

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: March 15, 2022—9:30 AM EDT]** Global equity markets are generally lower this morning. In Europe, the EuroStoxx 50 is currently down 1.8% from its prior close. In Asia, the MSCI Asia Apex 50 closed down 4.1%. Chinese markets were lower, with the Shanghai Composite down 5.0% from its prior close and the Shenzhen Composite down 4.6%. 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:

- **[Bi-Weekly Geopolitical Report \(3/14/2022\)](#) (with associated [podcast](#)): “The Ukraine War and the Path of Globalization”**
- [Weekly Energy Update \(3/10/2022\)](#): We look at the impact of the war on the energy markets; we also have a chart on gasoline prices scaled to wages.
- [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 \(3/7/2022\)](#) (with associated [podcast](#)): “Believe It or Not, Fiscal Policy Is Tightening”
- [Confluence of Ideas podcast](#) (1/20/2022): “The 2022 Outlook”
- *Current Perspectives*: “[2022 Outlook: Update #1](#)” (2/18/2022)

Our *Comment* opens with an update on the Russia-Ukraine War, where there has been little discernible change in the military situation on the ground or in diplomatic efforts to end the conflict. We next review some international and U.S. developments with the potential to affect the financial markets today. We wrap up with the latest news on the coronavirus pandemic.

**[Russia-Ukraine](#):** There was little change in the military situation in Ukraine yesterday. Russian forces [continue trying to encircle key cities such as the capital Kyiv](#), but Ukrainian forces continue to thwart them. In response, the Russian military [continues to attack civilian targets with missiles, long-range artillery, and aerial bombing](#). In one of the more concerning military developments, Ukraine’s military said it had detected a Russian surveillance drone crossing the border into neighboring Poland, a NATO member, but it shot the drone down after it crossed back into Ukraine’s airspace. Meanwhile, Russian and Ukrainian officials held a video conference to discuss a ceasefire, but it adjourned until today with no discernible progress. Israeli Prime Minister Bennett spoke separately with Russian President Putin and Ukrainian President Zelensky in an effort to find a compromise, but those talks also produced no results.

Finally, the prime ministers of the Czech Republic, Poland, and Slovenia [will travel to Kyiv today in a show of support for Ukraine](#).

- Meanwhile, U.S. National Security Advisor Sullivan and China's top foreign affairs official, Yang Jiechi, met in Rome yesterday to discuss the situation. No details on the meeting were released other than a U.S. official's comment, "We do have deep concerns about China's alignment with Russia at this time, and the national security adviser was direct about those concerns and the potential implications and consequences of certain actions."
  - Without a doubt, Sullivan would have warned Yang that if China gave more support to Russia, [especially the military assistance it has signaled it is open to](#), the U.S. and its European allies would impose economic punishments that would further impede trade and investment with the Chinese.
  - In other words, the meeting illustrates our prediction that the Russia-Ukraine war will further cleave the world into two or more economic blocs linked by only limited trade and investment ties.
    - As a sign of China's frustration with the situation, Foreign Minister Wang Yi today [complained in a meeting with his Spanish counterpart that China is not a party to the war and should be spared any impact](#) from the West's sanctions against Russia. He also warned that "China has a right to safeguard its legitimate rights and interests."
    - In another negative sign, Beijing has blocked access to a U.S. website where a high-level Chinese researcher published [an article urging Chinese leaders to disassociate from Russia and make amends with the West](#). We had taken that article as a potential sign that China was getting cold feet over its support for Russia. We still think the Chinese leadership is struggling to decide on their best course, but for now, the balance of power may be with those leaders who want to continue supporting Russia.
    - Coupled with China's new coronavirus outbreak and signs that Beijing is continuing its regulatory crackdown, the prospect that China will be collateral damage in the war [has fed into a further sharp drop of almost 5% in Chinese stocks so far today](#).
- Even as the Chinese economy looks increasingly at risk because of the war, European countries continue to tighten the screws on Russia. European Union member states have [formally approved a fourth package of sanctions against Russia](#).
  - The new sanctions include freezing the assets of several oligarchs, imposing an import ban on Russian steel and iron, imposing an export ban on luxury goods worth more than €300 and cars costing more than €50,000, and outlawing investments in Russian energy companies.
  - Russia is due to make two interest payments on its dollar bonds on Wednesday, but because of the Western sanctions to date, [it is unclear whether investors will actually receive their cash](#). Russian debt [continues to trade at distressed prices](#) as investors consider the potential for a uniquely messy government debt default.

- Congressional leaders announced that President Zelensky [will make a video address to a joint session of the Senate and House of Representatives on Wednesday](#). In the address, to be subsequently released to the public, Zelensky is expected to press for more military assistance to help push the Russians out of his country.

**Global Nickel Market:** The London Metal Exchange [said the buying and selling of nickel would resume on Wednesday](#) after it suspended the market for six trading sessions following an unprecedented price surge in part related to the Russia-Ukraine war. The exchange also unveiled rules meant to rein in nickel-price moves and protect its members, after a Chinese metals giant racked up billions of dollars in losses from wrong-way bets.

**Germany:** As we have already noted, one major result of the Russia-Ukraine war is that many European countries have signaled they will finally boost their military budgets after years of underinvestment in defense. Germany has shown the most dramatic about-face with a landmark decision to inject €100 billion into the country's armed forces.

- In the first major defense deal under the new armaments program, Defense Minister Lambrecht said yesterday that [Germany would purchase U.S.-made F-35 fighter jets capable of carrying nuclear weapons](#). It will also upgrade its Eurofighter Typhoon jets for electronic warfare.
- With defense officials in Berlin scrambling to identify spending opportunities that promise fast results, the government [is reportedly considering the suspension of onerous contracting rules](#). The prospect is pushing German defense firms to jockey for position in what they see as an impending feeding frenzy.
- In late March, we will issue a new *Bi-Weekly Geopolitical Report* outlining the prospects and investment implications of higher defense spending in the NATO countries.

**Turkey:** The ruling alliance has unveiled a plan to amend the country's electoral laws in a way [that could damage the opposition's efforts to wrest control of parliament from President Erdogan's party](#). If Erdogan is able to further entrench his political position, prospects for economic orthodoxy and healthier economic performance would dim.

**Saudi Arabia:** Hon Hai Precision Industry (HNHPF, \$6.89), the top manufacturer of iPhones, otherwise known as Foxconn, [said it is in talks with Saudi Arabia about jointly building a \\$9 billion multipurpose facility that could make microchips, electric-vehicle components, and other electronics like displays](#). The facility would be located in Neom, a tech-focused city-state that the kingdom is developing in the desert.

- Besides Saudi Arabia, the company is also talking with the United Arab Emirates about potentially siting the project there.
- At one level, the talks underscore Foxconn's efforts to diversify its manufacturing and locate more activity outside Taiwan and China. Just as important, the talks illustrate the extent to which Saudi Arabia and the UAE are attempting to diversify their economies away from petroleum and develop their own cutting-edge manufacturing capabilities. The UAE [is already an up-and-coming center for high-tech military goods](#). If successful,

these efforts could potentially transform the Middle Eastern economy and make its financial markets more attractive for foreign investors.

**U.S. Monetary Policy:** Monetary policymakers at the Federal Reserve will begin their latest two-day meeting today. Last month, Chair Powell [signaled the officials would use the meeting to hike the benchmark fed funds interest rate by 0.25%](#). However, the hike is expected to be just the first in a series of interest-rate increases. Powell has hinted that a series of shocks, including the Russian invasion, could keep inflation uncomfortably high and potentially call for larger rate rises this summer. We continue to believe financial fragilities and/or an economic slowdown will probably limit how far the Fed will actually increase rates.

- Separately, Democratic Senator Joe Manchin of West Virginia [said he wouldn't support President Biden's nomination of Sarah Bloom Raskin to serve as the Fed's vice chair for regulation](#), citing her past calls for regulations that would limit funding to companies that produce fossil fuels.
- Since the Senate is split evenly between Democrats and Republicans, and since no Republican seems likely to support Bloom Raskin, the decision by Manchin will probably doom her nomination and force President Biden to come up with a replacement.

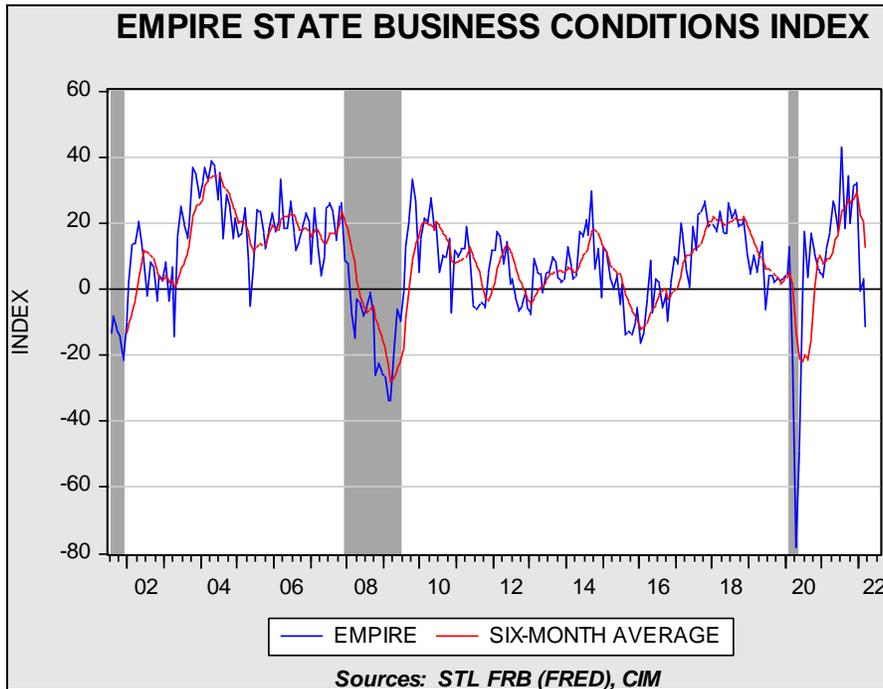
**COVID-19:** Official data show confirmed cases have risen to [459,927,299 worldwide, with 6,046,747 deaths](#). In the U.S., confirmed cases rose to 79,562,369, with 965,106 deaths. (For an interactive chart that allows you to compare cases and deaths among countries, scaled by population, click [here](#).) Meanwhile, in data on the U.S. vaccination program, [the number of people considered fully vaccinated now totals 216,690,804](#), equal to 65.3% of the total population.

- In the U.S., the seven-day average of people hospitalized with a confirmed or suspected COVID-19 [fell to 27,901 yesterday](#), down 43% from two weeks earlier.
- Even though new cases, hospitalizations, and deaths are falling in the U.S., several European countries [are suffering from a new wave](#). Many factors are likely at play, including relaxed mitigation measures, the spread of the B.A.2 variant, and waning vaccine protection.
  - The new wave in Europe raises the possibility that the U.S. could also see a renewed uptick.
  - However, because of factors ranging from new treatment options to social pushback against restrictions, we suspect any new wave would have a much less economic and financial impact than previous waves.
- Meanwhile, China and Hong Kong continue to face [skyrocketing infections in their latest wave](#), with the government [imposing strict social distancing rules and locking down an increasing portion of the economy](#).
  - Investors are increasingly concerned that the new lockdowns will slow the Chinese economy, producing significant headwinds for global economic activity.

- Reflecting that, oil prices today [have again slid below \\$100 per barrel](#), despite the ongoing Russia-Ukraine war and massive sanctions on the oil-dependent Russian economy.

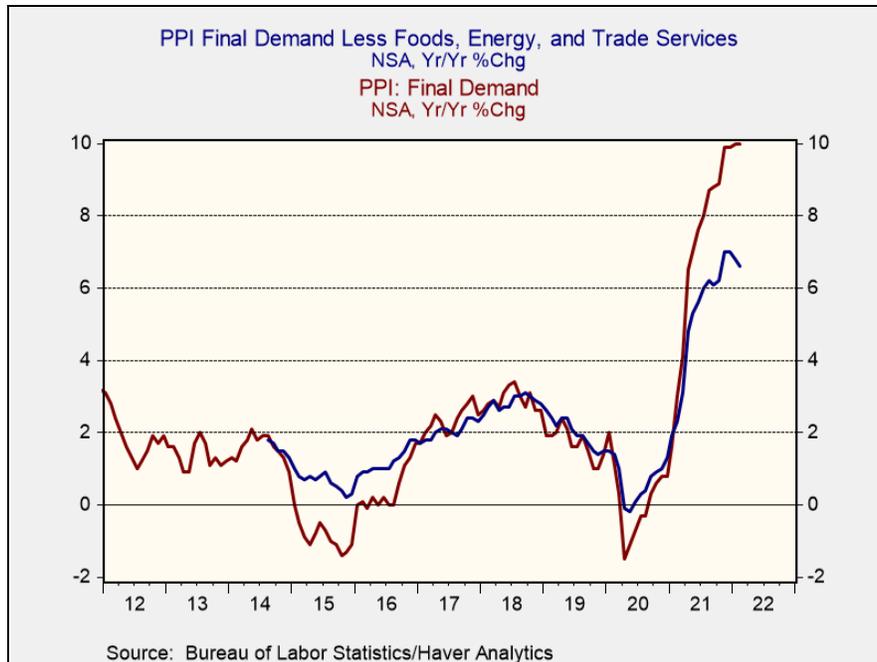
## U.S. Economic Releases

Manufacturing activity slowed in March, according to the Federal Reserve Bank of New York. The Empire Manufacturing General Business Conditions Index fell fifteen points to -11.8, well below expectations for a reading of 3.1. The sharp drop in the index was due to firms reporting renewed supply chain problems. Survey respondents from March 2 to March 9 reported a modest decline in new orders and shipments and an increase in unfilled orders.



The chart above shows a six-month average of the Empire State Business Conditions Index. The six-month moving average fell from 19.9 to 12.2.

The prices paid by producers surged due to an increase in energy prices but still came in below expectations, according to the Bureau of Labor of Statistics. In February, the Producer Price Index (PPI) rose 0.8% from the prior month, compared to expectations of 0.9%. Excluding food and energy, the price index rose 0.2% from the prior month compared to expectations of 0.6%. Core PPI, which excludes food, energy, and trade, rose 0.2% from the prior month compared to expectations of 0.6%.



The chart above shows the annual change in the headline and core PPI. Headline PPI rose 10 percent from the prior year, while core PPI rose 6.6% from the prior year.

The table below lists the economic releases and/or Fed events scheduled for the rest of today.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
16:00	Net Long-term TIC Flows	m/m	Jan		\$114.5b	***
16:00	Total Net TIC Flows	m/m	Jan		-\$52.4b	**
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.

Country	Indicator			Current	Prior	Expected	Rating	Market Impact
<b>ASIA-PACIFIC</b>								
<b>China</b>	Industrial Production YTD	y/y	Feb	7.5%	9.6%	4.0%	***	Equity bullish, bond bearish
	Fixed Assets Ex Rural YTD	y/y	Feb	12.2%	4.9%	5.0%	**	Equity bullish, bond bearish
	Retail Sales YTD	y/y	Feb	6.7%	12.5%	3.0%	**	Equity bullish, bond bearish
	Surveyed Jobless Rate	y/y	Feb	5.5%	5.1%	5.1%	***	Equity and bond neutral
	Property Investment YTD	y/y	Feb	3.7%	4.4%	-7.0%	**	Equity bullish, bond bearish
	Residential Property Sales YTD	y/y	Feb	-22.1%	5.3%		**	Equity bearish, bond bullish
<b>India</b>	Trade Balance	m/m	Feb	-\$20880.0m	-\$17420.0m	-\$21200.0m	**	Equity and bond neutral
<b>Australia</b>	ANZ Roy Morgan Consumer Confidence	w/w	13-Mar	95.8	100.1		**	Equity bearish, bond bullish
	House Price Index	y/y	4Q	23.7%	21.7%	21.9%	***	Equity bullish, bond bearish
<b>New Zealand</b>	Performance Services Index	m/m	Feb	48.6	45.9		**	Equity and bond neutral
<b>EUROPE</b>								
<b>Eurozone</b>	ZEW Survey Expectations	m/m	Mar	-38.7	48.6		**	Equity bearish, bond bullish
	Industrial Production SA	m/m	Jan	0.0%	1.2%	0.0%	***	Equity and bond neutral
<b>France</b>	CPI EU Harmonized	y/y	Feb F	4.2%	4.1%	4.1%	***	Equity and bond neutral
	CPI	y/y	Feb F	3.6%	3.6%	3.6%	***	Equity and bond neutral
<b>Germany</b>	ZEW Survey Expectations	m/m	Mar	-39.3	54.3	5	**	Equity bearish, bond bullish
	ZEW Survey Current Situation	m/m	Mar	-21.4	-8.1	-22.5	**	Equity and bond neutral
<b>Italy</b>	General Government Debt	m/m	Jan	2713.9b	2678.4b		**	Equity and bond neutral
<b>UK</b>	Claimant Count Rate	m/m	Feb	4.4%	4.6%		***	Equity and bond neutral
	Jobless Claims Change	m/m	Feb	-48.1k	-31.9k		***	Equity and bond neutral
	Average Weekly Earnings 3M/YoY	y/y	Jan	4.8%	4.3%	4.6%	**	Equity bullish, bond bearish
	Weekly Earnings ex Bonus 3M/YoY	y/y	Jan	3.8%	3.7%	3.7%	**	Equity bullish, bond bearish
	ILO Unemployment Rate 3Mths	m/m	Jan	3.9%	4.1%	4.0%	***	Equity and bond neutral
	Employment Change 3M/3M	m/m	Jan	-12k	-38k	20k	**	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)	83	80	3	Up
3-mo T-bill yield (bps)	43	44	-1	Neutral
TED spread (bps)	40	36	4	Widening
U.S. Libor/OIS spread (bps)	54	54	0	Down
10-yr T-note (%)	2.11	2.13	-0.02	Up
Euribor/OIS spread (bps)	-50	-50	0	Neutral
<b>Currencies</b>	<b>Direction</b>			
Dollar	Down			Neutral
Euro	Up			Up
Yen	Up			Neutral
Pound	Up			Up
Franc	Flat			Neutral
<b>Central Bank Action</b>	<b>Current</b>	<b>Prior</b>	<b>Expected</b>	
PBOC 1-Yr Lending Facility Rate	2.850%	2.850%	2.850%	On Forecast
PBOC 1-Yr Lending Facilities Volume	200.0b	300.0b	100.0b	Above 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.

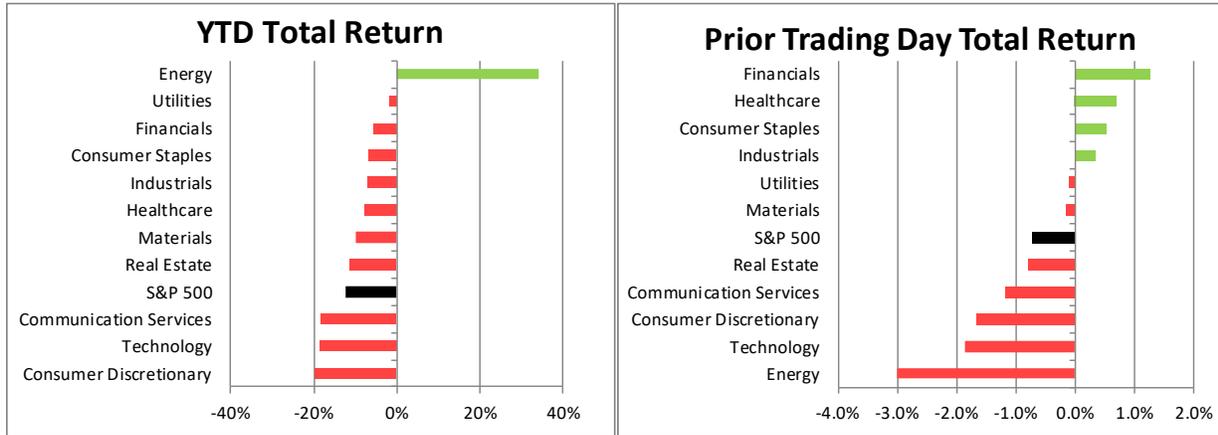
	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$100.27	\$106.90	-6.20%	Peace talks between Russia and Ukraine
WTI	\$96.47	\$103.01	-6.35%	
Natural Gas	\$4.55	\$4.66	-2.38%	
Crack Spread	\$30.40	\$31.52	-3.55%	
12-mo strip crack	\$24.57	\$25.35	-3.10%	
Ethanol rack	\$2.61	\$2.62	-0.18%	
<b>Metals</b>				
Gold	\$1,929.94	\$1,950.88	-1.07%	
Silver	\$24.67	\$25.05	-1.51%	
Copper contract	\$449.55	\$452.30	-0.61%	
<b>Grains</b>				
Corn contract	\$740.75	\$748.25	-1.00%	
Wheat contract	\$1,128.00	\$1,096.25	2.90%	
Soybeans contract	\$1,648.50	\$1,670.50	-1.32%	
<b>Shipping</b>				
Baltic Dry Freight	2,727	2,718	9	

**Weather**

The 6-10 day and 8-14 day forecasts call for warm-to-normal temperatures throughout most of the country, with cooler-than-normal temperatures in the Northern Pacific region. The forecasts call for wet conditions for most of the country, with dry conditions expected in the Southeast.

**Data Section**

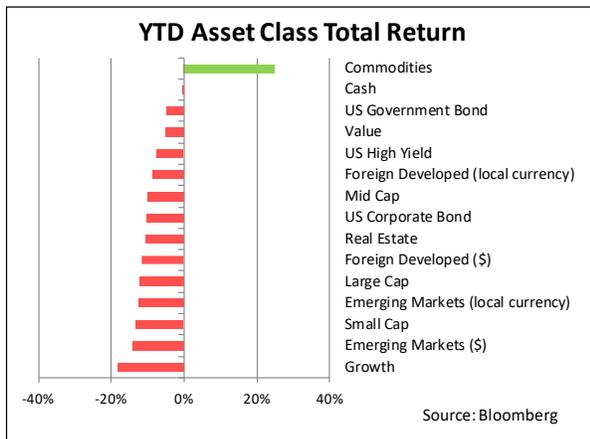
**U.S. Equity Markets – (as of 3/14/2022 close)**



(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 3/14/2022 close)**

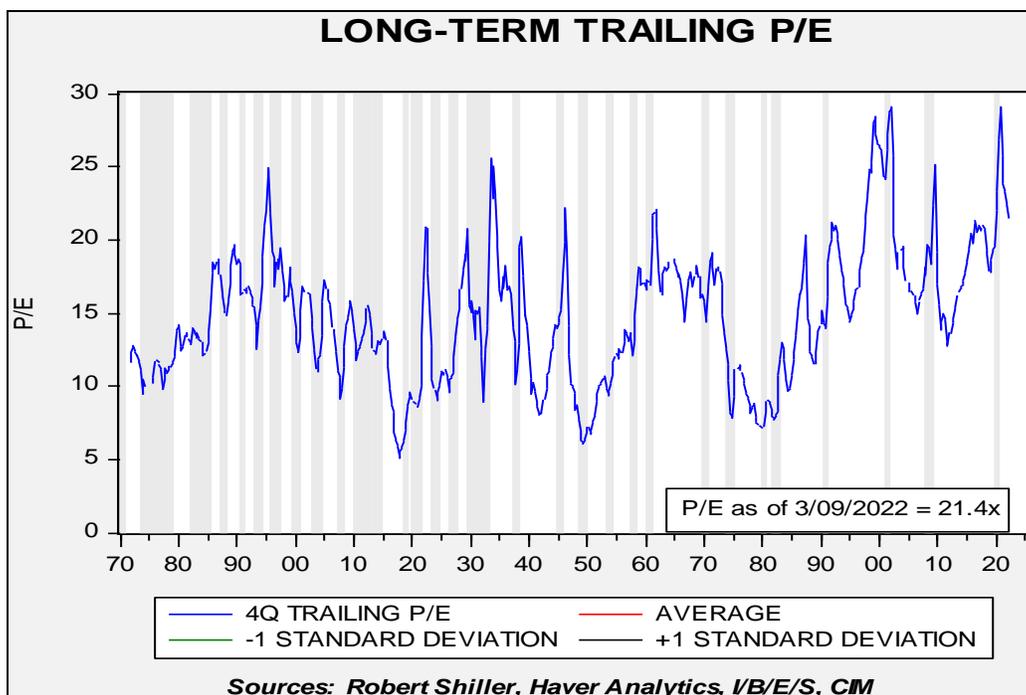


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

March 10, 2022



Based on our methodology,<sup>1</sup> the current P/E is 21.4x, down 0.1x from last week. The decline in the multiple is due to the decline in the index.

*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.*

<sup>1</sup> 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 (Q2, Q3, and Q4) and one estimate (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.