WEEKLY ECONOMIC UPDATE OCT. 14, 2024

Stocks advanced last week despite mixed inflation data, lurching oil prices, and lingering anxiety about the Middle East.

The Standard & Poor's 500 Index gained 1.11 percent, while the Nasdaq Composite rose 1.13 percent. The Dow Jones Industrial Average picked up 1.21 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, added 0.23 percent.[1,2]

Up And Down Week

Stocks slipped on Monday as oil continued to rise but moved higher on Tuesday as the technology sector showed the way. Oil prices fell back as investors took a wait-and-see stance concerning Middle East tensions.[3]

The S&P 500 and Dow Industrials hit fresh record highs on Wednesday but dipped Thursday morning after the latest Consumer Price Index (CPI) data showed inflation was warmer than expected.[4,5]

Earnings season kicked off Friday, and update reports from a few money center banks injected some enthusiasm into markets. Also, the Producer Price Index (PPI) report showed wholesale prices stayed flat last month, a welcomed update for investors. All three averages closed higher for the fifth consecutive week.[6]

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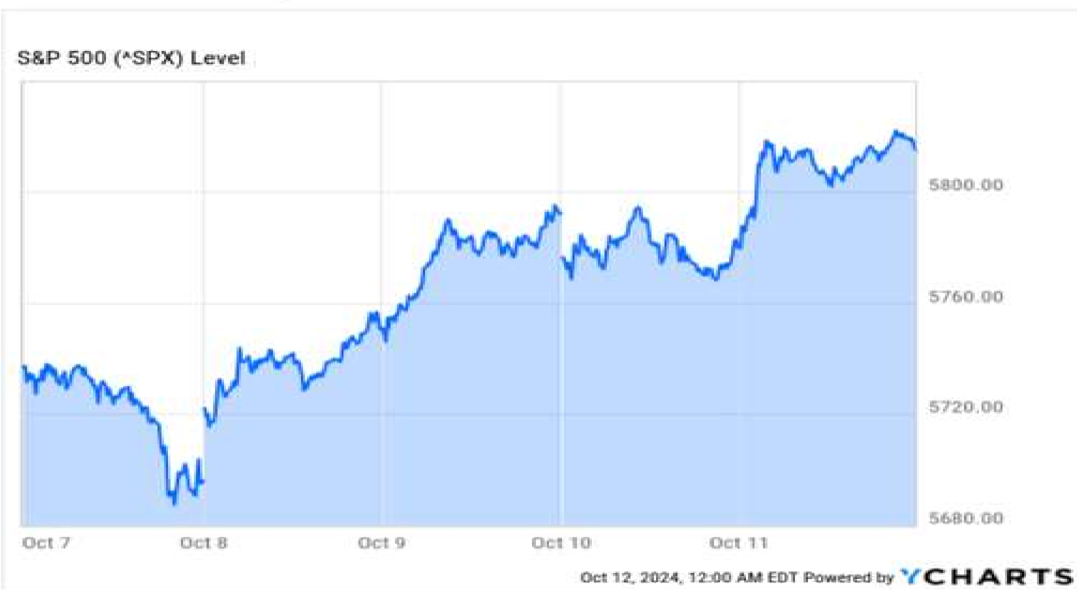
Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	4.33%	14.32%	28.33%	77.79%
MSCI EAFE	2.29%	10.81%	22.01%	50.39%
Nasdaq Composite	7.43%	22.48%	35.82%	139.4%
S&P 500	5.30%	22.51%	34.57%	113.2%

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 10/11/24	4.08%	3.65% 4.20% 4.58%	11.78% ▲ -2.86% ▼ -10.92% ▼

Inflation Moves Markets
Despite news that showed retail inflation continued to decelerate in September, anxious investors focused on the fact that CPI came in slightly warmer than economists expected for September. Meanwhile, Friday's PPI reading came in slightly better than economists expected, adding a layer of complexity for the Fed as it evaluates the inflation story.[7,8]

This Week: Key Economic Data
Monday: Fed Official Christopher Waller speaks.
Tuesday: Fed Official Adriana Kugler speaks.
Wednesday: Import and Export Prices. API Weekly Oil Stocks.
Thursday: Retail Sales. Industrial Production. EIA Petroleum Status Report. Weekly Jobless Claims. Fed Official Austan Goolsbee speaks.
Friday: Housing Starts and Permits.

Quote of the Week

"Kindness is the language the deaf can hear and the blind can see."

– Mark Twain

Of Note

Over the past century, monetary systems change about every 30–40 years on average. Before 1914, the global monetary system was based on the classical gold standard. Then in 1944, a new monetary system emerged at Bretton Woods. Under that system, the dollar became the global reserve currency, linked to gold at $35 per ounce. In 1971 Nixon ended the direct convertibility of the dollar to gold. For the first time, the monetary system had no gold backing. Today, the existing monetary system is over 50 years old, so the world is overdue for a change.

Ove the years, different nations' have made persistent efforts to dethrone the U.S. dollar as the leading global reserve currency and the main medium of exchange. At the same time, such processes don't happen overnight; instead, they happen slowly and incrementally over decades.
While that's true, the process is accelerating in ways no one could have anticipated before the Russian invasion of Ukraine in February 2022. In response, the U.S. initiated the most aggressive sanctions regime ever in its efforts to punish Russia for invading Ukraine.

The first round of financial targets included obvious attacks such as freezing the U.S. dollar accounts of Russian banks and oligarchs. The second round raised the ante by freezing the dollar accounts of the Central Bank of Russia itself. This was unprecedented except in the case of rogue states such as Iran, North Korea and Syria.

Suddenly the central bank of the world's ninth-largest economy and third-largest oil producer with over $2.1 trillion in GDP found itself shut out of the global payments and banking systems.

The sanctions went beyond finance and banking to include bans on Russian exports, freezing Russia out of insurance markets (as a way to effectively prohibit oil shipments) and bans on critical exports to Russia including high-tech equipment, semiconductors and popular consumer goods. Major U.S. and other Western companies from Shell Oil to McDonald's were pressured to shut down operations in Russia, and many did. But a large part of the world refused to join the U.S./EU/NATO financial sanctions. It's not that countries around the world necessarily supported Russia's invasion. It's just that they didn't want U.S. sanctions to disrupt their trading relationships with Russia, which they depend on.

They weren't willing to harm their economies over a conflict that has no bearing on them, on the other side of the world in many instances. Look at India and China. They're the biggest buyers of the oil that Russia might otherwise have sold to Europe. China itself is selling automobiles, semiconductors and machinery to Russia.

Meanwhile, Turkey has greatly expanded its exports to Russia, while Iran is selling weapons to Russia including "kamikaze" drones that act like slow-motion cruise missiles that can linger over targets.

And importantly, the more other economies trade with Russia, the less any of them will need U.S. dollars as a medium of exchange. So the U.S. sanctions have not only failed, but they've also contributed to the long-term decline of the dollar as the world's leading payment currency. They're also driving countries away from using dollars in international transactions for fear that they could become the next target of U.S. displeasure.

Almost 10 years ago, the author sat in a secure conference room at the Pentagon and explained to a group of U.S. national security officials from the military, CIA, Treasury and other agencies that the overuse of the U.S. dollar in financial warfare would eventually compel nations to seek dollar alternatives. Some took note, some ignored the warning, and one Treasury official slammed the table and said, "The dollar has been the global reserve currency, it is the global reserve currency now and it always will be the global reserve currency!" This reaction was somewhat like what occurred in Whitehall in London in 1913 listening to John Bull say the same thing about sterling. Sterling would begin to be pushed aside by the dollar just one year later with the start of World War I.

U.S. financial sanctions will not have a material impact on Russia, nor will they cause Russia to change its behavior in

Ukraine. The U.S. will likely suffer more from its own sanctions than Russia because adversaries and neutral countries will create alternative payment platforms that don't use dollars.

Other countries may not destroy the dollar, but we can do it ourselves. We are our own worst enemy. We're destroying the dollar with sanctions and through other misguided policies. The U.S. is doing more to destroy the dollar than our enemies.

Efforts to establish a dollar alternative will see major advances made at the BRICS leaders' summit in Kazan, Russian Federation on Oct. 22–24. The BRICS summit will announce new members, which is important because expanding membership is the key predicate to launching a viable payment currency. It'll drive the group closer to the critical mass needed to launch a currency union.
The process will unfold over time, and the dollar won't be displaced in the immediate future. But the trend away from the dollar is definitely underway. The building de-dollarization movement represents a global sea change, which will only accelerate in the coming years.
But it's long overdue. If you want a historical parallel to how the dollar will fall, look to the U.K. pound sterling. Many observers assume the 1944 Bretton Woods conference was the moment the U.S. dollar replaced sterling as the world's leading reserve currency. But that replacement of sterling by the dollar as the world's leading reserve currency was a process that took 30 years, from 1914–1944.

The 1944 Bretton Woods conference was merely recognition of a process of dollar reserve dominance that was decades in the making. As with the pound sterling, slippage in the dollar's role as the leading global reserve currency is not necessarily something that will happen overnight.
But the unprecedented dollar sanctions against Russia have hastened the process. So after 80 years under the Bretton Woods arrangements, 53 years since Nixon closed the gold window and 50 years since the petrodollar agreement with Saudi Arabia, the reign of King Dollar as the world's leading payment currency is coming to an end.

And although the process will likely be relatively gradual, no investor should be surprised if it happens sooner rather than later. It's like the quote from Ernest Hemingway's 1926 novel The Sun Also Rises. One of the characters asks, "How did you go bankrupt?" The response: "Two ways, gradually and then suddenly." The dollar could lose its reserve status gradually — then suddenly.[9]

Footnotes and Sources

1. The Wall Street Journal, October 11, 2024
2. Investing.com, October 11, 2024
3. CNBC.com, October 8, 2024
4. MarketWatch.com, October 9, 2024
5. The Wall Street Journal, October 10, 2024
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8. MarketWatch.com, October 11, 2024
9. zerohedge.com/economics/gradually-then-suddenly