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In this week's recap: Markets rally; earnings better than expected.

Weekly Economic Update

Presented by Ed Papier, August 1, 2022

THE WEEK ON WALL STREET

Undaunted by another Fed rate hike and news of a contracting economy, the stock market rallied last week on better-than-expected corporate earnings.

The Dow Jones Industrial Average increased 2.97%, while the Standard & Poor's 500 picked up 4.26%. The Nasdaq Composite index gained 4.70% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, rose 0.95%. ^{1,2,3}

STOCKS RALLY ON EARNINGS

It was an inauspicious start to the week after a big-box retailer missed earnings and reduced forward guidance on Tuesday, sparking a broad market retreat.

But sentiment improved following mega-cap technology company earnings that proved better than expected. Enthusiasm gathered steam in the wake of the Fed's 0.75% rate hike, boosted by Fed Chair Powell's comments following Wednesday's Federal Open Market Committee meeting. Powell indicated that it might become appropriate to slow the pace of future hikes, and he didn't believe the economy had entered into recession. Stocks on Thursday shrugged off news of a second-consecutive quarter of negative economic growth to build on Wednesday's gains as fresh earnings continued to comfort, if not impress, investors. ⁴

ECONOMY CONTRACTS

The U.S. economy shrank at an annualized rate of 0.9% in the second quarter as consumers pulled back on spending and businesses worked to reduce inventories. It was the second-consecutive quarter of

negative economic growth, meeting the technical definition of a recession. Unlike past recessions, hiring has been strong all year, with the unemployment rate near historic lows. ⁵

The economic slowdown was attributable primarily to decreases in inventories, a deceleration in the housing market, and lower government spending. Consumer spending increased a tepid one percent, well below the inflation rate during the same period. ⁶

THE WEEK AHEAD: KEY ECONOMIC DATA

Monday: Institute for Supply Management (ISM) Manufacturing Index.

Tuesday: Job Openings and Labor Turnover Survey (JOLTS).

Wednesday: Automated Data Processing (ADP) Employment Report. Institute for Supply Management (ISM) Services Index. Factory Orders.

Thursday: Jobless Claims.

Friday: Employment Situation.

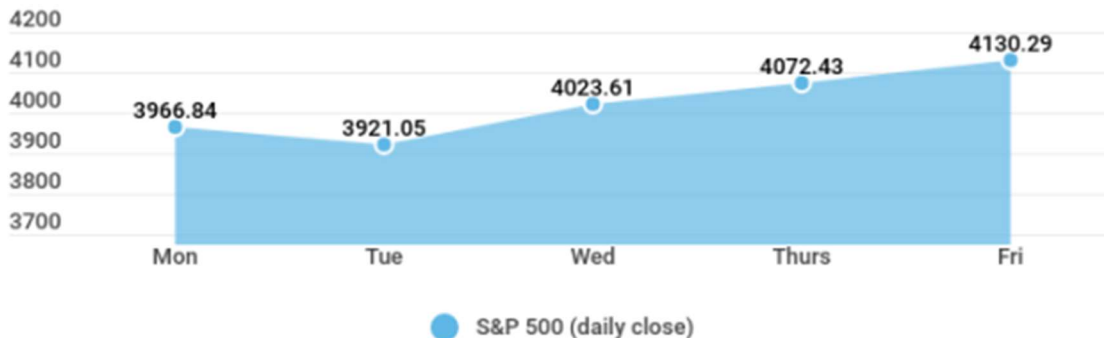
QUOTE OF THE WEEK



"Tolerance will reach such a level that intelligent people will be banned from thinking so as to not offend the imbeciles"

DOSTOEVSKY

Market Index	Close	Week	Y-T-D
DJIA	32,845.13	+2.97%	-9.61%
NASDAQ	12,390.69	+4.70%	-20.80%
MSCI-EAFE	1,915.34	+0.95%	-18.01%
S&P 500	4,130.29	+4.26%	-13.34%



	Treasury	Close	Week	Y-T-D
	10-Year Note	2.67%	-0.10%	+1.15%

Sources: The Wall Street Journal, July 29, 2022; Treasury.gov, July 29, 2022
 Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, July 22, to Friday, July 29, close. Weekly performance for the MSCI-EAFE is measured from Friday, July 22, open to Thursday, July 28, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

China and Russia are taking their shot at the U.S. dollar. And as often happens with consequential news in the United States and the West, no one seems to notice or even care. Since the beginning of the year, Russia and China have been challenging the US dollar's global reserve status.

It shouldn't be any surprise to those paying attention that Russia and China are strengthening their economic ties amidst continued Western sanctions on Russia as a result of the country's war in Ukraine. What may surprise some people, however, is that Russia and the BRICS countries, including Brazil, Russia, India, China, and South Africa, are officially working on their own "new global reserve currency," the Russian Times reported in late June.

"The issue of creating an international reserve currency based on a basket of currencies of our countries is being worked out," Vladimir Putin said at the BRICS business forum last month. And of course, as

Russia has been cut off from the SWIFT system, it is also pairing with China and the BRIC nations to develop "reliable alternative mechanisms for international payments" in order to "cut reliance on the Western financial system."

In the meantime, Russia is also taking other steps to strengthen the alliance between BRIC nations, including re-routing trade to China and India, according to CNN. President Vladimir Putin said recently that Russia is rerouting trade to "reliable international partners" such as Brazil, India, China and South Africa as the West attempts to sever economic ties. "We are actively engaged in reorienting our trade flows and foreign economic contacts towards reliable international partners, primarily the BRICS countries," Putin said in his opening video address to the participants of the virtual BRICS Summit.

In fact, "trade between Russia and the BRICS countries increased by 38% and reached \$45 billion in the first three months of the year" this year, the report says. Meanwhile, Russian crude sales to China have hit record numbers during Spring of this year, edging out Saudi Arabia as China's primary oil supplier. "Together with BRICS partners, we are developing reliable alternative mechanisms for international settlements," Putin said.

Putin continued, stating last month: "Contacts between Russian business circles and the business community of the BRICS countries have intensified. For example, negotiations are underway to open Indian chain stores in Russia and to increase the share of Chinese cars, equipment and hardware on our market."

In June, Putin also accused the West of ignoring "the basic principles of the market economy" such as free trade. "It undermines business interests on a global scale, negatively affecting the wellbeing of people, in effect, of all countries," he said.

President Xi echoed Putin's sentiments, according to a June writeup by Bloomberg: "Politicizing, instrumentalizing and weaponizing the world economy using a dominant position in the global financial system to wantonly impose sanctions would only hurt others as well as hurting oneself, leaving people around the world suffering. Those who obsess with a position of strength, expand their military alliance, and seek their own security at the expense of others will only fall into a security conundrum."

These developments support the belief of some that a gold backed global reserve currency is on its way. The largest shift on the global macroeconomic playing field over the last half century may be taking place. De-dollarization has been a priority for Russia and China since 2014, when they began expanding economic cooperation following Moscow's estrangement from the West over its annexation of Crimea. Replacing the dollar in trade settlements became a necessity to sidestep U.S. sanctions against Russia. President Vladimir Putin signaled the new reserve currency would be based on a basket of currencies from the group's members. "This is a move to address the perceived US-hegemony of the IMF," ING's global head of markets Chris Turner said in a note. "It will allow BRICS to build their own sphere of influence and unit of currency within that sphere."

The BRIC nations understand exactly how precarious of a financial situation the U.S. - and the dollar - is in. Despite the dollar's recent strengthening, these nations have been in the midst of a multi-decade long plan to de-dollarize. Even before the Ukraine conflict started, both China and Russia were stockpiling gold and working on denominating transactions outside of the U.S. dollar. It was another "secret" that was out there in the open.

Remember how "insane" this headline was just 6 months ago? "Fiat Currency Zero Hour: Russia and China Might collectively Challenge The Dollar's Reserve Status". Everyone suggested it was a stretch. Today, it isn't so much anymore. ⁷

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CITATIONS:

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