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: September 10, 2021—9:30 AM EDT] Global equity markets are higher this morning. In Europe, the EuroStoxx 50 is currently up 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 closed up 1.4%. Chinese markets were higher, with the Shanghai Composite up 0.3% from its prior close and the Shenzhen Composite also up 0.3%. U.S. equity index futures are signaling a higher open.

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* (8/30/2021): "A Storm Before the Calm: A Review"
- ***Weekly Energy Update*** **(9/10/2021): Ida caused a sharp decline in refinery operations, China is releasing strategic reserve oil to lower prices, and natural gas prices are on a tear**.
- *Asset Allocation Q3 2021 Rebalance Presentation* (8/26/2021): A video discussion of our asset allocation process, portfolio changes in Q3, and the macro environment
- ***Asset Allocation Weekly*** **(9/10/2021) (with associated podcast): we discuss the likelihood of Fed Chair Powell's renomination, the opposition in Congress, and what that opposition could mean for Fed independence**
- *Confluence of Ideas* podcast (7/7/2021): "The Geopolitics of Taiwan and the Issue of Globalization"

Good morning! U.S. equity futures are signaling a higher open this morning. Today's report begins with a discussion of the call between Presidents Joe Biden and Xi Jinping. International news is up next followed by U.S. economics and policy news, including details about Treasury Secretary Yellen's warning that the debt ceiling could pose a threat to financial stability. China news follows, and we end the report with our pandemic coverage.

They Finally Speak: Last night, President Biden called Chinese President Xi Jinping in order to de-escalate tension between the two countries. This was the first call between the two leaders since they spoke on President Biden's inauguration. Biden made the call after discussions among aides were unfruitful, believing that they would be able to make more progress if they spoke directly. Although details have not been released, the call is believed to have set "guardrails" for future policymaking.

In our view, Xi has been trying to make it appear that China is in the driver's seat in negotiations with the U.S. as opposed to the other way around. This was made evident by China's deliberate efforts to set up meetings between U.S. aides and Chinese officials in more junior roles. Now that Biden has made this call to Xi, we suspect these games may finally end. So far, the market has responded positively as it seems the call has mediated concerns over an imminent split between the two countries. After Xi reportedly said that China-U.S. ties should get back on the right track, the yuan strengthened and Chinese equities rallied.

International news:

- Brazilian President Jair Bolsonaro has banned social media companies from removing certain content from their platforms. The new rules prevent companies from removing certain content without receiving a court order. The decision to limit social media companies' ability to remove content appears to be rooted in Bolsonaro's attempts to delegitimize the result of the upcoming presidential election. If polls are correct, Bolsonaro will be voted out of office. In that event, we believe that Bolsonaro could stage a military takeover of the government.

  This is the first time a national government has established rules to limit social media firms' ability to remove content from their own platforms. However, we suspect it will not be the last. Countries around the world have become more hostile toward social media companies as they believe these platforms could stir civil unrest and hinder their ability to communicate with constituents. As a result, social media companies will likely come under more regulatory scrutiny in the coming years.
- In a joint news conference, Russian President Vladimir Putin and Belarusian President Aleksandr Lukashenko pledged to build closer ties. The announcement comes as Belarus struggles to deal with the blowback after it forced a plane to land prematurely in order for authorities to arrest an activist journalist. The agreement has led to speculation that the growing integration between the two countries will lead to an eventual merger.
- On Thursday, the first international commercial flight took off from Afghanistan following U.S. troop withdrawal.
- European debt has made its way back into the spotlight in German politics. On Thursday, the Christian Democratic Union (CDU) party accused Olaf Scholz, the frontrunner to succeed Angela Merkel, of trying to force German taxpayers to pay for the debt of other European countries. Disputes over Germany's role as lender of last resort in the currency bloc caused major headaches for Merkel during the European Sovereign Debt Crisis. It appears that disagreements over paying for pandemic debt could emerge as another thorny issue for her successor and could have implications for the euro.
- Calls continue to mount for regulation of cryptocurrencies. A senior official at the Bank for International Settlement, an international financial institution owned by central banks, has sounded the alarm over the growing threat these digital assets pose to banks. He urged policymakers to hasten their response to the cryptocurrency threat and develop a digital asset backed by national policymakers. The warning comes amidst growing fear that crypto has made its way into the global financial system and could lead to another financial crisis.

Economics and policy:

- The presidents of the Federal Reserve Banks of Boston and Dallas, Eric Rosengren and Robert Kaplan, respectively, pledged to liquidate their individual stock holdings by September 30. The move comes as recent financial disclosures showed that the two Fed officials had traded at the same time that the central bank implemented extensive monetary easing. They have vowed to not trade stocks throughout the remainder of their tenure at the Fed. Although the Fed officials were allowed to purchase stocks at this time, the optics of doing so has exposed the central bank to additional scrutiny and could provide fodder for those looking to limit its influence.
- Treasury Secretary Janet Yellen continued to push Congress to raise the debt ceiling on Thursday. Yellen warned that failure to do so could have implications on financial stability. In the past, a lack of risk-free assets has led financial institutions to invest in riskier assets. Although the scarcity of risk-free assets could curtail lending, the standing reverse repo facilities at the Fed should be enough of a backstop to prevent a financial crisis.
- Several major airlines have attributed the decline in bookings to a surge in COVID-19 cases.
- Walmart (WMT, $146.42) has decided to end its quarterly bonus in order to fund higher wages. The move shows how some companies may be looking to fund higher wages without having to increase prices.

China:

- China has announced that it will release some of its oil reserves in order to alleviate the price pressures in commodities.
- Fitch Ratings angered Taiwan and confused traders when it referred to the island as "Taiwan, China" in a report. Initially, traders believed the report was referring to both Taiwan and China but later realized that it was referring solely to Taiwan.
- A typhoon in China threatens two of the country's main shipping ports. So far, the ports remain open, although they have asked ships to adjust their navigation plans to the storm. Complications at ports in Asia have been a major source of bottlenecks for supply chains, thus port closings could contribute to a slowdown in the production of goods.

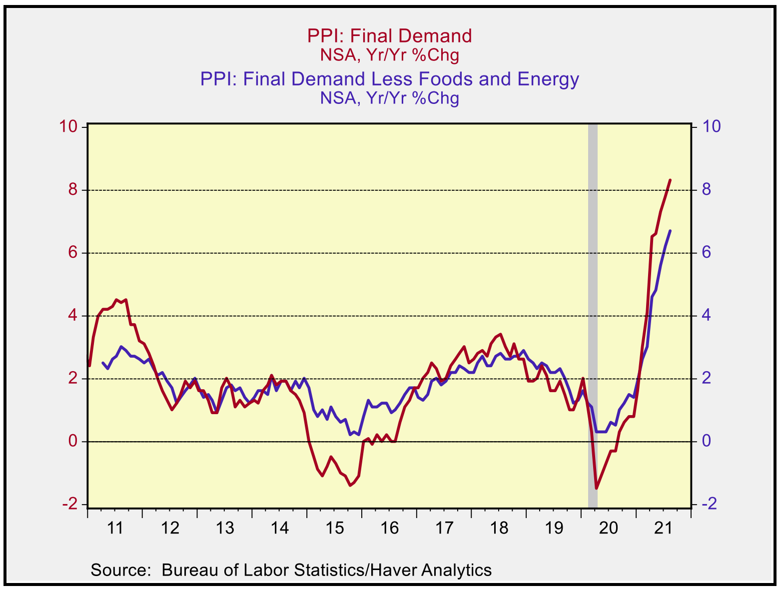
COVID-19: The number of reported cases is 223,204,222 with 4,606,035 fatalities. In the U.S., there are 40,602,892 confirmed cases with 654,598 deaths. For illustration purposes, the *FT* has created an interactive chart that allows one to compare cases across nations using similar scaling metrics. The *FT* has also issued an economic tracker that looks across countries with high-frequency data on various factors. The CDC reports that 452,781,195 doses of the vaccine have been distributed with 377,622,065 doses injected. The number receiving at least one dose is 208,305,270, while the number of second doses, which would grant the highest level of immunity, is 177,433,044. The *FT* has a page on global vaccine distribution.

- President Biden ordered all executive branch employees, federal contractors, and millions of healthcare workers to get vaccinated. He also announced that he will issue rules requiring firms that have over 100 employees to mandate vaccinations or testing.

- L.A. schools are requiring students [12 years and older to be fully vaccinated]() by January 10.
- The United Kingdom is expected to be the first government to allow the [mixing of different vaccines](). The move will likely make it easier for patients to receive the third booster shot as efficacy of the previous two vaccines have shown signs of waning.
- Singapore is considering new restrictions following [a surge in COVID-19 cases]().

U.S. Economic Releases

The only major economic release so far today was the monthly report on prices at the wholesale level. The August producer price index (PPI) rose by a seasonally adjusted 0.7%, slightly ahead of the expected increase of 0.6% but still better than the 1.0% gain in July. Excluding the volatile food and energy components, the August core PPI was up 0.6%, matching expectations but also down from 1.0% in the previous month. The overall PPI in August was up 8.3% from the same month one year earlier, while the core PPI was up 6.7%. The chart below shows the year-over-year change in the overall PPI and core PPI since just before the prior recession.



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

Economic Releases						
EDT	Indicator			Expected	Prior	Rating
10:00	Wholesale Inventories	m/m	Jul F	0.6%	0.6%	**
Fed Speakers or Events						
EST	Speaker or event	District or position				
9:00	Loretta Mester Speaks at Bank of Finland Conference	President of the Federal Reserve Bank of Cleveland				

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	New Yuan Loans	m/m	Aug	1220.0b	1083.2b	1400.0b	**	Equity and bond neutral
	Money Supply M2	y/y	Aug	8.2%	8.3%	8.4%	***	Equity and bond neutral
	Money Supply M1	y/y	Aug	4.2%	4.9%	4.5%	*	Equity and bond neutral
	Money Supply M0	y/y	Aug	6.3%	6.1%	6.0%	*	Equity and bond neutral
India	Industrial Production	y/y	Jul	11.5%	13.6%	10.4%	***	Equity bullish, bond bearish
EUROPE								
Germany	CPI	y/y	Aug F	3.9%	3.9%	3.9%	***	Equity and bond neutral
	CPI, EU Harmonized	y/y	Aug F	3.4%	3.4%	3.4%	**	Equity and bond neutral
France	Industrial Production	y/y	Jul	4.0%	7.3%	4.2%	***	Equity and bond neutral
	Manufacturing Production	y/y	Jul	4.0%	7.6%	3.8%	*	Equity and bond neutral
Italy	Industrial Production, WDA	y/y	Jul	7.0%	13.8%	5.2%	**	Equity bullish, bond bearish
	Industrial Production, NSA	y/y	Jul	3.8%	13.9%		*	Equity and bond neutral
UK	Industrial Production	y/y	Jul	3.8%	8.3%	3.0%	***	Equity and bond neutral
	Manufacturing Production	y/y	Jul	6.0%	13.9%	6.1%	**	Equity and bond neutral
	Trade Balance	m/m	Jul	-£3117m	-£2514m	-£1600m	**	Equity bearish, bond bullish
	Visible Trade Balance	m/m	Jul	-£12706m	-£11988m	-£11000m	**	Equity bearish, bond bullish
AMERICAS								
Canada	Net Change in Employment	m/m	Aug	90.2k	94.0k	67.5k	***	Equity bullish, bond bearish
	Unemployment Rate	m/m	Aug	7.1%	7.5%	7.3%	***	Equity bullish, bond bearish
	Capacity Utilization Rate	q/q	2Q	82.0%	81.7%	81.3%	*	Equity bullish, bond bearish
Mexico	Industrial Production	y/y	Jul	7.3%	13.5%	7.2%	***	Equity and bond neutral
	Manufacturing Production	y/y	Jul	6.2%	16.3%	5.4%	*	Equity bullish, bond bearish
Brazil	Retail Sales	y/y	Jul	5.7%	6.3%	3.3%	***	Equity bullish, bond bearish
	Retail Sales Broad	y/y	Jul	7.1%	11.5%	4.0%	*	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)	12	12	0	Down
3-mo T-bill yield (bps)	4	4	0	Neutral
TED spread (bps)	8	7	1	Neutral
U.S. Libor/OIS spread (bps)	7	8	-1	Down
10-yr T-note (%)	1.32	1.30	0.02	Down
Euribor/OIS spread (bps)	-54	-54	0	Neutral
EUR/USD 3-mo swap (bps)	4	4	0	Down
Currencies	**Direction**			
dollar	Flat			Down
euro	Flat			Up
yen	Down			Neutral
pound	Up			Neutral
franc	Flat			Neutral
Central Bank Action	**Current**	**Prior**	**Expected**	
Bank of Russia Benchmark Rate	6.750%	6.500%	7.000%	Tightening

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	$72.74	$71.45	1.81%	
WTI	$69.40	$68.14	1.85%	
Natural Gas	$5.02	$5.03	-0.32%	
Crack Spread	$20.53	$20.56	-0.15%	
12-mo strip crack	$20.44	$20.34	0.50%	
Ethanol rack	$2.62	$2.60	0.91%	
Metals				
Gold	$1,797.45	$1,794.58	0.16%	
Silver	$24.11	$24.04	0.29%	
Copper contract	$436.45	$428.55	1.84%	
Grains				
Corn contract	$511.75	$510.00	0.34%	
Wheat contract	$691.50	$692.25	-0.11%	
Soybeans contract	$1,274.50	$1,270.50	0.31%	
Shipping				
Baltic Dry Freight	3,643	3,618	25	
DOE inventory report				
	Actual	**Expected**	**Difference**	
Crude (mb)	-1.5	-6.0	4.5	
Gasoline (mb)	-7.2	-3.7	-3.6	
Distillates (mb)	-3.1	-3.8	0.6	
Refinery run rates (%)	-9.40%	-5.5%	-3.90%	
Natural gas (bcf)	52.0	39.0	13.0	

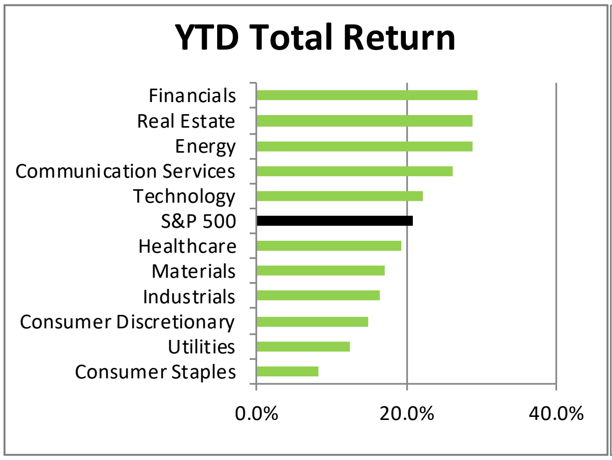
Weather

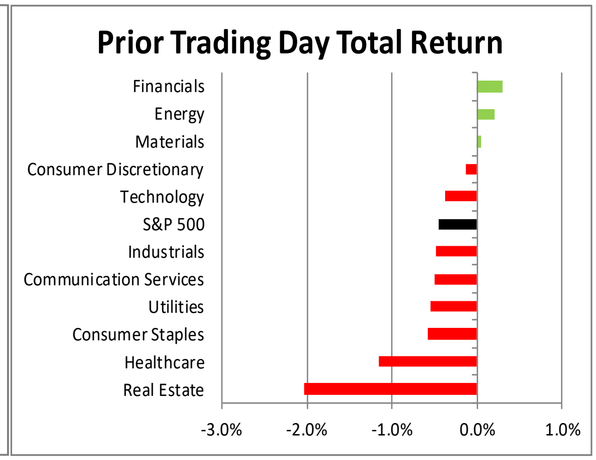
The 6-10 day and 8-14 day forecasts currently call for warmer-than-normal temperatures throughout the entire eastern two-thirds of the country, with cooler temperatures only in the Pacific Northwest. The forecast calls for wetter-than-normal conditions in the South, the Northeast, and the Pacific Northwest, with dry conditions in the Great Plains.

There are currently three cyclonic disturbances in the Atlantic region. One, Hurricane Larry, is moving northwestwardly toward Newfoundland. A separate disturbance currently centered over the Yucatan Peninsula is moving toward the Gulf of Mexico with a 40% chance of turning into a cyclone within the next 48 hours. The last disturbance is centered over the western coast of Africa and has a 50% chance of turning into a cyclone within the next 48 hours. On average, hurricane activity peaks on September 10.

Data Section

U.S. Equity Markets – (as of 9/9/2021 close)

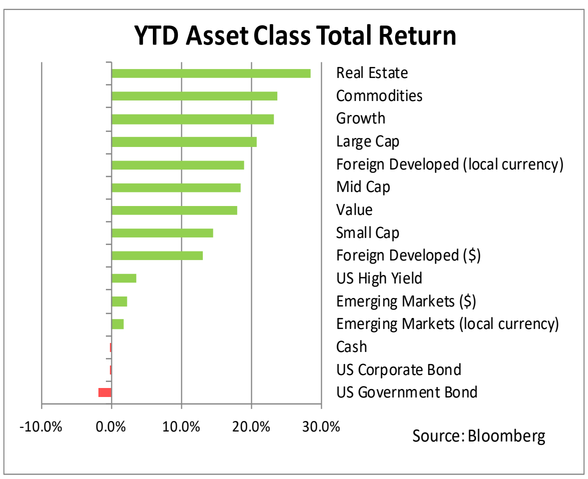




(Source: Bloomberg)

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 9/9/2021 close)

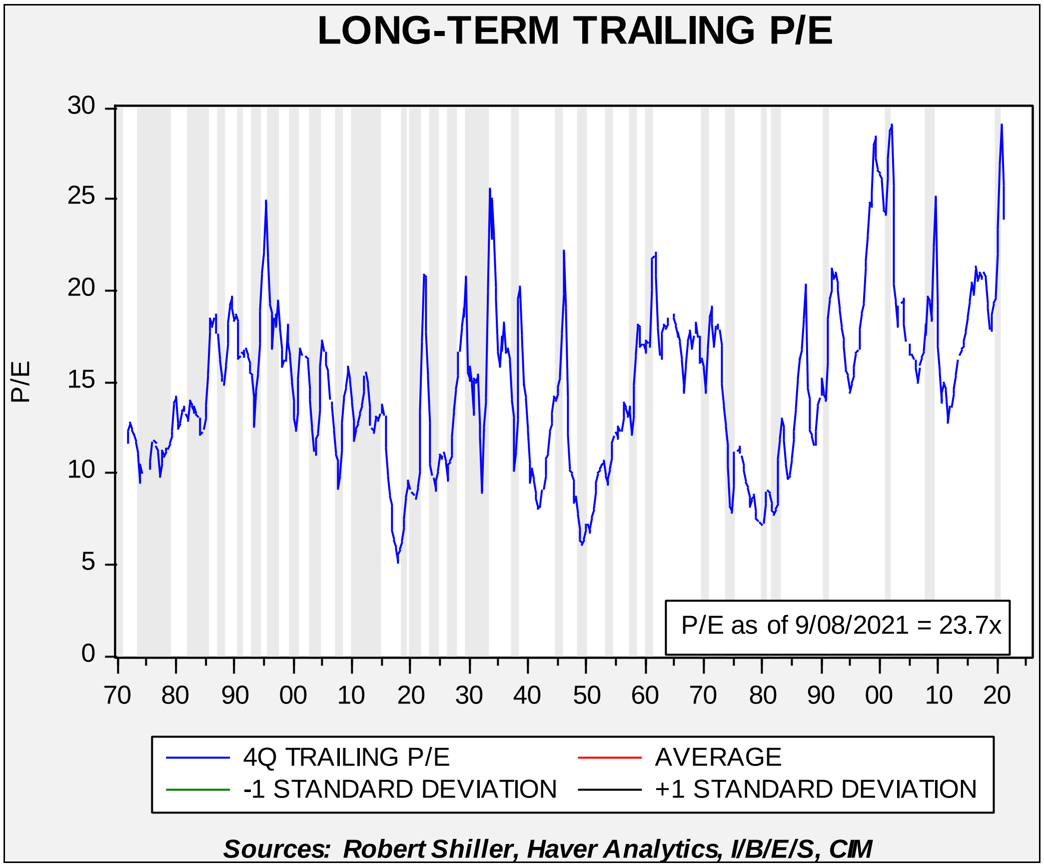


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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

September 9, 2021



Based on our methodology,[1] the current P/E is 23.7x, up 0.1x from last week. Higher index values led to the rise in the multiple.

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.

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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 (Q4, Q1 and Q2) and one estimate (Q3). 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.