

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 24, 2021—9:30 AM EDT] Global equity markets are generally lower this morning. The EuroStoxx 50 is up 0.1% from its last close. In Asia, the MSCI Asia Apex 50 was down 1.3% from the prior close. Chinese markets were lower, with the Shanghai Composite down 1.3% and the Shenzhen Composite down 1.4%. U.S. equity index futures are signaling a higher open.

We have published our latest [Weekly Geopolitical Report](#), which constitutes Part II of our series on the geopolitics of Central Bank Digital Currencies (CBDC). We also have several other recent multimedia offerings. There is a new [chart book](#) recapping the recent changes we made to our Asset Allocation portfolios. Here is our latest [Confluence of Ideas podcast](#). Our most recent [Asset Allocation Weekly](#), [chart book](#), and [podcast](#) are also available. Finally, here is our latest [Weekly Energy Update](#). You can find all this research and more on our [website](#).

Turning to today's *Comment*, we open with the ongoing testimony before Congress from Federal Reserve Chair Powell and Treasury Secretary Yellen. Both officials will wrap up their testimony before the Senate today. We next turn to various overseas developments, including elections in Israel, new missile tests in North Korea, and a container ship causing a traffic jam in the Suez Canal. Finally, we recap the latest news on the coronavirus pandemic.

U.S. Monetary Policy: Testifying before the House Financial Services Committee yesterday, Fed Chair Powell [repeated his view that the post-pandemic economic recovery is far from complete, and the Fed should keep monetary policy extraordinarily loose for some time to come](#). Powell did note that the recovery and the latest fiscal package could push inflation higher, but he said such price hikes wouldn't be very large or sustained, and even if they were, the policymakers have the tools necessary to get inflation under control again.

- Despite Powell's sanguinity, many investors continue to fret that the Fed could end up behind the curve as inflation accelerates and might have to react by tightening policy sooner than planned. Bond yields have recently risen in response, prompting volatility in stocks.
- At the same time, however, concerns about deadlier and more transmissible coronavirus mutations have started to make some investors question the thesis about a fast economic recovery, [especially in Europe](#). That contributed to the fall in stocks yesterday.
- All the same, it's notable that if the European economy remains locked down, it would be a drag on global economic growth and could help hold down inflation. In other words, inflation fears and bond yields could begin to moderate in the near term. They may have

already started to do so. Eventually, a more balanced view of economic prospects and stable bond yields could prompt another up leg in equities.

U.S. Fiscal Policy: In her testimony before the House Financial Services Committee yesterday, Treasury Secretary Yellen said [tax increases would be required](#) to fund President Biden's evolving \$3 trillion infrastructure and economic development package. Facing strong opposition from Republicans, she pledged that the administration wouldn't do anything to adversely impact small businesses or middle-income citizens.

- Just as the Biden spending plan would be broken into two parts, one for infrastructure and one for other economic initiatives, the developing tax plan [would also include two parts](#). Taxes on businesses would be included with the infrastructure spending plan, while taxes on higher-income households would be matched with the other spending proposals.
- Aides are expected to present the plan to Mr. Biden and his top advisers this week, meaning its details and configuration could change before the White House brings it to leaders on Capitol Hill.

Israel: In yesterday's parliamentary elections, Prime Minister Netanyahu's alliance looks like it [would come up just short of a majority in parliament](#), even if he manages to entice a former ally, Naftali Bennett, to join his camp. The ultimate size of Netanyahu's shortfall will depend on whether a small Islamist party clears the vote threshold to be represented in the Knesset. If it does, the seat allocation would be shifted enough to make Netanyahu's shortfall substantial. Final results, and the formation of a government, are likely to be up in the air for days.

Turkey: President Erdogan's decision to replace the Turkish central bank chief [continues to reverberate in the country's financial markets](#). The lira and Turkish assets have depreciated severely. Meanwhile, the offshore overnight swap rate, the cost to investors of exchanging foreign currency for lira over a set period, soared to an annualized 1,400% on Tuesday before easing to a still-elevated 500% late in the day. Those rates indicate it is becoming more difficult for foreign investors to hedge their exposure to lira assets, unwind their bullish positions, or bet against the currency.

China: Satellite imagery shows China [has reclaimed land to extend a reef](#) in an area of the Spratly Islands that is also claimed by Vietnam and the Philippines. Moreover, the imagery suggests the Chinese may be preparing the site to construct a military radar system. The aggressive moves to increase control and militarize the island will likely feed into concerns about Chinese territorial ambitions and further exacerbate tensions between China and other countries.

North Korea: Officials in South Korea and at the U.S. Defense Department confirmed that the North Korean government [tested two cruise missiles over the weekend](#). However, the officials downplayed the development on grounds that it was not unusual for the regime and therefore didn't require a response.

Global Shipping: Adding to the port congestion, container shortages, and other woes that have been holding back global shipping and [boosting prices](#) in recent months, one of the world's

largest container ships has [run aground in the Suez Canal](#), creating a massive traffic jam that might not be cleared for days.

COVID-19: Official data show confirmed cases [have risen to 124,330,400 worldwide, with 2,736,621 deaths](#). In the United States, confirmed cases rose to 29,923,371, with 543,849 deaths. [Vaccine doses delivered in the U.S. now total 164,300,795, while the number of people who have received at least their first shot totals 83,930,495](#). Finally, here is the [interactive chart](#) from the *Financial Times* that allows you to compare cases and deaths among countries, scaled by population.

Virology

- Newly confirmed U.S infections [rose slightly to approximately 51,000 yesterday](#), but that was still within the recent range. New infections have fallen dramatically since the beginning of the year, but they've hit a plateau as new, more transmissible mutations offset the impact of accelerating vaccinations. Meanwhile, new deaths related to the virus came in at 844.
- Texas and Georgia [announced plans to expand vaccine eligibility to all adults](#), joining a handful of states that will have fully opened appointments to residents by the end of the month. Ohio began allowing unfilled appointments to be given to residents aged 16 and older as of Monday and will open up vaccinations to all adults on March 29.
- While the U.K. has given at least one vaccine dose to 41% of its population, and the U.S. has done so for about 25% of its people, countries in Asia that were initially far more successful in controlling the pandemic [are now far behind in their vaccination efforts](#). Although China and Hong Kong have given at least initial doses to about 5% of their citizens, most Asian countries have only hit about 3%.
- In an effort to encourage hesitant Russians to get vaccinated, the Kremlin said President Putin [has finally been vaccinated](#). However, officials deliberately decided not to reveal the name of the Russian-made vaccine Putin chose to take.
- AstraZeneca (AZN, \$49.40) [said it would publish more data on its U.S. clinical trial](#) "within 48 hours," after the independent monitoring board that oversaw the study warned that efficacy results released by the company on Monday were misleading.
- In an escalation of its dispute with the U.K. and AstraZeneca over access to vaccine production, the European Commission [is drafting a new law broadening the basis for stopping vaccine shipments to countries that import from the EU](#) but refuse to export their own vaccines or vaccine raw materials.
- Moderna (MRNA, \$136.52) [is developing a vaccine targeting the seasonal flu and COVID-19](#). If successful, the combination would protect recipients from both illnesses. The shot could be ready for use in a couple of years, a timeline dictated by the company's progress and the regulatory process.
- Pfizer (PFE, \$35.36) [said it has begun testing an oral COVID-19 drug on humans](#), and if proven to work safely could provide doctors yet another tool to fight the pandemic. Researchers are enrolling 60 healthy subjects to evaluate the safety of different doses of

the treatment. If results are positive, Pfizer would determine whether the treatment works safely in people infected with COVID-19.

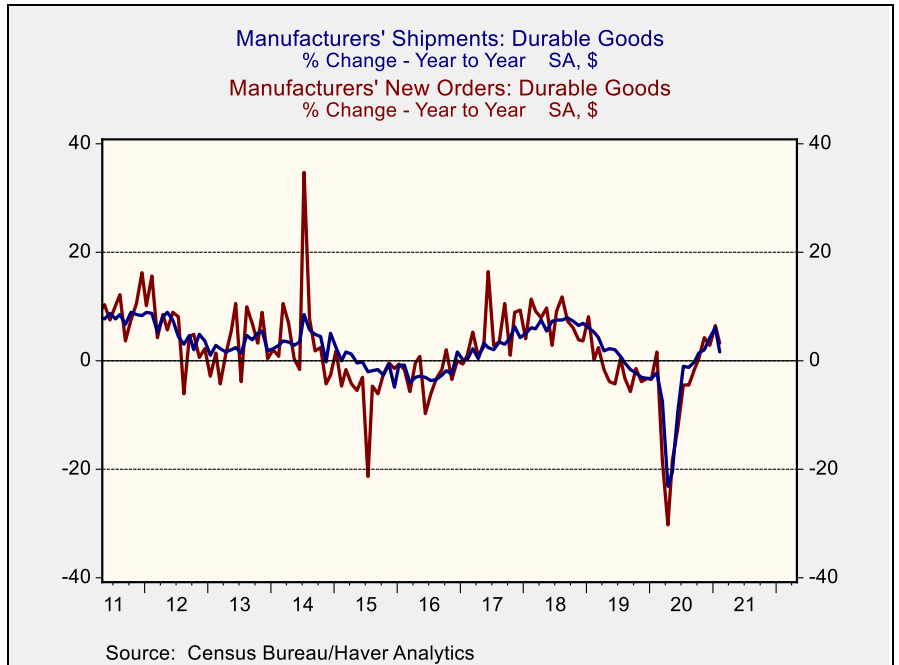
Economic and Financial Market Impacts

- As broader vaccinations and economic reopening points toward increased driving this summer, and as fuel stockpiles remain contained, gasoline prices [are marching higher](#). According to the AAA, national gasoline prices averaged \$2.88 this week, up 30% from one year ago. Rising fuel prices could eventually help dampen the expected economic recovery later in the year, although they would naturally heighten concerns about broader inflation pressures.

U.S. Economic Releases

For the week ending March 19, mortgage applications fell 2.5% from the prior month. Applications for mortgages rose 2.6% from the previous month, while refinancing applications fell 5.1%. The average 30-year fixed-rate mortgage rose 8 bps from 3.28% to 3.36%.

New orders for durable goods dropped unexpectedly in February. Durable goods orders fell 1.1% from the prior month compared to expectations of a 0.5% rise. Excluding transportation, new orders fell 0.9% from the previous month, compared to expectations of a 0.5% rise. Nondefense orders excluding aircraft fell 0.8% from the prior month compared to expectations of a 0.5% rise, and shipments for those goods fell 1.0% from the prior month compared to expectations of a drop of 1.1%



The chart above shows the annual change in durable goods orders and shipments. Durable goods orders and shipments for durable goods rose 3.2% and 1.5%, respectively, from the prior year.

The slowdown in orders and shipments can be attributed to adverse weather conditions and is not a reflection of business investment.

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	Markit US Manufacturing PMI	m/m	Mar	59.5	58.6	**
10:00	Markit US Services PMI	m/m	Mar	60.1	59.8	**
10:00	Markit US Composite PMI	m/m	Mar		59.5	**
Fed Speakers or Events						
EST	Speaker or event	District or position				
10:00	Jerome Powell Appear Before Senate Banking Panel	Chairman of Board of Governors of Federal Reserve				
13:35	John Williams Takes Part in Moderated Discussion	President of the Federal Reserve Bank of New York				
15:00	Mary Daly Discusses Equitable Growth	President of the Federal Reserve Bank of San Francisco				
19:00	Charles Evans Discusses the Economic Outlook	President of the Federal Reserve Bank of Chicago				

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								
Japan	PPI Services	y/y	Feb	-0.1%	-0.5%	-0.5%	**	Equity and bond neutral
	Jibun Bank Japan PMI Mfg	m/m	Mar	52.0	51.4		**	Equity and bond neutral
	Jibun Bank Japan PMI Services	m/m	Mar	46.5	46.3		**	Equity and bond neutral
	Jibun Bank Japan PMI Composite	m/m	Mar	48.3	48.2		**	Equity and bond neutral
Australia	Markit Australia PMI Services	m/m	Mar	56.2	53.4		**	Equity and bond neutral
	Markit Australia PMI Composite	m/m	Mar	56.2	53.7		**	Equity and bond neutral
	Markit Australia PMI Mfg	m/m	Mar	57.0	56.9		**	Equity and bond neutral
New Zealand	Trade Balance NZD	m/m	Feb	181m	-626m	181m	**	Equity and bond neutral
EUROPE								
Eurozone	Markit Eurozone Manufacturing PMI	m/m	Mar	62.4	57.9	57.6	**	Equity bullish, bond bearish
	Markit Eurozone Services PMI	m/m	Mar	48.8	45.7	46.0	**	Equity and bond neutral
	Markit Eurozone Composite PMI	m/m	Mar	52.5	48.8	49.1	**	Equity bullish, bond bearish
France	Markit France Manufacturing PMI	m/m	Mar	58.8	56.1	56.3	**	Equity bullish, bond bearish
	Markit France Services PMI	m/m	Mar	47.8	45.6	45.5	**	Equity and bond neutral
	Markit France Composite PMI	m/m	Mar	49.5	47.0	47.2	**	Equity and bond neutral
Germany	Markit/BME Germany Manufacturing PMI	m/m	Mar	66.6	60.7	60.5	**	Equity bullish, bond bearish
	Markit Germany Services PMI	m/m	Mar	50.8	45.7	46.5	**	Equity bullish, bond bearish
	Markit/BME Germany Composite PMI	m/m	Mar	56.8	51.1	51.6	**	Equity bullish, bond bearish
UK	CPI	y/y	Feb	0.4%	0.7%	0.8%	***	Equity bullish, bond bearish
	CPI Core	y/y	Feb	0.9%	1.4%	1.4%	***	Equity bullish, bond bearish
	RPI	y/y	Feb	1.4%	1.4%	1.5%	**	Equity and bond neutral
	RPI Ex Mort Int. Payments	y/y	Feb	1.6%	1.6%	1.7%	**	Equity and bond neutral
	House Price Index	y/y	Jan	7.5%	8.5%	8.3%	**	Equity and bond neutral
	Markit UK PMI Manufacturing SA	m/m	Mar P	57.9	55.1	55.0	**	Equity bullish, bond bearish
	Markit/CIPS UK Services PMI	m/m	Mar P	56.8	49.5	51.0	**	Equity bullish, bond bearish
	Markit/CIPS UK Composite PMI	m/m	Mar P	56.6	49.6	51.4	**	Equity bullish, bond bearish
AMERICAS								
Mexico	International Reserves Weekly	w/w	19-Mar	\$194939m	\$194974m		*	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.

	Today	Prior	Change	Trend
3-mo Libor yield (bps)	19	20	-1	Up
3-mo T-bill yield (bps)	1	1	0	Neutral
TED spread (bps)	18	19	-1	Up
U.S. Libor/OIS spread (bps)	7	7	0	Up
10-yr T-note (%)	1.63	1.62	0.01	Neutral
Euribor/OIS spread (bps)	-54	-54	0	Neutral
EUR/USD 3-mo swap (bps)	4	5	-1	Down
Currencies				
dollar	Up			Down
euro	Down			Up
yen	Down			Up
pound	Down			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.

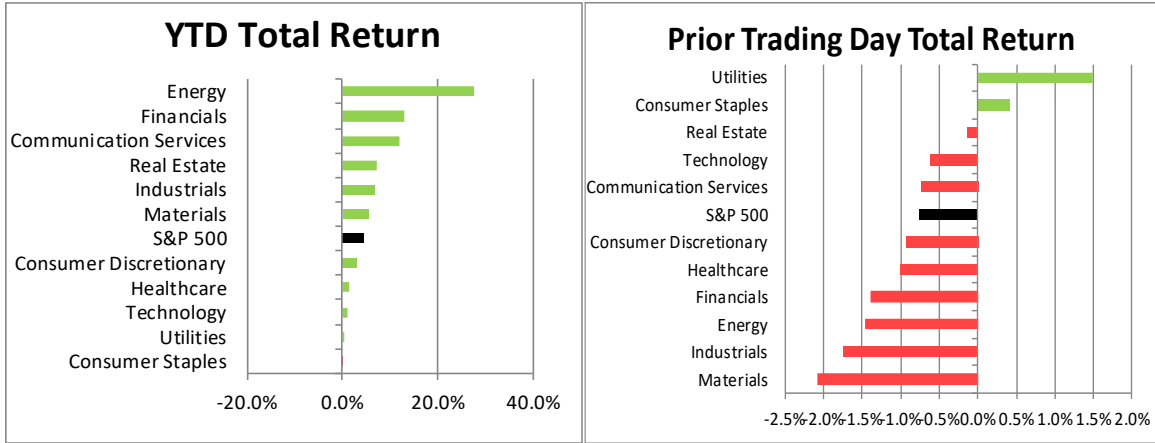
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$62.06	\$60.79	2.09%	Supply Pessimism
WTI	\$59.06	\$57.76	2.25%	
Natural Gas	\$2.53	\$2.51	0.68%	
Crack Spread	\$19.45	\$19.39	0.29%	
12-mo strip crack	\$17.29	\$17.03	1.49%	
Ethanol rack	\$1.96	\$1.96	-0.03%	
Metals				
Gold	\$1,730.40	\$1,727.07	0.19%	
Silver	\$25.27	\$25.06	0.84%	
Copper contract	\$409.10	\$407.95	0.28%	
Grains				
Corn contract	\$550.00	\$551.25	-0.23%	
Wheat contract	\$632.75	\$634.75	-0.32%	
Soybeans contract	\$1,427.50	\$1,423.25	0.30%	
Shipping				
Baltic Dry Freight	2271	2319	-48	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)		1.2		
Gasoline (mb)		1.0		
Distillates (mb)		-0.2		
Refinery run rates (%)		2.50%		
Natural gas (bcf)		-21.0		

Weather

The 6-10 and 8-14 day forecasts currently call for warmer to normal temperatures for the entire country. The forecast calls for wetter than normal conditions in the New England, Midwest, and Southwest regions.

Data Section

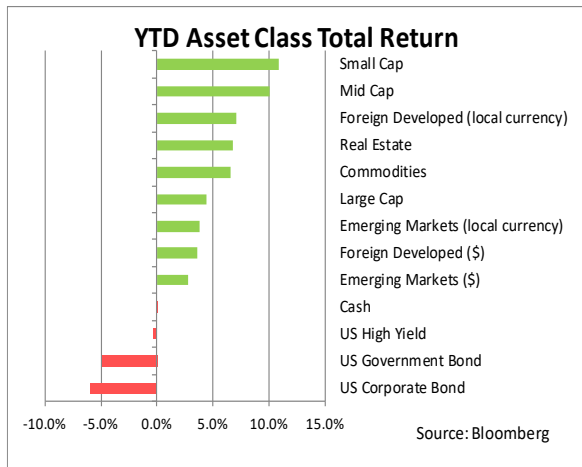
U.S. Equity Markets – (as of 3/23/2021 close)



(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 3/23/2021 close)

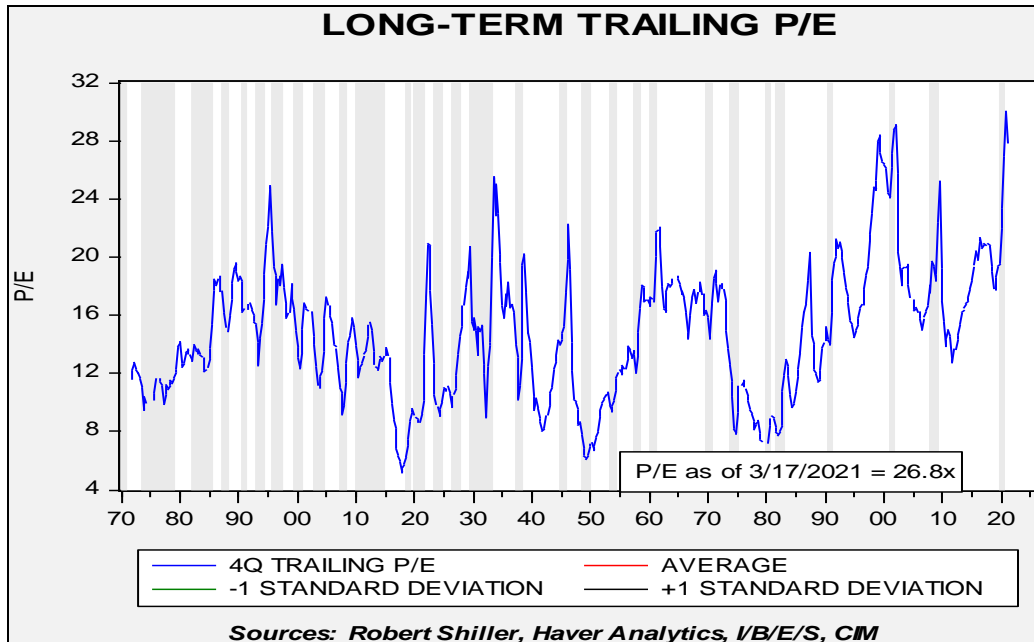


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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).

P/E Update

March 18, 2021



Based on our methodology,¹ the current P/E is 27.8x, up 0.1x 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 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.