

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 31, 2021—9:30 AM EDT] Global equity markets are mixed this morning. The EuroStoxx 50 is currently down 0.1% from its prior close. In Asia, the MSCI Asia Apex 50 closed down 0.6%. Chinese markets were lower, with the Shanghai Composite down 0.4% from its prior close and the Shenzhen Composite down 0.5%. U.S. equity index futures are signaling a flat open.

We have 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](#).

Turning to today's *Comment*, we open with an overview of the new economic plan that President Biden will propose in a speech today in Pittsburgh. We next review other key U.S. and international news, including today's latest U.S.-China tensions. We end with recent developments related to the coronavirus pandemic.

U.S. Fiscal Policy: President Biden today [will release a \\$2 trillion infrastructure plan](#) centered on fixing roads and bridges, expanding broadband internet access, and boosting funding for research and development. Under the plan, that spending would be paid for over 15 years by [raising the corporate tax rate to 28% from 21% and increasing taxes on companies' foreign earnings](#).

- The proposal [includes \\$621 billion to modernize transportation infrastructure like roads and bridges](#), \$400 billion to help care for the aging and disabled, \$300 billion to boost the manufacturing industry, \$213 billion on retrofitting and building affordable housing, and \$100 billion to expand broadband access, among other investments.
 - The plan calls for modernizing 20,000 miles of roadway; building 500,000 electric vehicle charging stations, replacing the country's existing lead pipes and service lines, repairing aging schools, and investing billions of dollars in domestic semiconductor manufacturing.

- The plan would also establish a standard mandating that increasing portions of the country's electricity be generated from low-carbon sources, with a goal of eliminating carbon emissions from the power grid by 2035.
- A second plan focused on childcare, healthcare, and education will be released in April.
- As justification for the plan, Biden is expected to argue that the investments are necessary to help the U.S. compete with China and tackle climate change.
- Obviously, the huge amount of additional spending and tax hikes will generate pushback from Republicans and moderate Democrats. Nevertheless, Biden has promised to be flexible where necessary and firm where it's essential. His success in pushing through his \$1.9 trillion pandemic relief package suggests all things are possible. In any case, the prospect of massive new fiscal stimulus on top of today's loose monetary policy could buoy equities and further undermine bonds, pushing yields higher. Although, those factors will be battling it out with concerns about higher taxes. The result could potentially be increased volatility and only muted gains for risk assets over the course of the year.

U.S. Bond Market: While domestic expectations for faster economic growth and rising inflation have clearly been a factor in the recent run-up in bond yields, new reporting suggests another important factor. [Many Japanese institutional investors sold down their holdings of U.S. Treasuries in order to lock in their investment returns](#) ahead of their fiscal year end on March 31.

United States-China: In its [annual human rights report](#), the U.S. Department of State [accused China of being an "authoritarian state" and committing "genocide and crimes against humanity"](#) against its Uyghur minority. According to the report, China is detaining more than one million Uyghurs and other Muslims in its western Xinjiang region and is engaging in abuses including rape, forced sterilization, coerced abortions, torture, and forced labor. The report provides further evidence that the Biden administration is continuing much of the hardline approach to China adopted by former President Trump. It is even going further than Trump in expanding its focus toward human rights and reinvigorating U.S. alliances. Today's report will further hike tensions with China, which, as we have often argued, raises the risk that investors could be caught in the crossfire.

Australia: The government announced today that it is [fast-tracking plans to manufacture advanced missiles and other guided weapons](#) in response to growing tensions in the Indo-Pacific region and concerns over its reliance on imports. According to Prime Minister Morrison, the government will spend \$1 billion to develop an indigenous manufacturing capability along with a major western defense contractor. The move highlights the possibility that military tensions between China and the major liberal democracies could eventually present investors with new opportunities in the defense sector, despite concerns that growing government debt will lead to tighter public budgets.

Slovakia: Prime Minister Matovic has stepped down to end a crisis in the year-old ruling coalition that was sparked by his decision to buy Russia's Sputnik V coronavirus vaccine. Matovic will be replaced by his ally Eduard Heger, a member of the same Ordinary People party

who currently serves as finance minister. Matovic, in turn, is set to replace Heger at the finance ministry. All four parties in the right-wing coalition have approved the changes.

Brazil: Following up on President Bolsonaro's cabinet shuffle on Monday, described in yesterday's *Comment*, the chiefs of Brazil's army, navy, and air force [all stepped down](#) in apparent solidarity with the ousted defense minister. The resignations point to growing dissatisfaction with Bolsonaro's attempts to politicize the military, especially as his government [comes under fire for failing to prioritize or take control over the coronavirus pandemic](#).

COVID-19: Official data show confirmed cases [have risen to 128,301,662 worldwide, with 2,805,972 deaths](#). In the United States, confirmed cases rose to 30,394,189, with 550,998 deaths. [Vaccine doses delivered in the U.S. now total 189,451,285, while the number of people who have received at least their first shot totals 96,044,046](#). 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 [fell to approximately 60,000 yesterday](#), coming in below the seven-day moving average of 65,789 but slightly above the 14-day moving average of 59,741. The figures remain well below the levels reached at the beginning of the year; nevertheless, they reflect a recent plateau and then rebound as [factors such as new, more transmissible mutations and quick restriction loosening](#) offset the gains from mass vaccinations. Meanwhile, yesterday's deaths related to the virus rose to 804. On the vaccination front, 28.9% of U.S. residents have now received at least one dose of a coronavirus vaccine, and 16.1% are fully vaccinated.
- In a study involving 2,200 children, the vaccine developed by Pfizer (PFE, \$36.11) and BioNTech (BNTX, \$104.44) [was found to be 100% effective in protecting against symptomatic disease in those over 12 years old](#), with no safety concerns.
 - Given the results, Pfizer said it would ask U.S. health regulators in the coming weeks to expand the use of the shots to those 12 to 15 years of age.
 - The timetable for authorization in the U.S. could mean kids will be able to be vaccinated before the next school year begins in the fall.
- In contrast with the improved conditions in the U.S. and the U.K. since early 2021, the pandemic continues to rebound in Europe. In France today, President Macron is [expected to announce strict new lockdown measures](#) aimed at controlling a third wave that is overwhelming the country's hospitals. He may even be forced to close schools after pleas from teachers, doctors, and local officials.
 - Macron's determination to keep schools open after the first coronavirus lockdown a year ago — in contrast to the closures ordered in many other countries — has been popular in France.
 - However, Macron has come under intense criticism in recent weeks for ignoring the warnings of scientists and doctors about the need for tighter measures against the third wave.

- What appears to be a [fourth wave of the pandemic is materializing in Japan](#) mere weeks after the country began easing virus countermeasures.
- Following a similar move by Canada, yesterday the German government said the vaccine from AstraZeneca (AZN, \$49.97) [would be restricted for people younger than 60 years](#) of age due to new blood-clotting incidents found among recipients. Despite a recent ruling by the European Medicines Agency that the vaccine is “safe and effective,” Germans under 60 will only be able to receive it if they specifically demand it, and if their request is granted by a physician. Besides marking another body blow to the vaccine’s reputation, the decision is likely to further slow Germany’s plodding vaccination program.
- The WHO team that visited China early this year to investigate the origins of the pandemic [issued its report arguing that the coronavirus most likely jumped to humans from an animal](#),. However, the real story was the international response to the document. The U.S. and more than a dozen other countries issued a joint statement complaining the investigation came too late, and the team wasn’t afforded full or timely access to pertinent data by the Chinese government.
 - Rather, the statement called for “transparent and independent analysis and evaluation, free from interference and undue influence.”
 - On top of that, WHO Director, General Ghebreyesus, called for a more extensive probe into whether the coronavirus had escaped from a lab, the strongest terms he has used in public on the matter.
 - As might be expected, the Chinese government [responded](#) by warning against politicizing the issue and calling for similar probes in other countries.

Economic and Financial Market Impacts

- Boosted by online shopping, the [market for corrugated boxes is booming](#), with demand surging and prices skyrocketing.

Foreign Policy Response

- In China, the government’s effort to withdraw the pandemic stimulus it implemented last year has started to [undermine the country’s currency](#). In the tightly regulated onshore market, the renminbi has fallen 1.4% against the greenback so far in March, marking its worst one-month drop since August 2019 and erasing the currency’s gains against the dollar since the new year.

U.S. Economic Releases

For the week ending March 26, mortgage applications fell 2.2% from the prior week. Applications for refinancing and purchases fell 2.5% and 1.2%, respectively. The average 30-year fixed-rate fell for the first time since January, dropping 3 bps from 3.36% to 3.33%.

Private payrolls came in slightly weaker than expected, as reported by payroll services company Automatic Data Processing (ADP, \$187.89). According to its database, private payrolls

expanded by 517K, which is below expectations of 550K. The previous report was revised upward from 117K to 176K.



The chart above shows the annual change in private payrolls according to ADP and the BLS. Total private payroll remains well below pre-pandemic levels. The private payrolls are down 6.8% from the prior year.

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

Economic Releases						
EDT	Indicator			Expected	Prior	Rating
9:45	MINI Chicago PMI	m/m	Mar	61.0	59.5	***
10:00	Pending Home Sales	m/m	Feb	-3.0%	-2.8%	**
10:00	Pending Home Sales NSA	y/y	Feb	6.5%	8.20%	**
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								
China	Non-manufacturing PMI	m/m	Mar	56.3	51.4	52	**	Equity bullish, bond bearish
	Manufacturing PMI	m/m	Mar	51.9	50.6	51.2	**	Equity and bond neutral
	Composite PMI	m/m	Mar	55.3	51.6		**	Equity bullish, bond bearish
Japan	Industrial Production	m/m	Feb	-2.1%	4.3%	-1.3%	**	Equity bearish, bond bullish
	Loans & Discounts Corp	y/y	Feb	7.46%	7.29%		**	Equity and bond neutral
	Housing Starts	y/y	Feb	-3.7%	-3.1%	-4.9%	**	Equity and bond neutral
	Annualized Housing Starts	y/y	Feb	0.808m	0.801m	0.804m	**	Equity and bond neutral
Australia	Construction Orders	y/y	Feb	2.5%	14.1%		**	Equity and bond neutral
	Private Sector Credit	m/m	Feb	0.2%	0.2%	0.3%	**	Equity and bond neutral
	Building Approvals	m/m	Feb	21.6%	-19.4%	3.0%	**	Equity bullish, bond bearish
New Zealand	Private Sector Houses	m/m	Feb	15.1%	-12.2%		**	Equity bullish, bond bearish
	ANZ Activity Outlook	m/m	Mar	16.6	17.4		**	Equity and bond neutral
	ANZ Business Confidence	m/m	Mar	-4.1	0.0		**	Equity bearish, bond bullish
EUROPE								
Eurozone	CPI	m/m	Mar	0.9%	0.2%	1.0%	***	Equity and bond neutral
	CPI Estimate	y/y	Mar	1.3%	0.9%	1.4%	***	Equity and bond neutral
	CPI Core	y/y	Mar	0.9%	1.1%	1.1%	***	Equity and bond neutral
Germany	Unemployment Change (000's)	m/m	Mar	-8.0k	9.0k	-3.0k	***	Equity and bond neutral
	Unemployment Claims Rate SA	m/m	Mar	6.0%	6.0%	6.0%	***	Equity and bond neutral
France	PPI	y/y	Feb	1.8%	0.4%		**	Equity and bond neutral
	Consumer Spending	m/m	Feb	0.0%	-4.6%	1.2%	**	Equity and bond neutral
	CPI EU Harmonized	y/y	Mar	1.4%	0.8%	1.5%	***	Equity bullish, bond bearish
	CPI	y/y	Mar	1.1%	0.6%	1.2%	***	Equity and bond neutral
	CPI EU Harmonized	m/m	Mar	1.8%	-0.2%	2.0%	***	Equity and bond neutral
UK	CPI NIC incl. tobacco	m/m	Mar	0.3%	0.1%	0.1%	***	Equity and bond neutral
	Nationwide House PX	m/m	Mar	0.4%	-0.2%	0.7%	**	Equity bearish, bond bullish
	GDP	q/q	4Q	1.0%	1.3%	1.0%	***	Equity and bond neutral
Switzerland	Foreign exchange transactions	q/q	4Q	8685m	10973m		***	Equity and bond neutral
	Credit Suisse Survey Expectations	m/m	Mar	66.7	55.5		***	Equity bullish, bond bearish
AMERICAS								
Brazil	FGV Inflation IGPM	m/m	Mar	2.9%	2.5%	3.1%	**	Equity and bond neutral
	PPI Manufacturing	y/y	Feb	25.5%	21.5%		**	Equity and bond neutral
	Formal Job Creation Total	m/m	Feb	401639	260353	257500	**	Equity and bond neutral
	Central Govt Budget Balance	m/m	Feb	-21.2b	43.2b	-24.4b	**	Equity and bond neutral
Mexico	International Reserves Weekly	w/w	26-Mar	\$194934m	\$194939m		***	Equity and bond neutral
	Budget Balance YTD	m/m	Feb	-99.0b	-8.0b		**	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)	20	20	0	Up
3-mo T-bill yield (bps)	1	2	-1	Neutral
TED spread (bps)	20	18	2	Up
U.S. Libor/OIS spread (bps)	7	7	0	Up
10-yr T-note (%)	1.73	1.71	0.02	Neutral
Euribor/OIS spread (bps)	-54	-54	0	Neutral
EUR/USD 3-mo swap (bps)	4	4	0	Down
Currencies				
dollar	Down			Down
euro	Up			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.

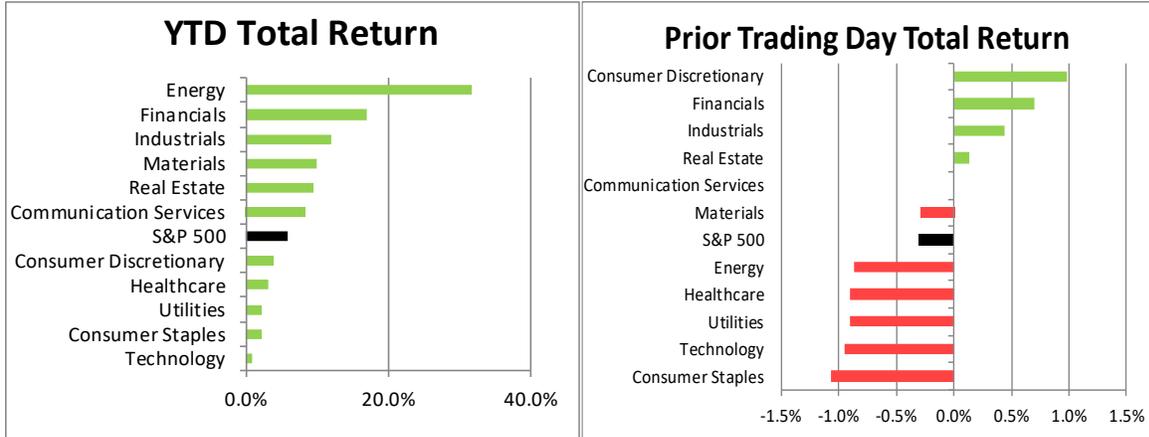
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$63.86	\$64.14	-0.44%	
WTI	\$60.25	\$60.55	-0.50%	
Natural Gas	\$2.64	\$2.62	0.53%	
Crack Spread	\$20.57	\$20.57	-0.02%	
12-mo strip crack	\$18.08	\$18.20	-0.64%	
Ethanol rack	\$1.97	\$1.97	-0.24%	
Metals				
Gold	\$1,686.83	\$1,685.20	0.10%	
Silver	\$24.08	\$24.03	0.20%	
Copper contract	\$400.50	\$397.85	0.67%	
Grains				
Corn contract	\$539.75	\$539.25	0.09%	
Wheat contract	\$604.00	\$601.75	0.37%	
Soybeans contract	\$1,374.00	\$1,366.75	0.53%	
Shipping				
Baltic Dry Freight	2103	2162	-59	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)		-1.7		
Gasoline (mb)		0.7		
Distillates (mb)		0.5		
Refinery run rates (%)		1.50%		
Natural gas (bcf)		18.0		

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

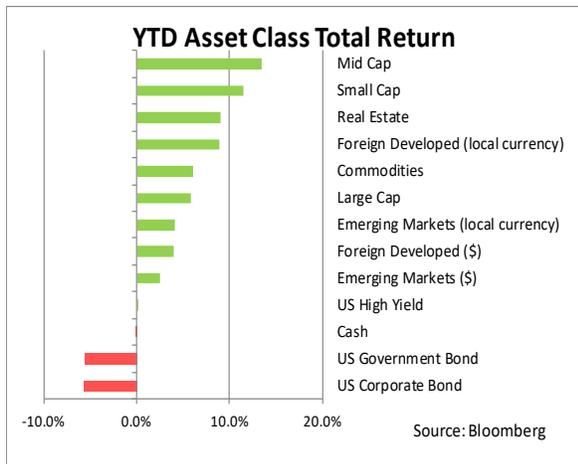
U.S. Equity Markets – (as of 3/30/2021 close)



(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 3/30/2021 close)

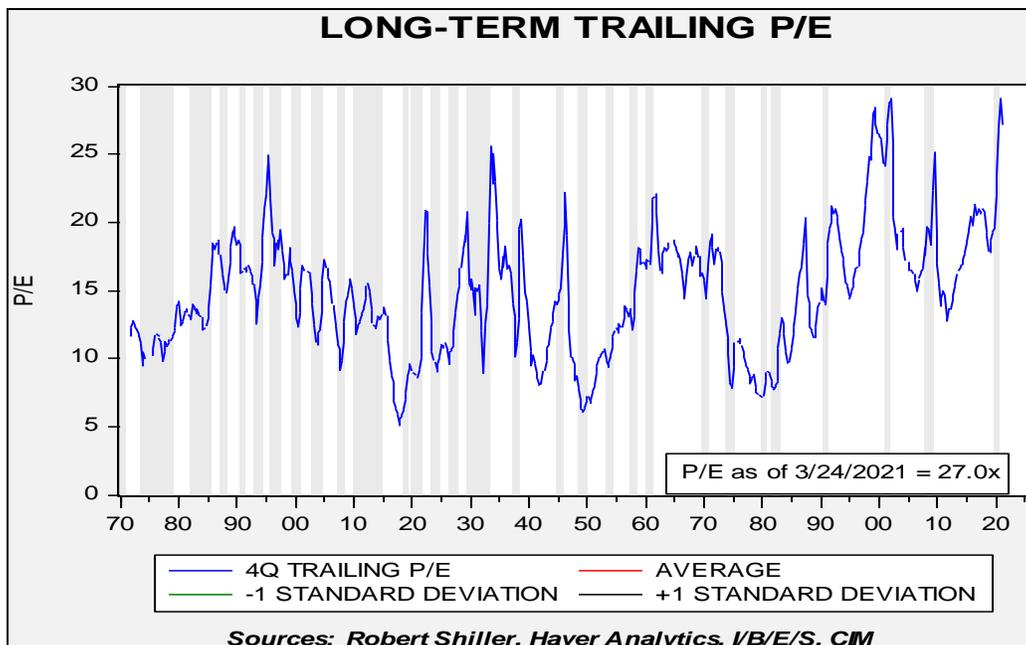


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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.