

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: December 3, 2021—9:30 AM EST] Global equity markets are mixed this morning. In Europe, the EuroStoxx 50 is up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 closed down 1.1%. Chinese markets were higher, with the Shanghai Composite up 0.9% from its prior close and the Shenzhen Composite up 0.7%. 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](#) (11/22/2021): “The Geopolitics of the Strategic Petroleum Reserves”
- [Weekly Energy Update](#) (12/2/2021): *Oil prices have tumbled on the Omicron variant and on the SPR release. We take a look at gasoline prices relative to wages.*
- [Asset Allocation Q4 2021 Rebalance Presentation](#) (11/4/2021): A video discussion of our asset allocation process, Q4 2021 portfolio changes, and the macro environment
- [Asset Allocation Weekly](#) (12/3/2021) (with associated [podcast](#)): **“An Update on Gold”**

Good morning. U.S. equity futures are signaling a higher open. Today's report begins with U.S. economic and policy news followed by our roundup of China-related stores. International news is next, and we conclude with our pandemic coverage:

Economics and policy:

- Congressional leaders agreed to a [short-term spending bill](#) that would fund government agencies through February 18. The bill passed through both the House and the Senate on Thursday and is expected to be signed by President Biden on Friday.
- Federal Reserve Governor Randy Quarles [gave his final speech on Thursday](#). In it, he warned that the new facilities put in place for the pandemic established a dangerous precedent that could have ramifications for the economy. His comments reflect growing angst among those in the establishment who would like a return to the pre-pandemic norm concerning fiscal and monetary policy.
- The dispute over the Russian troop buildup along the [Ukraine border swelled on Thursday](#). Secretary of State Antony Blinken warned Russia that if it pursued confrontation with Ukraine, there would be “serious consequences.” The vague threat

was in response to U.S. concerns that the troop buildup was a prelude to an inevitable Russian invasion of Ukraine. Russian Foreign Affairs Minister Sergei Lavrov responded by stating that continued western military support of Ukraine may lead to retaliation from Moscow. Although Russia has dismissed the chances of an eventual invasion, Ukraine and the U.S. appear to be unconvinced. On Friday, Ukraine Defense Minister Oleksii Reznikov warned that his [country was prepared to fight back](#) if Russia were to launch an attack.

- The U.S. plans to lead efforts [to limit the export of surveillance technologies](#) to authoritarian governments. The initiative is expected to be launched at the Summit for Democracy event that will take place on December 9.
- Cleveland Federal Reserve President Loretta Mester [warned that the Omicron variant could exacerbate inflation](#). Assuming that this new variant is more dangerous than the delta virus, she claimed there could be more supply chain shortages and higher quit rates. Her warning comes amid growing fears that the variant could slow the global recovery. However, it is worth noting that although there is evidence suggesting the latest variant is more contagious than Delta; it is also believed to have [less severe symptoms](#).

China:

- Chinese ride-hailing app Didi (DIDI, \$7.80) has begun [the process of delisting from the New York Stock exchange](#) and is expected to pursue a listing in Hong Kong. Recently, Chinese regulators announced a crackdown on companies looking to list overseas. In response to the reports, tech shares listed on the Hong Kong Exchange [briefly sank to record lows](#) as investor sentiment dipped in response to increased government scrutiny of Chinese tech firms.
- China is expected [to raise prices for long-term coal contracts](#) following a supply scare earlier this year. The increase in coal prices could add to the inflationary pressures faced by manufacturers, who have struggled to secure needed raw materials throughout the year.
- A Chinese think tank claimed that the [U.S. military flew a record number of spy planes](#) over the South China Sea. The report comes among rising tensions between Beijing and Washington.
- The People's Bank of China announced [it will decrease the amount of cash that banks need to hold in their reserves](#). The change is designed to boost bank lending to small businesses.

International news:

- OPEC plus agreed to proceed with [its planned production hike in January](#). The group will add 400,000 barrels a day to the global market next month but said that it could reverse course at any moment if demand falls due to the Omicron variant.

- Austrian Chancellor [Sebastian Kurz resigned](#) on Thursday. He is currently under investigation for suspected corruption. Top officials within the ruling conservative party have picked [Karl Nehammer to be the new chancellor](#).
- The EU [slapped several entities in Belarus with sanctions](#) on Thursday due to their involvement in the growing migrant crisis along the country's border. The EU hit Belarus's state airline, sovereign debt, and other companies and individuals. It has threatened more sanctions if the country's president Alexander Lukashenko does not stop the flow of immigrants along its border. The EU has accused Belarus of manufacturing a migrant crisis.
- German Chancellor Olaf Scholz has [chosen a new head of the German Bundesbank](#). The new appointee, Joachim Nagel, had previously worked for the Bank for International Settlements (BIS). Germany is dealing with rising inflation, which hit a thirty-year high of 6.2% in October. Little is known about his policy leanings, but given the country's sensitivity to inflation, it is probable that he could push for a more hawkish monetary policy.

COVID-19: The [number of reported cases](#) is 264,304,501 with 5,237,752 fatalities. In the U.S., there are 48,832,268 confirmed cases with 785,912 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 578,263,565 doses of the vaccine have been distributed, with 464,445,580 doses injected. The number receiving at least one dose is 234,269,053, the number of second doses is 197,838,728, and the number of the third dose, the highest level of immunity, is 42,973,222. The *FT* has a page on [global vaccine distribution](#).

- A Pfizer executive stated he believes that the latest [booster shot should be able to protect against the Omicron variant](#). The market responded well to the statement, although the executive mentioned he was merely speculating.
- The German government has imposed [lockdowns for those who are unvaccinated](#).
- There are now [five states that have detected Omicron cases](#). The outbreak may have been related to an anime convention in Manhattan. Cases of the new variant have now been identified in Minnesota, Hawaii, New York, Colorado, and California. At this time, it isn't clear whether states will reimpose lockdowns.

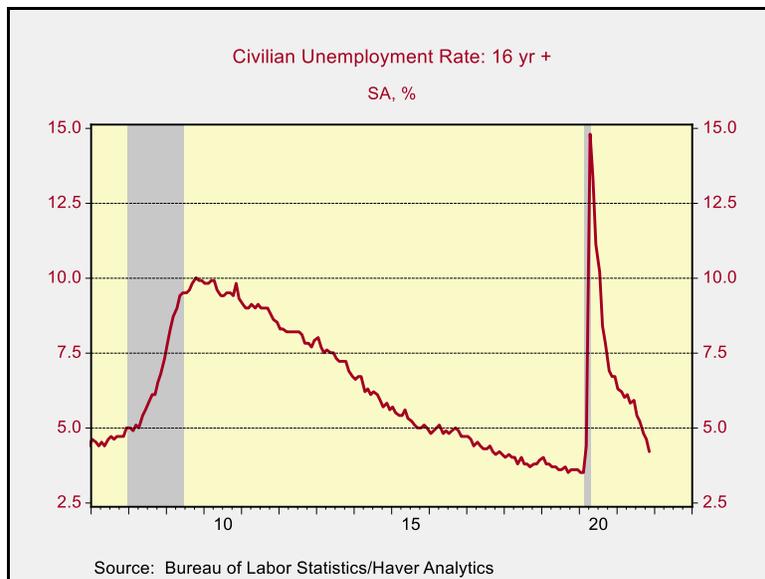
U.S. Economic Releases

In today's key economic report, November nonfarm payrolls rose by a seasonally adjusted 210,000, far short of both the revised October gain of 546,000 and the expected increase of 550,000. All the increase in November came in the private sector, as government payrolls contracted modestly. The chart below shows the growth in nonfarm payrolls since just before the prior recession. With the rise in November, U.S. payrolls have now erased 82.5% of their

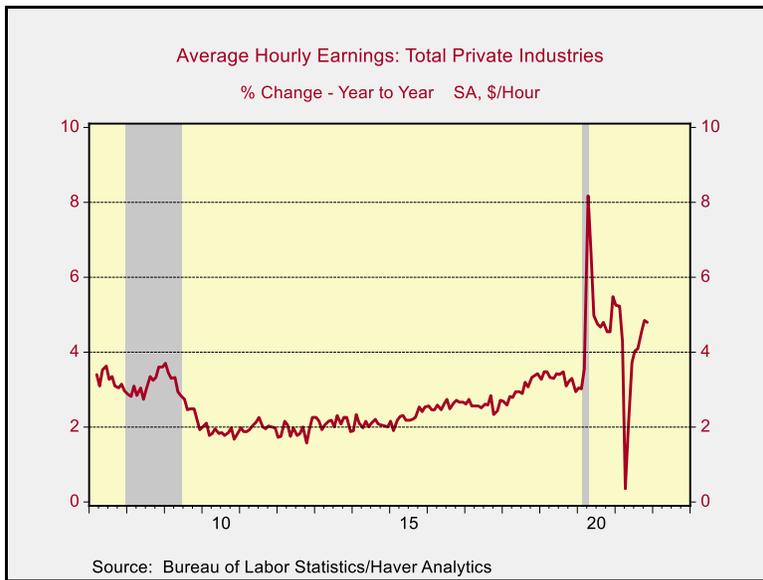
decline at the beginning of the pandemic, although they remain 3.9 million short of the level right before the pandemic began.



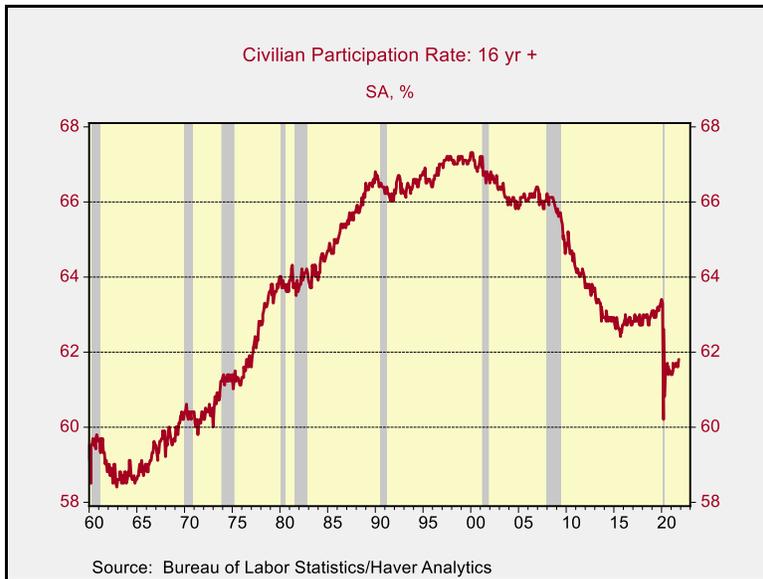
The report also showed that the November unemployment rate dropped sharply to a seasonally adjusted 4.2%, beating both the anticipated rate of 4.5% and the October rate of 4.6%. The chart below shows how the unemployment rate has changed since shortly before the prior recession.



With labor demand high and the pool of available workers shrinking, the report showed average hourly earnings rose to a seasonally adjusted \$31.03 in November, up 4.8% from the same month one year earlier. The year-over-year gain was a bit weaker than anticipated, but it was still equal to the increase in the year through October. The chart below shows the year-over-year change in average earnings since just prior to the previous recession.



Finally, one key economic problem since the pandemic is that many people have dropped out of the labor market because of retirement, fear of COVID-19, difficulties in finding childcare, and the like. That has produced a widespread labor shortage, which helps explain why wages are rising so fast. On a more positive note, however, the November labor force participation rate rose to a seasonally adjusted 61.8%. The chart below shows how the labor force participation rate has changed over the last several decades.



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
9:45	Markit Services PMI	m/m	Nov F	57.0	57.0	**
9:45	Markit Composite PMI	m/m	Nov F		56.5	**
10:00	Factory Orders	m/m	Oct	0.5%	0.2%	***
10:00	Factory Orders Ex-Transportation	m/m	Oct	0.6%	0.7%	**
10:00	Durable Goods Orders	m/m	Oct F	-0.5%	-0.5%	**
10:00	Durable Goods Orders Ex-Transportation	m/m	Oct F	0.5%	0.5%	**
10:00	Nondefense Capital Goods Orders Ex-Aircraft	m/m	Oct F		0.6%	*
10:00	ISM Services PMI	m/m	Nov	65.0	66.7	**
Fed Speakers or Events						
EST	Speaker or event	District or position				
9:15	James Bullard speaks at Missouri Bankers' Association	President of the Federal Reserve Bank of St. Louis				

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.

ASIA-PACIFIC								
Japan	Jibun Bank Services PMI	m/m	Nov F	53.0	52.1		**	Equity bullish, bond bearish
	Jibun Bank Composite PMI	m/m	Nov F	53.3	52.5		**	Equity bullish, bond bearish
Australia	Markit Services PMI	m/m	Nov F	55.7	55.0		*	Equity bullish, bond bearish
	Markit Composite PMI	m/m	Nov F	55.7	55.0		*	Equity bullish, bond bearish
China	Caixin Services PMI	m/m	Nov	52.1	53.8	53.0	**	Equity bearish, bond bullish
	Caixin Composite PMI	m/m	Nov	51.2	51.5		**	Equity bearish, bond bullish
India	Markit Services PMI	m/m	Nov	58.1	58.4		**	Equity and bond neutral
	Markit Composite PMI	m/m	Nov	59.2	58.7		**	Equity and bond neutral
EUROPE								
Eurozone	Markit Services PMI	m/m	Nov F	55.9	56.6	56.6	**	Equity bearish, bond bullish
	Markit Composite PMI	m/m	Nov F	55.4	55.8	55.8	**	Equity bearish, bond bullish
	Retail Sales	y/y	Oct	1.4%	2.6%	1.4%	*	Equity and bond neutral
Germany	Markit Services PMI	m/m	Nov F	52.7	53.4	53.4	**	Equity bearish, bond bullish
	Markit Composite PMI	m/m	Nov F	52.2	52.8	52.8	**	Equity bearish, bond bullish
France	Markit Services PMI	m/m	Nov F	57.4	58.2	58.2	***	Equity bearish, bond bullish
	Markit Composite PMI	m/m	Nov F	56.1	56.3	56.3	**	Equity and bond neutral
	Industrial Production	y/y	Oct	-0.5%	0.5%	-0.4%	***	Equity and bond neutral
	Manufacturing Production	y/y	Oct	0.1%	-0.3%	-0.5%	**	Equity bullish, bond bearish
Italy	Markit Services PMI	m/m	Nov	55.9	52.4	54.5	**	Equity bullish, bond bearish
	Markit Composite PMI	m/m	Nov	57.6	54.2	55.9	**	Equity bullish, bond bearish
UK	Markit/CIPS Services PMI	m/m	Nov F	58.5	58.6	58.6	**	Equity and bond neutral
	Markit/CIPS Composite PMI	m/m	Nov F	57.6	57.7	57.7	**	Equity and bond neutral
Russia	Markit Services PMI	m/m	Nov	47.1	48.8	49.5	**	Equity bearish, bond bullish
	Markit Composite PMI	m/m	Nov	48.4	49.5		**	Equity bearish, bond bullish
AMERICAS								
Canada	Net Change in Employment	m/m	Nov	153.7k	31.2k	37.5k	***	Equity bullish, bond bearish
	Unemployment Rate	m/m	Nov	6.0%	6.7%	6.6%	***	Equity bullish, bond bearish
	Labor Force Participation Rate	m/m	Nov	65.3%	65.3%	65.4%	*	Equity and bond neutral
	Labor Productivity Growth	q/q	3Q	-1.5%	0.6%	-0.6%	*	Equity bearish, bond bullish
Brazil	Industrial Production	y/y	Oct	-7.8%	-4.0%	-5.0%	***	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.

Fixed Income	Today	Prior	Change	Trend
3-mo Libor yield (bps)	17	17	0	Down
3-mo T-bill yield (bps)	4	4	0	Neutral
TED spread (bps)	13	13	0	Neutral
U.S. Libor/OIS spread (bps)	8	8	0	Down
10-yr T-note (%)	1.42	1.45	-0.03	Down
Euribor/OIS spread (bps)	-57	-57	0	Neutral
EUR/USD 3-mo swap (bps)	19	21	-2	Down
Currencies	Direction			
Dollar	Flat			Neutral
Euro	Flat			Up
Yen	Down			Neutral
Pound	Down			Neutral
Franc	Flat			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.

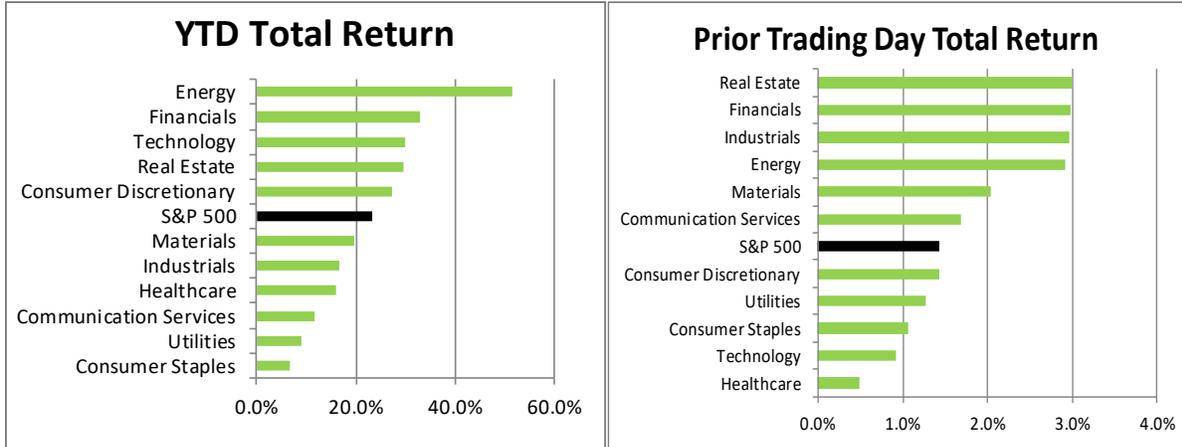
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$71.71	\$69.67	2.93%	
WTI	\$68.39	\$66.50	2.84%	
Natural Gas	\$4.20	\$4.06	3.65%	
Crack Spread	\$17.90	\$17.72	1.03%	
12-mo strip crack	\$18.60	\$18.50	0.52%	
Ethanol rack	\$3.59	\$3.61	-0.37%	
Metals				
Gold	\$1,772.54	\$1,768.74	0.21%	
Silver	\$22.38	\$22.39	-0.04%	
Copper contract	\$429.30	\$429.90	-0.14%	
Grains				
Corn contract	\$580.25	\$576.75	0.61%	
Wheat contract	\$812.75	\$815.00	-0.28%	
Soybeans contract	\$1,256.00	\$1,244.25	0.94%	
Shipping				
Baltic Dry Freight	3,115	3,047	68	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)	-0.9	-1.4	0.5	
Gasoline (mb)	4.0	-1.2	5.2	
Distillates (mb)	2.2	-1.5	3.7	
Refinery run rates (%)	0.20%	0.40%	-0.20%	
Natural gas (bcf)	-59.0	-58.0	-1.0	

Weather

The 6-10 day and 8-14-day forecasts currently call for warmer-than-normal temperatures throughout the eastern two-thirds of the country, with cooler-than-normal temperatures only in the Pacific Northwest. The forecasts call for wet conditions in the Rocky Mountains and the Midwest, with dry conditions in Texas and Florida.

Data Section

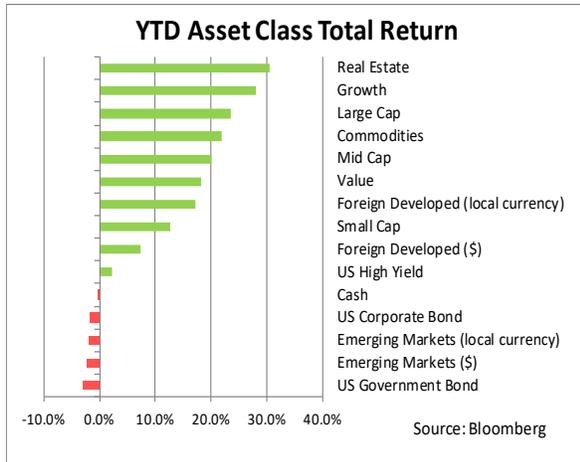
U.S. Equity Markets – (as of 12/2/2021 close)



(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 12/2/2021 close)

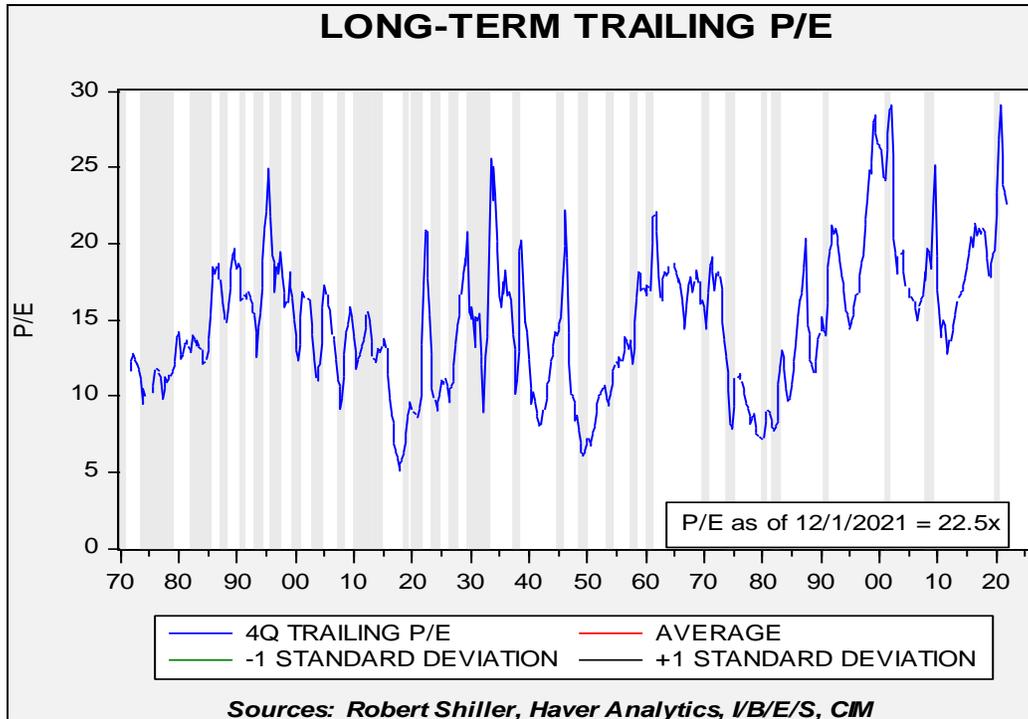


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

December 2, 2021



Based on our methodology,¹ the current P/E is 22.3x, up 0.3x from our last update. Some of the rise reflects the transition from Thomson/Reuters to Standard & Poor's measurement of Q3 earnings.

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