

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 8, 2021—9:30 AM EDT] Global equity markets are mixed this morning. In Europe, the EuroStoxx 50 is currently down 0.5% from its prior close. In Asia, the MSCI Asia Apex 50 closed down 0.4%. Chinese markets were mixed, with the Shanghai Composite unchanged from its prior close and the Shenzhen Composite up 0.1%. U.S. equity index futures are signaling a slightly lower 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](#) (9/2/2021): OPEC+ increases output as expected, and we begin tracking the impact of Hurricane Ida
- [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](#) (9/3/2021) (no [podcast](#) episode this week): we look at profits relative to GDP and whether the surge in profits is sustainable
- [Confluence of Ideas podcast](#) (7/7/2021): “The Geopolitics of Taiwan and the Issue of Globalization”

Today’s *Comment* begins with a wide range of developments regarding U.S. monetary, fiscal, and regulatory policy. We then move to global technology company regulation and other key foreign developments that could drive the financial markets today. We conclude with the latest news related to the coronavirus pandemic.

U.S. Monetary Policy: St. Louis FRB President Bullard yesterday [said the Fed should soon dial back its asset purchase program despite the big slowdown in payroll growth reported last week](#). According to Bullard, “There is plenty of demand for workers, and there are more job openings than there are unemployed workers . . . The big picture is that the taper will get going this year and will end sometime by the first half of next year.”

- Bullard’s statement illustrates how Chair Powell is coming under increasing pressure to pull back the Fed’s massive pandemic stimulus policies as the economy continues to recover.
- In fact, our analysis increasingly convinces us that the current economic recovery is more like the strong pre-1990 recoveries than the long, slow, drawn-out recoveries after 1990. If so, monetary policy probably should be normalized more quickly than Powell intends.

By deftly separating the issue of near-term tapering from rate hikes in the future, Powell's Jackson Hole speech may give him the leeway to thread the needle by launching a tapering program somewhat earlier than he originally planned but still pushing rate hikes farther out into the future.

U.S. Fiscal Policy: President Biden [has asked Congress for \\$30 billion in extra funding to tackle the impact of the hurricanes, floods, and wildfires](#) that hit the U.S. over the past 18 months. About \$10 billion would cover the cost of the government's response to Hurricane Ida, while \$14 billion would cover the costs of earlier extreme weather events. In addition to the disaster relief, the White House added it would also need \$6.4 billion in funding to aid Afghan refugees. The request will likely further complicate the passage of Biden's proposed programs related to infrastructure, poverty, and climate change.

U.S. Cryptocurrency Regulation: Coinbase (COIN, \$266.81) [said the SEC has threatened to sue the company if it launches its proposed digital asset lending product](#) called Lend. The cryptocurrency trading platform also said the SEC has issued subpoenas requiring it to provide more information on the product, which it considers a security. At the same time, Coinbase and other companies have complained that the SEC isn't explaining exactly why it sees their products as securities subject to regulation. In any case, the situation highlights the growing regulatory scrutiny of cryptocurrencies and the bureaucratic struggle to be their primary regulator.

Global Technology Industry: At a parliamentary forum this week, South Korean lawmakers [warned large technology companies that they should be careful not to abuse their market dominance in the pursuit of profits](#). Not only did the warning spark a sharp drop in the shares of South Korea's top social media companies, but it also suggests that other countries may follow Beijing's lead in cracking down on the power of big tech firms. As we have mentioned before, we see a significant rise in antimonopoly and other regulatory risks targeting technology companies worldwide.

United States-China: The U.S. Navy today [conducted a freedom-of-navigation operation](#) by sailing a warship, the guided-missile destroyer USS Benfold, near a Chinese-controlled island in the disputed South China Sea. It was the first such operation since Beijing began implementing a law that requires foreign vessels to give notice before entering waters it claims. As might be expected, China's military lambasted the operation as the latest proof of the United States' "militarization of the South China Sea," adding that it had tracked the vessel and warned it off.

Mexico: A powerful earthquake registering 7.1 on the Richter scale [struck southeast of Acapulco last night](#), causing at least one death and some property damage. However, reports so far suggest the temblor has caused no major damage.

Brazil: More than 100,000 Brazilians staged street rallies yesterday in a mass show of support for right-wing President Bolsonaro, ahead of elections next year where he will face a surging leftist challenger. Despite Bolsonaro's continued drop in preference polls as Brazil battles the coronavirus pandemic and the president fends off corruption charges, his supporters gathered in

the streets of São Paulo and more than 100 other cities to disparage Bolsonaro's political opponents, communists, Congress, and the courts.

Afghanistan: The Taliban [finally revealed a new government](#) in a hastily called nighttime press conference. The Taliban's supreme leader, Hibatullah Akhundzada, retains overall oversight of state affairs; the new prime minister will be Mullah Hassan Akhund, who served as foreign minister in the previous Islamic Emirate until the U.S. invasion in 2001.

- In an appointment that would complicate any recognition of the new government by Western nations, Sirajuddin Haqqani, designated a global terrorist by the U.S. because of close links between al Qaeda and the Haqqani network that he heads, was named minister of interior, with oversight of Afghanistan's police and internal security.
- The new government includes no women or members of the Shiite minority, despite the Taliban's repeated assurances to foreign governments and fellow Afghans that they would establish an inclusive government that represents all parts of the Afghan society.

COVID-19: Official data show confirmed cases [have risen to 222,042,024 worldwide, with 4,588,950 deaths](#). In the United States, confirmed cases rose to 40,282,910, with 650,691 deaths. [Vaccine doses delivered in the U.S. now total 450,122,155, while the number of people who have received at least their first shot totals 207,589,611](#). Finally, here is the [interactive chart](#) from the *Financial Times* that allows you to compare cases and deaths among countries, scaled by population.

Virology

- According to the latest CDC data, 62.5% of the U.S. population has now received at least one dose of a vaccine, and 53.2% of the population is fully vaccinated.
- Hundreds of civil society groups [are demanding the postponement of a UN climate change conference scheduled for November in Scotland](#) because the U.K. government has been too slow in providing vaccines to delegates. The COP26 meeting has already been delayed a year by the pandemic.
- In Japan, the government [plans to relax COVID-19 curbs on travel, large-scale events, and the serving of alcohol only around November](#) and subject to people being mostly vaccinated by then. The timeline illustrates how long the new Delta wave of infections could delay the budding economic recovery in some countries.

Economic and Financial Market Impacts

- In a sign that the Delta variant of COVID-19 is curtailing previously strong demand for restaurant, salon, and other in-person service positions, postings on job-search site Indeed.com [began to plateau in August](#).
 - According to the company, postings were up about 39% at the end of August from February 2020, ahead of the pandemic. However, that was only a modest gain from the comparable week of July, when postings were up 37% from February 2020.

- The August gain was largely driven by increased demand for jobs that can be done from home, such as software development. Postings for childcare fell, and openings in construction and at restaurants rose only slightly.
- Despite the apparent plateau in U.S. hiring in late summer, the overall economic recovery continues. Commodity markets [are nevertheless showing a wide disparity in performance](#) due to unusual factors like policy changes in China and global supply disruptions.

U.S. Economic Releases

During the week ending September 3, mortgage applications fell for the second consecutive week, according to the Mortgage Brokers Association. Overall, the MBA mortgage applications index fell 1.9% from the prior week. The decline in the index was led by refinancing, which made up 66.8% of the mortgage applications filed last week. The index for refinancing fell 2.8% from the previous week, while the index for home purchases fell 0.2%. The average 30-year fixed-rate mortgage remained unchanged from the prior week at 3.03%.

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	JOLTS Job Openings	m/m	Jul	10073k	10049k	**
15:00	Consumer Credit	m/m	Jul	\$37.690b	\$25.000b	**
Fed Speakers or Events						
EST	Speaker or event	District or position				
13:10	John Williams Discusses Economic Outlook	President of the Federal Reserve Bank of New York				
14:00	Federal Reserve Releases Beige Book	Federal Reserve Board				
18:00	Robert Kaplan Holds Virtual Townhall	President of the Federal Reserve Bank of Dallas				

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	Bank Lending Incl Trusts	y/y	Aug	0.6%	1.0%		**	Equity and bond neutral
	Bank Lending Ex-Trusts	y/y	Aug	0.3%	0.5%		**	Equity and bond neutral
	BoP Current Account Balance	m/m	Jul	¥1910.8b	¥905.1b	¥2288.2b	**	Equity and bond neutral
	GDP SA	q/q	2Q F	0.5%	0.3%	0.4%	***	Equity and bond neutral
	Bankruptcies	y/y	Aug	-30.1%	-39.7%		**	Equity and bond neutral
	Eco Watchers Survey Current SA	m/m	Aug	34.7	48.4	45.0	***	Equity and bond neutral
	Eco Watchers Survey Outlook SA	m/m	Aug	43.7	48.4	46.2	***	Equity and bond neutral
EUROPE								
France	Private Sector Payrolls	q/q	2Q	1.4%	1.2%	1.2%	**	Equity bullish, bond bearish
	Total Payrolls	q/q	2Q	1.1%	0.3%	1.0%	**	Equity bullish, bond bearish
	Trade Balance	m/m	Jul	-6957m	-5819m	-6147m	**	Equity and bond neutral
	Current Account Balance	m/m	Jul	-3.5b	-0.5b		**	Equity and bond neutral
Italy	Retail Sales	m/m	Jul	-0.4%	0.7%	-0.2%	**	Equity bearish, bond bullish
Russia	Official Reserve Assets	m/m	Aug	618.2b	601.0b	607.8b	*	Equity bullish, bond bearish
AMERICAS								
Mexico	International Reserves Weekly	w/w	3-Sep	\$205559m	\$205391m		*	Equity bullish, bond bearish
Brazil	FGV Inflation IGP-DI	m/m	Aug	-0.14%	1.45%	0.05%	**	Equity bullish, bond bearish
	FGV CPI IPC-S	w/w	7-Sep	0.91%	0.71%	0.75%	**	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)	11	12	-1	Down
3-mo T-bill yield (bps)	3	4	-1	Neutral
TED spread (bps)	8	7	1	Neutral
U.S. Libor/OIS spread (bps)	7	7	0	Down
10-yr T-note (%)	1.35	1.37	-0.02	Down
Euribor/OIS spread (bps)	-54	-55	1	Neutral
EUR/USD 3-mo swap (bps)	5	4	1	Down
Currencies	Direction			
dollar	Up			Down
euro	Down			Up
yen	Up			Neutral
pound	Down			Neutral
franc	Down			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.

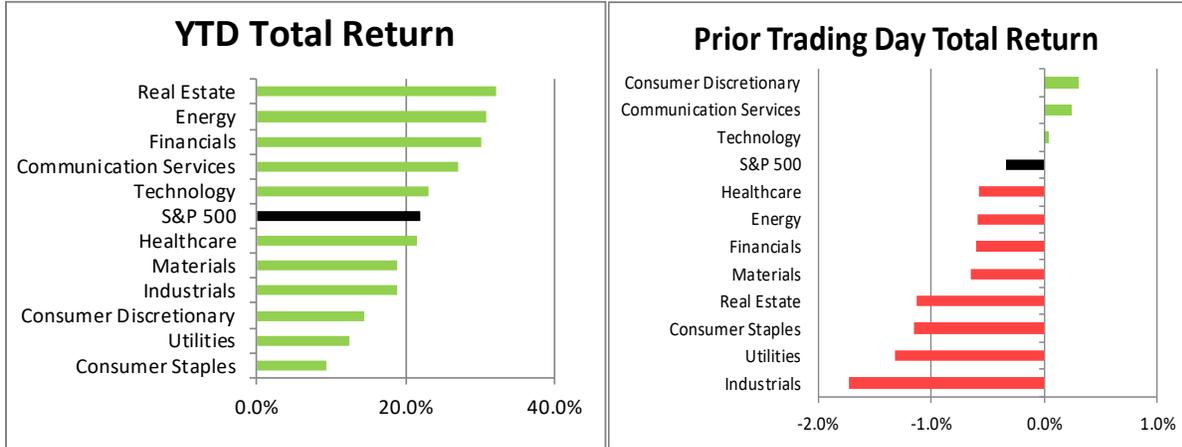
	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$72.50	\$71.69	1.13%	Hurricane Ida
WTI	\$69.28	\$68.35	1.36%	
Natural Gas	\$4.65	\$4.57	1.82%	
Crack Spread	\$20.98	\$21.00	-0.09%	
12-mo strip crack	\$20.39	\$20.42	-0.14%	
Ethanol rack	\$2.54	\$2.51	1.27%	
Metals				
Gold	\$1,798.02	\$1,794.36	0.20%	
Silver	\$24.32	\$24.32	0.01%	
Copper contract	\$423.35	\$428.15	-1.12%	
Grains				
Corn contract	\$515.00	\$510.75	0.83%	
Wheat contract	\$720.50	\$719.75	0.10%	
Soybeans contract	\$1,284.75	\$1,277.00	0.61%	
Shipping				
Baltic Dry Freight	3,707	3,822	-115	
DOE inventory report				
	Actual	Expected	Difference	
Crude (mb)		-6.0		
Gasoline (mb)		-3.7		
Distillates (mb)		-3.8		
Refinery run rates (%)		-5.5%		

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 North Pacific region. The forecast calls for wetter-than-normal conditions throughout the Mississippi Valley and the Midwest region. There are currently two cyclonic disturbances far out in the Atlantic Ocean. One has developed into Hurricane Larry and is moving northwestwardly toward Newfoundland. There is another disturbance in the Gulf of Mexico. At this time, it is unclear whether it will develop into a tropical storm within the next 48 hours. On average, hurricane activity peaks on September 10.

Data Section

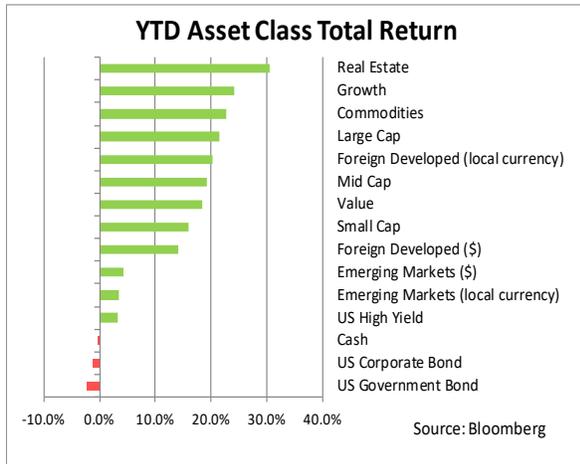
U.S. Equity Markets – (as of 9/7/2021 close)



(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 9/7/2021 close)

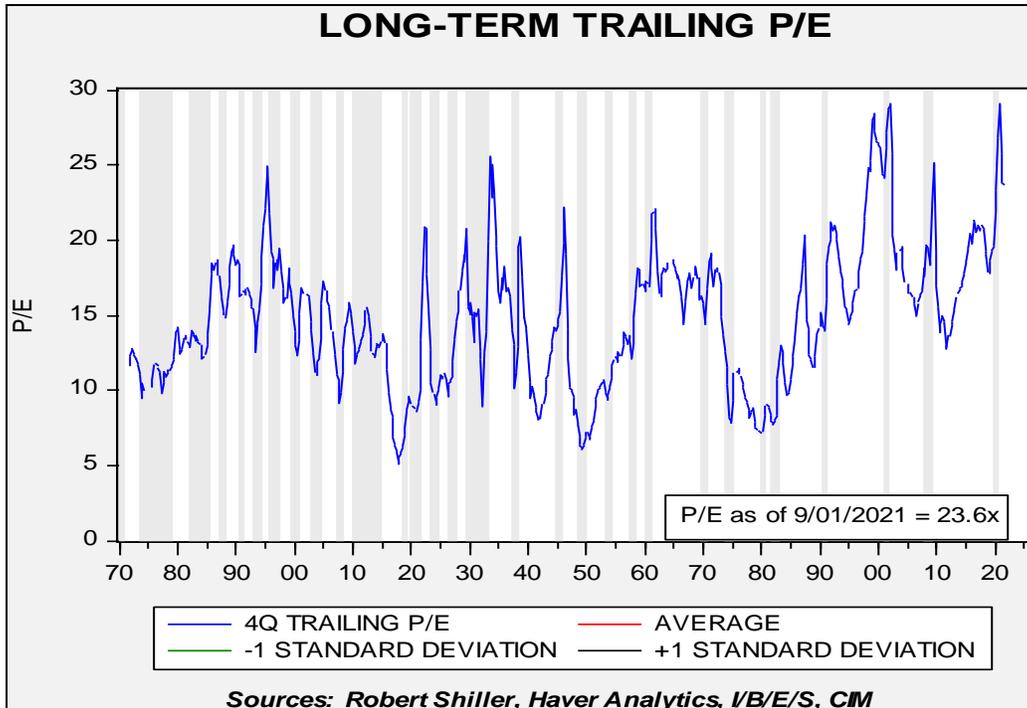


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

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 2, 2021



Based on our methodology,¹ the current P/E is 23.6x, 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.

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.