

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: November 30, 2021—9:30 AM EST] Global equity markets are generally lower this morning. In Europe, the EuroStoxx 50 is down 1.7% from its prior close. In Asia, the MSCI Asia Apex 50 closed down 0.4%. Chinese markets were relatively flat, with the Shanghai Composite relatively unchanged from its prior close and the Shenzhen Composite up 0.1%. U.S. equity index futures are signaling a lower open. With 487 companies having reported, the S&P 500 Q3 2021 earnings stand at \$54.10, higher than the \$50.34 forecast for the quarter. The forecast reflects a 27.5% increase from Q3 2020 earnings. Thus far this quarter, 81.5% of the companies have reported earnings above forecast, while 14.6% have reported earnings below forecast.

The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below, with new items of the day emphasized in bold:

- [Weekly Geopolitical Report](#) (11/22/2021): “The Geopolitics of the Strategic Petroleum Reserves”
- [Weekly Energy Update](#) (11/18/2021): The Biden administration is trying to cope with higher energy prices and inflation fears.
- [Asset Allocation Q4 2021 Rebalance Presentation](#) (11/4/2021): A video discussion of our asset allocation process, Q4 2021 portfolio changes, and the macro environment
- [Asset Allocation Weekly](#) (11/19/2021) (with associated [podcast](#)): We discuss open positions at the Fed and how the policy tilt of the FOMC could change based not only on who is chosen, but also the speed at which positions are filled.

In today's *Comment*, we open with highlights from the U.S. labor market, U.S. relations with China and Russia, and a small number of other international developments. However, the bulk of our report deals with the new Omicron variant of the coronavirus, which today has again sparked sharp volatility in the world's financial markets.

U.S. Labor Market: Against the backdrop of a nationwide labor shortage that is driving up wages and encouraging labor action, an official with the National Labor Relations Board [ruled that Amazon \(AMZN, 3,561.57\) improperly impeded an April unionization vote that ultimately failed](#) and ordered that the vote be held again. The company will have the right to appeal the ruling to the full NLRB, but the body could schedule the re-vote before that happens.

United States-China: Vice Admiral Karl Thomas, commander of the U.S. Seventh Fleet, [called for as many as eight U.S. and allied aircraft carriers to be deployed to Asia-Pacific waters](#) in order to deter China and Russia from making aggressive geopolitical moves in the region. That would mark a huge increase in allied carrier deployments in the region, underscoring the seriousness with which at least some U.S. military leaders see the challenge from China and Russia in the coming years.

China: In a sign that the government's crackdown on big, powerful technology companies has not yet ended, six different regulatory agencies today [announced a raft of new rules to rein in the country's ride-hailing industry](#). Among other things, the new rules will limit the fees companies can earn from each ride they dispatch, incentivize them to make some drivers formal employees, and urge them to provide benefits such as insurance for their drivers.

NATO-Russia-Ukraine: Foreign ministers from the NATO countries [are meeting in Latvia today to forge a response to Russia's troop buildup around Ukraine](#), which U.S. intelligence officials have warned could point to a Russian invasion in the coming months. The ministers will need to strike a difficult balancing act between sending a tough warning to Moscow while not over-committing to the defense of Kiev.

Iran Nuclear Deal: At the latest round of talks to re-implement the 2015 deal limiting Iran's nuclear program, Iranian negotiators yesterday [doubled down on the tough demands they would require before agreeing to a renewed deal](#). For example, the Iranians continued to refuse to talk directly with the U.S. side, and they demanded that any resumption of the deal would require the U.S. to first dismantle all sanctions imposed since it walked away from the agreement in 2018. Prospects for a renewed deal appear slim, raising the prospect of future destabilizing moves ranging from an Iranian break-out to a nuclear weapon or an Israeli-led attack to prevent that from happening.

Barbados-United Kingdom: Barbados [officially became a republic today](#), nearly 400 years after the English first set foot on the Caribbean island. As a result, Queen Elizabeth II is now head of state for just 15 realms, including the United Kingdom, Australia, Canada, and Jamaica.

COVID-19: Official data show confirmed cases [have risen to 262,312,703 worldwide, with 5,211,147 deaths](#). In the U.S., confirmed cases rose to 48,440,107, with 778,653 deaths. (For an interactive chart that allows you to compare cases and deaths among countries, scaled by population, click [here](#).) Meanwhile, in data on the U.S. vaccination program, [the number of people who have received at least their first shot totals 232,792,508](#). The data show that 70.1% of the U.S. population has now received at least one dose of a vaccine, and 59.3% of the population is fully vaccinated.

Virology

- In today's key virology news, CEO of Moderna (MRNA, 368.51) Stéphane Bancel [predicted in an interview with the *Financial Times* that existing vaccines will be much less effective at tackling the new Omicron variant](#) than earlier strains of coronavirus. Just as unsettling, he warned that it would take months before pharmaceutical companies could manufacture new variant-specific jabs at scale.

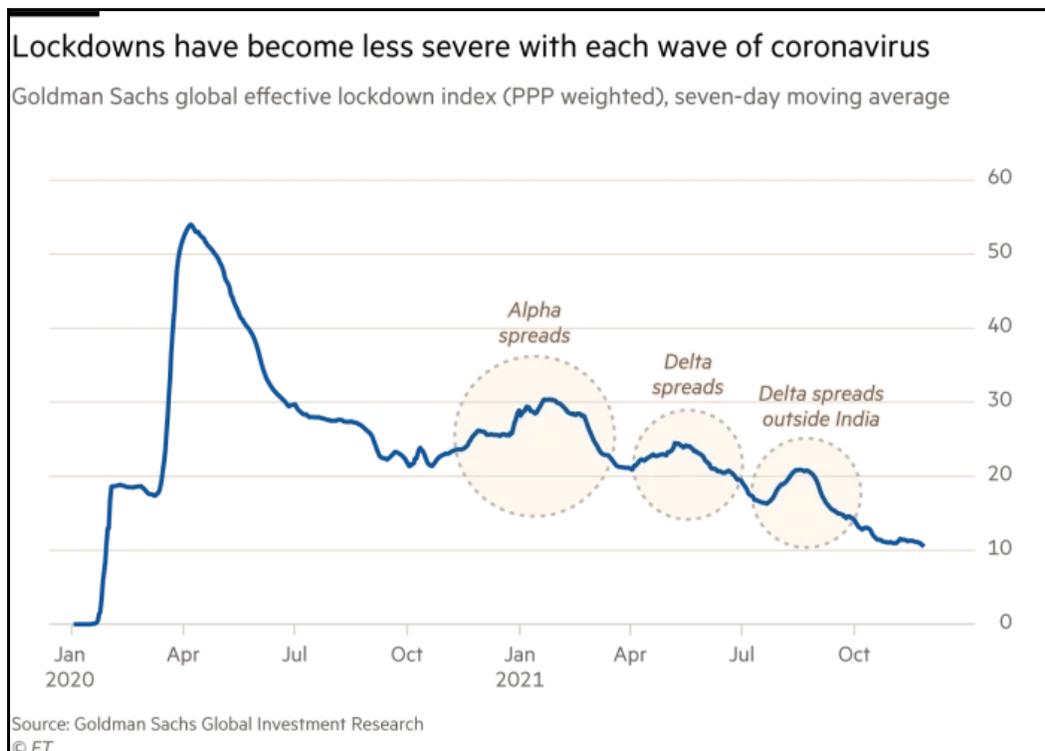
- According to Bancel, “I think [the change in effectiveness] is going to be a material drop. I just don’t know how much because we need to wait for the data. But all the scientists I’ve talked to...are like, ‘This is not going to be good’.”
- With drug firms [warning that the current vaccines might have to be modified to retain control over the pandemic](#), economic prospects and returns on risk assets are once again in question. As we mentioned in our *Comment* yesterday, early indications are that Omicron may be more transmissible but less lethal than previous variants, which at some level could be a positive outcome. Scientists probably still need at least a couple of weeks of study to get a decent feel for how Omicron behaves. All the same, Bancel’s comments underscore that the situation remains fluid, and a more negative assessment of Omicron might evolve. As shown by today’s market declines in [Europe](#) and [Asia](#), that could leave markets volatile in the coming weeks.
- Similarly, Regeneron Pharmaceuticals (REGN, 654.40) [said preliminary tests indicated that its antibody drug cocktail to treat COVID-19 lost effectiveness](#) against the Omicron variant. Outside scientists said an antibody treatment from Eli Lilly (LLY, 254.83) also appeared to lose effectiveness against the mutation. Both findings are preliminary, but they have contributed to today’s market angst regarding Omicron.
- In light of the threat from the new [Omicron variant](#), the CDC yesterday [recommended that everyone 18 and older get an additional shot after completing their first course of vaccination](#). That marked a step up from the agency’s stance earlier this month, when it merely encouraged boosters for those 50 and above and said people ages 18 and above could get an additional dose. Indeed, some experts [believe that having a booster may soon become a requirement to be considered “fully vaccinated.”](#)
- Reports indicate that the FDA, as early as next week, [may approve use of the vaccine from Pfizer \(PFE, 52.40\) and BioNTECH \(BNTX, 362.52\) as a booster](#) in youths aged 16 and 17. As of now, the vaccine is approved as a booster only for those 18 and older.

Economic and Financial Market Impacts

- In testimony prepared for the Senate Banking Committee this morning, Fed Chair Powell [says the new Omicron variant could intensify the supply-chain disruptions that have fueled this year’s surge in inflation](#). The testimony highlights how the new variant could put the Fed in a difficult position in the coming months if it exacerbates inflation, while also holding more workers back from seeking employment, which could lead wages to continue accelerating.
- In an address to the nation regarding the new Omicron variant, President Biden yesterday [said the mutation is “a cause for concern, not a cause for panic.”](#) He also said he would unveil a plan on Thursday for tackling the virus this winter “not with shutdowns and lockdowns, but with more widespread vaccinations, boosters, testing, and more.”
 - The commitment to not focus on new economic lockdowns underscores the fact that many world leaders will be politically constrained from using such an approach to battle the Omicron mutation, at least unless it proves to be much more lethal than now known. Not only has the long battle against COVID-19

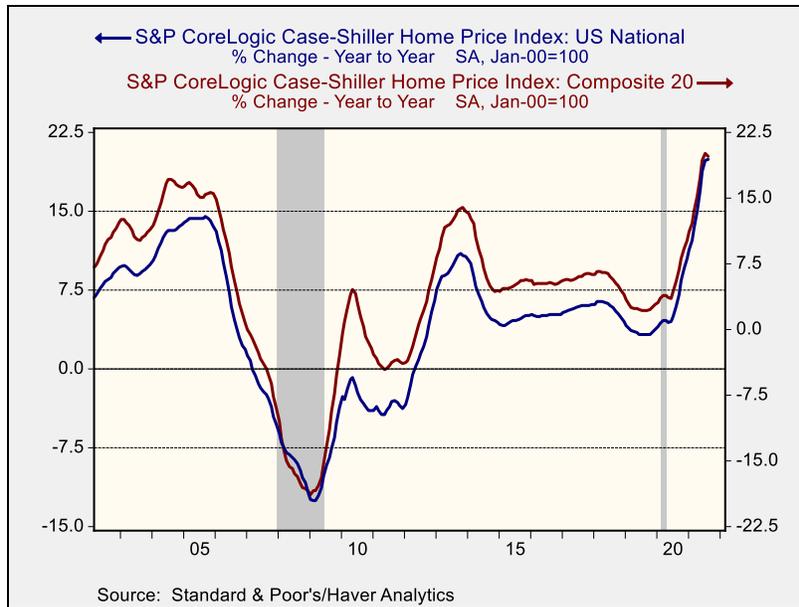
spawned intense popular backlash against lockdowns, but the rollout of vaccination programs has probably also made lockdowns less necessary.

- New lockdowns could be imposed in some places, as they already have been in some European nations, but for now it [looks like we won't see the widespread, nationwide lockdowns seen earlier in the pandemic](#). Indeed, global lockdowns have continued to trend downward throughout the period since the pandemic first began, as shown in the chart below.



U.S. Economic Releases

Home prices slowed unexpectedly during the third quarter and September, according to the Federal House Finance Agency and Standard & Poor's house price indexes. The FHFA index rose 0.9% from the prior month compared to expectations of 1.2%. In total, the index rose 4.2% in the third quarter, slower than the previous quarter's rise of 5.1%. The Standard & Poor's house price index for the top 20 cities rose 0.96% from the prior month compared to expectations of 1.2%. Meanwhile, the national index rose 1.18% from the prior month.



The chart above shows the annual change in the S&P CoreLogic indexes for the top 20 cities and the country. The 20-city index rose 19.7% from the prior year, while the national index rose 19.9%.

The table below lists the economic releases and/or Fed events scheduled for the rest of the day.

Economic Releases						
EST	Indicator			Expected	Prior	Rating
9:45	MNI Chicago PMI	m/m	Nov	67.0	68.4	**
10:00	Conf. Board Consumer Confidence	m/m	Nov	111.0	113.8	***
10:00	Conf. Board Present Situation	m/m	Nov		147.4	***
10:00	Conf. Board Expectations	m/m	Nov		91.3	***
Fed Speakers or Events						
EST	Speaker or event	District or position				
10:00	Jerome Powell and Janet Yellen Testify Before Senate Panel	Chairman of Board of Governors of Federal Reserve				
10:30	John Williams gives remarks at NY Fed food-insecurity event	President of the Federal Reserve Bank of New York				
13:00	Richard Clarida Discusses Fed Independence	Vice Chairman of Board of Governors of Federal Reserve				

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.

	Indicator			Current	Prior	Expected	Rating	Market Impact
ASIA-PACIFIC								
China	Non-manufacturing PMI	m/m	Nov	52.3	52.4	51.5	***	Equity bullish, bond bearish
	Manufacturing PMI	m/m	Nov	50.1	49.2	49.7	***	Equity bullish, bond bearish
	Composite PMI	m/m	Nov	52.2	50.8		***	Equity bullish, bond bearish
Japan	Job-To-Applicant Ratio	m/m	Oct	1.15	1.16	1.17	**	Equity and bond neutral
	Jobless Rate	m/m	Oct	2.7%	2.8%	2.8%	***	Equity bullish, bond bearish
	Industrial Production	m/m	Oct	1.1%	-5.4%	1.9%	***	Equity and bond neutral
	Housing Starts	y/y	Oct	10.4%	4.3%	5.5%	***	Equity bullish, bond bearish
India	Fiscal Deficit INR Crore	m/m	Oct	20175	58842		*	Equity and bond neutral
	Eight Infrastructure Industries	m/m	Oct	7.5%	4.4%		***	Equity and bond neutral
	GDP	y/y	3Q	8.4%	20.1%	8.3%	*	Equity and bond neutral
Australia	ANZ Roy Morgan Consumer Confidence	w/w	28-Nov	106.0	107.4		***	Equity and bond neutral
	BoP Current Account Balance	q/q	3Q	A\$23.9b	A\$20.5b	A\$29.3b	**	Equity and bond neutral
	Net Exports of GDP	q/q	3Q	1	-1	1	**	Equity and bond neutral
	Building Approvals	m/m	Oct	-12.9%	-4.3%	-1.5%	**	Equity bearish, bond bullish
	Private Sector Credit	m/m	Oct	0.5%	0.6%	0.6%	**	Equity and bond neutral
New Zealand	ANZ Activity Outlook	m/m	Nov	15.0	15.6		**	Equity and bond neutral
	ANZ Business Confidence	m/m	Nov	-16.4	-18.1		***	Equity and bond neutral
EUROPE								
Eurozone	CPI Core	y/y	Nov	2.6%	2.0%	2.3%	***	Equity bearish, bond bullish
	CPI Estimate	y/y	Nov	4.9%	4.1%	4.5%	***	Equity bearish, bond bullish
France	PPI	y/y	Oct	14.9%	11.6%		**	Equity bearish, bond bullish
	Consumer Spending	m/m	Oct	-0.4%	-0.2%	0.0%	**	Equity bearish, bond bullish
	CPI EU Harmonized	y/y	Nov	3.4%	3.2%	3.2%	***	Equity bearish, bond bullish
	CPI	y/y	Nov	2.8%	2.6%	2.6%	***	Equity bearish, bond bullish
	GDP	q/q	3Q	3.0%	3.0%	3.0%	**	Equity and bond neutral
Germany	Unemployment Change (000's)	m/m	Nov	-34.0k	-39.0k	-25.0k	***	Equity and bond neutral
	Unemployment Claims Rate SA	m/m	Nov	5.3%	5.4%	5.4%	***	Equity bullish, bond bearish
Italy	GDP WDA	q/q	3Q	2.6%	2.6%	2.6%	***	Equity and bond neutral
	CPI EU Harmonized	y/y	Nov	4.0%	3.2%	3.3%	***	Equity bearish, bond bullish
	CPI NIC incl. tobacco	m/m	Nov	0.7%	0.6%	0.1%	***	Equity bearish, bond bullish
UK	Lloyds Business Barometer	m/m	Nov	40.0	43.0		**	Equity and bond neutral
AMERICAS								
Brazil	National Unemployment Rate	m/m	Sep	12.6%	13.2%	12.7%	**	Equity and bond neutral
	Primary Budget Balance	m/m	Oct	35.4b	12.9b	32.6b	**	Equity bearish, bond bullish
	Nominal Budget Balance	m/m	Oct	-25.0b	-42.0b	-20.6b	***	Equity bearish, bond bullish
	Net Debt % GDP	m/m	Oct	57.6%	58.5%	58.1%	**	Equity and bond neutral
Canada	Quarterly GDP Annualized	q/q	3Q	5.40%	-1.10%	3.00%	***	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.

Fixed Income	Today	Prior	Change	Trend
3-mo Libor yield (bps)	18	18	0	Down
3-mo T-bill yield (bps)	3	5	-2	Neutral
TED spread (bps)	15	13	2	Neutral
U.S. Libor/OIS spread (bps)	8	8	0	Down
10-yr T-note (%)	1.43	1.50	-0.07	Down
Euribor/OIS spread (bps)	-57	-57	0	Neutral
EUR/USD 3-mo swap (bps)	32	32	0	Down
Currencies	Direction			
dollar	Down			Neutral
euro	Up			Up
yen	Up			Neutral
pound	Up			Neutral
franc	Up			Neutral

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.

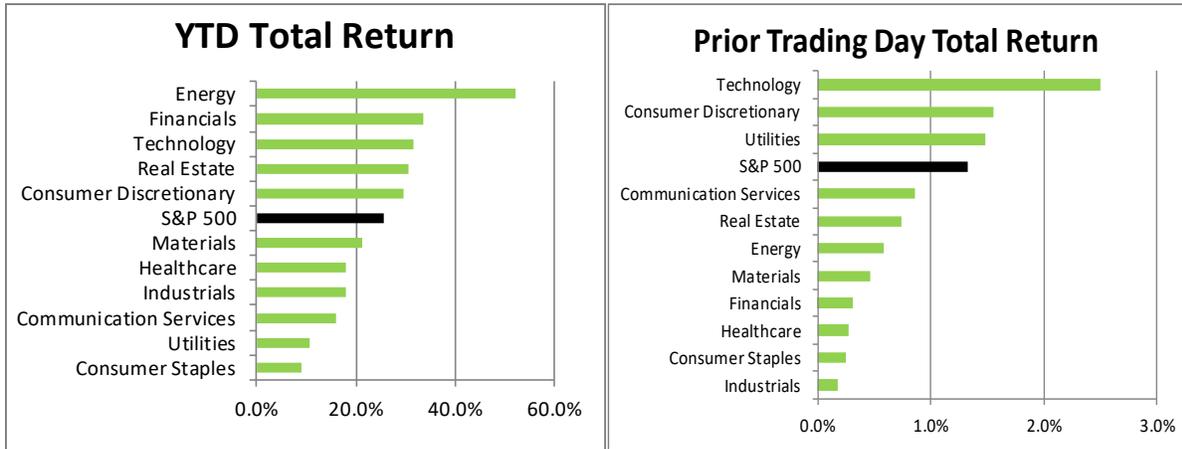
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$71.11	\$73.44	-3.17%	Omicron Variant Fears
WTI	\$67.96	\$69.95	-2.84%	
Natural Gas	\$4.68	\$4.85	-3.56%	
Crack Spread	\$17.32	\$16.72	3.57%	
12-mo strip crack	\$18.90	\$18.63	1.44%	
Ethanol rack	\$3.87	\$3.88	-0.14%	
Metals				
Gold	\$1,795.77	\$1,784.60	0.63%	
Silver	\$22.87	\$22.90	-0.14%	
Copper contract	\$431.10	\$434.10	-0.69%	
Grains				
Corn contract	\$575.00	\$582.25	-1.25%	
Wheat contract	\$809.00	\$822.25	-1.61%	
Soybeans contract	\$1,229.25	\$1,241.50	-0.99%	
Shipping				
Baltic Dry Freight	2,881	2,767	114	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)		-1.4		
Gasoline (mb)		-1.2		
Distillates (mb)		-1.5		
Refinery run rates (%)		0.40%		

Weather

The 6-10 day and 8-14-day forecasts currently call for warmer-than-normal temperatures for most of the country, with cooler temperatures in the New England region. The forecasts call for wet conditions in the Pacific Northwest, the Midwest, and the Rockies, with dry conditions for the rest of the country.

Data Section

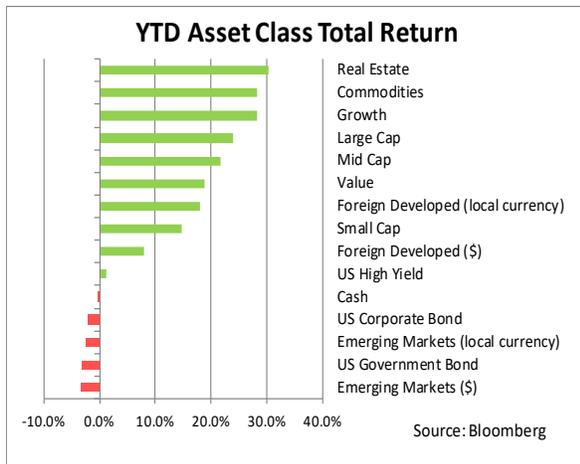
U.S. Equity Markets – (as of 11/29/2021 close)



(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 11/29/2021 close)

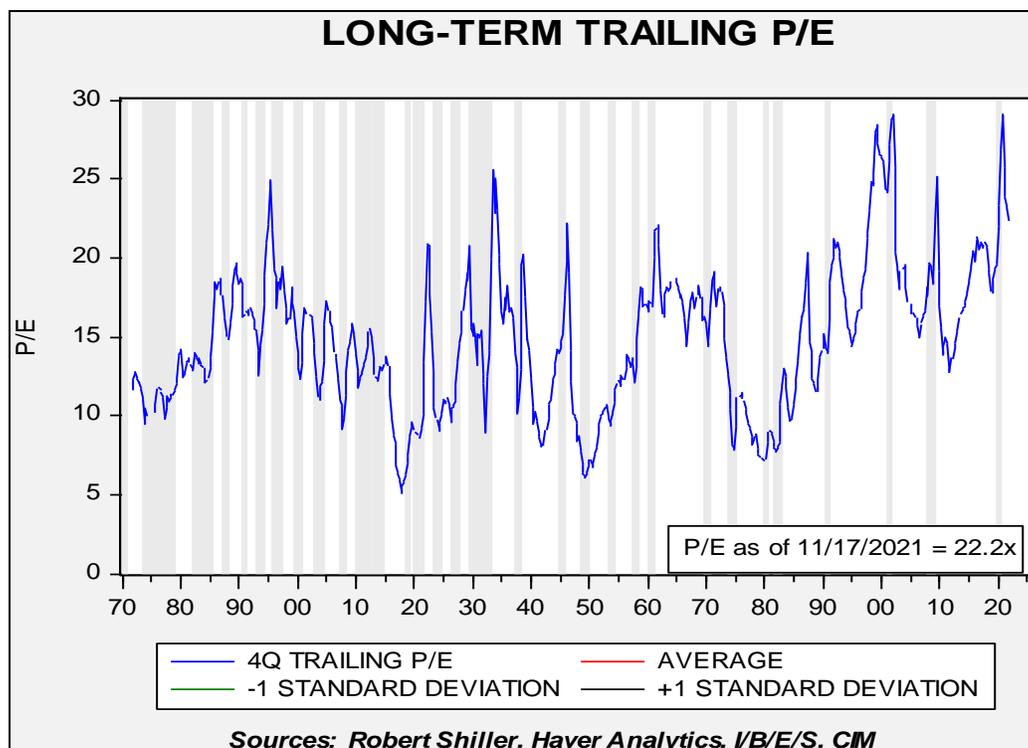


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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), Value (S&P 500 Value), Growth (S&P 500 Growth).

P/E Update

November 18, 2021



Based on our methodology,¹ the current P/E is 22.2x, unchanged 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 two actual quarters (Q1 and Q2) and two estimates (Q3 and Q4). 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.