WEEKLY ECONOMIC UPDATE JULY 22, 2024

Stocks were under pressure last week as investors appeared to rotate out of mega-cap tech stocks and into areas that may benefit from lower interest rates.

The Standard & Poor's 500 Index fell 1.97 percent, while Nasdaq Composite Index declined 3.65 percent. The Dow Jones Industrial Average bucked the downward trend, up 0.72 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, slid 1.48 percent for the week through Thursday's close.[1]

Dow Leads Again

The week began very differently than it ended.
All three averages rallied over the first couple of days this week, with the Dow leading on both days. Fed Chair Powell indicated the Fed may not wait for inflation to reach its 2 percent target before considering a rate move, buoying the markets.[2,3]

Then, markets hit a speed bump as investors appeared to take profits and rotated away from mega-cap tech names. The selling broadened beyond tech-related names on Thursday as all but one of the S&P 500's 11 sectors fell.
Early Friday morning, a global tech outage caused disruptions for businesses, governments, and financial institutions, contributing to the weekly decline. Despite its losses in the second part of the week, the Dow finished in the green.[4,5,6]

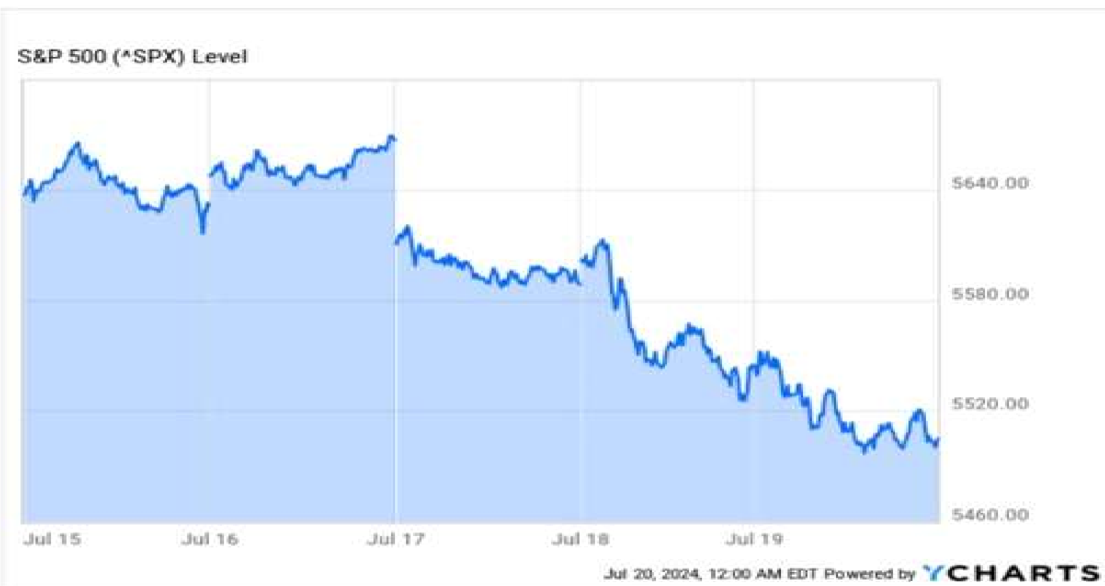
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	4.78%	9.00%	18.74%	65.97%
MSCI EAFE	2.86%	8.88%	12.37%	45.46%
Nasdaq Composite	0.08%	19.51%	25.47%	126.9%
S&P 500	1.13%	17.13%	23.56%	100.9%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 07/19/24	4.25%	4.22% 4.62% 3.75%	0.71% ▲ -8.01% ▼ 13.33% ▲

Upbeat Economic Data

Although stocks were under pressure, some investors saw "green shoots" in a few economic reports. Housing starts rose 3 percent in June. Building permits also ticked higher during the month. Retail sales were unchanged in June, which was better than expected. Investors were encouraged that consumers were still spending despite ongoing inflation.[7,8]

This Week: Key Economic Data

Tuesday: Existing Home Sales.

Wednesday: New Home Sales. Survey of Business Uncertainty.

Thursday: Gross Domestic Product (GDP). Durable Goods. International Trade in Goods. Jobless Claims.

Friday: Personal Income and Outlays. Consumer Sentiment.

"Modesty, repentance and responsibility cannot easily strike root in ground where everything is done 'on principle."

– Soren Kierkegaard, "The Present Age" (1846)

Of Note

Between politics (driven by self rather than public servants), markets (driven by debt rather than profits) and currencies (diluted by over-creation rather than chaperoned by a real asset), it is fair to say we live in not interesting but surreal times.

But amidst the surreal, the dollar, as many believe, is our rock, our immortal albeit often unloved constant.
Whatever one thinks of the dollar, we can't deny its centrifugal force, exorbitant privilege and entirely unequaled market power (from the current SWIFT and Eurodollar systems to the derivative and petrodollar markets).
And even as broken, debased, inflated (and inflation-exporting) as the USD is, its place as a world reserve currency (with 80%+ of global FX transactions) is firm.
More importantly, the USD is a currency (base money) that only the Fed can print into existence and which the rest of the dollar-thirsty and dollar-indebted world (i.e. Eurodollar markets) can only lend into existence (like a second derivative credit currency) in a perpetual dollar-roulette of "debt and print" or "debt and lend."

This effectively makes the USD the world's base money (and denomination) for the vast majority of derivative global debt

instruments, which means everything else (including Eurodollar lending) is essentially just credit-related.
And because credit makes the $330T debt-world spin, the USD, by extension, makes the world spin.

In short, one might argue the USD is too big to fail, right? Given the baked-in global demand and credit role for this otherwise diluted super-dollar, the national and global system which it has ruled since 1944 will thus likely and only end (save for a miraculously peaceful Plaza Accord 2.0) in some form of what Brent Johnson rightfully described as "profound violence—economic and/or military."

But according to the dollar bulls, even a collapsing system and, hence, tanking US bond market, would send UST yields to the moon and, hence, the USD (ironically) even higher.
In short, no matter how some spin it—the dollar is king, and every central banker in DC knows this, right?

After all, such dollar realists have discovered the hard truth through the lens of realpolitik global finance: The dollar, love or hate it, is the base money of the global financial system and, as such, will be "the last to fall."

As for any return to a gold-backed dollar, those same realists would remind us of the infamous 1896 "Cross of Gold" case laid out by William Jennings Bryan, who warned that with a dollar tied to gold, credit would eventually tighten to such levels that the average citizen and small business would be left bleeding credit-dry in the streets.

Furthermore, there's the equally realistic stance that no country would want to be tied to a gold chaperone (or "standard") for long, as this would only impede their sovereign ability to mouse-click their own currencies into existence when needed (i.e., whenever backed into a self-created debt wall).

Money, and hence the USD, they ruefully conclude, will therefore be whatever the strongest country on the block says it is, and like it or not, the US and USD are still flexing the strongest biceps in the global neighborhood, right?
But each of the foregoing (and reasonable) conclusions only hold true if one assumes that the US is and remains the strongest bully (and money) on the block.

The evidence of history, however, which is dynamic rather than static, may suggest otherwise.

For now, however, the dollar matters most to many.
China, Russia, or India, for example, may be important, but few of us can or would predict that the yuan, ruble, or rupee will replace the greenback.

So again, the USD will remain the king of liquidity.

And even for those who take de-dollarization seriously, will the BRICS+ nations really be able to agree to a gold-backed BRICS+ currency redeemable in, say, Moscow or Shanghai? We have our doubts—for the simple reason that as much as the BRICS+ nations collectively distrust the now weaponized

USD, they don't trust each other enough to relinquish their option to print their own currencies at will.

But that doesn't end the discussion on gold's new and rising role in a changing dollar/world. Debating a gold-backed new currency or "end of the dollar" drama thesis is missing the bullseye.

The facts and evolving history of today and tomorrow suggest that the real story is not about replacing the dollar, but simply going around it in a new price direction paved in both black and real gold.

Toward that end, look at what the rest of the world and its central banks are doing, not what they (or our financial leadership) are saying:

• Since 2008's GFC, Putin has been hording gold;
• Since 2014, global central banks have been net-sellers of USTs and net buyers of physical gold;
• In 2023, 20% of global oil sales were outside of the USD;
• Despite being pegged to the USD, Saudi Arabia, the UAE, and other GCC nations' favorite import out of Switzerland this year is physical gold;
• More than 44 nations are currently executing trade settlements outside of the USD;
• Both Japan and China, historically the most reliable buyers of Uncle Sam's IOUs, are now dumping billions and billions worth of them;
• Russia is the world's greatest commodity exporter, and China is the world's greatest commodity importer—and they

like each other far more than they do Biden or the next White House resident; more importantly, it is a matter of national survival for China to buy oil outside the USD;

• Russia is now selling oil to China in yuan, which the Russians then use to buy Chinese goods (once made in America); thereafter, any delta in the trade is net settled in gold (not dollars) on the Shanghai Exchange. This, folks, is BRICS scalable (think India…);

• Between swap lines, the CIPS alternative to the SWIFT system and rising negotiations between Gulf oil nations and other BRICS+ big-whigs, the current move away from dollar-denominated oil trades is real rather than imaginary;

• Given the growing decline of physical gold and silver levels in the New York and London exchanges, they can no longer price fix gold as in the days of yore, nor can they justify a different 200 moving day gold price than one more fairly priced in China's exchange;

• The BRICS+ nations are no longer USD pawns but rising rooks. Their share of global GDP is surpassing that of the G-7;

• In 2023, the Bank of International Settlements declared physical gold a tier-one asset alongside the 10Y UST;

• Nations are openly (and naturally) preferring gold as a reserve asset over the other "tier-one" option–a dollar-based IOU of "risk-free-return," which by any honest (current and future) measure of inflation offers a negative real yield, in other words: "return-free-risk;"

• No matter how enamored the green crowd is of ESG, we are decades and decades (as well as trillions and trillions) away from carbon-neutral, and like it or not, energy matters and fossil fuels literally fuel the world;

• China and India each have populations of over 1.4B. If oil demand increases even slightly in either of these BRICS countries, oil prices in rupees and yuan (and every other fiat currency) will explode—and two of the biggest players in the oil space don't want to use dollars to pay for it. Instead, they'd prefer to net settle their oil and gas in gold, which buys more energy than dollars can;
• Given that the annual production capacity for oil is 12-15X that of global gold, and with gold increasingly becoming the favored oil payment, gold's price relative to oil can only go up;
• This explains why gold is openly (not theoretically) becoming a more trusted reserve asset than the UST:

In short, Energy matters, and rather than the USD being the base layer of money (see above), energy very well could be. And THAT, folks, is how a system changes "violently and or militarily," as most US direct and proxy wars have something to do with...oil.

And that oil, by the way, is increasingly being net-settled in gold—day by day, and minute by minute, for the simple reason that history is like a hockey puck: You play where it is headed (gold), not where it sits (the USD).[9]

Footnotes And Sources

1. The Wall Street Journal, July 19, 2024
2. CNBC.com, July 15, 2024
3. CNBC.com, July 16, 2024
4. MarketWatch.com, July 17, 2024
5. CNBC.com, July 18, 2024
6. The Wall Street Journal, July 19, 2024

7. KPMG.com, July 17, 2024

8. AP.com, July 16, 2024

9. zerohedge.com/markets/usd-really-too-big-fail