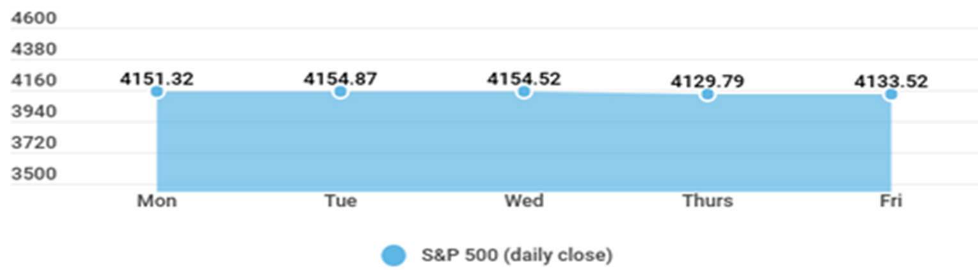
Amadeus Wealth Alternatives

Weekly Economic Update April 24, 2023

Stocks remained resilient last week amid mixed earnings reports, hawkish Fed-speak, and lingering recession fears, closing out the five trading days with small losses.

The Dow Jones Industrial Average slipped 0.23%, while the Standard & Poor's 500 lost 0.10%. The Nasdaq Composite index fell 0.42% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, added 0.10%.[1,2,3]

Market Index	Close	Week	Y-T-D
DJIA	33,808.96	-0.23%	+2.00%
NASDAQ	12,072.46	-0.42%	+15.34%
MSCI-EAFE	2,147.82	+0.10%	+10.49%
S&P 500	4,133.52	-0.10%	+7.66%



	Treasury	Close	Week	Y-T-D
	10-Year Note	3.57%	+0.05%	-0.31%

Sources: The Wall Street Journal, April 21, 2023; Treasury.gov, April 21, 2023
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, April 14, to Friday, April 21 close. Weekly performance for the MSCI-EAFE is measured from Friday, April 14, open to Thursday, April 20 close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

Stocks Hold Firm

Stocks traded most of last week around the flatline as investors grappled with several headwinds.

The first was disappointing earnings results, coupled with the absence of earnings guidance from some companies due to an uncertain economic climate. Weak economic data, including declines in housing and leading economic indicators, also weighed on investor sentiment. Finally, multiple Fed officials spoke last week, signaling that inflation remained too high and that further rate hikes may be likely.

Underneath the seemingly placid surface of the major market indices, there was substantial price action at the individual stock and sector level. Poor earnings results hit communication services stocks and regional banks, while margin pressures put pressure on auto stock valuations.

Housing Weakness

Two housing reports reflected ongoing fragility in the housing market and fed prevailing economic slowdown worries.

Sales of new homes fell 0.8% in March, dragged down by a 5.2% slide in new multi-family home construction. Sales of single-family homes were a bright spot, rising 2.7% to a three-month high, though that hopeful note was tempered by an 8.8% drop in new application permits–an indicator of future new home building.[4]

Existing home sales also suffered a month-over-month decline in March, falling 2.4%. Sales plummeted 22% from March 2022 levels as higher mortgage rates and tight inventories impacted affordability.[5]

This Week: Key Economic Data

Tuesday: Consumer Confidence. New Home Sales.

Wednesday: Durable Goods Orders.

Thursday: Gross Domestic Product (GDP). Jobless Claims.

Friday: Personal Income and Outlays. Consumer Sentiment.

"If God had wanted us to vote, he would have given us candidates"

– Jay Leno

According to a recent report from the CATO Institute, central bank digital currencies (CBDCs) pose a foundational threat to America's economic systems with absolutely no upsides. It suggested that a U.S. CBDC will threaten citizens' "core freedoms" from financial privacy to personal liberty.

Even though there are no valid reasons for the U.S. government to issue a CBDC when "the costs are so high and the benefits are so low," significant efforts are being made by government officials and central bankers to launch the digital currency "in a bid to solidify government control over payments systems," said the institute's assessment report published Tuesday. As suggested in the report, "As entrenched as this effort may already be, a U.S. CBDC would ultimately usurp the private sector and endanger Americans' core freedoms…Therefore, it should have no place in the American economy. Congress should explicitly prohibit the Federal Reserve and the Department of the Treasury from issuing a CBDC in any form."

While the Federal Reserve has not made any definitive plans or fixed a timeline regarding the launch of a CBDC, the agency has not concealed its enthusiasm for the project. Purported features like "safer" and "faster" are heavily touted, whereas focus on cons are rather limited.

The Biden administration has also thrown its support behind the CBDC project, releasing a paper last September analyzing the possibilities of introducing a digital dollar. "If the United States pursued a CBDC, there could be many possible benefits, such as facilitating efficient and low-cost transactions, fostering greater access to the financial system, boosting economic growth, and supporting the continued centrality of the United States within the international financial system," said the White House Office of Science and Technology Policy detailing the technical framework possibilities for a U.S. CBDC.

The public sentiment in the United States is in the majority against introducing a CBDC in the country, evidenced by over two-thirds of the 2,052 comment letters written by concerned citizens to the Fed opposing its plans for a digital dollar. Based on CATO's analysis, commenters were concerned about CBDCs posing "a substantial threat to financial privacy, financial freedom, and the very foundation of the banking system."

As a CBDC gives "the federal government complete visibility into every financial transaction by establishing a direct link between the government and each citizen's financial activity," the project is a direct attack against basic privacies as protected by the U.S. Constitution.

Any buffer—currently provided by institutions like banks and payment services—between the average citizen's financial activity and governmental intrusion would immediately cease to exist as "all financial data would be only a keystroke away."

Such unrestrained access leads to the inevitable establishment of governmental control over such activities, and it could be “preemptive (prohibiting and limiting purchases), behavioral (spurring and curbing purchases), or punitive (freezing and seizing funds).”

For example, the government could limit purchases to “essential” goods during state-imposed lockdowns, impose gun control, or even freeze an individual’s ability to access their own money.
“Aside from the basic programmability that a CBDC would offer for social and political control, one of its most common features is the ability to pay both positive and negative interest rates to curb and spur purchases,” which is impossible with cash—one of the main reasons why CBDC proponents are calling for eliminating cash from the system.

Federal Reserve vice chair Lael Brainard had said that if CBDCs were widely adopted, it would disrupt the entire banking system because people would make direct central bank deposits bypassing retail institutions.

Although Fed researchers claim CBDCs offer a “helpful competition to the banks,” CATO concludes that the most probable outcome will be people leaving traditional banks as “it is difficult (if not impossible) to compete with the government.”

In such a scenario, CBDCs will have a monopolistic hold over the market. CATO pointed out that this is one of the reasons why governments around the world have been keen on eliminating alternative payment avenues like cryptocurrencies.

Similar to crypto, a disadvantage of using CBDCs is that they are prone to cybersecurity breaches and malicious hacking. A centralized digital dollar makes a very “attractive target for cyberattacks by giving threat actors a prominent platform on which to focus their efforts.”

While attacks on banks are not uncommon, it pales in significance when a CBDC breach exposes financial details of 333 million Americans.

On March 15, the Federal Reserve announced the FedNow Service, which will start operating in July. FedNow offers a nationwide “instant payment solution” for participating financial institutions and their industry partners. Those using the service can “send and receive instant payments at any time of day” with full access to funds immediately.

Fed governor Michelle Bowman said last year that FedNow could weaken CBDC-resistance via offering some of the same basic services of a digital dollar—a first step toward full CBDC adoption. “FedNow appears to be a prototype CBDC,” Jordan Schachtel, publisher of “The Dossier” stated in a tweet on Substack.

“While instant, 24/7 payments seems good, there are implications to leaning into a credit-based system. FedNow can quickly transform to a surveillance system."

Apart from design challenges, CBDCs face many headwinds. Privacy guardians are concerned about governmental entities having access to detailed transaction records on citizens. A central bank digital currency would also make it easier to enforce the tax code, which is not universally popular. On this basis, some U.S. states have advanced legislation to preemptively halt adoption of a digital dollar.

CATO concludes the report by recommending Congress to limit the Treasury Department's authority to expand existing offerings and prohibit the agency from issuing a CBDC and offering or maintaining accounts on behalf of individuals. This is done to prevent the agency from "further encroaching on the private sector" despite promises of financial inclusion and faster payments.[6]

Footnotes and Sources

1. The Wall Street Journal, April 21, 2023

2. The Wall Street Journal, April 21, 2023

3. The Wall Street Journal, April 21, 2023

4. YahooFinance, April 18, 2023

5. CNBC, April 20, 2023

6. zerohedge.com/personal-finance/central-bank-digital-currencies-foundational-threat-americas-economic-systems

interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid. Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.

Please consult your financial professional for additional information.