

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: February 2, 2022—9:30 AM EST] Global equity markets are generally higher this morning. In Europe, the EuroStoxx 50 is currently up 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 closed 0.2% higher. Chinese markets were closed for the Lunar New Year. U.S. equity index futures are signaling a higher open. With 198 companies having reported, the S&P 500 Q4 2021 earnings stand at \$53.40, higher than the \$52.34 forecast for the quarter. The forecast reflects a 21.7% increase from Q4 2020 earnings. Thus far this quarter, 75.3% of the companies have reported earnings above forecast, while 21.2% 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:

- [Bi-Weekly Geopolitical Report](#) (1/31/2022) (with associated [podcast](#)): “Two Power Plays in Kazakhstan”
- [Weekly Energy Update](#) (1/27/2022): Oil prices are breaking out above recent highs. Some state governments are pushing back against measures to restrict investment in fossil fuels.
- [Asset Allocation Quarterly - Q1 2022](#) (1/20/2022): Discussion of our asset allocation process, Q1 2022 portfolio changes, and our outlook for the markets
- [Asset Allocation Bi-Weekly](#) (1/24/2022) (with associated [podcast](#)): “Real Income versus the Wealth Effect; What is Driving Consumption?”
- [Confluence of Ideas podcast](#) (1/20/2022): “The 2022 Outlook”
- [Current Perspectives: “2022 Outlook: The Year of Fat Tails”](#) (12/16/2021)

In today’s *Comment*, we open with the latest developments in the Russia-Ukraine crisis. There is late-breaking news of the first troop deployments from the U.S. to NATO countries in Eastern Europe. We follow that with other U.S. and U.S.-related news that could impact financial markets today. Next up is the international roundup, and we close with our usual pandemic coverage.

Russia-Ukraine-NATO: In a news conference yesterday, Russian President Putin [said last week’s written U.S. and NATO responses to his demand for security guarantees were inadequate](#). The Spanish newspaper *El Pais* said the U.S.’s response [included an offer to hold talks with Russia on a reciprocal agreement over the deployment of ground-launched missiles or combat forces](#) in Ukraine. Still, despite Putin’s negative take on the U.S. and NATO documents,

he [expressed a willingness to continue talks on the matter](#). Meanwhile, British Prime Minister Johnson and Polish Prime Minister Morawiecki met in Kyiv with Ukrainian President Zelensky and pledged to send additional weapons and military equipment to help stave off any potential Russian invasion. Indeed, reports [say a new diplomatic initiative is under consideration between Ukraine, Poland, and Britain](#). All three countries are in talks to sign a trilateral document in the near term.

- In a sign of continuing worries that Russian troops could invade Ukraine from Belarus or Russia itself, the State Department ordered the families of U.S. government employees in Belarus to leave the country. On top of that, President Biden [is directing the Pentagon to deploy more than 3,000 American troops to bolster the defense of European allies](#).
 - As announced this morning, roughly 2,000 troops from Fort Bragg, N.C., will be sent to Poland and Germany this week. In addition, about 1,000 troops that are part of a Germany-based infantry Stryker squadron will be sent to Romania.
 - The Pentagon expects to make other moves of forces inside Europe and has ordered several thousand more troops to be on standby to deploy, beyond the 8,500 troops given similar orders last week.
- In yet another sign that the risk of invasion is real, President Zelensky said he has called up additional troops that would boost the size of the Ukrainian army in case it has to fight against Russia.
- Meanwhile, even as there are few signs of panic within Ukraine and much of the economy works normally, [some investment activity is already being curtailed, and the value of the currency has dropped some 4% so far this year](#).

U.S. Labor Market: After seeing two of its coffee outlets in Buffalo, New York, unionized in December, Starbucks (SBUX, \$98.76) [now faces unionization drives at dozens of other locations](#) in 19 states. On Monday alone, workers at 16 more branches filed for union elections with federal labor authorities.

- Part of the success of the union drive at the company is the organizers' novel strategy targeting individual stores with amenable employees rather than mass organizing efforts.
- All the same, the broadening organization push at Starbucks and [this week's planned re-vote on unionization at an Alabama facility of Amazon \(AMZN, \\$3,023.87\)](#) show how today's labor shortage has shifted the balance of economic power toward workers and away from companies.
- Increased labor power will likely lead to faster wage growth, increased benefits, and more costly work rules over time, which will potentially bolster inflation and weigh on corporate profits if companies can't pass the higher costs on to their customers.

U.S. Winter Storm: More than 15 states in a band from New Mexico to Vermont are under winter-weather warnings today as a dangerous snowstorm [barrels across central and northeastern parts of the U.S., causing flight cancellations and school closures](#).

- Heavy snow is expected from the Rocky Mountains to New England, and significant ice buildups are likely on the storm's southern edge from Texas to central Pennsylvania.

- Parts of Colorado are expected to be hit worst, with high-altitude areas bracing for up to two feet of snow. Swaths of Missouri, Illinois, and Ohio could receive 12 to 18 inches of snow through Thursday.

United States-United Arab Emirates: The U.S. [is sending advanced jet fighters and a guided-missile destroyer to the UAE](#) to help it counter an escalating threat from Yemen’s Houthi rebels after the Iran-backed group recently launched a series of missiles and drones at the Persian Gulf nation.

European Union: Competition Commissioner Vestager today [will outline a new strategy aimed at keeping the EU at the forefront of setting international standards](#) for the technology industry and countering China’s growing influence.

- U.S. and EU officials have grown concerned that China has become successful at lobbying key technology standards-setting bodies, such as the International Telecommunication Union and the International Electrotechnical Commission, in ways that could provide an edge to its local champions.
- As part of the EU’s plans, European officials will work alongside U.S. authorities on a new monitoring system for emerging standards, a method to have a unified position on tech rulemaking. They also plan to use joint resources to ensure start-ups are aware of coming standards while relying on experts to foresee coming technological developments.

United Kingdom: Prime Minister Johnson’s political position continues to erode after [new revelations of social events held at Downing Street and attended by Johnson](#) violating pandemic social-distancing rules. On top of that, another senior member of parliament in the Conservative Party [said he would submit a letter of no confidence in the prime minister](#) and suggested Johnson call a no-confidence vote himself.

Peru: Following Monday’s resignation of Prime Minister Mirtha Vásquez for what she called a dysfunctional cabinet and indecisive presidential leadership, embattled leftwing President Castillo yesterday [announced the third cabinet of his six months in power](#).

- If approved by the opposition-controlled Congress, Castillo’s new prime minister will be Héctor Valer, a lawyer who has flitted between political parties and was elected to congress for the first time last year. He has no ministerial experience.
- The new finance minister will be Oscar Graham, an economist with years of experience at the finance ministry and the central bank. Graham appears to be experienced and moderate enough to be warmly embraced, but the broader government’s leftist policy stances will likely keep investors on edge.

Guinea-Bissau: Reports suggest the government [has put down an attempted coup](#). If successful, the coup would have been West Africa’s fourth in the last 18 months.

COVID-19: Official data show confirmed cases have risen to [382,416,296 worldwide, with 5,691,006 deaths](#). In the U.S., confirmed cases rose 75,353,925, with 890,928 deaths. (For an

interactive chart that allows you to compare cases and deaths among countries, scaled by population, click [here](#).) Meanwhile, in data on the U.S. vaccination program, [the number of people who are considered fully vaccinated now totals 211,954,555](#), equal to 63.8% of the total population.

Virology

- The seven-day average of U.S. hospital patients with a confirmed or suspected coronavirus infection [continues to fall, reaching 136,753 yesterday](#).
- In France, falling Omicron cases [have prompted the government to ease numerous social distancing restrictions](#). Among the changes, workers will now be allowed to return to their offices full time, and mask mandates will be removed at ski lifts, markets, and other outdoor venues.
- Pfizer (PFE, \$53.07) and partner BioNTech (BNTX, \$179.60) yesterday [formally asked the FDA to authorize the use of their COVID-19 vaccine in children under 5 years old](#), the last age group without access to the shots.
 - The companies submitted the request even though clinical tests show the two-shot regime was much less effective in preventing symptomatic cases of COVID-19 in children than in adults.
 - If the request is approved, the injection could be available for children aged 6 months to 5 years old in March.
- In Australia, the rapid spread of the Omicron mutation [has forced officials to backtrack on plans to reopen the domestic border of Western Australia this week](#). The border has now been closed for two years to ensure the province's important iron ore mines can keep operating. The border will remain closed indefinitely.

Economic and Financial Market Impacts

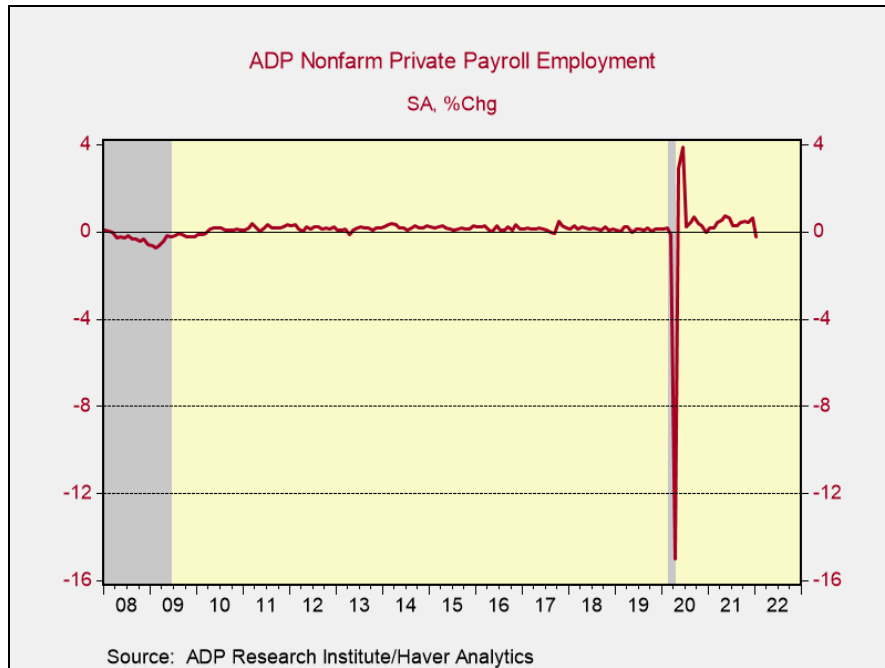
- New analysis shows that the pandemic surge in demand for physical goods has finally begun to retreat, and [consumers are spending more on services again](#). If that trend continues, as seems likely, it could prompt a rebound in profits and stock values for service firms ranging from restaurants to cruise lines.

U.S. Economic Releases

Mortgage applications soared in the week ending January 28, according to the Mortgage Bankers Association. The MBA mortgage applications index rose 12.0% from the previous week. The jump in mortgage applications was driven by an increase in refinance applications, although purchase applications also increased. The applications index for refinancing rose 18.4% from the prior week, while the index for purchases rose 4.0%. The average 30-year fixed-rate mortgage rose 6 bps from 3.72% to 3.78%.

Private payrolls plummeted in January, according to Automatic Data Processing, Inc. The payroll processing company's data showed the country lost 301K jobs in the last month, significantly lower than the consensus estimate of 180K. The December jobs report was revised downward from 807K to 776K. A slowdown in job creation was expected due to the rapid

increase in COVID-19 cases in January, which forced business closures and restrained business activity.



The chart above showed the month-to-month percentage change in ADP payrolls. Nonfarm private payrolls declined 0.24% from the prior month. It is the largest post-lockdown drop in the recovery.

There are no domestic releases or Fed events scheduled for the rest of the day.

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.

	Indicator			Current	Prior	Expected	Rating	Market Impact
ASIA-PACIFIC								
New Zealand	CoreLogic House Prices	y/y	Jan	27.5%	27.6%		**	Equity and bond neutral
	Average Hourly Earnings	q/q	4Q	1.4%	1.2%	1.0%	**	Equity bullish, bond bearish
	Unemployment Rate	q/q	4Q	3.2%	3.4%	3.3%	**	Equity and bond neutral
	Employment Change	y/y	4Q	3.7%	4.2%	3.8%	**	Equity and bond neutral
EUROPE								
Eurozone	CPI Estimate	y/y	Jan	5.1%	5.0%	4.4%	***	Equity bearish, bond bullish
	CPI Core	y/y	Jan	2.3%	2.6%	1.9%	***	Equity bearish, bond bullish
France	Budget Balance YTD	m/m	Dec	-170.7b	-181.0b		**	Equity and bond neutral
Italy	CPI EU Harmonized	y/y	Jan	5.3%	4.2%	4.0%	***	Equity bearish, bond bullish
	CPI NIC incl. tobacco	y/y	Jan	4.8%	3.9%	3.8%	***	Equity and bond neutral
AMERICAS								
Brazil	Markit Brazil PMI Manufacturing	m/m	Jan	47.8	49.8		***	Equity and bond neutral
	Trade Balance Monthly	m/m	Jan	-\$176m	\$3948m	-\$500m	**	Equity bullish, bond bearish
	FIPE CPI - Monthly	m/m	Jan	0.74%	0.57%	0.72%	**	Equity and bond neutral
	Industrial Production	y/y	Dec	-5.00%	-4.4%	-5.9%	**	Equity and bond neutral
Canada	GDP	y/y	Nov	3.8%	3.8%	3.6%	***	Equity and bond neutral
	Markit Canada Manufacturing PMI	m/m	Jan	56.2	56.5		**	Equity and bond neutral
Mexico	Remittances Total	m/m	Dec	\$4760.4m	\$4665.2m	\$4789.2m	*	Equity and bond neutral
	International Reserves Weekly	w/w	28-Jan	\$201583m	\$201996m		*	Equity and bond neutral
	Markit Mexico PMI Mfg	m/m	Jan	46.1	49.4		**	Equity and bond neutral
	Leading Indicators	m/m	Dec	-0.20	-0.14		**	Equity and bond neutral
	Vehicle Domestic Sales	m/m	Jan	78585	97365		**	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)	31	32	-1	Down
3-mo T-bill yield (bps)	19	20	-1	Neutral
TED spread (bps)	12	12	0	Neutral
U.S. Libor/OIS spread (bps)	24	23	1	Down
10-yr T-note (%)	1.79	1.79	0.00	Down
Euribor/OIS spread (bps)	-55	-55	0	Neutral
Currencies	Direction			
Dollar	Down			Neutral
Euro	Up			Up
Yen	Up			Neutral
Pound	Up			Neutral
Franc	Up			Neutral
Central Bank Action	Current	Prior	Expected	
Brazil Selic Rate		9.250%	10.750%	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.

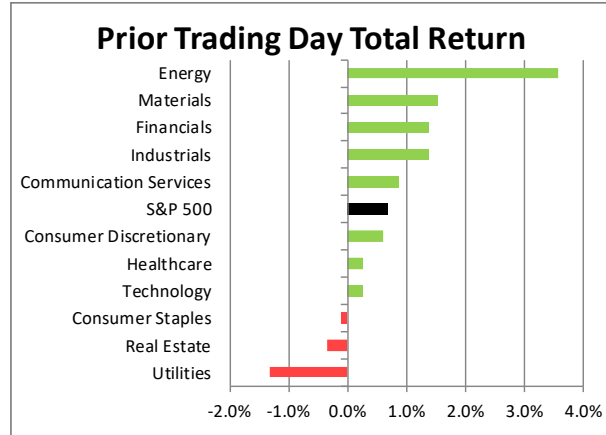
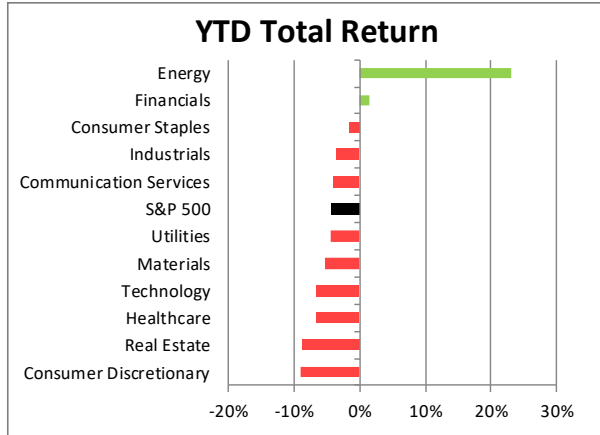
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$89.21	\$89.16	0.06%	
WTI	\$88.35	\$88.20	0.17%	
Natural Gas	\$4.98	\$4.75	4.90%	
Crack Spread	\$22.44	\$22.30	0.62%	
12-mo Strip Crack	\$22.57	\$22.60	-0.15%	
Ethanol Rack	\$2.27	\$2.27	0.10%	
Metals				
Gold	\$1,802.53	\$1,801.19	0.07%	
Silver	\$22.78	\$22.65	0.59%	
Copper contract	\$449.05	\$443.40	1.27%	
Grains				
Corn contract	\$636.00	\$634.75	0.20%	
Wheat contract	\$768.75	\$769.00	-0.03%	
Soybeans contract	\$1,537.00	\$1,528.50	0.56%	
Shipping				
Baltic Dry Freight	1,440	1,418	22	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)		1.70		
Gasoline (mb)		1.75		
Distillates (mb)		-1.65		
Refinery run rates (%)		-0.20%		
Natural gas (bcf)		280.0		

Weather

The 6-10 day and 8-14-day forecasts currently call for warmer-than-normal temperatures on the West Coast and the Rocky Mountains, with cool-to-normal temperatures for the rest of the country. The forecasts call for dry conditions throughout the Pacific, with wet conditions expected for most of the Rocky Mountain and South regions.

Data Section

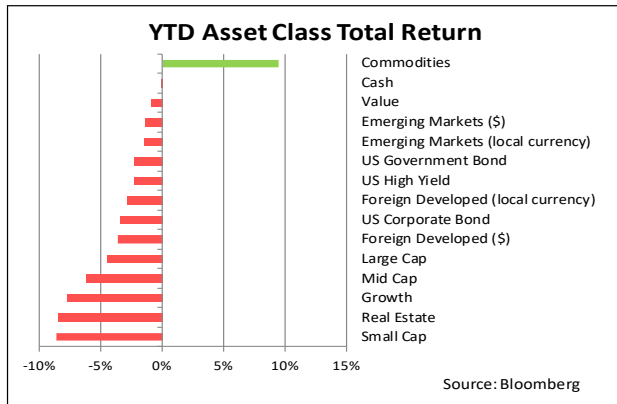
U.S. Equity Markets – (as of 2/1/2022 close)



(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 2/1/2022 close)

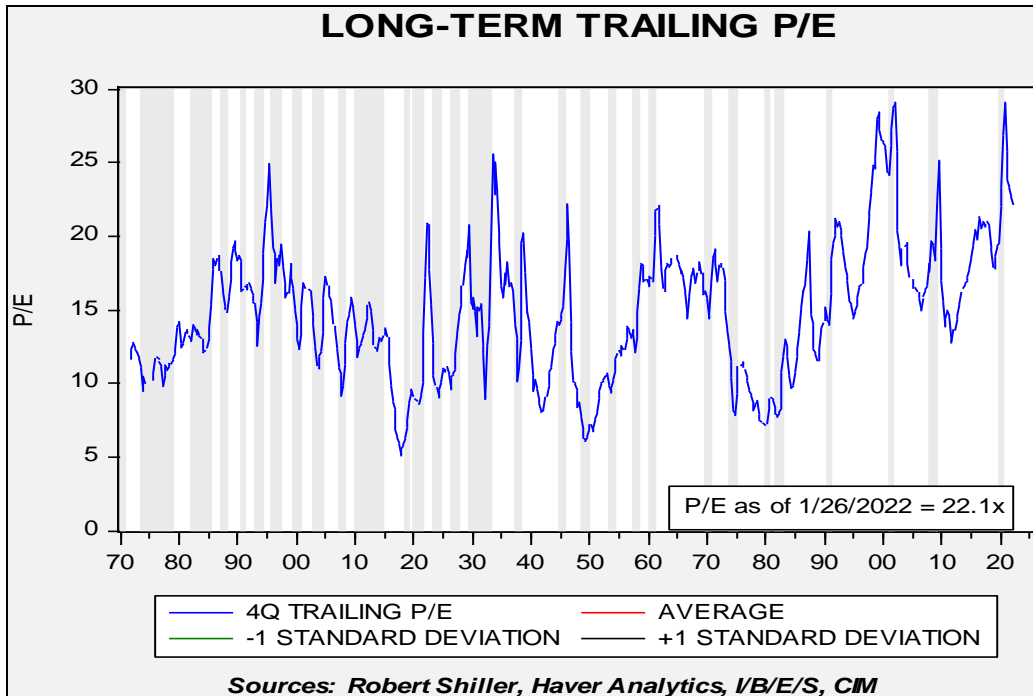


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

January 27, 2022



Based on our methodology,¹ the current P/E is 22.1x, down 0.5x from last week. The decline in the multiple is due to lower index prices.

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 (Q2 and Q3) and two estimates (Q4 and Q1). 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.