WEEKLY ECONOMIC UPDATE OCT. 28, 2024

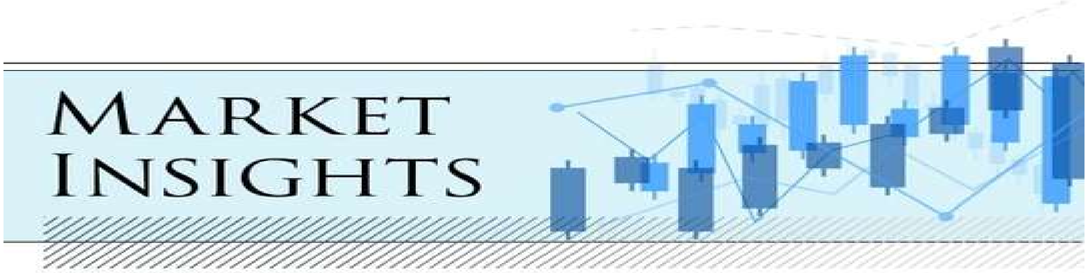
Stocks were mixed last week as fresh economic data points and election-related uncertainty slowed market momentum. The Standard & Poor's 500 Index fell 0.96 percent, while the Nasdaq Composite Index rose 0.16 percent. The Dow Jones Industrial Average dropped 2.68 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, slid 2.30 percent.[1,2]

Nasdaq Leads

Stocks were mixed for the first half of the week as investors geared up for a steady stream of Q3 reports. The 10-year Treasury yield continued to trend higher, which caught the attention of some traders.

Markets fell Wednesday morning with news that existing home sales fell to a 14-year low in October; still slowed by higher interest rates, sales are on track for their worst year since 1995. Also, pre-election jitters remained an undertow with traders.[3,4,5]

News that durable goods orders rose in September buoyed sentiment a bit. At Friday's close, the Nasdaq, fueled by technology names, marked its seventh consecutive week of gains but the S&P 500 broke its 6-week winning streak.[6,7]



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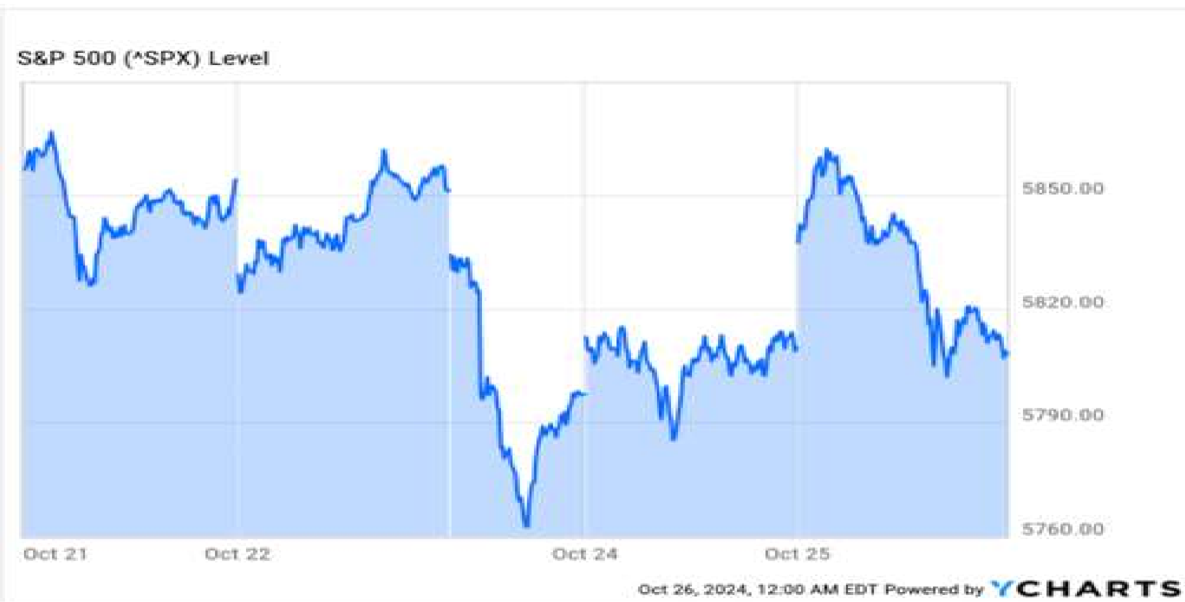
Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	0.48%	14.15%	30.39%	75.39%
MSCI EAFE	-3.29%	8.57%	24.10%	41.29%
Nasdaq Composite	1.91%	23.37%	41.21%	134.2%
S&P 500	1.43%	23.17%	38.77%	109.1%

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 10/25/24	4.25%	3.79% 4.27% 4.95%	12.14% ▲ -0.47% ▼ -14.14% ▼

Election Focus

With the election cycle in full swing, some traders appear to be preparing for an uptick in volatility in the coming weeks. In late August, nearly 90 percent of stock traded above their 20-day moving average. However, that momentum has slowed. On Tuesday, Standard & Poor's reported that the number of stocks above their 20-day moving average fell to nearly 50 percent. Traders may be moving to more of a "risk off" position ahead of November 5.[8]

This Week: Key Economic Data
Tuesday: International Trade in Goods. Consumer Confidence. Case-Shiller Home Price Index.
Wednesday: Gross Domestic Product. Treasury Refunding Announcement. Pending Home Sales. ADP Employment Report.
Thursday: Personal Income and Outlays.
Friday: Employment Situation. ISM Manufacturing Index.

"You know how advice is. You only want it if it agrees with what you wanted to do anyway."

– John Steinbeck

Of Note

Janet Yellen gave a speech on Sept. 26 at the 2024 U.S. Treasury Market Conference in New York. The speech was largely about risks in the banking system and the market for U.S. Treasury debt.

In a pre-speech interview with Politico, Yellen was asked about risks related to a smooth presidential transition in this election cycle. Yellen replied, “It really is essential to our having a democratic system and a democratic government, and one of the tremendous strengths of our financial system is that it is based on strong institutions and the rule of law.” The irony is that Yellen herself is the greatest threat to the Treasury market through her persistent and illegal efforts to steal $300 billion in U.S. Treasury securities owned by the Central Bank of Russia and held in custody in U.S. and European banks and the Euroclear clearinghouse in Brussels.

That particular threat to steal the Russian securities to be used as backing for a loan to Ukraine has accelerated efforts of the BRICS and the Global South to move toward a new currency linked to gold that would initially compete with the dollar in global payments and eventually rival the dollar as a major global reserve currency.

Those efforts saw advances at the BRICS leaders' summit in Kazan, Russian Federation on Oct. 22–24 hosted by President Putin. The BRICS summit announced new members. That's important because expanding the membership is the key predicate to launching a viable payment currency.

A BRICS currency won't displace the dollar overnight, however. The original BRICs membership from 2009 consisted of Brazil, Russia, India and China. South Africa was added in 2010 when the group's name was changed to BRICS. That group expanded significantly at the 2023 Leaders' Summit in South Africa when Egypt, Ethiopia, Iran and the United Arab Emirates (UAE) were added. The BRICS has been active over the years in institutionalizing its initiatives.

In 2014, the BRICS created the New Development Bank (NDB), which functions along the lines of the World Bank to promote infrastructure development in emerging economies. The NDB was capitalized with over $100 billion from its members and currently has 53 projects underway with commitments of over $15 billion to those projects.
In 2015, the BRICS established the Contingent Reserve Arrangement (CRA), which acts as a swing lender to members experiencing temporary balance of payments difficulties. In this regard, the CRA functions somewhat like the International Monetary Fund. Between the NDB and the CRA, it is clear that BRICS are intentionally constructing

their own version of the Bretton Woods institutions but with their own controls and membership.

Beyond the nine current members, there's a waiting list of over 20 aspiring members including economic powers such as Nigeria, Venezuela, Indonesia, Malaysia, Turkey, Thailand and Vietnam. Current members Russia, UAE and Iran make BRICS an oil output heavyweight.

Russia, China and South Africa are among the world's largest gold producers. India and China alone have a combined population of 2.8 billion or 35% of the entire population of the globe.

The BRICS are part of an emerging Global South that is challenging the Collective West for world economic and geopolitical dominance.

The subject of a BRICS currency is confusing to most observers and is a fraught topic even for many experts. We'll call the potential currency a BRIC for convenience although no formal name has been announced.

The starting point is to distinguish between a payment currency and a reserve currency. A payment currency is used to settle purchases and sales of tradable goods and services. A reserve currency is the denomination of the currency in which national savings are invested, typically in U.S. Treasury securities or gold.

Some currencies perform both functions as reserve and payment currencies especially U.S. dollars and euros. A finance minister or central banker can move from one to the other; currencies earned can be invested as reserves or reserves can be sold to finance purchases.

Still, it's important to bear the distinction in mind when evaluating the use case for each currency, especially BRICs. Put differently, a flaw or deficiency in one usage does not preclude the other.

The BRICS currency is very far along in establishing itself as a viable payment currency. The prerequisites are: agreed-upon value (which can be fixed to another currency, floating or pegged to a weight of gold), secure payments channels (basically high-speed, encrypted digital pipes for authenticated message traffic), digital ledgers and an agreed issuer (the NDB based in Shanghai may be suitable for this purpose but another institution could be created).

The single most important element is a sufficiently large membership in the BRICS currency union such that a recipient of BRICS payments can use them for purchases in many jurisdictions for many goods and services.

This last point is where most alternative currency payments arrangements fall down. Russia can sell oil to China for yuan (which they are currently doing) but they are constrained in terms of where they can spend the yuan (basically limited to Chinese manufactured goods and semiconductors). The same issue arises when Russia sells oil to India (for rupees) or weapons to Iran (for rials). The seller is limited in terms of what they can buy with the trading partner's currency.

This constraint goes away in a currency union with 15 or 20 members or more. If Russia earns BRICs from China, they can buy Embraer aircraft from Brazil or semiconductors from Malaysia. For that matter, use of a payment currency in a multimember currency union is not limited to members. With access to the payment channels, non-members can nevertheless agree to receive the BRICS currency in payment confident in their ability to spend it among the other BRICS members who are trading partners. The proof of this is the eurozone, which is currently a 20-member currency union with a single central bank and worldwide acceptance of the euro.

Moving from a payment currency to a reserve currency is more difficult. The prerequisite here is a large, liquid bond market. That bond market has to be surrounded by extensive transactional and legal infrastructure including: securities at all maturities (30 days to 30 years), an underwriting system (primary dealers in the U.S.), an auction system for sales of new issues, a repo market to finance inventories, futures, options, other derivatives (swaps), settlement channels, custodians (DTCC, others), etc.

Above all, holders need a good rule of law regime on which to rely in the case of disputes or defaults. All of these elements exist in the reserve currency bond market nonpareil — the U.S. Treasury securities market. None of it exists in the form of a putative BRICS bond market. It would likely take 10 years or longer to create reserve currency infrastructure with the biggest single impediment being the rule of law.

That said, there are several interesting developments taking place. The first is that the U.S. is squandering its rule of law advantage with sanctions on Russia, the freezing of the assets of the Central Bank of Russia and efforts to actually steal those assets and convert them into a $50 billion loan to Ukraine using structured finance.

Given this rogue behavior by the U.S., countries are becoming more cautious about large U.S. Treasury note reserves. This may account in part for the recent rally in the price of gold.

At the BRICS summit, Russia announced significant progress in building out secure payments channels. The admission of new members will drive the group closer to the critical mass needed to launch a currency union.

Finally, the impact of Yellen's efforts to steal U.S. Treasury securities from Russia goes beyond the BRICS meeting and the rise of a new payment currency. Yellen's blatant theft from the Central Bank of Russia is a driving force behind the price of gold reaching new all-time highs recently. Central banks have been net buyers of gold since 2010, but the tempo of gold buying has increased as the U.S. rule of law under policymakers like Yellen begins to crumble.

Gold is a physical non-digital asset that cannot be stolen, frozen or seized provided it is in safe storage. Until the BRICS currency is ready, gold will be the asset of choice for foreign reserve managers faced with a rogue Treasury Secretary.

This behavior has turned into another driver in the downfall of the dollar and the U.S. Treasury market. This is one more example of short-term, self-defeating thinking by the White House and the U.S. Treasury.[9]

Footnotes and Sources

1. The Wall Street Journal, October 25, 2024
2. Investing.com, October 25, 2024
3. MarketWatch.com, October 23, 2024
4. The Wall Street Journal, October 23, 2024
5. The Wall Street Journal, October 23, 2024
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9. zerohedge.com/precious-metals/rickards-what-will-destroy-dollar