

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 26, 2021—9:30 AM EDT] Global equity markets are higher this morning. The EuroStoxx 50 is currently up 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 ended up 1.4%. Chinese markets were higher, with the Shanghai Composite up 1.6% from its last close and the Shenzhen Composite up 2.2%. 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](#). It's Friday, and our most recent [Asset Allocation Weekly](#), [chart book](#), and [podcast](#) are also available. (Note: Due to the upcoming Good Friday and Easter holidays, we will not publish an AAW next week; it will resume on April 9.) Finally, here is our latest [Weekly Energy Update](#). You can find all this research and more on our [website](#).

Good morning, all! U.S. equity futures are higher this morning as investors are growing more optimistic for a stronger recovery. We begin with President Biden's first press conference. Next, we provide an update on the Suez Canal blockage and give our views on the tech hearing on Capitol Hill. Our news roundup includes economic and domestic stories, international news, and a virus update.

Biden's Press Conference: On Thursday, President Biden held his first press conference since taking office. He started with a summary of the administration's accomplishments and then took questions from reporters. Here are the highlights:

- The 100 million vaccination goal has already been met, and now the president is aiming for 200 million vaccinations within 100 days of taking office.
- There is no timeline for the Afghanistan withdrawal. President Biden has stated that he doesn't expect the troops to withdraw in May but doesn't think they will be stationed in Afghanistan beyond this year.
- Biden intends to run for office in 2024 but was unclear when he would formally launch a campaign.
- Filibuster reform could be taken up if conservatives use it to block voting rights legislation. However, the president was reluctant to commit to supporting its complete removal.
- Biden also pushed back against criticism that he is the reason immigration has spiked in recent weeks. Several reports implied that immigrants may have been motivated by his

nice-guy persona to come to America. In response, the president attributed the rise in numbers as typical for all presidents, and he erroneously stated that the [majority of families attempting to cross the border were immediately sent back](#).

Out of the items mentioned above, we believe President Biden's potential run in 2024 is probably the most notable, although not for the reason many would expect. Despite headlines implying that he has committed to running again, we felt like he was a bit more ambivalent toward the issue. When asked why he hadn't formally announced his intention to run again, as his predecessor did, he deflected the question by telling a joke at his predecessor's expense, stating 2024 isn't his current focus. The president's reluctance to commit to running again could have implications on his agenda going forward. If conservatives consider him a lame duck, they could ramp up efforts to slow his agenda as they gear up to launch their own challenge in 2024. If we are right, this could mean Biden's window of getting things done is a lot narrower than we originally thought and could add to the urgency in reforming the filibuster.

Suez Canal Update: The ship in the Suez Canal remains stuck while specialist dredgers attempt to dig it out. So far, all efforts to remove the ship have failed, and it is not expected [to be removed for at least a week](#). Shipping rates have since spiked as vessels have been forced to [take a longer route to transport goods](#). Additionally, the number of vessels queued up in canals [has risen from 186 to 238](#). Although this hasn't led to a rise in oil prices yet, it is expected [to happen in the coming weeks](#).

Tech Congressional Hearing: CEOs from Facebook (FB, \$278.74), Twitter (TWTR, \$61.20), and Google (Googl, \$2,032.46) attended another hearing on Capitol Hill. The five-hour hearing focused primarily on the January 6 Capitol riots and the role social media had in inciting the riot. As one could have expected, the hearing was quite tense. Politicians forced CEOs to answer a series of "yes" or "no" questions, at times interrupting when answers went beyond that. The interruptions were so frequent that Twitter CEO Jack Dorsey sarcastically posted a ["yes" or "no" poll](#) on Twitter. Although it wasn't clear that any legislation could be made based off the testimony, it does appear there is growing bipartisan support to regulate these social media companies.

U.S. Economic and Domestic Policy:

- In a bipartisan letter sent Thursday, [41 senators urged President Biden to take action](#) to deter Iran's nuclear program. The letter asserted that Iran had accelerated its nuclear activity in "alarming ways," and urged the Biden administration to use "economic and diplomatic tools" to deter further efforts.
- A [severe tornado outbreak](#) led the National Weather Service to issue a category five warning to southern states Alabama, Mississippi, and Tennessee. Violent tornadoes are expected to hit major cities such as Jackson, Mississippi, Memphis, Tennessee, and Huntsville, Alabama. At least three people have already been killed by the tornadoes in Alabama.
- The Federal Reserve announced on Thursday [that buybacks and dividend limits will end for most firms on June 30](#) after the completion of the most recent round of stress tests. The pandemic-era restrictions were designed to ensure that banks remained healthy

enough to continue lending during the pandemic. That being said, banks will need to maintain capital requirements if they want to resume buybacks and dividend payouts.

- On Thursday, Congress extended the [Paycheck Protection Program for two months](#). Both lenders and small business owners were given an additional 30 days to adjust to program changes implemented by the Biden administration. The changes were designed to help more self-employed people and small business owners take advantage of additional aid provided by the program.
- The U.S.-U.K. trade deal is expected [to miss a deadline needed for it to fast-track through Congress](#). The delay is due to the Biden administration's insistence on a resolution to the Boeing (BA, \$247.19)-Airbus (EADSY, \$28.55) dispute. The deal needed to be completed by the end of the month for it to be covered by legislation called the Trade Promotion Authority (TPA). Missing the deadline could drastically slow down passage as lawmakers will likely attempt to bog down the deal with additional amendments to protect special interest groups such as agriculture.

International Economic News:

- The election in Israel on Thursday likely extended the [parliamentary deadlock as it was unable to produce a clear winner](#). The two main blocs, the Likud party and the Yesh Atid party, now need to form a coalition with smaller parties in order to reach the 61 seats needed to form government. This is the fourth election in two years, and there are doubts regarding whether either side can gain enough support; it seems likely that another election will have to take place.
- The U.S. and Britain [imposed sanctions on two conglomerates in Myanmar](#) following the February 1 coup and crackdown. The two conglomerates, Myanma Economic Holdings Public Company Ltd. (MEHL) and Myanmar Economic Corporation Ltd. (MEC), control large sections of the Myanmar economy. The European Union is also facing pressure to follow suit in issuing sanctions.
- The Biden administration announced that it would [restore humanitarian aid to the Palestinians](#), along with an additional \$15 million to help with the pandemic. However, the administration made clear that the additional aid will be given to NGOs and not directly to the Palestinian Authority. The Trump administration had withdrawn aid from Palestine following the [decision to boycott the peace meeting](#) in 2018.
- Canadian Prime Minister Justin Trudeau notched a win in the Supreme Court on Thursday. The court ruled that because global warming is a national concern, [the federal government can set national carbon prices](#).

China:

- Western apparel companies have expressed concern over the alleged use of forced labor in Xinjiang. These companies are now facing boycotts in China as well as a possible ban because of their decision to address the issue publicly. Following H&M's (HMRZF, \$23.92) [decision to no longer source its cotton](#) from Xinjiang, China has effectively erased the clothing store from its online platform. Nike (NKE, \$128.64) and Adidas (ADDF, \$310.50) [have also faced criticism](#) for their stance against forced labor used to produce cotton.

COVID-19: Official data show confirmed cases [have risen to 124,985,317 worldwide, with 2,746,720 deaths](#). In the United States, confirmed cases rose to 30,021,447, with 545,422 deaths. [Vaccine doses delivered in the U.S. now total 169,223,125, while the number of people who have received at least their first shot totals 85,472,166](#). Finally, here is the [interactive chart](#) from the *Financial Times* that allows you to compare cases and deaths among countries, scaled by population.

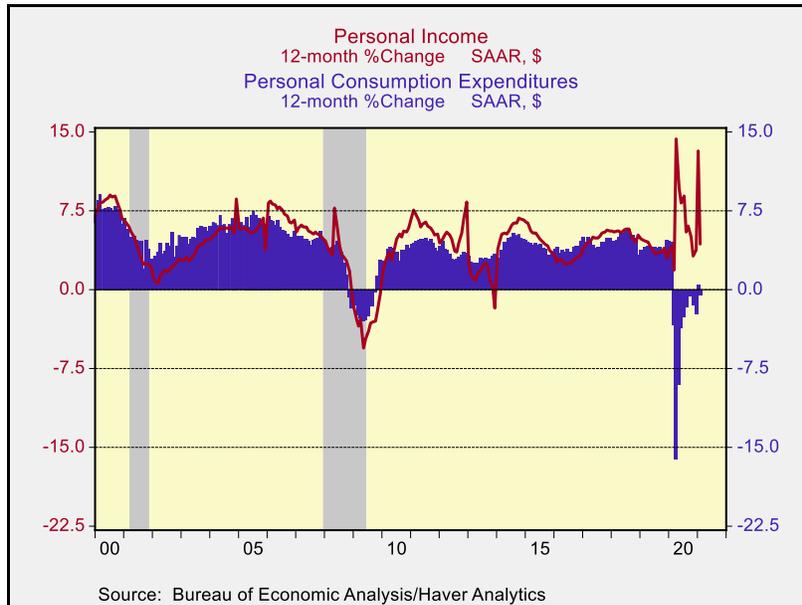
Virology

- Florida is [targeting April 5 as the day that all its residents](#) will be eligible to receive vaccinations. It plans to lower the age limit from 50 to 40 on March 29 and eliminate age limits in the following week. California and North Carolina have also stated they would lower age limits in April.
- Beginning Sunday, [air travelers will not be permitted to get on a plane](#) in Germany without proof of a negative COVID-19 test. There are growing fears that COVID-19 cases could rise as the travel season starts. Travelers using other means of transportation will also be required to show proof of a negative result.
- In New York, Mayor Bill de Blasio plans to [create a vaccination center on Broadway](#) that will be reserved for theatre workers in an effort to resume live theatre shows in the fall.
- President Biden stated he would like [to have 200 million vaccinations administered within his first 100 days](#), after surpassing his mid-March goal of 100 million vaccinations.
- Figures released by the EU show that the bloc has [exported more vaccines than it has administered domestically](#). This finding could add to woes among member countries who have grown frustrated with the vaccine rollout and renewed lockdowns. In response to the data, French President Emmanuel Macron announced he would [support export controls on vaccines](#).
 - Tensions flared among EU countries [as governments failed to agree](#) on how to distribute additional vaccines to members in need. Talks fell apart after Austrian Chancellor Sebastian Kurz's demand for additional vaccines for Vienna was denied. Following the meeting, there was a report that [three EU member countries began discussions with a Chinese company](#), CanSino Biologics (6185:HK, HKD 265.20), regarding its vaccine.
- On Thursday, Pfizer announced it has [begun testing vaccinations on children under 12 years of age](#). The new trials reflect growing progress in getting everyone vaccinated.

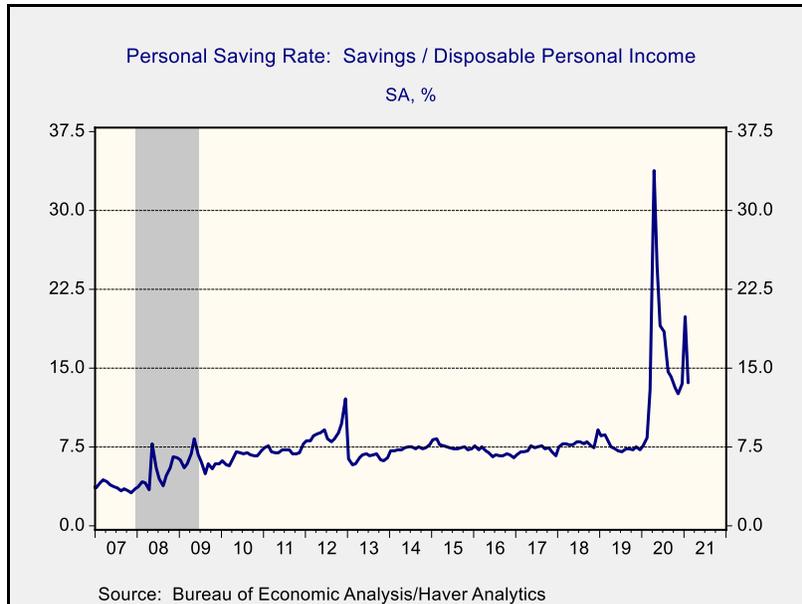
U.S. Economic Releases

In the most important U.S. economic report today, February personal income declined by a seasonally adjusted 7.1%, slightly better than expected and not nearly enough to offset the revised 10.1% rise in January. February personal consumption expenditures (PCE) fell 1.0%, modestly worse than anticipated, but that decline was also insufficient to offset the previous month's revised increase of 3.4%. The volatile month-over-month changes largely reflect the timing of the various pandemic relief bills passed by Congress, along with pandemic lockdown policies. From a longer-term perspective, it is still clear that fiscal support has boosted incomes over the last year, while spending has trailed and savings accumulated. Overall, personal income in February was up 4.3% from the same month one year earlier, while PCE was down 0.6%. We

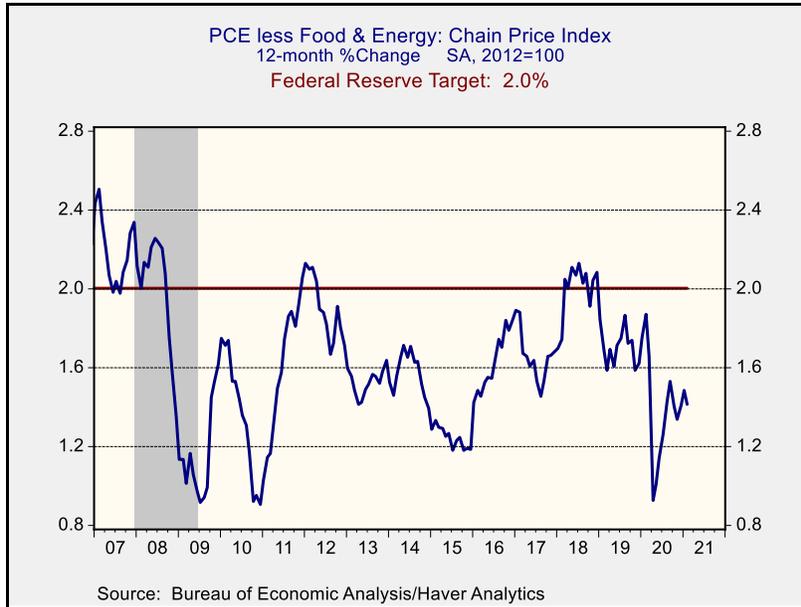
continue to believe those trends will set the consumer up for increased spending and/or more debt reduction as the country moves past the pandemic. The chart below illustrates how the year-over-year change in personal income has far outstripped the annual rise in PCE.



The chart below shows how dramatically the personal savings rate has increased during the coronavirus crisis.



The personal income and spending report also includes the Fed’s preferred measure of inflation. Excluding the volatile food and energy components, the February core PCE deflator was up 1.4% from the same month one year earlier, slightly below the expected increase of 1.5%, and still far short of the Fed’s goal of 2.0%. The chart below shows how core PCE inflation has fluctuated over time since just before the prior recession.

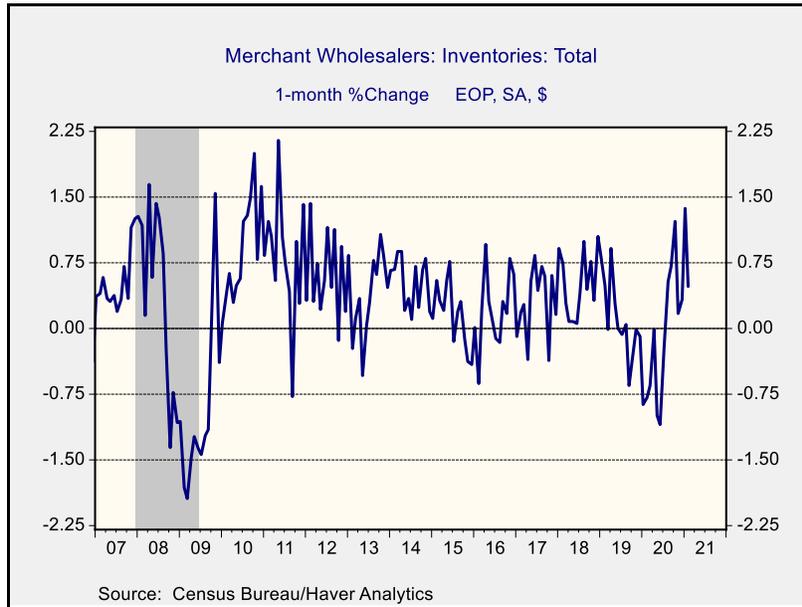


Separately, the advance report on international trade in physical goods showed a February deficit of \$86.7B after adjusting for normal seasonal variations. That figure was somewhat worse than the expected deficit of \$86.0B, and it was far wider than the revised January shortfall of \$84.6B. The widening in the deficit came as exports fell faster than imports. From a longer perspective, U.S. goods exports in February were down 6.7% year-over-year, but imports were up 8.3%. The chart below shows how U.S. merchandise trade has progressed in recent years.



Finally, February wholesale inventories rose by a seasonally adjusted 0.5%, falling short of both the expected increase of 0.8% and the revised January rise of 1.4%. Inventory investment contributes to economic growth, so the recent increases have been positive. However, the muted growth in stockpiles underlines the various supply problems that are plaguing the global

economy and helping buoy price pressures. The chart below shows the monthly growth in wholesale inventories since just before the prior recession.



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

Economic Releases						
EDT	Indicator			Expected	Prior	Rating
10:00	U. of Michigan Consumer Sentiment	m/m	Mar F	83.6	83.0	***
10:00	U. of Michigan Current Conditions	m/m	Mar F	93.1	91.5	**
10:00	U. of Michigan Future Expectations	m/m	Mar F	78.8	77.5	**
10:00	U. of Michigan 1-Year Inflation Expectation	m/m	Mar F		3.1%	*
10:00	U. of Michigan 5-10 Year Inflation Expectation	m/m	Mar F		2.7%	*
Fed Speakers or Events						
No speakers or events scheduled						

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	Tokyo CPI	y/y	Mar	-0.2%	-0.3%	-0.2%	**	Equity and bond neutral
	Tokyo CPI Ex-Fresh Food	y/y	Mar	-0.1%	-0.3%	-0.2%	***	Equity bullish, bond bearish
	Tokyo CPI Ex Fresh Food & Energy	y/y	Mar	0.3%	0.2%	0.2%	*	Equity bullish, bond bearish
South Korea	Consumer Confidence	m/m	Mar	100.5	97.4		**	Equity bullish, bond bearish
EUROPE								
Germany	Ifo expectations	m/m	Mar	100.4	95.0	95.0	***	Equity bullish, bond bearish
	Ifo Current Assessment	m/m	Mar	93.0	96.0	91.3	**	Equity bullish, bond bearish
	Ifo Business Climate	m/m	Mar	96.6	92.7	93.2	***	Equity bullish, bond bearish
Italy	Consumer Confidence	m/m	Mar	100.9	101.4	100.3	***	Equity bullish, bond bearish
	Manufacturing Confidence	m/m	Mar	101.2	99.5	99.5	***	Equity bullish, bond bearish
	Economic Sentiment	m/m	Mar	93.9	93.3		**	Equity bullish, bond bearish
UK	Retail Sales	y/y	Feb	-3.7%	-5.9%	-3.5%	**	Equity and bond neutral
	Retail Sales Ex-Auto Fuel	y/y	Feb	-1.1%	-3.7%	-1.7%	**	Equity bullish, bond bearish
AMERICAS								
Mexico	Trade Balance	m/m	Feb	2681.1m	-1236.4m	2905.0m	**	Equity bearish, bond bullish
Brazil	Current Account Balance	m/m	Feb	-\$2326m	-\$7253m	-\$2400m	**	Equity and bond neutral
	Foreign Direct Investment	m/m	Feb	\$9007m	\$1838m	\$6400m	**	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)	20	20	0	Up
3-mo T-bill yield (bps)	1	2	-1	Neutral
TED spread (bps)	18	18	0	Up
U.S. Libor/OIS spread (bps)	7	7	0	Up
10-yr T-note (%)	1.67	1.64	0.03	Neutral
Euribor/OIS spread (bps)	-54	-54	0	Neutral
EUR/USD 3-mo swap (bps)	3	3	0	Down
Currencies				
dollar	Up			Down
euro	Flat			Up
yen	Down			Up
pound	Up			Up
franc	Down			Up
Central Bank Action				
	Current	Prior	Expected	
Mexican Overnight Rate	4.000%	4.000%	4.000%	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.

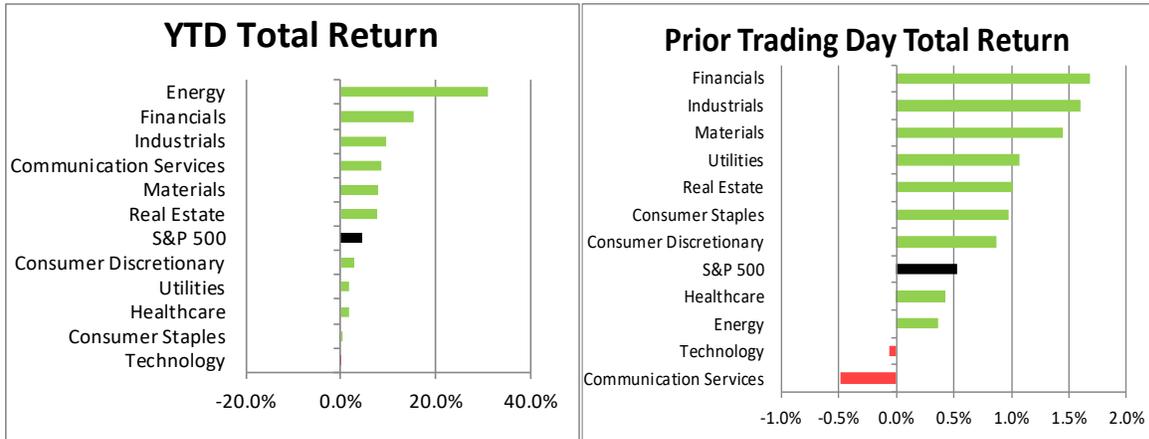
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$63.06	\$61.95	1.79%	
WTI	\$59.75	\$58.56	2.03%	
Natural Gas	\$2.56	\$2.57	-0.51%	
Crack Spread	\$19.98	\$19.86	0.62%	
12-mo strip crack	\$17.65	\$17.58	0.42%	
Ethanol rack	\$1.97	\$1.96	0.19%	
Metals				
Gold	\$1,724.36	\$1,726.93	-0.15%	
Silver	\$25.06	\$25.06	-0.02%	
Copper contract	\$404.35	\$397.80	1.65%	
Grains				
Corn contract	\$546.25	\$546.50	-0.05%	
Wheat contract	\$610.25	\$612.50	-0.37%	
Soybeans contract	\$1,413.00	\$1,414.25	-0.09%	
Shipping				
Baltic Dry Freight	2172	2194	-22	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)	1.9	1.2	0.7	
Gasoline (mb)	0.2	1.0	-0.8	
Distillates (mb)	3.8	-0.2	4.0	
Refinery run rates (%)	5.50%	2.50%	3.00%	
Natural gas (bcf)	-36.0	-21.0	-15.0	

Weather

The 6-10 and 8-14 day forecasts currently call for warmer than normal temperatures throughout the Southwest, Florida, and the upper Midwest. Temperatures are expected to be cooler than normal only in the Pacific Northwest. The forecast calls for wetter than normal conditions in Texas and the Mississippi Valley, with dry conditions in the Rocky Mountains and the Southeast.

Data Section

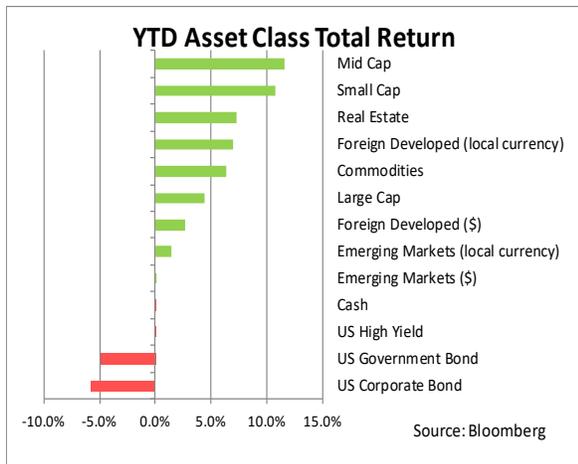
U.S. Equity Markets – (as of 3/25/2021 close)



(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 3/25/2021 close)

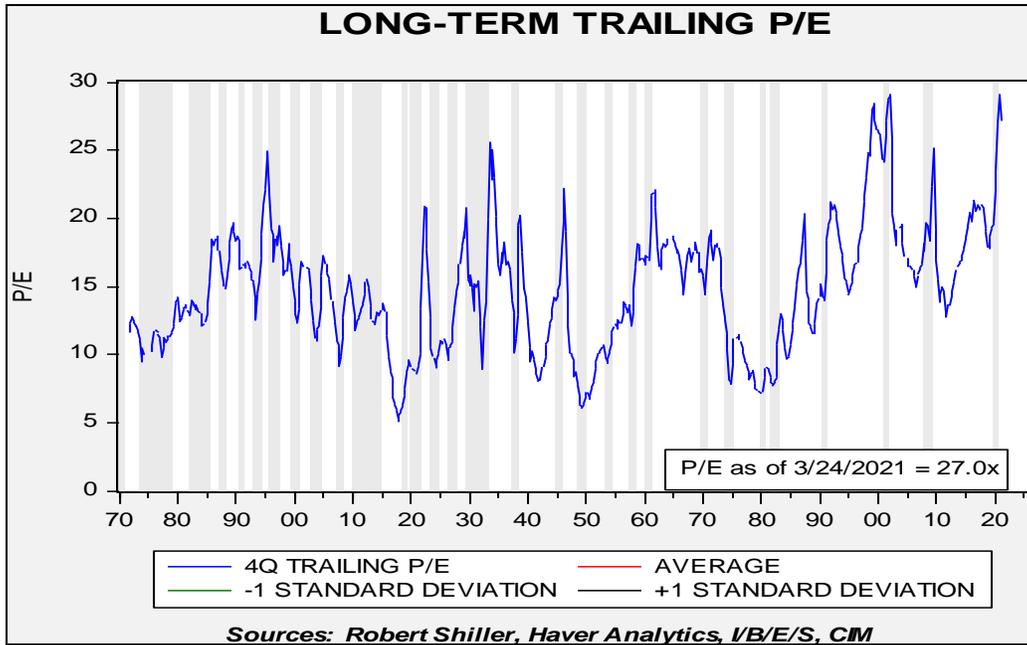


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 25, 2021



Based on our methodology,¹ the current P/E is 27.0x, down 0.8x from last week. Rapidly rising earnings expectations led to the decline in the ratio.

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.