexico. We next review the latest sign that China has fully embraced President Xi's new “Common Prosperity” program to rein in the rich and powerful and redistribute resources to lower-income citizens. We close with a review of other foreign and U.S. news and the latest developments related to the coronavirus pandemic.

Afghanistan: The last U.S. troops [flew out of Afghanistan yesterday](#), just one minute before the August 31 deadline established by President Biden and almost 20 years since they first arrived in the wake of the 9/11 terrorist attacks in 2001. Despite what U.S. military officials described as “very pragmatic and businesslike” cooperation from the Taliban throughout the evacuation, it appears that 200 or so U.S. citizens and thousands of Afghans who had helped the U.S. effort were unable to be evacuated. The U.S. and other Western countries have indicated they will now

pursue diplomatic efforts to secure the exit of their citizens and allied Afghans. It will be an important test of whether or not the Taliban have moderated their governing approach after being out of power for the last two decades.

- Regardless of how messy the exit was, President Biden could, in the long run, get credit for extricating the U.S. from Afghanistan after Presidents Trump and Obama failed. In the near term, however, the unartful and casualty-plagued evacuation will likely undermine much of Biden's domestic and international agenda.
- In the coming weeks, our *Weekly Geopolitical Reports* will take a close look at the implications of the U.S. exit from Afghanistan, especially for major regional powers such as China, Russia, and Iran.

Hurricane Ida: Government and industry officials [continue to assess the damage Hurricane Ida](#) caused in Louisiana, with some warning that 400,000 residents in the suburbs south and west of New Orleans could be without electricity for three weeks. They could also be without water and sewer services for up to five days.

- Meanwhile, energy companies [continue to assess the damage to their refineries, pipelines, petrochemical plants, and offshore oil platforms](#) along the central Gulf of Mexico. It may take a couple more days [to get a clear picture of that damage](#) and any impact on the energy markets.
- The hurricane's damage [will also have a significant impact on the insurance and reinsurance industries](#). The costs will be especially painful given the low level of interest rates these days, which has weighed on insurers' investment returns.

China: At a central leadership meeting yesterday, President Xi [called on officials to do more to "guide and supervise" society in general and the economy in particular](#). He stressed that Beijing's campaign to "prevent the irrational expansion of capital" and address "barbarous growth" in China's technology sector is beginning to bear fruit and would help promote his "Common Prosperity" program to redistribute resources toward lower-income citizens.

- As further evidence that Beijing's clampdown on big, fast-growing technology companies is part of the broader Common Prosperity program, an influential nationalist blogger [has published a tirade calling on the government to intensify and expand its program](#) to target areas such as the high cost of housing, education, and healthcare.
 - The tirade has been shared by China's largest state and party-controlled media outlets, including the Xinhua News Agency, the *People's Daily* newspaper, and the CCTV television network, indicating a broad degree of state support.
 - Here's one choice quote from the article: "The capital market will no longer become a paradise for capitalists to get rich overnight . . . the cultural market will no longer be a paradise for sissy stars, and news and public opinion will no longer be in a position worshipping western culture."
- Despite some officials' efforts to calm investors in recent days, it still appears to us that President Xi's economic and social policy ("Xiconomics?") has turned decisively toward greater government regulation, income redistribution, and party control over society.

These increased regulatory risks will likely continue to weigh on Chinese assets over time.

Russia: As the September 19 parliamentary elections approach, police [continue to ramp up their persecution of opposition activists, especially those allied with jailed lawyer Alexei Navalny](#) and his “Smart Voting” system that encourages voters to cast their ballot strategically in order to defeat President Putin’s party.

Global Retail Employment: Although we tend to think of automation being a greater risk to manufacturing and industrial workers, it can even displace jobs in an industry like retail. In some places, QR codes (those funny-looking matrixes you scan with your phone) [are being used to inform potential buyers about a product instead of relying on a salesperson](#). If that change becomes more widespread, it could reduce the need for retailers to hire sales staff.

COVID-19: Official data show confirmed cases [have risen to 217,257,194 worldwide, with 4,513,251 deaths](#). In the United States, confirmed cases rose to 39,058,704, with 638,844 deaths. [Vaccine doses delivered in the U.S. now total 440,026,945, while the number of people who have received at least their first shot totals 204,742,648](#). Finally, here is the [interactive chart](#) from the *Financial Times* that allows you to compare cases and deaths among countries, scaled by population.

Virology

- According to the latest CDC data, 61.7% of the U.S. population has now received at least one dose of a vaccine, and 52.4% of the population is fully vaccinated.
- The U.S. Education Department [said it has opened civil rights investigations into five states that banned school mask mandates](#) to examine whether such policies place students with disabilities at heightened risk of severe illness through contracting COVID-19. The states under investigation are Utah, Oklahoma, Iowa, Tennessee, and South Carolina.
- The EU [recommended that its member countries halt nonessential travel from the U.S.](#) because of the country’s growing case count and lagging vaccination rates.
 - The decision came amid the growing spread of the Delta variant in the U.S., where vaccination rates have also now fallen behind the average rates of shots in EU countries.
 - The EU travel list, reviewed every two weeks, isn’t binding on member states, but it has generally set the pattern for who can visit the bloc.
- In Japan, researchers have [confirmed the first case of a new submutation of the Delta variant, marking just the eighth case of this submutation worldwide](#). The researchers believe the new submutation may leave patients with a higher risk of secondary infection, as well as a greater risk of developing severe symptoms and dying.

Economic and Financial Market Impacts

- In China, the services sector suffered an unexpectedly severe blow in August as a wave of coronavirus infections sparked new lockdowns across the country. The official August Purchasing Managers Index for the services sector [plummeted all the way to 47.5](#) from

53.3 in July. Like most such indexes, China's official PMI is designed to show readings below 50 will point to contracting activity.

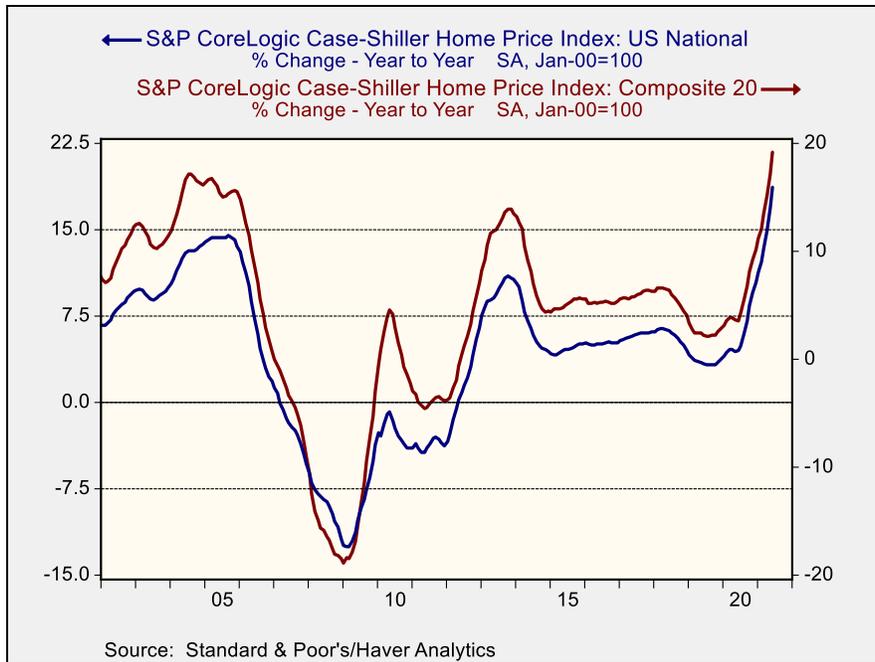
- China is one of the few major countries willing to impose mass lockdowns again, so the impact of the news on investors may be limited.
- All the same, the steep drop in activity could highlight the economic risks as the Delta variant spreads rapidly around the world, especially among unvaccinated people. If services continue to slow in response, risk markets in the U.S. and other countries could start to weaken.
- As investors begin to worry more about an economic slowdown sparked by the Delta variant or a stock-market pullback sparked by tighter monetary policy or excessive valuations, many [are ramping up their purchases of buy-write funds as a hedge](#). That comes on top of other signs of greater investor caution, such as the recent outperformance of utility and healthcare stocks.
- As home prices continue to rocket upward in response to the pandemic and the policies put in place to combat it, rental prices for single-family homes [are rising rapidly as well](#). According to real estate data firm Yardi Matrix, asking rents for houses rose nearly 13% for the year to date through July, the highest annual increase in at least the past five years.

Foreign Policy Responses

- In South Korea, the government [has proposed a 2022 budget that would hike spending by 8.3% compared with 2021](#) and boost public debt to 50.2% of GDP, up from less than 40.0% just a few years ago. The proposed fiscal stimulus is designed to buoy the economy as South Korea deals with yet another wave of infections sparked by the Delta variant.

U.S. Economic Releases

In today's economic releases, we focus on housing data. In June, the rise in home prices came in below expectations rising 1.6% from the prior month, according to the Federal Housing Financing Agency. Expectations were for a 1.9% rise. Housing prices rose 4.9% from the previous quarter. Another housing price index designed by S&P CoreLogic showed that home prices in the top-20 cities rose 19.08% from the prior month, slightly below expectations of an 18.60% rise.



The chart above shows the annual change in the S&P CoreLogic Index for the top-20 cities and the country.

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

Economic Releases						
EDT	Indicator			Expected	Prior	Rating
9:45	MNI Chicago PMI	m/m	Aug	73.4	68.0	***
10:00	Conf. Board Consumer Confidence	m/m	Aug	129.1	123.0	***
10:00	Conf. Board Present Situation	m/m	Aug	160.3		**
10:00	Conf. Board Expectations	m/m	Aug	108.4		**
Fed Speakers or Events						
No Fed speakers or events today						

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	Non-manufacturing PMI	m/m	Aug	47.5	53.3	52	**	Equity bearish, bond bullish
	Manufacturing PMI	m/m	Aug	50.1	50.4	50.2	**	Equity and bond neutral
	Composite PMI	m/m	Aug	48.9	52.4		***	Equity bearish, bond bullish
Japan	Job-To-Applicant Ratio	m/m	Jul	1.15	1.13	1.12	**	Equity and bond neutral
	Jobless Rate	m/m	Jul	2.9%	2.9%	2.9%	*	Equity and bond neutral
	Industrial Production	m/m	Jul P	-2.5%	6.5%	-2.5%	*	Equity and bond neutral
	Housing Starts	y/y	Jul	9.9%	7.3%	5.3%	**	Equity bullish, bond bearish
	Consumer Confidence Index	m/m	Aug	36.7	37.5	36	**	Equity and bond neutral
Australia	ANZ Roy Morgan Consumer Confidence	w/w	29-Aug	101.8	101.6		***	Equity and bond neutral
	BoP Current Account Balance	q/q	2Q	A\$20.5b	A\$18.3b	A\$21.4b	**	Equity and bond neutral
	Building Approvals	m/m	Jul	-8.6%	-6.7%	-5.0%	**	Equity bearish, bond bullish
	Private Sector Credit	y/y	Jul	4.0%	3.1%	3.5%	**	Equity bullish, bond bearish
New Zealand	Building Permits	m/m	Jul	2.1%	3.8%		**	Equity and bond neutral
	ANZ Business Confidence	m/m	Aug	-14.2	-3.8		**	Equity bearish, bond bullish
	ANZ Activity Outlook	m/m	Aug	19.2	26.3		***	Equity and bond neutral
EUROPE								
Eurozone	CPI Core	y/y	Aug	1.6%	0.7%	1.5%	***	Equity and bond neutral
	CPI Estimate	y/y	Aug	3.0%	2.2%	2.7%	***	Equity bearish, bond bullish
France	PPI	m/m	Jul	1.3%	1.1%		**	Equity bearish, bond bullish
	Consumer Spending	m/m	Jul	-2.2%	0.3%	0.2%	**	Equity bearish, bond bullish
	CPI EU Harmonized	m/m	Aug	0.7%	0.1%	0.5%	***	Equity bearish, bond bullish
	CPI	y/y	Aug	1.9%	1.2%	1.7%	***	Equity bearish, bond bullish
	GDP	q/q	2Q F	1.1%	0.9%	0.9%	***	Equity bullish, bond bearish
Germany	Unemployment Change (000's)	m/m	Aug	-53.0k	-91.0k	-40.0k	***	Equity bullish, bond bearish
	Unemployment Claims Rate SA	m/m	Aug	5.5%	5.7%	5.6%	***	Equity bullish, bond bearish
Italy	GDP WDA	q/q	2Q F	2.7%	2.7%	2.7%	***	Equity and bond neutral
	CPI EU Harmonized	y/y	Aug	2.6%	1.0%	2.1%	***	Equity bearish, bond bullish
	CPI NIC incl. tobacco	y/y	Aug	2.1%	1.8%	1.9%	***	Equity and bond neutral
	PPI	m/m	Jul	13.5%	11.0%		**	Equity bearish, bond bullish
UK	Net Consumer Credit	m/m	Jul	-.00b	0.3b	0.4b	*	Equity bearish, bond bullish
	Consumer Credit	y/y	Jul	-2.7%	-2.2%		*	Equity and bond neutral
	Net Lending Sec. on Dwellings	m/m	Jul	-1.4b	17.9b	3.1b	**	Equity and bond neutral
	Mortgage Approvals	m/m	Jul	75.2k	81.3k	78.0k	**	Equity and bond neutral
	M4 Money Supply	y/y	Jul	6.0%	6.9%		**	Equity and bond neutral
	Money Supply M4 MoM	m/m	Jul	0.1%	0.5%		**	Equity bearish, bond bullish
	M4 Ex IOFCs 3M Annualised	m/m	Jul	5.3%	5.9%		**	Equity and bond neutral
AMERICAS								
Brazil	FGV Inflation IGPM	m/m	Aug	0.7%	0.8%	0.8%	**	Equity and bond neutral
	Central Govt Budget Balance	m/m	Jul	-19.8b	-73.6b	-26.7b	**	Equity and bond neutral
Canada	Bloomberg Nanos Confidence	w/w	27-Aug	62.6	64.2		***	Equity and bond bullish
	Current Account Balance	q/q	2Q	\$3.58b	\$1.18b	\$0.50b	**	Equity and bond neutral
Mexico	Budget Balance YTD	m/m	Jul	-242.7b	-231.2b		**	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)	12	12	0	Down
3-mo T-bill yield (bps)	4	4	0	Neutral
TED spread (bps)	8	8	0	Neutral
U.S. Libor/OIS spread (bps)	8	8	0	Down
10-yr T-note (%)	1.28	1.28	0.00	Down
Euribor/OIS spread (bps)	-55	-55	0	Neutral
EUR/USD 3-mo swap (bps)	3	3	0	Down
Currencies	Direction			
dollar	Down			Down
euro	Up			Up
yen	Flat			Neutral
pound	Flat			Neutral
franc	Up			Neutral

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.

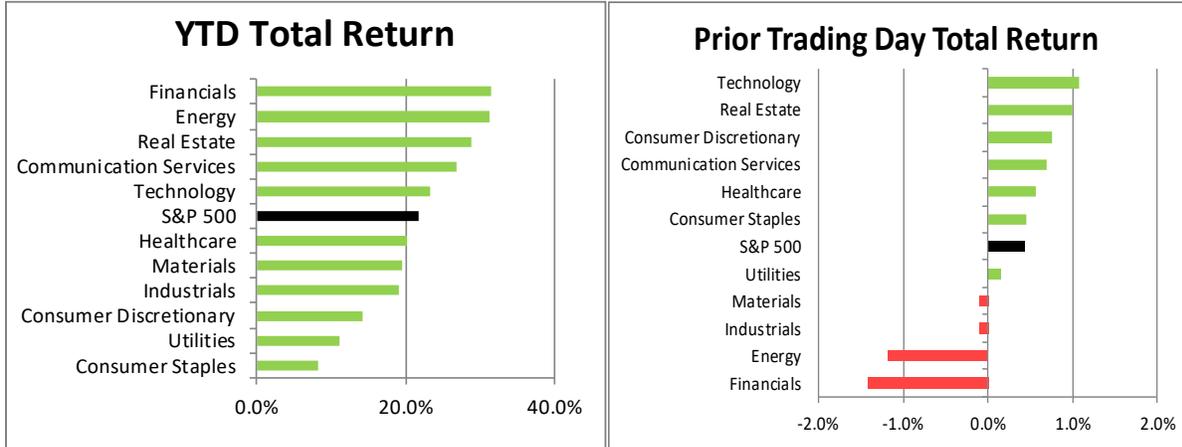
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$72.72	\$73.41	-0.94%	
WTI	\$68.35	\$69.21	-1.24%	
Natural Gas	\$4.30	\$4.31	-0.19%	
Crack Spread	\$20.84	\$21.02	-0.81%	
12-mo strip crack	\$20.11	\$20.34	-1.14%	
Ethanol rack	\$2.44	\$2.45	-0.51%	
Metals				
Gold	\$1,814.74	\$1,810.34	0.24%	
Silver	\$24.13	\$24.04	0.39%	
Copper contract	\$434.55	\$437.55	-0.69%	
Grains				
Corn contract	\$ 541.75	\$ 542.75	-0.18%	
Wheat contract	\$ 720.50	\$ 723.50	-0.41%	
Soybeans contract	\$ 1,303.75	\$ 1,303.25	0.04%	
Shipping				
Baltic Dry Freight	4235	4195	40	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)		-2.5		
Gasoline (mb)		-1.5		
Distillates (mb)		-0.5		
Refinery run rates (%)		0.50%		

Weather

The 6-10 day and 8-14 day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler temperatures in the New England and Midwest regions. The forecast calls for wetter-than-normal conditions in the Southwest and Northeast. Hurricane Ida has been downgraded to a tropical depression. There are also two cyclonic disturbances far out in the Atlantic Ocean. On average, hurricane activity peaks on September 10.

Data Section

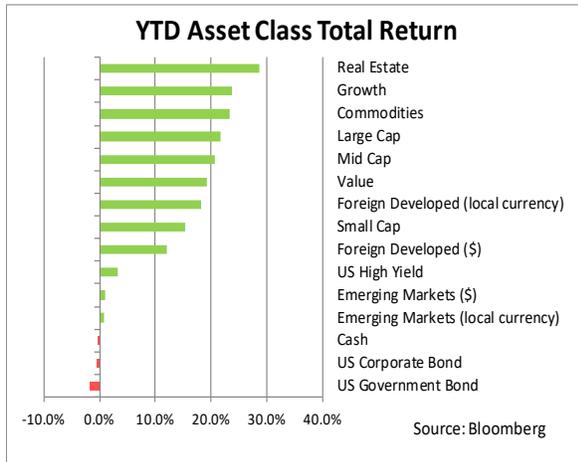
U.S. Equity Markets – (as of 8/30/2021 close)



(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 8/30/2021 close)

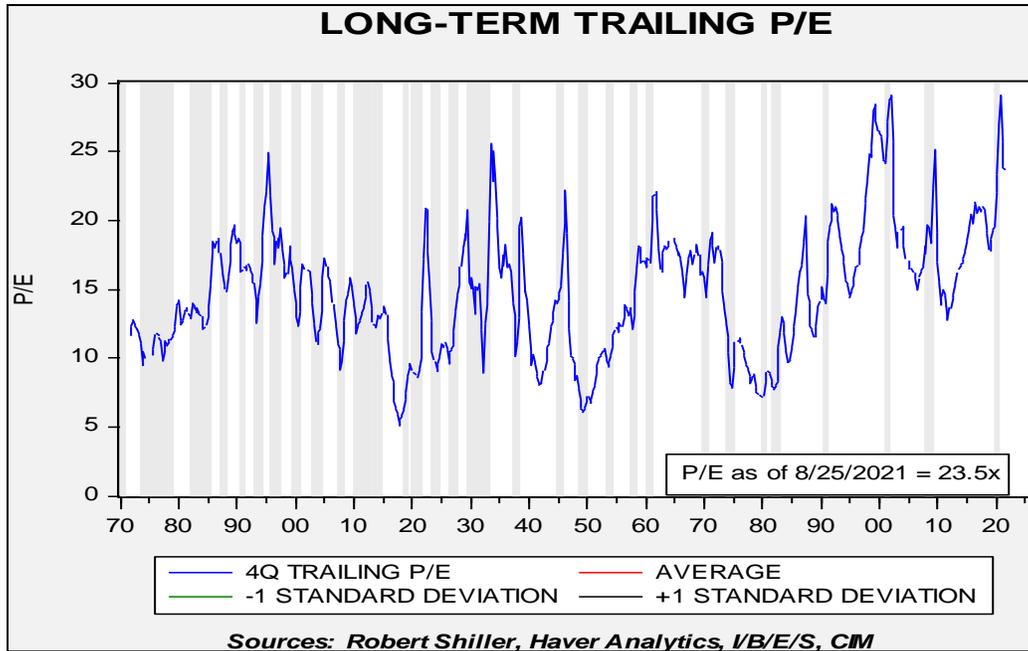


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

P/E Update

August 26, 2021



Based on our methodology,¹ the current P/E is 23.5x, 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.

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 (Q4, Q1 and Q2) and one estimate (Q3). 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.