

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: June 30, 2021—9:30 AM EDT] Global equity markets are mixed this morning. In Europe, the EuroStoxx 50 is down 1.3% from its prior close. In Asia, the MSCI Asia Apex 50 closed relatively unchanged. Chinese markets were higher, with the Shanghai Composite up 0.5% from its prior close and the Shenzhen Composite up 1.0%. U.S. equity index futures are signaling a flat to 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](#)** (6/28/2021): The Mid-Year Geopolitical Outlook
- [Weekly Energy Update](#) (6/24/2021): Iran has a new president, and U.S. commercial crude oil inventories continue to decline.
- [Asset Allocation Q2 2021 Rebalance Presentation](#) (5/20/2021): video discussion of our asset allocation process, portfolio changes in Q2, and the macro environment
- [Asset Allocation Weekly](#) (6/25/2021) (with associated [podcast](#) and [chart book](#)): We look at the Flow of Funds data from the Federal Reserve for insights on the economy and financial system.
- [Confluence of Ideas podcast](#) (4/30/2021): “The U.S.-China Balance of Power: Part II”

Today's *Comment* opens with new developments related to U.S. monetary and regulatory policy. We then turn to a review of some key economic data from China and various other international news. We close with the latest developments related to the coronavirus pandemic.

U.S. Monetary Policy: An inaugural survey of academic economists conducted by the *Financial Times* and the University of Chicago's Initiative on Global Markets suggests that [elevated inflation will compel the Federal Reserve to boost U.S. interest rates at least twice by the end of 2023](#). That aligns closely with the “dot plot” of Fed officials' own forecasts for when and how quickly rates will have to rise from their current level that is near zero.

- The new FT-IGM U.S. Macroeconomists Survey polled 52 academic economists on the likelihood that the Fed's main policy rate would indeed be higher by 0.5% by the end of 2023, as the dot plot indicated. A majority of respondents said the likelihood of a move of that size or more was above 75%, and a large minority put it as high as 90%.
- The findings underline our view that Fed Chair Powell has been unable to make a convincing case for his strategy of prioritizing labor market outcomes by keeping monetary policy loose. Many establishment-leaning, capital-friendly policymakers on

the FOMC are in open rebellion and are talking increasingly about the need to tighten policy, albeit gradually. The financial markets seem to be coming to terms with that prospect over the last couple of weeks, but any sign of an even earlier policy tightening will have the potential to disrupt markets once again.

U.S. Competition Policy: According to the *Wall Street Journal*, the Biden administration is [developing an executive order directing federal agencies to strengthen their oversight](#) of industries that they perceive to be dominated by a small number of large companies. Although we've been highlighting how big businesses are facing increased regulatory risk in the area of antitrust, the goal of the new executive order would be to broaden the way regulators approach big business and business concentration beyond that area. For industries dominated by a few big firms, for example, regulators might conduct heightened surveillance on fees charged to customers or on their relationships with suppliers.

European Union: Justice Commissioner Didier Reynders [has warned that the EU could eventually face a breakup](#) due to a proliferation of legal challenges and rulings by EU member states against the principle that EU law supersedes national laws. It doesn't appear to be an imminent crisis for the EU, but the report shows that the issue has been building. Brussels has been slow to respond. This will probably have importance for the EU's functioning and potential effectiveness over time, especially as it implements its new program of common, mutual EU debt issuance.

- In a sign of the perceived threat, the European Commission this month launched legal proceedings against Germany. It is in response to an explosive ruling by its constitutional court last year that the European Court of Justice had acted beyond its level of competence in a case related to the European Central Bank's bond-buying.
- The next big legal challenge Brussels is bracing for is a decision by the Polish constitutional tribunal, which could come on July 13, on whether certain elements of the EU's treaties are compatible with the country's constitution.

China: The National Bureau of Statistics [released its official purchasing managers indexes for the manufacturing and nonmanufacturing sectors, with the data hinting at a modest economic weakening](#) as supply constraints weigh on production, export demand softens, and consumers remain cautious amid localized new pandemic lockdowns. As with most such indexes, China's PMIs are designed so that readings over 50 will point to expanding activity. The details are below (and in the data tables of the .pdf version of this document).

- The June PMI for manufacturing fell slightly to 50.9 in June from 51.0 in May.
 - Importantly, the subindex on production declined to 51.9 in June from 52.7 in the previous month, as recent shortages of semiconductors, coal, and power held back output at many factories.
 - Meanwhile, the subindex on new export orders fell from 48.3 in May to 48.1 in June, signaling weakening external demand for Chinese goods.
- Separately, the June PMI for the nonmanufacturing sector declined to 53.5 from 55.2 in May.

Russia: Today, President Putin [is holding his annual call-in show](#), where citizens can call in questions to him directly. The call is aimed at showcasing Putin's willingness to respond to average Russian concerns. The president has already made some news by insisting that last week's incident off the coast of Crimea, where the British naval destroyer *HMS Defender* was confronted by Russian coast guard ships and fighter aircraft, was "a clear provocation." More news could arise as the call continues.

Brazil: President Bolsonaro, who is gearing up for a re-election bid next year but trails former President Luiz Inácio Lula da Silva, [is now facing a major scandal](#) because of an apparent attempt to secure kickbacks on a major coronavirus vaccine contract.

COVID-19: Official data show confirmed cases [have risen to 181,908,304 worldwide, with 3,940,007 deaths](#). In the United States, confirmed cases rose to 33,653,105 with 604,476 deaths. [Vaccine doses delivered in the U.S. now total 381,831,830, while the number of people who have received at least their first shot totals 179,940,202](#). Finally, here is the [interactive chart](#) from the *Financial Times* that allows you to compare cases and deaths among countries, scaled by population.

Virology

- According to the latest CDC data, 54.2% of the U.S. population has now received at least one dose of a vaccine, and 46.4% of the population is fully vaccinated.
- In Europe, tourist-dependent countries like Spain and Greece [are especially worried that the Delta variants of the virus could again force them to restrict international travelers](#). Spain, Portugal, and Malta this week have already tightened restrictions on tourists from the U.K., where the Delta mutation is spreading. Earlier this month, Italy required U.K. travelers to quarantine for five days.
- Russian President Vladimir Putin, fielding questions from across the country on his annual call-in show, [urged citizens to overcome their hesitancy and get vaccinated](#) against COVID-19 as the country continues to rack up daily records for deaths from the coronavirus. Putin also revealed for the first time that he got the locally developed Sputnik V vaccine, ending months of speculation over which shot he received behind closed doors late last year.
- In Australia, resurgent infections [have prompted authorities to lock down four major cities, representing more than half the country's population](#). The latest surge will put greater pressure on the government for its sluggish vaccination drive.
 - After winning international praise for its initial response to reining in the virus, the government was warned that a slow vaccine rollout would jeopardize those early gains.
 - While about 30% of the country's 26 million people have received at least a first jab, only about 7% of Australians are fully vaccinated.
 - The infection resurgence in Australia comes despite the country's [strong efforts at contact tracing](#).
- Without providing details, North Korean state media said paramount leader Kim Jong Un [accused officials in his government of neglecting important party decisions related to the](#)

[pandemic](#). He said these officials “caused a grave incident that poses a huge crisis to the safety of the nation and its people.” The statement is being taken as groundwork for the announcement of a pandemic crisis in the country or justification for allowing foreign experts to help vaccinate the country’s citizens.

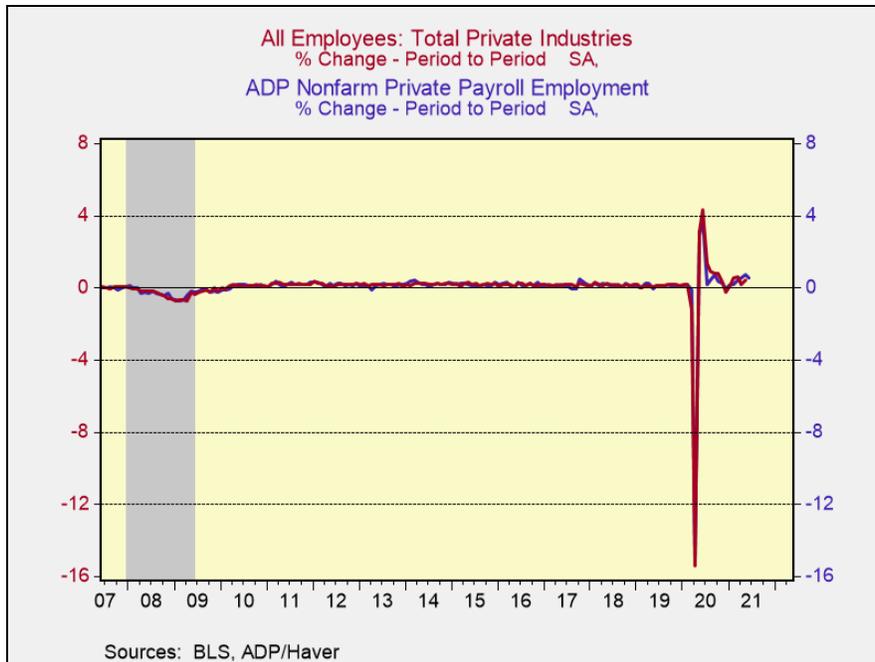
Economic and Financial Market Impacts

- In an important sign of the post-pandemic recovery in the U.S. real estate finance market, the [issuance of single-asset, single-borrower bonds is again surging](#) after dropping by nearly half in 2020.
- In the U.K., new data shows that as the latest lockdown curtailed spending in shops, bars, and restaurants early this year, the first-quarter household saving ratio — the average percentage of disposable income that is saved — [rose to 19.9% from 16.1%](#) in the final quarter of last year. As in the U.S., this raises hope that the accumulated cash will boost the country’s economic recovery as businesses reopen.
- Agustín Carstens, general manager of the Bank for International Settlements and the former chief of the Bank of Mexico, [warned that developing countries have yet to feel the full economic impact of the pandemic](#), but they are already close to exhausting their capacity to borrow and to use fiscal and monetary policy to deal with it.
 - According to Carstens, the situation for developing countries is especially challenging given that so many developed countries are preparing to withdraw the fiscal and monetary policy support they had been providing to their economies.
 - Even though our expectations for a weaker dollar would suggest a positive outlook for the so-called emerging markets, Carstens makes a valid point that the shifting policy stances around the world could make this a trickier area to invest in than it otherwise would be.

U.S. Economic Releases

U.S. home purchase applications fell to their lowest level in more than a year, according to the Mortgage Brokers Association (MBA). For the week ending June 25, the MBA mortgage index fell 6.9% from the prior week. The index for refinancing rose 8.2% from the prior week, while the index for purchases fell 4.8%. The average 30-year fixed-rate mortgage rose by 2 bps from 3.18% to 3.20%.

Private payrolls expanded at a solid pace in June, according to payroll services company Automatic Data Processing (ADP). Their database showed that private payrolls rose by 692K compared to expectations of 600K. The previous month’s report was revised from 978K to 886K.



The chart above shows the period to period change in private payrolls according to ADP and BLS. ADP private payrolls expanded 0.6% from the prior month. Assuming the BLS payrolls expand at the same rate, the Friday jobs report should show that the economy added 702K jobs in June.

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

Economic Releases						
EDT	Indicator			Expected	Prior	Rating
9:45	MNI Chicago PMI	m/m	Jun	75.2	70	**
10:00	Pending Home Sales	m/m	May	0.0	0.0	**
10:00	Pending Home Sales NSA	y/y	May	1		**
Fed Speakers or Events						
EST	Speaker or event	District or position				
8:00	Raphael Bostic Discusses Regionalism	President of the Federal Reserve Bank of Atlanta				
13:00	Thomas Barkin Speaks with Hispanic Chamber of Commerce	President of the Federal Reserve Bank of Richmond				

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								
China	Non-manufacturing PMI	m/m	Jun	53.5	55.2	55.3	**	Equity and bond neutral
	Manufacturing PMI	m/m	Jun	50.9	51.0	50.8	**	Equity and bond neutral
	Composite PMI	m/m	Jun	52.9	54.2		**	Equity and bond neutral
Japan	Industrial Production	m/m	May	-5.9%	2.9%	-2.1%	***	Equity bearish, bond bullish
	Housing Starts	y/y	May	9.9%	7.1%	8.4%	**	Equity bullish, bond bearish
	Consumer Confidence Index	m/m	Jun	37.4	34.1	35.0	**	Equity bullish, bond bearish
Australia	Private Sector Credit	m/m	May	0.2%	0.2%	0.3%	**	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	Jun	31.6	29.1		**	Equity bullish, bond bearish
	ANZ Business Confidence	m/m	Jun	-0.6	-0.4		**	Equity and bond neutral
EUROPE								
Eurozone	CPI Core	y/y	Jun	0.9%	1.0%	0.9%	***	Equity and bond neutral
	CPI Estimate	y/y	Jun	1.9%	2.0%	1.9%	***	Equity and bond neutral
France	PPI	y/y	May	7.2%	7.3%		**	Equity and bond neutral
	Consumer Spending	y/y	May	7.4%	32.0%	5.5%	**	Equity bullish, bond bearish
	CPI EU Harmonized	y/y	Jun	1.9%	1.8%	1.9%	***	Equity and bond neutral
	CPI	y/y	Jun	1.5%	1.4%	1.5%	***	Equity and bond neutral
Germany	Unemployment Change (000's)	m/m	Jun	-38.0k	-15.0k	-20.0k	***	Equity bearish, bond bullish
	Unemployment Claims Rate SA	m/m	Jun	5.9%	6.0%	5.9%	***	Equity and bond neutral
Italy	PPI	y/y	May	10.0%	7.9%		**	Equity bearish, bond bullish
	CPI EU Harmonized	y/y	Jun	1.3%	1.2%	1.4%	***	Equity and bond neutral
	CPI NIC incl. tobacco	y/y	Jun	1.3%	1.3%	1.4%	***	Equity bullish, bond bearish
UK	GDP	q/q	1Q F	-1.6%	-1.5%	-1.5%	***	Equity bullish, bond bearish
	Current Account Balance	q/q	1Q	-12.8b	-26.3b	-14.0b	**	Equity and bond neutral
	Total Business Investment	q/q	1Q F	-16.9%	-18.1%	-18.1%	**	Equity and bond neutral
Switzerland	KOF Leading Indicator	m/m	Jun	133.4	143.2	145.0	**	Equity bearish, bond bullish
	Foreign exchange transactions	q/q	1Q	296m	8685m		**	Equity bullish, bond bearish
	Credit Suisse Survey Expectations	m/m	Jun	51.3	72.2		**	Equity bullish, bond bearish
AMERICAS								
Brazil	FGV Inflation IGPM	m/m	Jun	0.6%	4.1%	1.0%	***	Equity bullish, bond bearish
	PPI Manufacturing	y/y	May	32.5%	31.7%		**	Equity and bond neutral
	Tax Collections	m/m	May	142106m	156822m	139400m	*	Equity and bond neutral
	Central Govt Budget Balance	m/m	May	-20.9b	16.5b	-22.4b	**	Equity and bond neutral
Canada	Bloomberg Nanos Confidence	w/w	25-Jun	65.8	65.2		***	Equity and bond neutral
Mexico	Trade Balance	m/m	May	339.7m	1500.6m	1284.8m	**	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.

	Today	Prior	Change	Trend
3-mo Libor yield (bps)	15	15	0	Up
3-mo T-bill yield (bps)	3	5	-2	Neutral
TED spread (bps)	11	10	1	Neutral
U.S. Libor/OIS spread (bps)	9	9	0	Up
10-yr T-note (%)	1.46	1.47	-0.01	Neutral
Euribor/OIS spread (bps)	-54	-54	0	Neutral
EUR/USD 3-mo swap (bps)	4	5	-1	Down
Currencies	Direction			
dollar	Up			Down
euro	Flat			Up
yen	Down			Up
pound	Up			Up
franc	Down			Up

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.

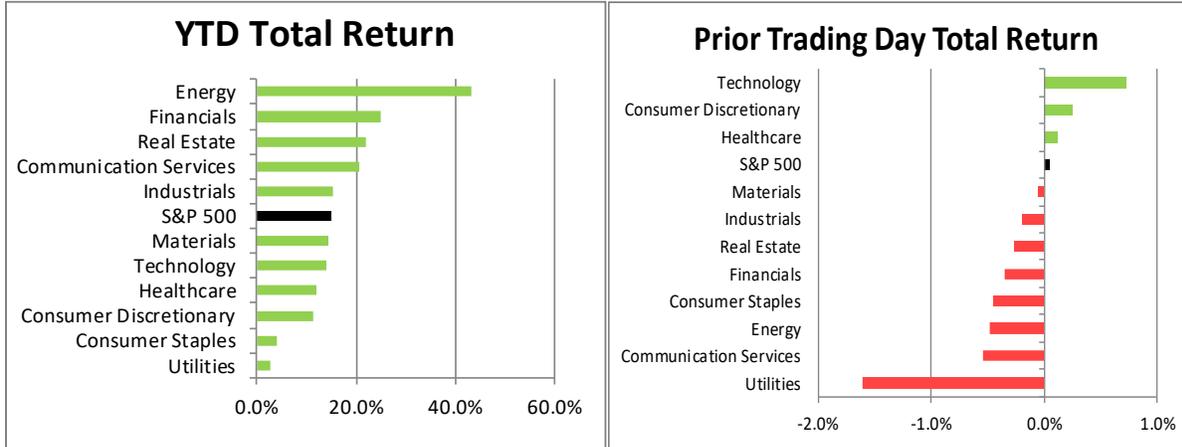
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$75.28	\$74.76	0.70%	
WTI	\$73.74	\$72.98	1.04%	
Natural Gas	\$3.71	\$3.63	2.09%	
Crack Spread	\$18.91	\$19.18	-1.40%	
12-mo strip crack	\$18.87	\$19.01	-0.76%	
Ethanol rack	\$2.53	\$2.53	0.18%	
Metals				
Gold	\$1,758.07	\$1,761.24	-0.18%	
Silver	\$25.84	\$25.77	0.25%	
Copper contract	\$428.75	\$426.45	0.54%	
Grains				
Corn contract	\$540.25	\$548.50	-1.50%	
Wheat contract	\$641.75	\$646.25	-0.70%	
Soybeans contract	\$1,307.75	\$1,312.50	-0.36%	
Shipping				
Baltic Dry Freight	3418	3324	94	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)		-4.0		
Gasoline (mb)		-0.7		
Distillates (mb)		1.0		
Refinery run rates (%)		0.40%		
Natural gas (bcf)		68.0		

Weather

The 6-10 day and 8-14 day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler temperatures in Texas, the Mississippi Valley, and the South. The forecast calls for wet conditions from the Southwest through the Mississippi Valley and up the East Coast, with dry conditions in the Pacific Northwest and the Northern Great Plains. Meanwhile, there is a tropical disturbance moving toward the Caribbean Islands.

Data Section

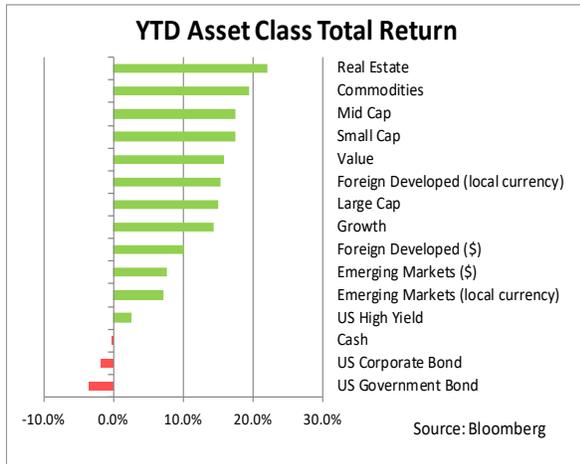
U.S. Equity Markets – (as of 6/29/2021 close)



(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 6/29/2021 close)

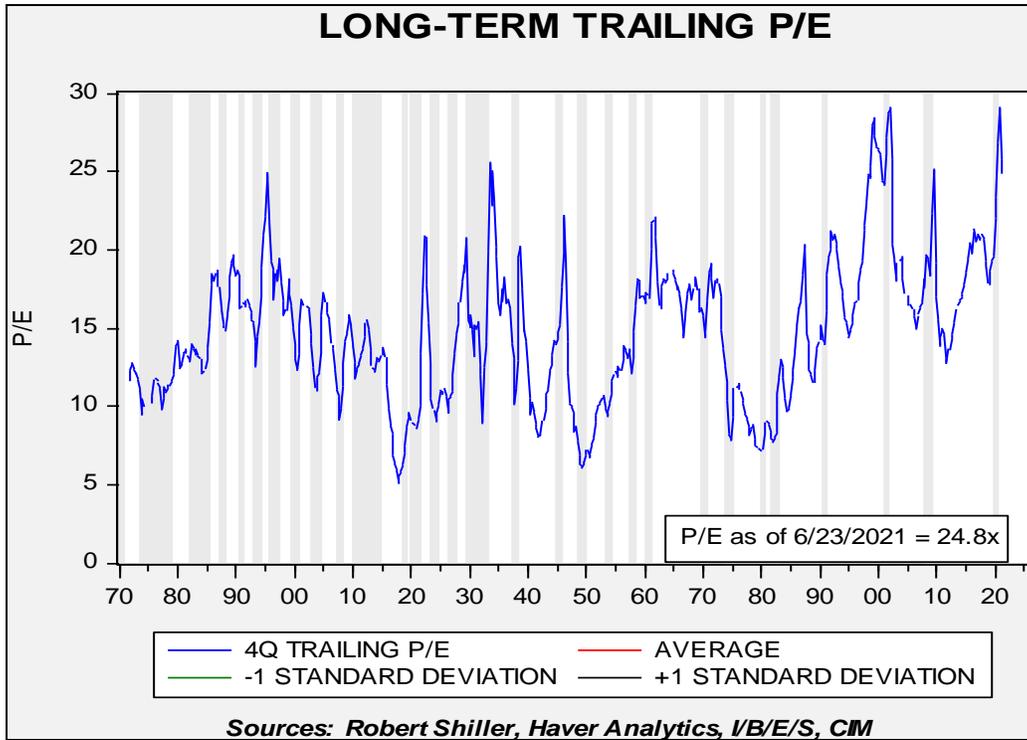


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

June 24, 2021



Based on our methodology,¹ the current P/E is 24.8x, 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 (Q3 and Q4) and two estimates (Q1 and Q2). 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.