

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: January 4, 2022—9:30 AM EST] Global equity markets are generally higher this morning. In Europe, the EuroStoxx 50 is currently up 1.2% from its prior close. In Asia, the MSCI Asia Apex 50 closed up 0.7%. Chinese markets were lower, with the Shanghai Composite down 0.2% from its prior close and the Shenzhen Composite down 0.1%. 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](#) (12/13/2021): “The 2022 Geopolitical Outlook”
- [Weekly Energy Update](#) (12/16/2021): The weekly inventory data was bullish for oil and products.
- [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](#) (12/17/2021) (with associated [podcast](#)): “What’s Causing the Yield Curve to Flatten?”
- [Confluence of Ideas podcast](#) (12/14/2021): “The Regional Threats from the Taliban in Afghanistan”
- *Current Perspectives*: “[2022 Outlook: The Year of Fat Tails](#)” (12/16/2021)

We open today’s *Comment* with a couple of U.S.-related developments, including news that a Russian recently extradited from Switzerland on insider-trading charges may actually have information on the Russian government’s interference in the 2016 U.S. presidential election. We next review a range of other global and international developments, and we close with the latest news on the coronavirus pandemic.

U.S. Telecom System: AT&T (T, USD, 25.43) and Verizon (VZ, USD, 52.44) [have agreed to postpone the rollout of their new 5G service until January 19](#). The nation’s airlines will address potential interference issues with cockpit communications systems. The decision came after initially refusing a request by the Transportation Department and FAA over the weekend.

- The reversal came as the FAA was preparing to issue flight restrictions that the airlines worried would significantly disrupt air travel and cargo shipments around the country. In response, the airline industry association was reportedly preparing to file a lawsuit demanding postponement of the rollout.

- The quick turn of events may reflect intense pressure on the telecommunications firms to avoid worsening the supply shortages and operational disruptions that contribute to today's high inflation.

United States-Russia: Court filings indicate that Vladislav Klyushin, the Russian technology tycoon extradited to the U.S. from Switzerland on insider trading charges in mid-December, [is close to high-level Russian officials and may have inside knowledge of their efforts to interfere in the U.S. presidential election in 2016.](#)

- According to people in Moscow who are close to the Kremlin and security services, Russian intelligence has concluded that Klyushin has access to documents relating to a Russian campaign to hack Democratic Party servers during the 2016 U.S. election.
- These documents, they say, show the hacking was led by a team in Russia's GRU military intelligence that U.S. cybersecurity companies have dubbed "Fancy Bear" or APT28.
- Such a cache would provide the U.S. for the first time with detailed documentary evidence of the alleged Russian efforts to influence the election, according to these people.
- If Klyushin cooperates and provides more information on the Russians' election interference or broader cyberattacks, U.S.-Russian relations are likely to worsen even further.

Cryptocurrencies: New reporting [says about 10% of the notoriously conservative customers at German savings banks have held cryptocurrency assets.](#) The data comes as multiple mainstream banks outside the U.S. are starting to experiment with offering cryptocurrency wallets and other services to their clients.

Indonesia: The energy ministry [has proposed banning Indonesian coal exports](#) for the month of January in the face of looming shortages for the nation's electricity generating plants.

- Officials will meet tomorrow to refine their plans, but coal prices in China have already jumped, threatening a new energy crisis like the one in October that shut down factories and caused electricity prices to soar. A ban would also likely drive coal and electricity prices up in India, another major importer of Indonesian coal.
- On the other hand, the proposed ban benefits major coal producers in Australia, who have seen higher prices.

Sudan: Prime Minister Abdalla Hamdok [has resigned](#), leaving the military-led government with no civilian members. The move will put more pressure on the generals to move toward elections, as they have promised since taking over in an April 2019 coup, but protests and demonstrations are likely to increase in the meantime.

COVID-19: Official data show confirmed cases [have risen to 292,169,523 worldwide, with 5,446,606 deaths.](#) In the U.S., confirmed cases increased to 56,155,350, with 827,341 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 have received at least their first shot totals 243,527,564](#). The data show that 73.3% of the U.S. population has now received at least one dose of a vaccine, and 62.0% of the population is fully vaccinated.

Virology

- Driven by the highly transmissible Omicron mutation and catch-up reporting after the holidays, new U.S. infections [rose to a pandemic record of 1.08 million yesterday](#). The seven-day average of new cases rose to 480,375, also a pandemic record. The surge prompted several Wall Street banks, which have been among the biggest champions of returning to the office, [to backtrack](#) on those plans and encourage those who could work from home to do so. Hospitalizations for confirmed or suspected COVID-19 reached a seven-day average of 97,855, up 41% in the past two weeks. However, that was still comfortably below the pandemic peak of 137,510 last January 10.
- Starbucks (SBUX, USD, 116.68) yesterday [said that workers in its U.S. cafes, offices, and manufacturing plants must be vaccinated by February 9 or get tested weekly](#). Workers who choose to test must have a pharmacist or doctor administer it rather than taking one at home; workers themselves will need to obtain and cover any costs for the tests.
- In a sign that Omicron could prompt wider cancellations of entertainment events, organizers of the Grammy Awards [are considering postponing this year's event](#), as they did last year. The event is currently scheduled for January 31 in Los Angeles.
- In Japan, Okinawa Prefecture [today reported 225 new cases](#), marking the highest figure since mid-September last year. In response, the prefectural government is now considering asking the central government to issue a quasi-state of emergency.

Economic and Financial Market Impacts

- Senior living facilities may have been some of the hardest-hit casualties of the pandemic, with many pushed into bankruptcy and approximately 8% of the sector's municipal bonds now in default. Nonetheless, investors [are piling into those obligations in search of yield](#).

U.S. Economic Releases

There have been no major economic releases in the U.S. so far today. 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
10:00	ISM Manufacturing	m/m	Dec	60.0	61.1	***
10:00	ISM Prices Paid	m/m	Dec	79.3	82.4	**
10:00	ISM New Orders	m/m	Dec	60.4	61.5	**
10:00	ISM Employment	m/m	Dec	53.6	53.3	**
10:00	JOLTS Job Openings	m/m	Nov	11100k	11033k	**
	Wards Total Vehicle Sales	m/m	Dec	13.10m	12.86m	**
Fed Speakers or Events						
EST	Speaker or event	District or position				
11:30	Neel Kashkari to Speak to Wisconsin Bankers on Economy	President of the Federal Reserve Bank of Minneapolis				

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								
China	Caixin China PMI Mfg	m/m	Dec	50.9	49.9	50.0	**	Equity bullish, bond bearish
Japan	Jibun Bank Japan PMI Mfg	m/m	Dec	54.3	54.2		**	Equity and bond neutral
Australia	Markit Australia PMI Mfg	m/m	Dec	57.7	57.4		***	Equity and bond neutral
	CoreLogic House Px	m/m	Dec	0.6%	1.1%		***	Equity and bond neutral
	Commodity Index SDR	y/y	Dec	25.7%	36.2%		**	Equity and bond neutral
EUROPE								
France	CPI EU Harmonized	y/y	Dec	3.4%	3.4%	3.5%	***	Equity bullish, bond bearish
	CPI	y/y	Dec	2.8%	2.8%	2.9%	***	Equity and bond neutral
Germany	Retail Sales	m/m	Nov	0.6%	-0.3%	-0.3%	***	Equity bullish, bond bearish
	Unemployment Change (000's)	m/m	Dec	-23.0k	-34.0k	-15.0k	***	Equity bearish, bond bullish
	Unemployment Claims Rate SA	m/m	Dec	5.2%	5.3%	5.3%	***	Equity and bond neutral
UK	Net Consumer Credit	m/m	Nov	1.2b	0.7b	0.8b	*	Equity bullish, bond bearish
	Net Lending Sec. on Dwellings	m/m	Nov	3.7b	1.6b	3.1b	*	Equity bullish, bond bearish
	Mortgage Approvals	m/m	Nov	67.0k	67.2k	66.0k	**	Equity and bond neutral
	M4 Money Supply	y/y	Nov	6.9%	7.0%		**	Equity and bond neutral
	Money Supply M4 MoM	m/m	Nov	0.7%	0.6%		*	Equity and bond neutral
	M4 Ex IOFCs 3M Annualised	m/m	Nov	6.9%	6.7%		**	Equity and bond neutral
	Markit UK PMI Manufacturing SA	m/m	Dec	57.9	57.6	57.6	***	Equity and bond neutral
Switzerland	CPI	m/m	Dec	-0.1%	0.0%	-0.1%	***	Equity and bond neutral
	CPI EU Harmonized MoM	m/m	Dec	0.0%	-0.1%		***	Equity and bond neutral
AMERICAS								
Brazil	Markit Brazil PMI Manufacturing	m/m	Dec	49.8	49.8		***	Equity and bond neutral
	Trade Balance Monthly	m/m	Dec	\$3948m	-\$1307m	\$4000m	**	Equity and bond neutral
Canada	Bloomberg Nanos Confidence	w/w	31-Dec	58.2	58.5		***	Equity and bond neutral
	Industrial Product Price	m/m	Nov	0.8%	1.3%	0.8%	**	Equity and bond neutral
	Raw Materials Price Index	m/m	Nov	-1.00%	4.80%	0.00%	***	Equity and bond neutral
Mexico	Remittances Total	w/w	Nov	\$4665.2m	\$4818.6m	\$4685.7m	**	Equity and bond neutral
	Markit Mexico PMI Mfg	m/m	Dec	49.4	49.4		***	Equity and bond neutral
	IMEF Non-Manufacturing Index SA	m/m	Dec	52.6	50.1		**	Equity and bond neutral
	IMEF Manufacturing Index SA	m/m	Dec	52.6	50.4		**	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)	21	21	0	Down
3-mo T-bill yield (bps)	7	8	-1	Neutral
TED spread (bps)	14	14	0	Neutral
U.S. Libor/OIS spread (bps)	12	12	0	Down
10-yr T-note (%)	1.66	1.63	0.03	Down
Euribor/OIS spread (bps)	-57	-57	0	Neutral
EUR/USD 3-mo swap (bps)	-2	-1	-1	Down
Currencies	Direction			
Dollar	Up			Neutral
Euro	Down			Up
Yen	Down			Neutral
Pound	Up			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.

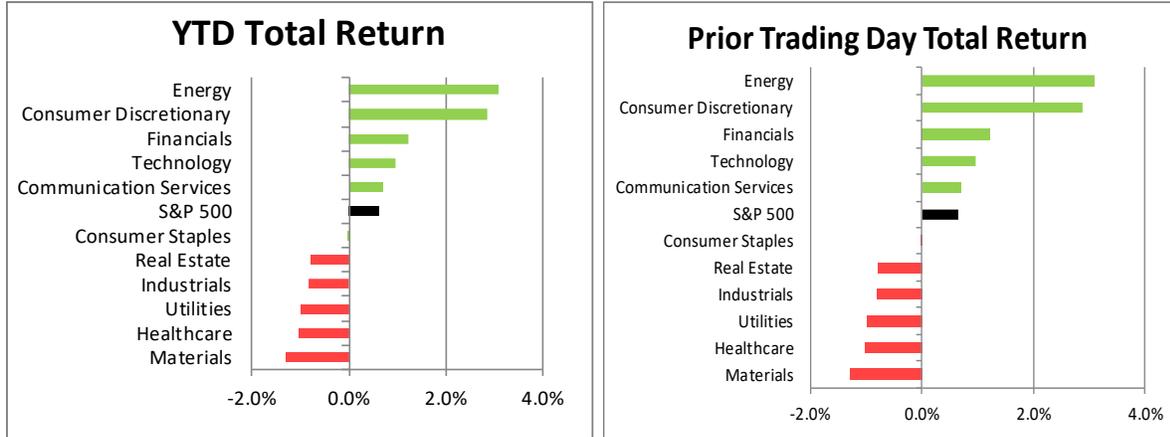
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$79.85	\$78.98	1.10%	Production disruption in Libya
WTI	\$76.90	\$76.08	1.08%	
Natural Gas	\$3.87	\$3.82	1.49%	
Crack Spread	\$20.58	\$20.16	2.09%	
12-mo strip crack	\$21.24	\$20.81	2.06%	
Ethanol rack	\$2.62	\$2.67	-2.05%	
Metals				
Gold	\$1,808.68	\$1,801.45	0.40%	
Silver	\$22.94	\$22.90	0.16%	
Copper contract	\$441.30	\$442.15	-0.19%	
Grains				
Corn contract	\$593.50	\$589.25	0.72%	
Wheat contract	\$764.50	\$758.00	0.86%	
Soybeans contract	\$1,360.75	\$1,355.50	0.39%	
Shipping				
Baltic Dry Freight	2,217	2,219	-2	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)		-3.4		
Gasoline (mb)		2.5		
Distillates (mb)		-1.0		
Refinery run rates (%)		0.35%		

Weather

The 6-10 day and 8-14-day forecasts currently call for warmer-than-normal temperatures throughout most of the western half of the country, with cooler-than-normal temperatures in the New England, Mideast, and Midwest regions. The forecasts call for dry conditions throughout the entire country, with wet conditions in southern Texas.

Data Section

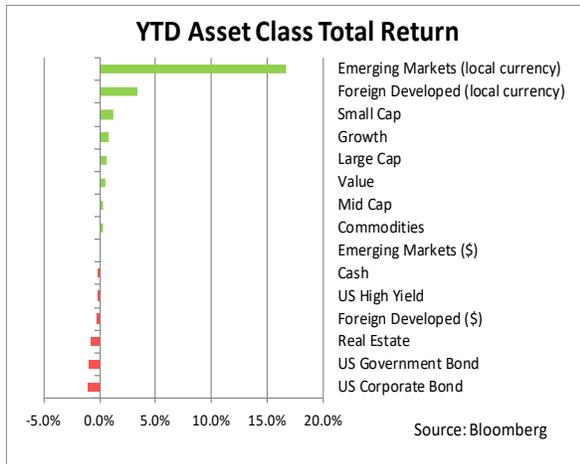
U.S. Equity Markets – (as of 1/3/2022 close)



(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 1/3/2022 close)

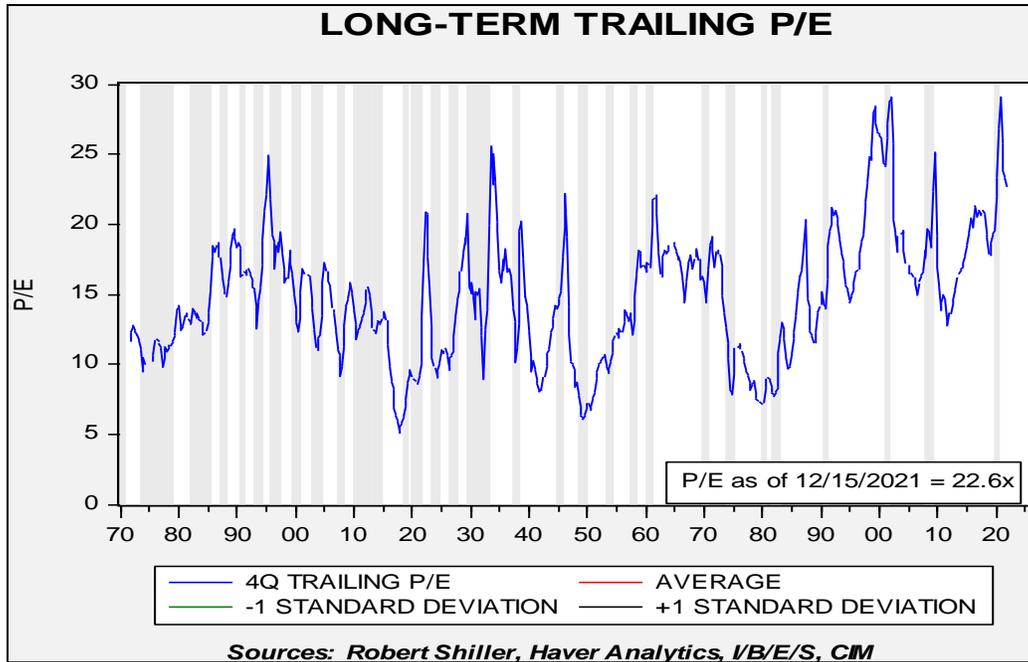


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

December 16, 2021



Based on our methodology,¹ the current P/E is 22.6x, up 0.1x from last week. The rise in the multiple is due to higher 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 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.