Daily Comment

By Bill O'Grady, Thomas Wash, and Patrick Fearon-Hernandez, CFA

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 9, 2021—9:30 AM EST] Global equity markets are generally mixed this morning. The EuroStoxx 50 is up 0.6% from its last close. In Asia, the MSCI Asia Apex 50 is down 0.1% from the prior close. Chinese markets were also lower, with the Shanghai Composite down 1.8% from its prior close and the Shenzhen Composite down 2.8%. U.S. equity index futures are signaling a higher open.

We have published our latest *Weekly Geopolitical Report*, which is Part II of our two-part series on the Western Sahara. 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 the latest *Confluence of Ideas* podcast. A new *Asset Allocation Weekly*, chart book, and podcast are also available. This week's *Weekly Energy Update* is available. You can find all this research and more on our website.

We open today's *Comment* with a quick review of key international news, including an important overview regarding how U.S. firms see their business in China developing. Then, we focus on the latest developments in the coronavirus pandemic, where President Biden's $1.9 trillion "American Rescue Plan" looks increasingly certain to become law this week. That's giving a boost to U.S. stocks in general today. Just as important, the bond market appears to be showing signs of nascent stabilization, perhaps because some bond buyers are reportedly taking advantage of the recent runup in yields. If it lasts, the new buying could potentially put a cap on yields, which helps explain why technology stocks are jumping so far this morning.

United States-China: A membership survey by the U.S. Chamber of Commerce in China showed that only 56% of respondents reported earning a profit in the country last year. About 20% suffered losses, up from 11% reporting losses in 2019. Two-thirds of U.S. companies said their revenue in China rose or remained stable in 2020—below the 79% that reported increasing or steady sales in last year's survey.

United Kingdom-European Union: British business leaders are already complaining that the government's new minister for EU relations, Lord David Frost, is too abrasive concerning his dealings with Brussels, and he is threatening to undermine the U.K.-EU trade relationship.

Germany: Ahead of critical state elections next weekend, Chancellor Merkel's Christian Democratic Union is being pummeled by a scandal in which two CDU lawmakers earned substantial commissions on deals to procure urgently needed masks during the first wave of the coronavirus pandemic. Both lawmakers have been forced to resign, but the scandal will make it even more difficult for the CDU to win in states like Baden-Württemberg and Rhineland-Palatinate. It also raises questions about the leadership of new CDU chief Armin Laschet.

Brazil: A supreme court judge has annulled the graft convictions of former President Luiz Inácio Lula da Silva, restoring the left-wing leader's political rights ahead of elections next year. If the decision stands, it could set the stage for an election battle between Lula da Silva and incumbent President Jair Bolsonaro, a right-wing populist and one of the most strident critics of Lula da Silva and his left-wing Workers' party, also known as PT. The potential political uncertainty is likely to be negative for Brazilian assets.

COVID-19: Official data show confirmed cases have risen to 117,250,914 worldwide, with 2,604,123 deaths. In the United States, confirmed cases rose to 29,045,983, with 525,904 deaths. Vaccine doses delivered in the U.S. now total 116,378,615, while the number of people who have received at least their first shot totals 60,005,231. 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 topped 50,000 yesterday, although the new case count remained far below the figure reached at the beginning of the year. Perhaps more importantly, new deaths related to the virus totaled just 719. Vaccinations against the disease also continue apace, as 18.1% of the U.S. population has now received at least one shot.
- In an update to its pandemic safety guidelines, the CDC recommends that people who are fully vaccinated should continue to use facemasks and practice social distancing when around non-vaccinated people. However, they can dispense with those precautions when around other fully vaccinated people. Under the new guidelines, vaccinated individuals will not need to quarantine or receive a COVID-19 test after being exposed to the virus if they have no symptoms.
- The organizing committee for the Summer Olympic Games in Tokyo has decided to ban spectators from the ceremony launching the Olympic torch rely on March 25. The committee will decide sometime in mid-March whether it will ban overseas spectators from the Games themselves, which are scheduled to open July 23.

Economic and Financial Market Impacts

- New polling by Axios/Ipsos indicates many people may be slow to return to normal life even after getting vaccinated. Just 7% of respondents said they plan to stop wearing masks in public after receiving their shots, and only 13% said they plan to stop social distancing. 81% said they would continue to wear masks, and 66% said they would continue to social distance until the pandemic ends. That raises a risk that the economic rebound this year could potentially be a bit more sluggish than currently expected.

U.S. Policy Response

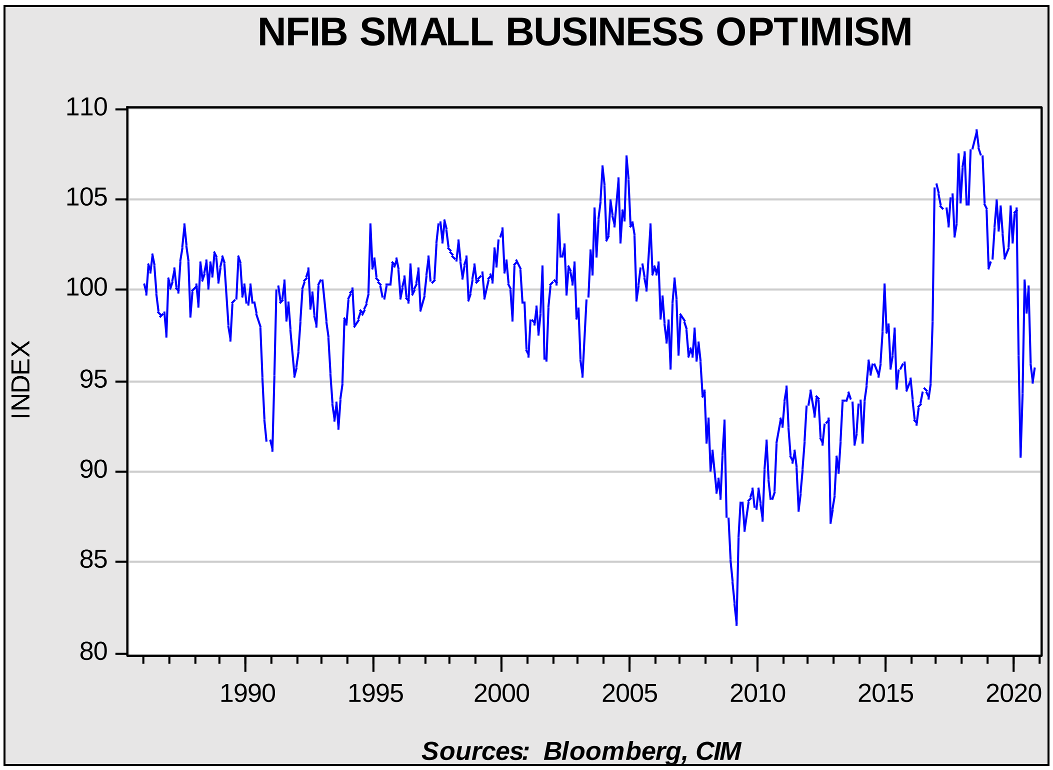
- Several prominent Democrats in the House of Representatives signaled they would approve President Biden's $1.9 trillion pandemic relief package when it comes up for a final vote this week, despite some provisions being watered down in the Senate.
    - That means the bill, formally designated as the "American Rescue Plan," is increasingly certain to be passed into law, most likely on Tuesday or Wednesday. This *Wall Street Journal* article provides an overview of the bill's major provisions.
    - Not only would the new stimulus provide a jolt to U.S. economic growth in 2021, but the OECD today said it would boost global growth by an additional 1%. In updated forecasts, the OECD now expects global GDP to rise by 5.6% this year, up from a forecast of 4.2% last November. There is one potential downside: The OECD also warns that the rise in U.S. government bond yields in response to higher growth and inflation expectations could spark capital flight from emerging economies, where vaccine campaigns have barely begun and whose economic recovery is expected to take longer.
- The Federal Reserve yesterday said it would allow most of its remaining emergency asset purchase programs from last spring to expire as scheduled at the end of the month. The plans include the Commercial Paper Funding Facility, the Money Market Mutual Fund Liquidity Facility, and the Primary Dealer Credit Facility. According to the Fed, the programs are now seldom used.
    - Several other major programs expired at the end of December, including the Corporate Credit Facilities, the Municipal Liquidity Fund, and the Term Asset-Backed Securities Loan Fund.
    - The Fed said it would renew the Paycheck Protection Program Liquidity Facility, which extends credit to eligible financial institutions that originate PPP loans, through to the end of June.
    - Even though many of the Fed's emergency programs are going away, the ultra-low fed funds benchmark interest rate and the Fed's broader asset purchase program are keeping monetary policy extraordinarily loose. This should lend additional support to risk assets on top of the strong forthcoming fiscal stimulus and the impending reopening of much of the economy.
- Still, a key question is whether the Fed will extend an emergency policy exempting cash and Treasury securities from banks' supplementary leverage ratios (SLRs). Some observers argue that the recent runup in yields stemmed, at least in part, from major banks running up against their SLR limits and not being able to buy more Treasuries without raising new capital or scaling back planned dividends. Extending the exemption past its planned end on March 31 could give banks more capacity to gather deposits and buy government bonds, which could help calm the bond market.

Foreign Policy Response

- Despite European Central Bank chief Lagarde's statement of concern over rising bond yields, new data show the ECB slowed its bond purchases in recent weeks, even as those yields spiked. Regardless of Lagarde's rhetoric, the data suggest that the ECB, like the Fed, is reluctant to actually intervene to cap yields just yet. More detail about her views could come out in Lagarde's press conference after the ECB's March policy meeting on Thursday.

U.S. Economic Releases

According to the NFIB, optimism among small business owners rose less than expected as poor weather conditions made it difficult to maintain operations. The small business index came in at 95.8, which is higher than the previous month's 95.0 but lower than expectations of 97.0.



The chart above show the NFIB Small Business Optimism Index.

There are no economic releases or Fed events scheduled for the rest of the day.

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	Manpower Survey	q/q	2Q	5.0%	6.0%		**	Equity and bond neutral
Japan	Labor Cash Earnings	y/y	Jan	-0.8%	-3.2%	-1.7%	**	Equity and bond neutral
	Household Spending	y/y	Jan	-6.1%	-0.6%	-2.1%	**	Equity bearish, bond bullish
	GDP SA	q/q	4Q	2.8%	3.0%	3.0%	***	Equity and bond neutral
	Money Stock M2	y/y	Feb	9.6%	9.4%	9.5%	**	Equity and bond neutral
	Money Stock M3	y/y	Feb	8.0%	7.8%	7.9%	**	Equity and bond neutral
	Manpower Survey	q/q	2Q	-1.0%	6.0%		**	Equity and bond neutral
	Machine Tool Orders	y/y	Feb	36.70%	9.70%		**	Equity bullish, bond bearish
India	Manpower Survey	q/q	2Q	10.0%	6.0%		**	Equity bullish, bond bearish
Australia	Bankruptcies	y/y	Feb	-31.5%	-38.7%		**	Equity and bond neutral
	ANZ Roy Morgan Consumer Confidence	w/w	7-Mar	111.9	110.3		***	Equity and bond neutral
	Manpower Survey	q/q	2Q	16.0%	12.0%		**	Equity and bond neutral
	NAB Business Conditions	m/m	Feb	15	7		**	Equity and bond neutral
	NAB Business Confidence	m/m	Feb	16.0	10.0		**	Equity and bond neutral
New Zealand	ANZ Truckometer Heavy	m/m	Feb	2.0%	-3.8%		**	Equity and bond neutral
	Mfg Activity SA	q/q	4Q	-0.6%	10.0%		***	Equity and bond neutral
	Mfg Activity Volume	q/q	4Q	0.5%	17.3%		**	Equity and bond neutral
	ANZ Activity Outlook	m/m	Mar	17.4	21.3		**	Equity and bond neutral
	ANZ Business Confidence	m/m	Mar	0.0	7.0		**	Equity and bond neutral
EUROPE								
Eurozone	Employment	y/y	4Q	-1.9%	-2.0%		**	Equity and bond neutral
	GDP SA	q/q	4Q	-0.7%	-0.6%	-0.6%	***	Equity and bond neutral
France	Private Sector Payrolls	q/q	4Q	-0.1%	-0.2%	-0.2%	**	Equity and bond neutral
	Total Payrolls	q/q	4Q	-0.1%	1.6%	-0.1%	**	Equity and bond neutral
	Bank of France Ind. Sentiment	m/m	Feb	99	98	99	**	Equity and bond neutral
Germany	Trade Balance	m/m	Jan	14.3b	14.8b	14.5b	**	Equity and bond neutral
	Current Account Balance	m/m	Jan	16.9b	28.2b	21.8b	**	Equity and bond neutral
Italy	Industrial Production	m/m	Jan	1.0%	-0.2%	0.8%	***	Equity bullish, bond bearish
AMERICAS								
Brazil	Trade Balance Weekly	w/w	7-Mar	-$428m	$1005m		**	Equity bearish, bond bullish
	FIPE CPI - Weekly	w/w	7-Mar	0.2%	0.4%	0.3%	***	Equity and bond neutral
Canada	Bloomberg Nanos Confidence	w/w	5-Mar	60.5	59.4		**	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)	19	18	1	Up
3-mo T-bill yield (bps)	3	4	-1	Neutral
TED spread (bps)	15	14	1	Up
U.S. Libor/OIS spread (bps)	7	7	0	Up
10-yr T-note (%)	1.52	1.59	-0.07	Neutral
Euribor/OIS spread (bps)	-54	-54	0	Neutral
EUR/USD 3-mo swap (bps)	6	7	-1	Down
Currencies	**Direction**			
dollar	Down			Down
euro	Up			Up
yen	Up			Up
pound	Up			Up
franc	Up			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.

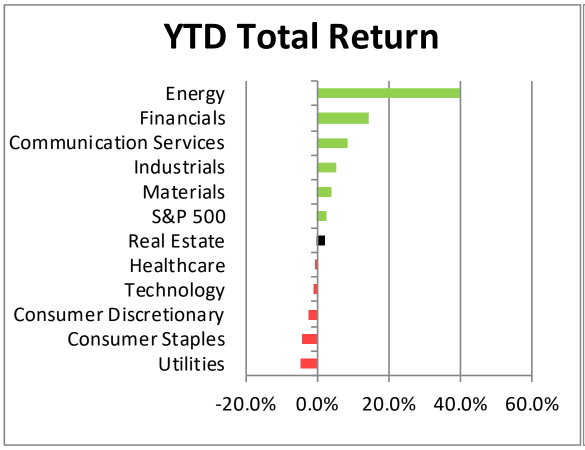
	Price	Prior	Change	Explanation
Energy Markets				
Brent	$69.16	$68.24	1.35%	Economic Optimism
WTI	$65.80	$65.05	1.15%	
Natural Gas	$2.67	$2.66	0.04%	
Crack Spread	$19.50	$19.17	1.71%	
12-mo strip crack	$17.52	$17.28	1.38%	
Ethanol rack	$1.89	$1.88	0.31%	
Metals				
Gold	$1,708.47	$1,683.54	1.48%	
Silver	$25.77	$25.13	2.57%	
Copper contract	$404.30	$409.30	-1.22%	
Grains				
Corn contract	$544.75	$547.00	-0.41%	
Wheat contract	$653.00	$646.50	1.01%	
Soybeans contract	$1,439.25	$1,433.75	0.38%	
Shipping				
Baltic Dry Freight	1853	1829	24	
DOE inventory report				
	Actual	**Expected**	**Difference**	
Crude (mb)		3.0		
Gasoline (mb)		-2.9		
Distillates (mb)		-3.0		
Refinery run rates (%)		5.50%		

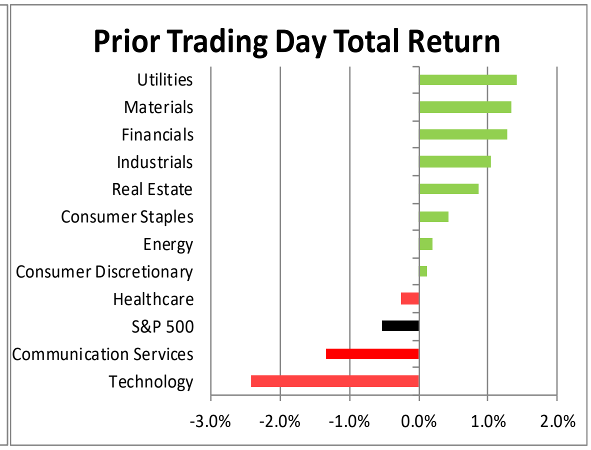
Weather

The 6-10 and 8-14 day forecasts currently call for cooler than normal temperatures throughout most of the country, with warmer temps in the southeastern region. The forecast calls for wetter than normal conditions for most of the country, with dry conditions in the Pacific and most of the northern regions.

Data Section

U.S. Equity Markets – (as of 3/8/2021 close)

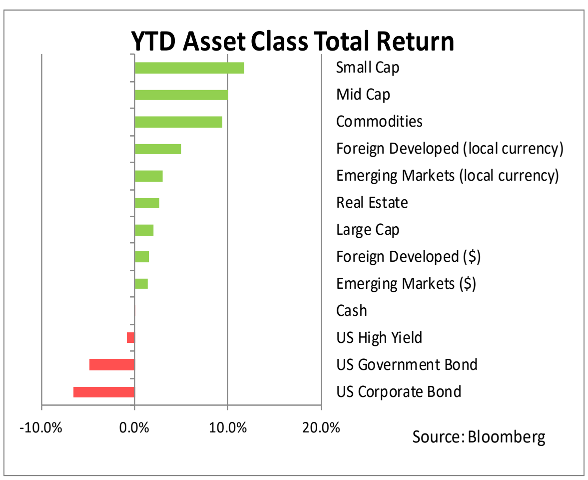




(Source: Bloomberg)

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 3/8/2021 close)

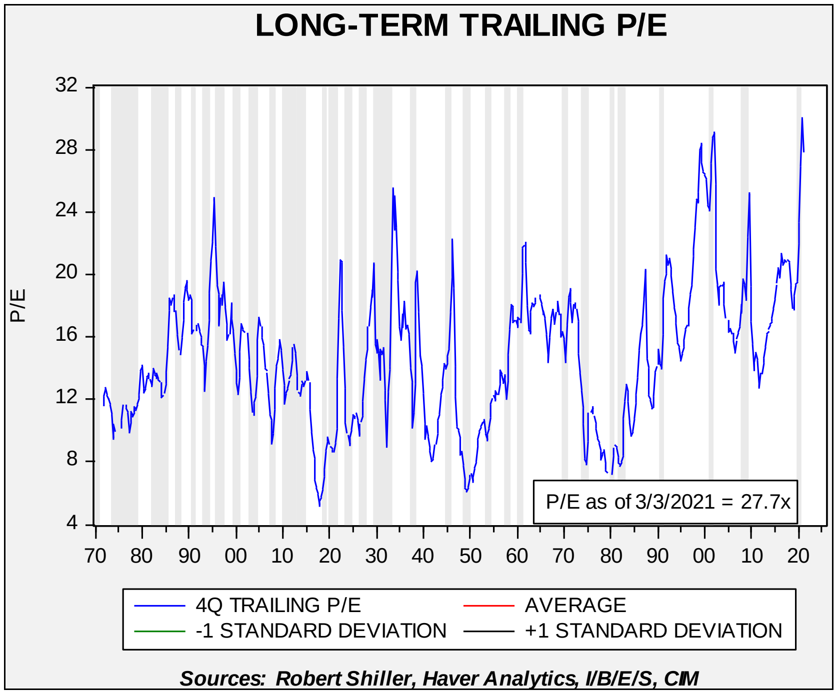


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 4, 2021



Based on our methodology,[1] the current P/E is 27.7x, up 1.6x from last week. This week, we swapped the I/B/E/S-Thomson/Reuters earnings estimate for the one from Standard and Poor's. We use the latter because we have a longer historical database for that data. The current spread is unusually wide, although not unprecedented during recessions. Currently, the Thomson/ Reuters estimate is 22% higher than Standard and Poor's. History does suggest the two estimates narrow over time with the latter improving faster than the former.

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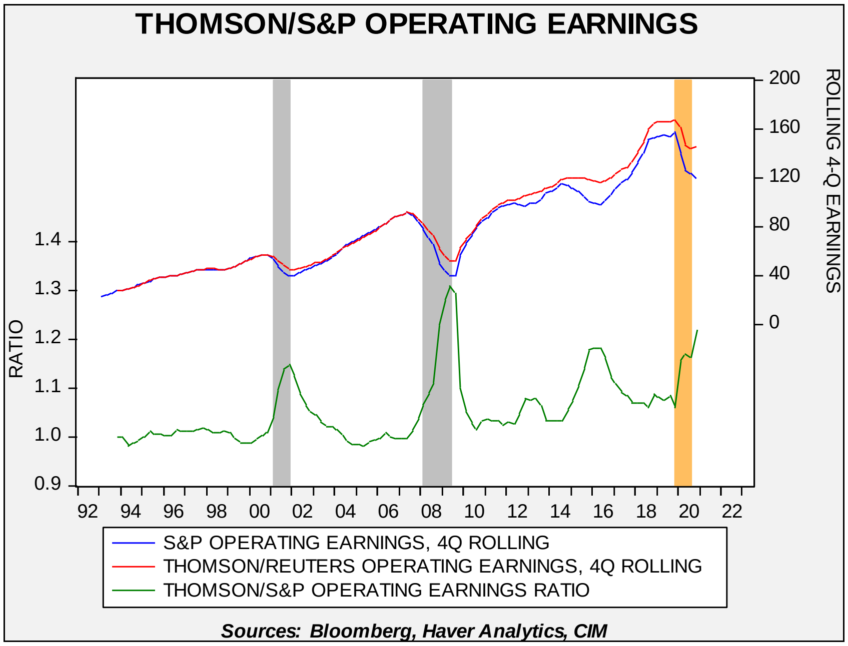
[1] This chart offers a running snapshot of the S&P 500 P/E in a long-term historical context. We are using a specific measurement process, similar to *Value Line*, which combines earnings estimates and actual data. We use an adjusted operating earnings number going back to 1870 (we adjust as-reported 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.



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