

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 30, 2021—9:30 AM EDT] Global equity markets are generally higher this morning. The EuroStoxx 50 is currently up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 closed up 0.4%. Chinese markets were higher, with the Shanghai Composite up 0.6% from its prior close and the Shenzhen Composite up 0.5%. U.S. equity index futures are signaling a flat open.

Yesterday, we published our latest [Weekly Geopolitical Report](#), which constitutes Part III 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. Note: Due to the upcoming Good Friday and Easter holidays, we will not publish an AAW this 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](#).

Today's *Comment* opens with an Archegos trading update and the extent to which it might be portending broader risks in the markets. We next review the latest developments in the U.S. tax policy, where Democrats in the Senate have floated a proposal to tax unrealized capital gains at death, subject to an exemption. Finally, we review key international news and the latest trends in the coronavirus pandemic.

Archegos: It now appears that the forced margin calls on hedge fund Archegos, which led to elevated market volatility in the midst of massive block sales in certain stocks over the last few days, related as much to competition among the fund's prime brokers as to fears about the stocks themselves. A [report by the Financial Times](#) indicated that prior to the fund's troubles becoming public knowledge, representatives from its trading partners Goldman Sachs (GS, \$325.73), Morgan Stanley (MS, \$77.88), Credit Suisse (CS, \$11.39), UBS (UBS, \$15.59), and Nomura (NMR, \$5.68) held a meeting with Archegos to discuss an orderly wind-down of troubled trades. The goal was to implement orderly, coordinated sales that would minimize market impacts and any hit to the banks' own balance sheets as they worked to sell down stakes in companies that Archegos had amassed through derivatives instruments. Although it's unclear whether an understanding was actually reached among the banks, several sources said it was quickly clear that some banks began selling to stem their own losses, triggering a rush to the exits.

- Those firms [that moved quickly](#), including Morgan Stanley, evidently were able to minimize their losses. The banks that moved slowly, including Credit Suisse and Nomura, incurred the heaviest losses.
- Of course, many other issues related to Archegos remain. These include the extent to which the fund's risky positions were driven by today's loose monetary policy and massive amounts of liquidity, whether regulators will now try to close the loophole that allowed the fund to use swaps to amass huge stakes in companies, and whether there was a systematic breakdown in the banks' risk control processes.

U.S. Tax Policy: Several progressive Democrats in the Senate [have released a draft proposal to tax unrealized capital gains at death, subject to a \\$1 million exemption](#). The tax would aim to raise money from high-income households to help pay for President Biden's proposed spending on infrastructure and social programs.

- Under current law, someone who dies with appreciated assets—including homes, businesses, and stocks in taxable accounts—doesn't have to pay capital-gains taxes on that increase. Instead, the heirs have to pay capital-gains taxes only after they sell and only on gains after the original owner's death.
- That "stepped-up basis" is a longstanding feature of the tax code, but it has come under increasing attacks from Democrats who see wealthy people's profits escaping the income tax.

United States-Taiwan-China: The Biden administration [is reportedly preparing to issue guidelines, making it easier for U.S. diplomats to meet Taiwanese officials](#). The new rules, including some adopted by President Trump, would contravene decades-old restrictions meant to avoid provoking China. The new rules will almost certainly anger Beijing and further worsen tensions between the U.S. and China.

Turkey: Just ten days after sacking the head of the Turkish central bank for his effort to hike interest rates, President Erdogan [has also fired the institution's deputy governor and replaced him with a lesser-known commercial banker](#). With Erdogan once again showing his penchant for taking control of monetary policy, the lira is down approximately 1.8% against the dollar so far today.

Russia: Amid reports that jailed opposition leader Alexei Navalny is suffering medical issues and not being offered sufficient treatment, some 500 physicians and medical experts in Russia [have signed an online petition saying that at a bare minimum, an independent physician whom Navalny trusts should have the opportunity to examine him](#). In addition, the petition suggests Navalny be examined by experts from the Charite clinic in Berlin, Germany, where he was treated after he was poisoned in Siberia last year; the current deterioration of his condition may be related to the attack. The situation illustrates the Kremlin's balancing act in trying to muzzle Navalny without causing political pushback among Russians.

Brazil: President Bolsonaro [has announced a sweeping reshuffle of his cabinet](#), including new foreign and defense ministers, as political pressure mounts on him to get a grip on the country's

coronavirus crisis. Not only did Bolsonaro replace his chief of staff, justice minister, and attorney general, but he also replaced his ministers of defense and foreign affairs.

- In particular, Foreign Minister Araújo had been under pressure from lawmakers unhappy with Brazil's efforts to acquire coronavirus vaccines.
- Critics have blamed Araújo for Brazil's increasing international isolation. Just as important, they have complained that his belligerent stance toward China has led to delays in the delivery from China of important pharmaceutical ingredients.

Global Supply Chains: The skyscraper-sized container ship stuck in the Suez Canal for almost a week [was finally freed yesterday](#), clearing the way for hundreds of backlogged ships to traverse the waterway over the coming days. The effects of the blockage [are likely to linger for weeks or even months](#). While the clearing of the canal will ultimately be a positive for the world's tight and disrupted supply chains, a separate report said the recent fire at a major Japanese facility producing computer chips for the auto industry [caused more damage than earlier known, and fully restarting production could take up to four months](#).

COVID-19: Official data show confirmed cases [have risen to 127,775,460 worldwide, with 2,794,246 deaths](#). In the United States, confirmed cases rose to 30,332,358, with 550,073 deaths. [Vaccine doses delivered in the U.S. now total 180,646,565, while the number of people who have received at least their first shot totals 95,015,762](#). 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 to approximately 68,000 yesterday](#), surpassing both the seven-day moving average of 63,239 and the 14-day moving average of 58,829. Infections are now clearly on the upswing again, as factors such as new, more transmissible mutations and the removal of social distancing rules combine to offset much of the advantage of expanding vaccinations. On the other hand, deaths related to the virus totaled a relatively low 668 yesterday, and they continue to trend modestly downward.
- In a CDC study of almost 4,000 vaccinated healthcare workers, first responders, and other essential workers, the COVID-19 shots developed by Moderna (MRNA, \$123.42) and Pfizer (PFE, \$36.62) [were confirmed to be 90% effective](#) at reducing the risk of both symptomatic and asymptomatic infection two weeks after a second dose. The study confirms that the vaccines are highly effective in real-world conditions, which can be more complex and challenging than the conditions in clinical trials.
- In contrast, the vaccine from AstraZeneca (AZN, \$50.81) [continues to face ups and downs](#). Canadian authorities yesterday recommended a halt on administering the vaccine to people under age 55 in light of evidence from Europe because of potentially serious side effects targeting younger women.
 - The change in guidance marked a sharp shift from Canadian health officials, who until now have said the AstraZeneca vaccine was safe for people of all ages.

- The Canadian officials had issued their previous positive opinion of the shot as recently as early March, when governments in Europe paused the vaccine's use due to worries over blood clotting.
- President Biden said his administration is more than doubling the number of pharmacies in the federal vaccination program and opening additional mass vaccination sites. He said 90% of adults would be eligible for vaccination by April 19, and 90% will have a vaccination site within 5 miles of their residence.
 - Biden [also called on governors and local officials to maintain or reinstate mask mandates](#) and said states should pause their reopening efforts.
 - Meanwhile, CDC Director Walensky said people and officials are letting their guard down too early, giving her a “recurring feeling . . . of impending doom.”
- New York state [will make COVID-19 vaccine shots available to residents 30 years old and up starting today](#), while New Jersey yesterday expanded eligibility to include more public-facing workers.
- As more and more people get vaccinated, polling shows vaccine [hesitancy is declining](#) quickly. In a survey of 80,000 adults in the U.S. earlier this month, about 17% said they would either definitely or probably not get vaccinated, down from 22% in January.
 - The decline was almost entirely due to fewer respondents saying they probably would not get the shot.
 - The share that stated they definitely would not has remained essentially unchanged in the past two months.
- As Japan struggles to procure COVID-19 vaccines from foreign manufacturers in a timely manner, the government [has backpedaled on its plan to let people choose which vaccine](#) to get. Its vaccinations chief said nothing has been decided yet.
- A WHO-led team investigating the origins of the pandemic reported that data provided by China and examined during a recent mission to the country [was insufficient to answer the critical questions of when, where, and how the virus began spreading](#). The report calls for a closer examination of Chinese hospital records and blood samples from before the first known cases in December 2019. More extensive testing of farms that supplied wild animals to a market that is linked to many early cases is also recommended.
- Government leaders from more than 24 countries have joined the head of the WHO, in [calling for a new international treaty on pandemic preparedness and response](#). It is aimed at improving alert systems, data sharing, and transparency, as well as widening access to vaccines.

Economic and Financial Market Impacts

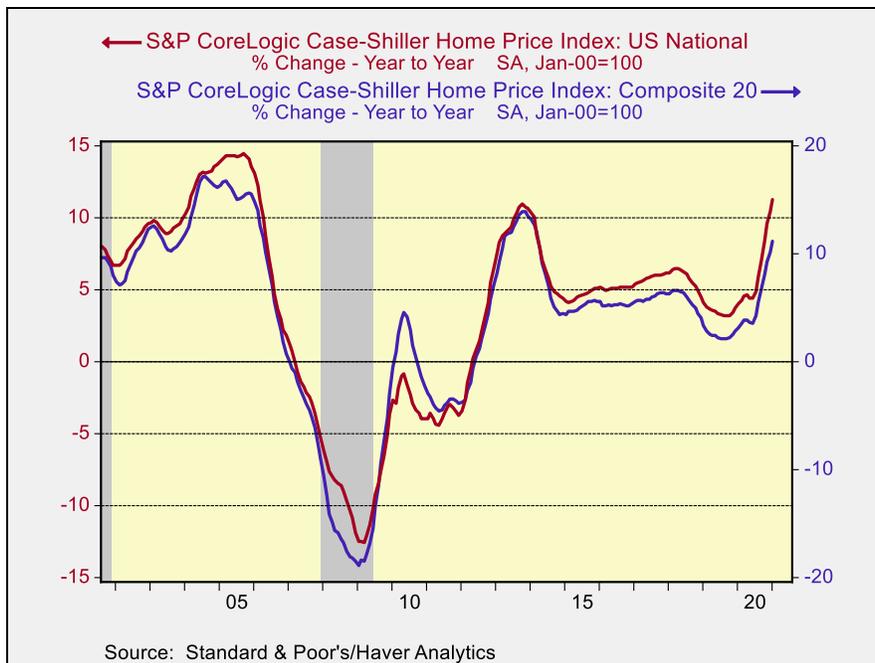
- Drivers returning to the road after the pandemic are expected to boost demand not only for gasoline but for the ethanol added to it. On top of rising demand from China, that prospect [has pushed corn prices higher by about 50% over the last six months](#).

U.S. Policy Response

- The Biden administration [announced a three-month extension to a national eviction moratorium](#), a move designed to help millions of tenants who have fallen behind on their rent. Courts have disagreed on whether the relief is legal. The moratorium is now set to expire on June 30. It was previously set to expire on Wednesday.

U.S. Economic Releases

Low rates and strong demand continued to support home price. Growth in January hits its highest level in 15 years. The FHFA Home Price Index rose 1.0% from the prior month, slightly below expectations of 1.2%. The previous month’s report was revised upward from 1.1% to 1.2%. The S&P CoreLogic index reported a similar result, showing a 1.2% rise in home prices in the top 20 cities in the US.



The chart above shows the annual change in the S&P CoreLogic Home Price Index for the top 20 cities and for the nation. The index showed that home prices have risen 11.10% from the prior year in the top 20 cities, while country wide home prices rose 11.2%.

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	Conf. Board Consumer Confidence	m/m	Mar	96.9	91.3	***
10:00	Conf. Board Present Situation	m/m	Mar		92.0	**
10:00	Conf. Board Expectations	m/m	Mar		90.8	**
Fed Speakers or Events						
EST	Speaker or event	District or position				
14:30	John Williams Takes Part in Virtual Discussion	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								
Japan	Job-To-Applicant Ratio	m/m	Feb	1.09	1.1	1.09	**	Equity and bond neutral
	Jobless Rate	m/m	Feb	2.9%	2.9%	3.0%	***	Equity and bond neutral
	Retail Sales	y/y	Feb	-1.5%	-2.4%	-2.8%	**	Equity and bond neutral
	Dept. Store, Supermarket Sales	y/y	Feb	-4.7%	-7.2%	-4.2%	**	Equity and bond neutral
Australia	ANZ Roy Morgan Consumer Confidence	w/w	28-Mar	112.3	110.4		***	Equity and bond neutral
New Zealand	Building Permits	m/m	Feb	-18.2%	2.1%		**	Equity bearish, bond bullish
EUROPE								
Eurozone	Consumer Confidence	m/m	Mar	-10.8	-10.8		***	Equity and bond neutral
	Economic Confidence	m/m	Mar	101.0	93.4	96.0	***	Equity bullish, bond bearish
	Industrial Confidence	m/m	Mar	2.0	-3.3	0.0	***	Equity bullish, bond bearish
	Services Confidence	m/m	Mar	-9.3	-17.1	-14.9	***	Equity bullish, bond bearish
Germany	Import Price Index	m/m	Feb	1.7%	1.9%	1.3%	***	Equity and bond neutral
France	Consumer Confidence	m/m	Mar	94	91	91	***	Equity bullish, bond bearish
France	PPI	m/m	Feb	0.50%	1.70%		**	Equity bullish, bond bearish
Switzerland	KOF Leading Indicator	m/m	Mar	117.8	102.7	104.3	**	Equity bullish, bond bearish
AMERICAS								
Brazil	Outstanding Loans	m/m	Feb	0.7%	0.0%		**	Equity bearish, bond bullish
	Total Outstanding Loans	m/m	Feb	4047b	4020b		**	Equity and bond neutral
	Personal Loan Default Rate	m/m	Feb	4.1%	4.1%		**	Equity and bond neutral
Canada	Bloomberg Nanos Confidence	w/w	26-Mar	63.7	63.1		**	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)	20	19	1	Up
3-mo T-bill yield (bps)	0	1	-1	Neutral
TED spread (bps)	20	18	2	Up
U.S. Libor/OIS spread (bps)	7	7	0	Up
10-yr T-note (%)	1.76	1.71	0.05	Neutral
Euribor/OIS spread (bps)	-54	-54	0	Neutral
EUR/USD 3-mo swap (bps)	4	3	1	Down
Currencies				
dollar	Up			Down
euro	Down			Up
yen	Down			Up
pound	Flat			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.

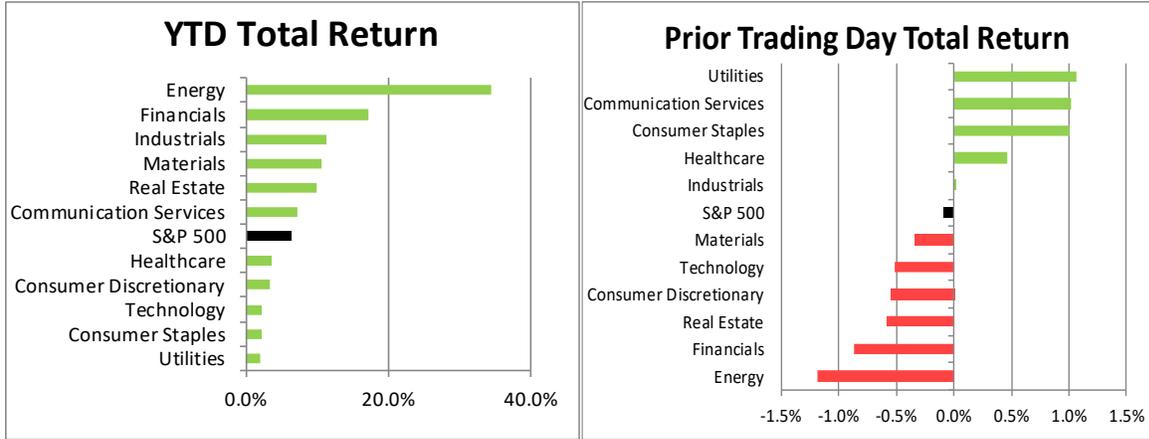
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$64.68	\$64.98	-0.46%	
WTI	\$61.15	\$61.56	-0.67%	
Natural Gas	\$2.69	\$2.65	1.21%	
Crack Spread	\$20.06	\$20.07	-0.03%	
12-mo strip crack	\$17.78	\$17.88	-0.58%	
Ethanol rack	\$1.98	\$1.98	0.11%	
Metals				
Gold	\$1,696.72	\$1,712.20	-0.90%	
Silver	\$24.47	\$24.66	-0.74%	
Copper contract	\$400.25	\$403.45	-0.79%	
Grains				
Corn contract	\$546.50	\$546.75	-0.05%	
Wheat contract	\$612.50	\$616.75	-0.69%	
Soybeans contract	\$1,389.00	\$1,393.00	-0.29%	
Shipping				
Baltic Dry Freight	2162	2178	-16	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)		-1.7		
Gasoline (mb)		0.7		
Distillates (mb)		0.5		
Refinery run rates (%)		1.50%		

Weather

The 6-10 and 8-14 day forecasts currently call for warmer than normal temperatures for most of the country, with cooler temps on the West coast. The forecast calls for wetter than normal conditions in Rocky Mountains with dry conditions expected everywhere else.

Data Section

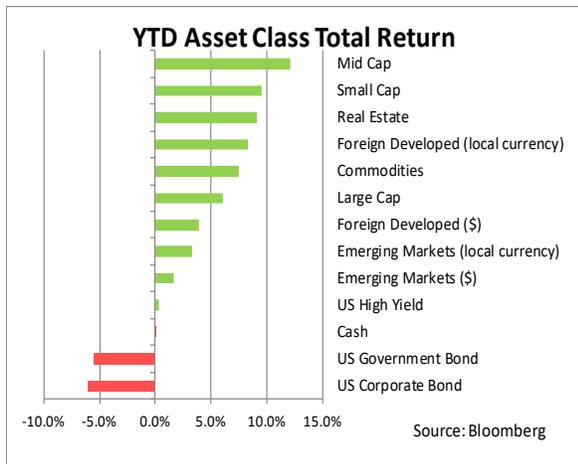
U.S. Equity Markets – (as of 3/29/2021 close)



(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 3/29/2021 close)

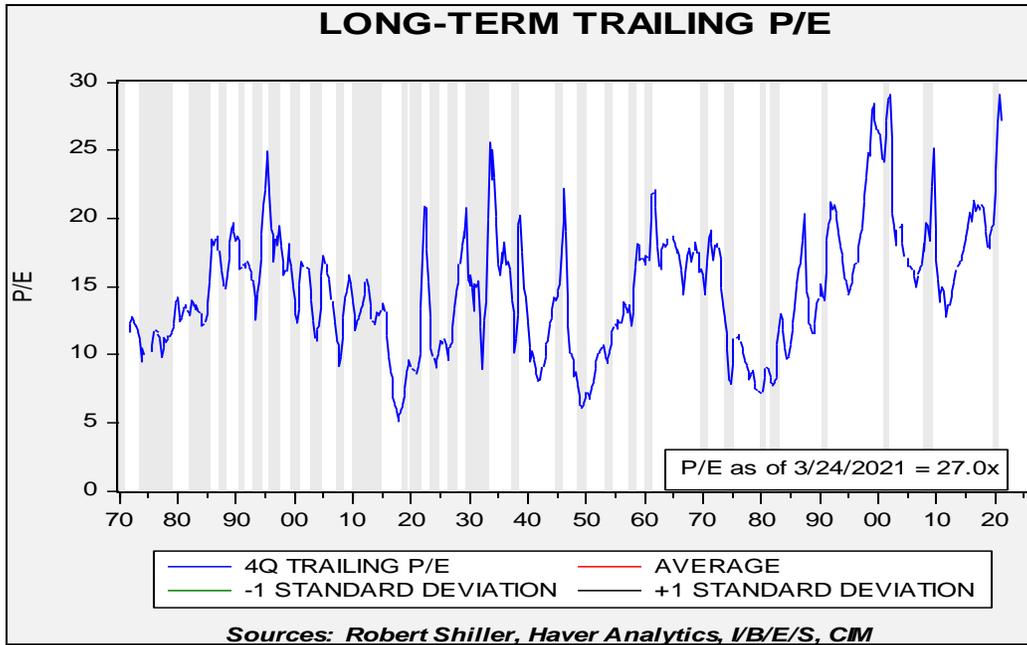


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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).

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.