

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 10, 2022—9:30 AM EST] Global equity markets are mixed this morning. In Europe, the EuroStoxx 50 is currently down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 closed up 0.9%. Chinese markets were higher, with the Shanghai Composite up 0.4% from its prior close and the Shenzhen Composite down 0.8%. U.S. equity index futures are signaling a lower 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](#) (1/6/2022): The WEU returns with a wrap-up of last year’s data and a recap of OPEC+’s decision to raise production next month.
- [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 Bi-Weekly](#) (1/10/2022) (with associated [podcast](#)): “**The Path of Monetary Policy**”
- [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)

In today’s *Comment*, we open with geopolitical news and a focus on Russia’s aggressive stance toward the countries surrounding it. Notably, we discuss today’s U.S.-Russian security talks seeking to de-escalate the situation in Ukraine. We next turn to other international news and a couple of notes related to U.S. monetary and regulatory policy. We close with the latest developments related to the coronavirus pandemic.

United States-Russia: U.S. and Russian officials [today formally begin a round of high-level talks designed to de-escalate the situation on the Russia-Ukraine border](#), where President Putin has positioned over 100,000 troops as a way to pressure the U.S. and its allies into providing security guarantees for Russia. On Wednesday, Russian officials will sit down in Brussels to meet with officials from NATO. The following day, officials from the Organization for Security and Cooperation in Europe, which includes Russia and a host of regional countries, will gather in Vienna to begin a broad conversation on European security.

- Putin’s key demands include a commitment from NATO that it will not admit Ukraine or other new Eastern European members into the defense alliance, and it rolls back its

military infrastructure and deployments in the former Soviet states. Ahead of today's meeting with U.S. officials, Russia's Deputy Foreign Minister Sergei Ryabkov [took an uncompromising stance on the Russian demands and expressed pessimism about striking an agreement](#).

- While the U.S. and its European allies have rejected Putin's demands out of hand, reporting over the weekend said the Biden administration [is prepared to discuss reciprocal limits on intermediate-range missiles in Europe as well as reciprocal restrictions on the scope of military exercises on the continent](#).
- If no agreement is reached and Russia invades Ukraine, the U.S. has threatened massive economic sanctions, including possibly cutting Russia off from the SWIFT system of international dollar payments. U.S. officials have also discussed more targeted measures, including erecting export barriers to block international sales to Russia of products with a certain percentage of American content, as well as preventing Moscow from getting access to cutting-edge microchips used in everything from aircraft to consumer electronics. Those options would likely impose steep costs on the Russian economy and financial assets.

Russia-Kazakhstan: Not only is Putin trying to make Russia safe for authoritarianism, but he is also [doing the same for the other authoritarians ruling former Soviet states in the region](#). In a statement today on Russia's deployment of troops to Kazakhstan to help put down popular protests there, he vowed Russia will protect its allies from "color revolutions" sparked by unnamed outside actors. Putin's commitment will help solidify Russia's influence over the many post-Soviet states led by authoritarians, such as Belarus and Kazakhstan.

- Press reports indicate at least 164 people have been killed in the Kazakh protests so far, including three children.
- Kazakh authorities say they have arrested almost 8,000 of the 20,000 "terrorists" they claim are behind the protests.

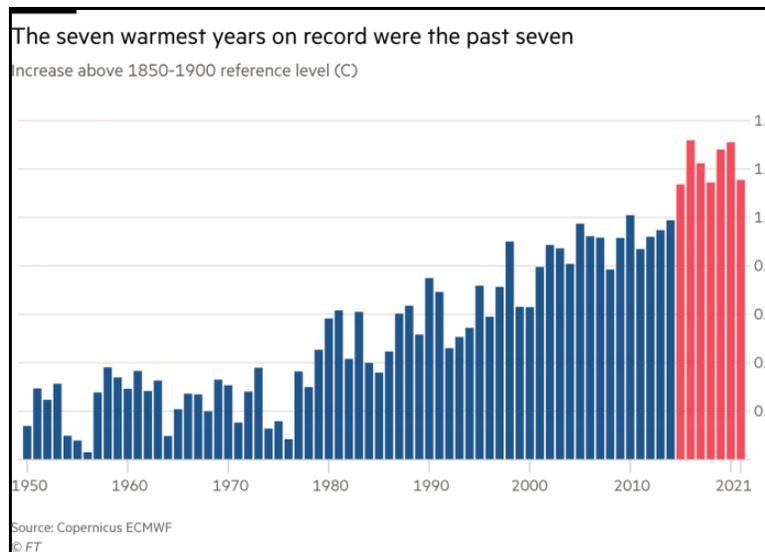
China: Illustrating the economic impact of China's recent crackdown on high-flying technology companies, the chief executive of New Oriental Education & Technology Group (EDU, \$1.86), one of the country's top online tutoring firms, [said the crackdown cost his firm \\$3.1 billion and forced it to lay off 60,000—more than half its workforce](#). He also said the new regulations cut his firm's operating income by 80%.

U.S. Monetary Policy: Richmond FRB President Barkin [said he supports the central bank's hawkish outlook for monetary policy and is open to raising interest rates](#) when its bond-buying stimulus effort winds down in March. Barkin isn't a voting member of the policy committee this year, but his views likely reflect the body's growing impatience to address inflation by tightening policy.

U.S. Financial Regulation: Concerned about the influence and risks arising from "unicorns" and other fast-growing private companies, the SEC [has begun work on a plan to require more private firms to routinely disclose information about their finances and operations](#). It is also considering tightening the qualifications that investors must meet to access private markets and increasing the amount of information that some nonpublic companies must file with the agency.

Climate Change: New data from Copernicus, the European Earth monitoring program, showed that global average temperatures in 2021 [were 1.1-1.2 degrees Celsius above the pre-industrial average \(1850-1900\)](#), making it slightly cooler than 2019 and 2020 but still much warmer than preceding decades. According to the data, the last seven years have been the hottest on record, with 2021 being the fifth warmest.

- Even though climate issues have become hopelessly politicized, it's important to keep track of the data because the temperature figures will probably drive efforts to develop and implement climate stabilization policies.
- Climate fluctuations and policies to moderate them will likely result in substantial economic and financial opportunities as well as risks. For example, last summer's disastrous floods in Europe [are expected to boost sales of property catastrophe insurance on the continent](#).



COVID-19: Official data show confirmed cases [have risen to 307,422,417 worldwide, with 5,490,247 deaths](#). In the U.S., confirmed cases rose to 60,090,637, with 837,664 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 246,812,939](#). The data show that 74.3% of the U.S. population has now received at least one dose of a vaccine, and 62.5% of the population is fully vaccinated.

- As the highly transmissible Omicron mutation continues to spread quickly, the U.S.'s official seven-day average for newly reported cases [topped 700,000 for the first time](#). However, the official total likely reflects only a fraction of the true number, due in part to Omicron's rapid spread and the [difficulty many Americans have had getting tested](#).
 - Fortunately, it still appears that Omicron is significantly less virulent than earlier variations of the coronavirus, so hospitalizations have not risen in tandem with new cases so far.

- While healthcare systems are under strain, the situation isn't yet as bad as in some earlier waves of the pandemic.
- That could allow government officials to continue taking relatively muted steps to counteract the new mutation. If so, the economic and financial impact of Omicron could remain limited.
- The “Great Sickout” is now spreading to hospitals themselves. [Rising numbers of nurses and other critical healthcare workers are calling in sick across the U.S. due to COVID-19](#), forcing hospitals to cut capacity, just as the Omicron variant sends them more patients.
- With Omicron spreading across the world faster than any previous variant, [cases of reinfection among people who caught COVID-19 earlier in the pandemic are rising](#).
 - Almost all reinfections so far are people who originally caught another strain of the virus. No evidence has yet been found of anyone being infected twice by Omicron itself, including from South Africa, where this latest variant of concern has been circulating longest—for at least two months.
 - However, health officials worry that Omicron’s increased transmissibility and ability to evade immunity protection will lead to cases of reinfection with the same variant. They are also concerned about co-infection—simultaneous infection with Omicron and another variant—in this phase of the pandemic.
- In China, the first discovery of community-transmitted cases of the Omicron variant has prompted officials [to strengthen travel controls, close schools, and institute a series of local lockdowns in Tianjin](#). The city with a population of approximately 14 million is only about 70 miles southeast of Beijing, where the Winter Olympic Games are scheduled to start in less than a month.
 - The clampdown in Tianjin comes as imported cases of the Omicron mutation have already caused a [crisis in Xi’an](#). That city has been under lockdown since December 22.
 - Authorities in Xi’an have been criticized after residents in the city with 13 million people were left without access to medical resources and food.
- Novartis (NVS, \$89.31) [said it would seek expedited approval for its antiviral drug](#) against COVID-19 after strong results from an early-stage trial showed it could help to treat the disease. In the trial, the drug cut the risk of emergency room visits, hospitalization, or death by 78% compared with a placebo.

U.S. Economic Releases

There were no economic releases prior to the publication of this report. 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	Wholesale Inventories	m/m	Nov	1.2%	1.2%	***
10:00	Wholesale Trade Sales	m/m	Nov		2.2%	*
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.

	Indicator			Current	Prior	Expected	Rating	Market Impact
ASIA-PACIFIC								
Australia	Melbourne Institute Inflation	y/y	Dec	2.80%	3.10%		***	Equity bullish, bond bearish
	Building Approvals	m/m	Nov	3.60%	-12.90%	3.00%	***	Equity bullish, bond bearish
	Private Sector Houses	m/m	Nov	1.40%	4.30%		**	Equity and bond neutral
	Foreign Reserves	m/m	Dec	A\$80.8b	A\$80.8b		**	Equity and bond neutral
EUROPE								
Eurozone	Sentix Investor Confidence	m/m	Jan	14.9	13.5	13.0	***	Equity and bond neutral
	Unemployment Rate	m/m	Nov	7.2%	7.3%	7.2%	***	Equity and bond neutral
Italy	Unemployment Rate	m/m	Nov	9.2%	9.4%	9.3%	***	Equity and bond neutral
Switzerland	Domestic Sight Deposits CHF	w/w	7-Jan	650.6b	648.9b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	7-Jan	724.6b	722.8b		*	Equity and bond neutral
AMERICAS								
Brazil	FGV CPI IPC-S	w/w	7-Jan	0.53%	0.57%	0.62%	***	Equity bullish, bond bearish

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)	24	23	1	Down
3-mo T-bill yield (bps)	9	9	0	Neutral
TED spread (bps)	15	14	1	Neutral
U.S. Libor/OIS spread (bps)	15	15	0	Down
10-yr T-note (%)	1.77	1.76	0.01	Down
Euribor/OIS spread (bps)	-58	-57	-1	Neutral
EUR/USD 3-mo swap (bps)	-2	-1	-1	Down
Currencies	Direction			
Dollar	Up			Neutral
Euro	Down			Up
Yen	Up			Neutral
Pound	Flat			Neutral
Franc	Down			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.

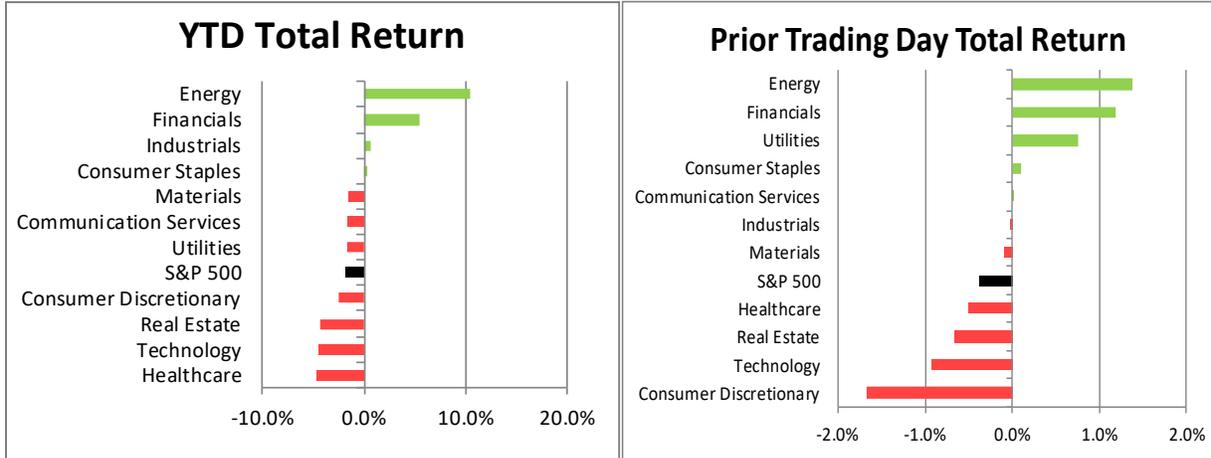
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$81.60	\$81.75	-0.18%	
WTI	\$78.68	\$78.90	-0.28%	
Natural Gas	\$4.11	\$3.92	5.03%	
Crack Spread	\$20.81	\$20.38	2.08%	
12-mo strip crack	\$21.75	\$21.69	0.26%	
Ethanol rack	\$2.38	\$2.40	-0.59%	
Metals				
Gold	\$1,800.79	\$1,796.55	0.24%	
Silver	\$22.46	\$22.37	0.43%	
Copper contract	\$440.90	\$441.00	-0.02%	
Grains				
Corn contract	\$606.00	\$606.75	-0.12%	
Wheat contract	\$755.25	\$758.50	-0.43%	
Soybeans contract	\$1,405.75	\$1,410.25	-0.32%	
Shipping				
Baltic Dry Freight	2,289	2,296	-7	

Weather

The 6-10 day and 8-14-day forecasts currently call for warmer-than-normal temperatures throughout the West Coast, the Rocky Mountains, and the Great Plains, with cooler-than-normal temperatures in the Northeast. The forecasts call for dry conditions throughout the Rocky Mountain region, with wet conditions in the Southeast.

Data Section

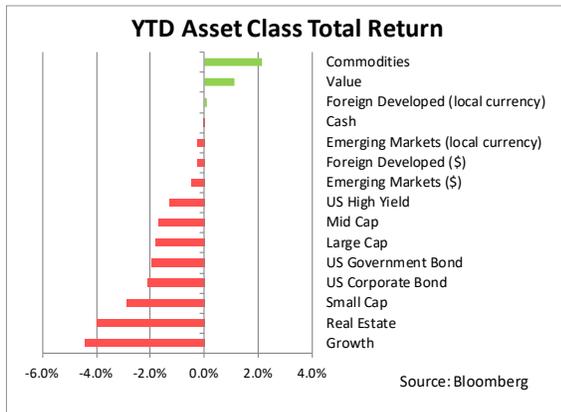
U.S. Equity Markets – (as of 1/7/2022 close)



(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 1/7/2022 close)

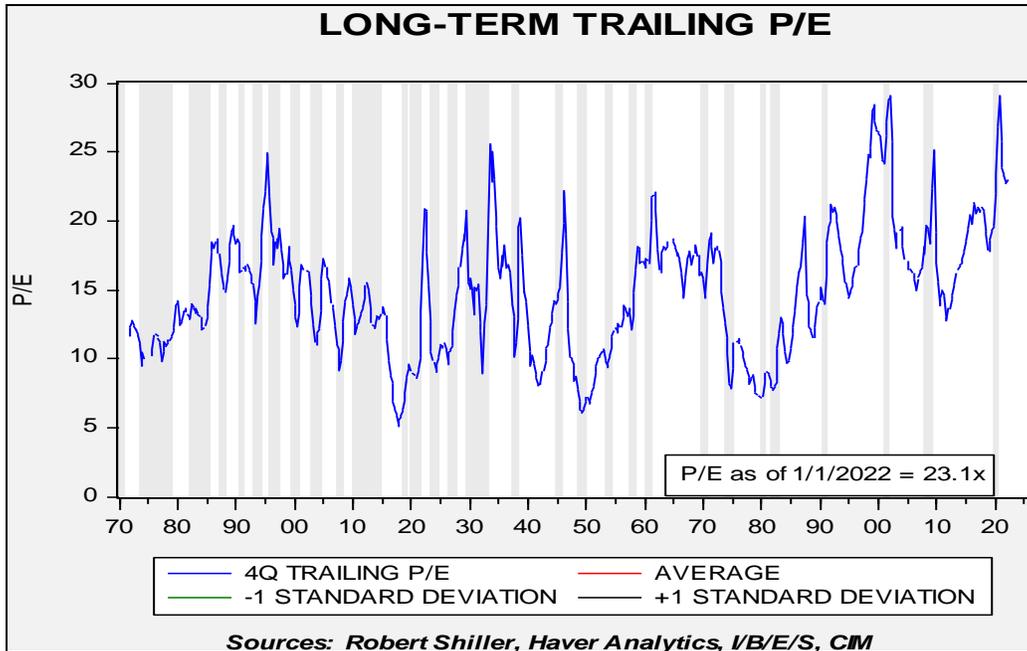


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 6, 2022



Based on our methodology,¹ the current P/E is 23.1x, up 0.5x from our last report. 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 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.