

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: July 16, 2021—9:30 AM EDT] Global equity markets are mixed this morning. In Europe, the EuroStoxx 50 is down 0.4% from its prior close. In Asia, the MSCI Asia Apex 50 closed down 0.7%. Chinese markets were lower, with the Shanghai Composite down 0.7% from its prior close and the Shenzhen Composite down 1.0%. In contrast, 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](#) (7/12/2021): “Unrest in Colombia”
- [Weekly Energy Update](#) (7/15/2021): OPEC+ has a deal and U.S. commercial crude oil inventories continue to decline
- [Asset Allocation Q2 2021 Rebalance Presentation](#) (5/20/2021): A video discussion of our asset allocation process, portfolio changes in Q2, and the macro environment
- **[Asset Allocation Weekly](#) (7/16/2021) (with associated [podcast](#) and [chart book](#)): a look at the current state of the labor market**
- [Confluence of Ideas podcast](#) (7/7/2021): “The Geopolitics of Taiwan and the Issue of Globalization”

Good morning, all! U.S. equities appear to be headed for a higher open this morning. The overnight news was rather quiet. Our report begins with international news and discussions about rising tensions between Poland and the EU, Iranian hackers targeting workers in the defense industry, and the flood in western Europe. U.S. economics and policy news are up next, including an update on the protests in Cuba and the infrastructure bill. China news follows, and we end with our pandemic coverage.

International news: Flood in western Europe, defense workers being targeted by Iranian hackers, and rising tensions between the EU and Poland.

- African nations are planning to lower intercontinental tariffs and are looking [to raise \\$8 billion](#) to offset the loss of tariff revenue. The decision is designed to make intra-trade within Africa relatively easier.
- On Thursday, a [flood in Germany and Belgium](#) caused by record rainfall across western Europe led to 100 confirmed deaths and more than 1,000 people feared missing.

- A secretive Israeli spyware company, [Candiru, sold its software exclusively to governments](#). The software makes it easy for states to hack into iPhones, Androids, Macs, PCs, and cloud accounts. It has been used by governments to monitor and track dissidents.
- Poland and the European Union [continued their six-year feud over the rule of law](#). On Thursday, the European Court of Justice ruled that Poland's system of overseeing and disciplining judges is not compatible with EU law. In response, Poland has argued that the ruling goes against the Polish constitution. If Poland persists with its oversight system, the commission could ask the court to impose daily fines.
- Russia banned an investigative website that published a report suggesting that [President Vladimir Putin secretly fathered a child](#) outside of his marriage. The publisher of the report, Proekt Media, is based in the U.S.; however, anyone associated with the site potentially faces a prison sentence.
- Facebook (FB, \$344.46) announced that it removed several accounts connected to a group of [Iranian hackers that targeted employees of defense and aerospace industries](#) in the U.S. and Europe.
- The European Central Bank is expected to [maintain its policy accommodation for the foreseeable future](#), according to a Bloomberg survey of economists.

Economics and policy: U.S. issues warning about business in Hong Kong, a U.S. tech firm is in talks to purchase its own foundry, and the Biden administration is exploring ways to restore the internet in Cuba.

- Federal Reserve Chair Jerome Powell [reasserted his belief that inflation is likely going to be transitory](#). Although he has expressed concern with the rise in inflation, he stated it would be a mistake to withdraw the stimulus prematurely.
- The Biden administration [restored protection of the Tongass Forest](#) by reimposing a ban on logging, roads, and mining in undeveloped forests.
- The Biden administration plans to issue a formal warning to companies [doing business in Hong Kong](#). Officials are concerned that companies are not taking risks posed by China's takeover of the region seriously enough.
- Intel (INTC, \$55.81) is exploring a [deal to purchase GlobalFoundries Inc.](#) from Mubadala Investment, an investment arm of the Abu Dhabi government. Intel is expected to bid \$20 billion for the U.S.-based foundry.
- The U.S. is exploring ways to [help restore internet access in Cuba](#). The Cuban government shut off the internet following protests over its handling of the pandemic. Washington is also ready [to send vaccines](#) as long as the shots are administered by an international organization.
- Majority Leader Chuck Schumer [has scheduled a vote on the infrastructure bill](#) to take place on Wednesday. The bill is still largely unwritten and there have been a few obstacles that might prevent the bill from becoming law. Currently, the two sides are debating changes to funding mechanisms and the bill's spending priorities.

- The U.S. is [weighing a digital trade agreement to counter China's growing influence](#). The new agreement will attempt to establish a global standard to the digital economy and will look to bring in countries from the TPP agreement.

China: Beijing gives exemption for firms listing in Hong Kong, China is growing uneasy about U.S. troop withdrawal from Afghanistan, and pork prices fall in China.

- Chinese officials announced [that firms going public in Hong Kong will be exempt from first seeking approval](#) from the country's cybersecurity regulator. Regulators will still vet companies that are looking to go public to make sure they are complying with local laws, but only those that plan to list in other countries will undergo a formal review.
- China has expressed concerns about [the quick U.S. withdrawal from Afghanistan](#). There are growing fears within Beijing that instability from Afghanistan, with which it shares a small 46-mile border, could spread into its country. Over the last few years there has been growing anti-China sentiment due to the country's growing influence in the region and its treatment of Uighur Muslims. On Wednesday, [an explosion near a bus carrying Chinese workers](#) was described by Beijing as a terrorist attack.
- China [refused to set up a meeting](#) with Deputy Secretary of State Wendy Sherman and her Chinese counterpart, Le Yucheng. Instead, China offered Sherman a meeting with Xie Feng, who is three ranks below Yucheng. The move was widely viewed as a snub and will likely heighten tensions between the U.S. and China.
- Chinese [pork imports are expected to drop 50%](#) following a sharp decline in domestic pork prices.
- Xi and Biden are expected to meet with other [world leaders at the virtual APEC meeting on Friday](#). The informal meeting will focus on ending the pandemic and efforts to support the global recovery.
- At the urgency of the World Health Organization, Beijing is mulling over whether it [will allow another inquiry into the origins of the coronavirus](#).

COVID-19: The [number of reported cases](#) is 189,024,605 with 4,068,772 fatalities. In the U.S., there are 33,977,713 confirmed cases with 608,406 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 388,738,495 doses of the vaccine have been distributed with 336,054,953 doses injected. The number receiving at least one dose is 185,135,757, while the number of second doses, which would grant the highest level of immunity, is 160,408,538. The *FT* has a page on [global vaccine distribution](#).

- The U.S. Surgeon General Dr. Vivek Murthy expressed concerns over the [growing wave of misinformation about COVID-19 and related vaccines](#). He has called on tech companies to adjust their algorithms to demote false information.
- Health officials in [southwest Missouri have asked for emergency hospitals](#) to be set up to deal with the surge in cases of the Delta variant.

- Los Angeles County has told its residents that it must wear masks indoors following a sharp rise in COVID-19 cases. The county is weighing implementing [new restrictions if cases continue to rise](#).
- President Biden announced that he is considering [lifting travel restrictions with Europe](#) following his meeting with German Chancellor Angela Merkel.
- Half of the people that contract COVID-19 [experience other health complications](#). Although complications were more common for those over 50, young adults have also experienced health issues.
- Canada announced that it [may start allowing vaccinated travelers to enter the country](#) in September if “the current positive path of vaccination rates and public health conditions continue.”
- A Hong Kong study shows that health workers who have been fully vaccinated with the BioNTech/Pfizer (PFE, \$40.09) shot [have 10 times the mRNA than those who were vaccinated with the Sinovac Biotech](#) (SVA, \$1.36) shot.
- Nursing homes [have struggled to convince staff to get vaccinated](#). Slightly more than half of nursing home staff have been fully vaccinated.
- States are starting to outlaw [the required use of masks and proof of vaccinations in school](#).

U.S. Economic Releases

In the only major economic report so far today, June retail sales rose by a seasonally adjusted 0.6%, beating expectations for a 0.3% decline. However, May sales were revised significantly downward to show a fall of 1.7%. As a result, the rise in June only reversed about one-third of the previous month’s drop. Of course, supply disruptions and other issues continue to have a big impact on auto sales. June retail sales excluding autos rose an even stronger 1.3%, smashing through expectations for a 0.4% rise and easily reversing their decline of 0.9% in May. Compared with June 2020, overall retail sales were up 18.5%, while sales excluding autos were up 18.0%. The chart below shows how total retail sales and retail sales ex-autos have changed since just before the prior recession.



The table below lists the domestic releases and Fed events scheduled for the rest of the day.

Economic Releases						
EDT	Indicator			Expected	Prior	Rating
10:00	U. of Michigan Consumer Sentiment	m/m	Jul P	86.5	85.5	***
10:00	U. of Michigan Current Conditions	m/m	Jul P	91.0	88.6	**
10:00	U. of Michigan Future Expectations	m/m	Jul P	85.0	83.5	**
10:00	U. of Michigan 1 Year Inflation Expectation	m/m	Jul P	4.3%	4.2%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Jul P		2.8%	*
10:00	Business Inventories	m/m	May	0.5%	-0.2%	*
16:00	Total Net TIC Flows	m/m	May		\$101.2b	**
16:00	Net Long-term TIC Flows	m/m	May		\$100.7b	**
Fed Speakers or Events						
EST	Speaker or event	District or position				
9:00	John Williams Takes Part in Event on Culture in the Workplace	President of the Federal Reserve Bank of New York				

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								
New Zealand	BusinessNZ Manufacturing PMI	m/m	Jun	60.7	58.6		***	Equity bullish, bond bearish
	CPI	m/m	2Q	1.3%	1.5%	2.7%	**	Equity bullish, bond bearish
	Non-Resident Bond Holdings	m/m	Jun	3.3%	50.3%		**	Equity and bond neutral
EUROPE								
Eurozone	EU27 New Car Registrations	y/y	Jun	10.4%	53.4%		*	Equity and bond neutral
	Trade Balance SA	m/m	May	9.4b	13.4b		*	Equity bearish, bond bullish
	CPI	y/y	Jun F	1.9%	2.0%	1.9%	**	Equity and bond neutral
	Core CPI	y/y	Jun F	0.9%	0.9%	0.9%	**	Equity and bond neutral
Italy	Trade Balance	m/m	May	5642m	5870m		*	Equity and bond neutral
AMERICAS								
Canada	Housing Starts	m/m	Jun	282.1k	275.9k	270.0k	**	Equity bullish, bond bearish
	International Securities Transactions	m/m	May	20.79b	9.95b		*	Equity and bond neutral
	Wholesale Trade Sales	m/m	May	0.5%	0.4%	1.1%	*	Equity bearish, bond bullish
Brazil	FGV Inflation IGP-10	m/m	Jul	0.2%	2.3%	0.2%	*	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)	13	13	0	Up
3-mo T-bill yield (bps)	4	4	0	Neutral
TED spread (bps)	9	8	1	Neutral
U.S. Libor/OIS spread (bps)	9	9	0	Up
10-yr T-note (%)	1.32	1.30	0.02	Neutral
Euribor/OIS spread (bps)	-55	-55	0	Neutral
EUR/USD 3-mo swap (bps)	4	4	0	Down
Currencies	Direction			
dollar	Up			Down
euro	Down			Up
yen	Down			Up
pound	Flat			Up
franc	Down			Up
Central Bank Action	Current	Prior	Expected	
BOJ Policy Balance Rate	-0.100%	-0.100%	-0.100%	On forecast
BOJ 10-yr Yield Target	0.000%	0.000%	0.000%	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.

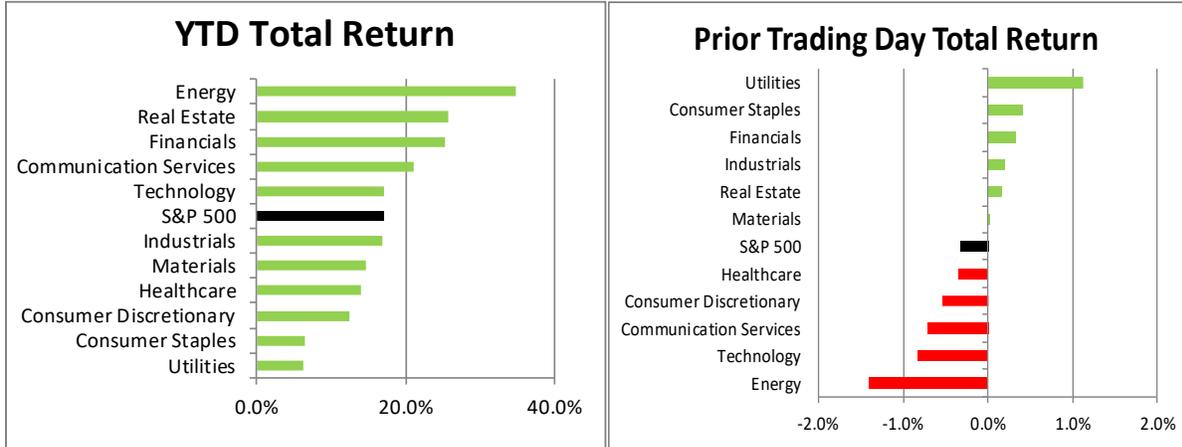
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$73.45	\$73.47	-0.03%	
WTI	\$71.74	\$71.65	0.13%	
Natural Gas	\$3.63	\$3.61	0.30%	
Crack Spread	\$20.84	\$20.75	0.43%	
12-mo strip crack	\$19.53	\$19.45	0.39%	
Ethanol rack	\$2.43	\$2.43	0.06%	
Metals				
Gold	\$1,817.90	\$1,829.47	-0.63%	
Silver	\$26.10	\$26.34	-0.92%	
Copper contract	\$431.40	\$432.30	-0.21%	
Grains				
Corn contract	\$560.50	\$556.25	0.76%	
Wheat contract	\$686.25	\$672.00	2.12%	
Soybeans contract	\$1,393.00	\$1,380.00	0.94%	
Shipping				
Baltic Dry Freight	3073	3139	-66	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)	-7.9	-4.4	-3.5	
Gasoline (mb)	1.0	-1.5	2.5	
Distillates (mb)	3.7	1.0	2.7	
Refinery run rates (%)	-0.40%	0.40%	-0.80%	
Natural gas (bcf)	55.0	49.0	6.0	

Weather

The 6-10 day and 8-14 day forecasts currently call for warmer-than-normal temperatures in California, the Northern Rockies, and across the Northern Great Plains, with cooler temperatures in Texas and the Deep South. The forecast calls for wetter-than-normal conditions in the Southern Rockies and Texas, with notably dry conditions in the Great Plains. There are currently no cyclonic disturbances being tracked in the Atlantic and Caribbean areas.

Data Section

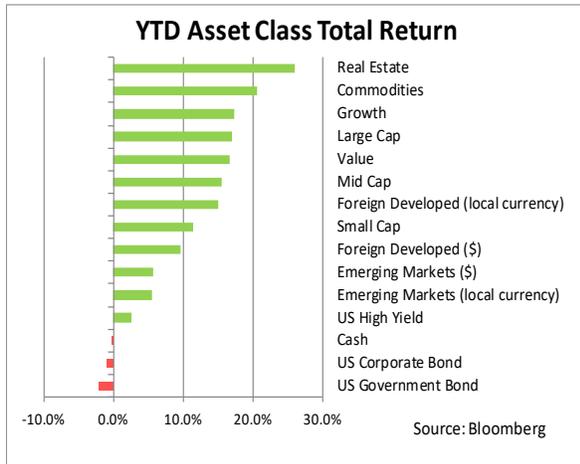
U.S. Equity Markets – (as of 7/15/2021 close)



(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 7/15/2021 close)

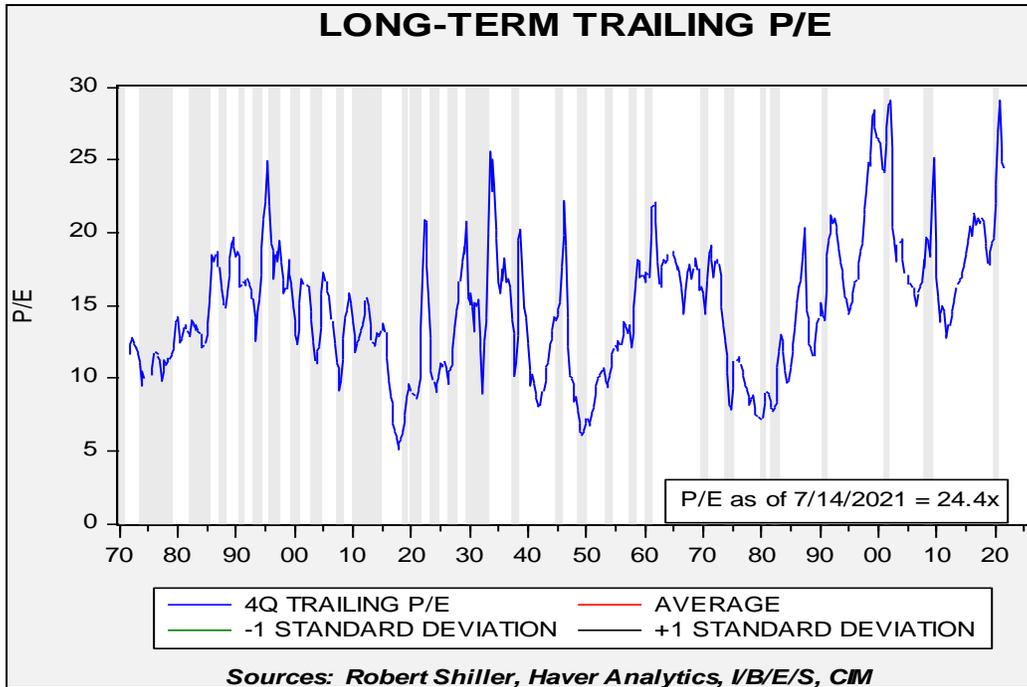


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

July 15, 2021



Based on our methodology,¹ the current P/E is 24.4x, 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 two actual quarters (Q4 and Q1) and two estimates (Q2 and 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.