WEEKLY ECONOMIC UPDATE JULY 7, 2025

Trade developments and continued momentum pushed all three major averages to modest gains again for a shortened holiday trading week.

The Standard & Poor's 500 Index rose 1.72 percent, while the Nasdaq Composite Index added 1.62 percent. The Dow Jones Industrial Average advanced 2.30 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, increased 0.19 percent for the week through Thursday.[1,2]

Stocks Gain on Trade Developments

Stocks continued their momentum from the prior week's records following Canada's rescinding of its digital services tax, rising on optimism as investors waited for more news on trade.[3]

The S&P 500 and Nasdaq took a breather on July's first trading day, while the Dow Industrials posted a modest gain. Then, stocks rallied after the news of the trade deal with Vietnam, moving past the latest ADP employment report, which showed reduced jobs last month for the first time in two years.[4]

In a quick retort to the ADP report, a better-than-expected June jobs report from the Bureau of Labor Statistics gave stocks another boost, reassuring investors that the U.S. economy was weathering trade and geopolitical shocks. The S&P and Dow hit record highs as the short trading week ended.[5]

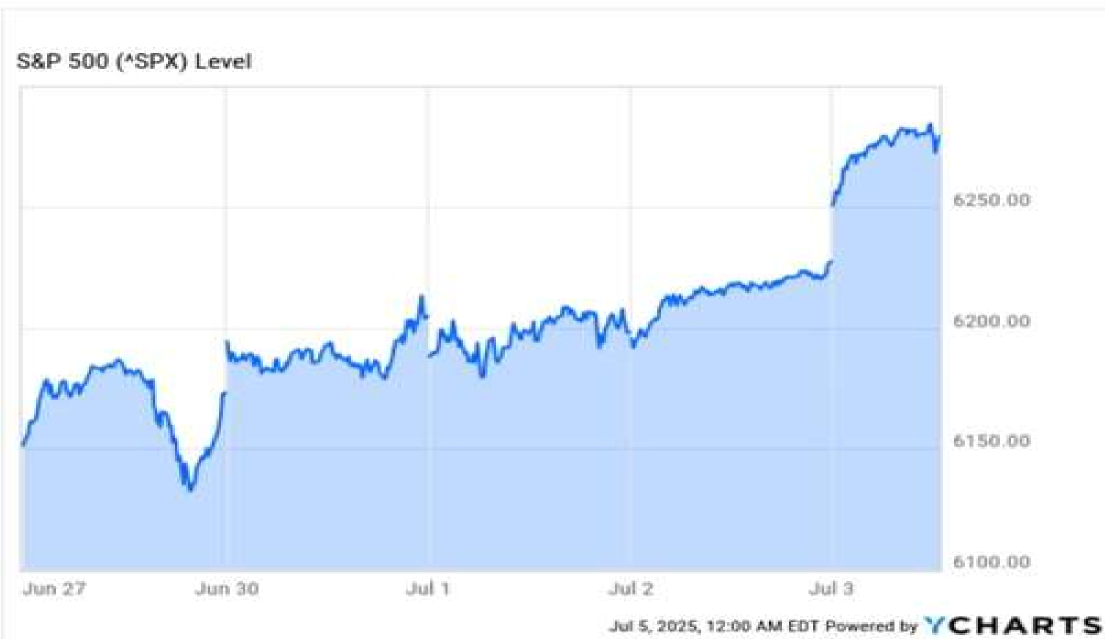
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Nasdaq Composite	6.27%	7.06%	14.06%	109.6%
Dow Jones Industrial Average	5.59%	6.33%	16.11%	91.54%
S&P 500	5.31%	7.50%	14.95%	116.4%
MSCI EAFE	2.21%	20.09%	16.73%	71.92%

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 07/03/25	4.35%	4.46% 4.06% 4.36%	-2.47% ▼ 7.14% ▲ -0.23% ▼

Jobs Report Mostly Positive

The labor report for June had a few points for investors to cheer. First, employers added 147,000 jobs in June—that was 37,000 higher than economists were expecting. Unemployment ticked down to 4.1 percent from 4.2 percent. Previously reported job gains from April and May were revised upward by 16,000.[6]

Still, companies are in a "no hire, no fire" mode as they wait to see how trade policy impacts the economy. Caveats to the headline numbers: most gains were seen in government and healthcare. Several other sectors, including manufacturing and professional services, were flat or diminished.[6]

The takeaway: good news overall, but uncertainty still lingers beneath the employment surface.

This Week: Key Economic Data

Tuesday: NFIB Small Business Optimism Index. Consumer Credit.

Wednesday: Wholesale Inventories. 10-Year Treasury Note Auction. June Fed Meeting Minutes.

Thursday: Weekly Jobless Claims. St. Louis Fed President Alberto Musalem and San Francisco Fed President Mary Daly speak.

Friday: Federal Budget.

Quote of the Week

"The world will not be destroyed by those who do evil, but by those who watch them without doing anything."

– Albert Einstein

Of Note

The recent weakness in the US dollar has reignited the debate over the durability of the dollar's dominance in global finance. Over the first half of the year, the Bloomberg Dollar Index has fallen nearly 8.5 percent, marking one of the sharpest declines since the mid-1980s.

Yet while this drawdown has fueled widespread commentary about de-dollarization, it is important to distinguish between dollar weakness — a familiar, cyclical phenomenon — and the far more consequential and complex issue of de-dollarization, which concerns the dollar's standing as the world's primary reserve currency and medium of international exchange.

The current period of dollar weakness is rooted in several overlapping forces. Since Donald Trump's return to the White House, aggressive trade policies, escalating tariff conflicts, and sharp reversals in longstanding diplomatic and economic norms have unnerved international investors. The dollar index has fallen nearly nine percent since inauguration, the worst such performance since the 1971 Nixon shock, when the US severed the dollar’s convertibility to gold. Bank of America’s fund manager surveys indicate that bearish sentiment toward the dollar is at its highest level since 2006, while foreign appetite for US assets — particularly Treasurys and equities — has declined meaningfully, with foreign ownership of Treasurys falling to 32.9 percent as of late 2024.

Simultaneously, the fiscal position of the United States has worsened considerably. The Trump administration’s substantial tax cuts and growing entitlement obligations are threatening to push deficits to alarming levels, while rising interest costs on government debt threaten long-term fiscal stability. These dynamics are now feeding into market pricing and investor expectations. With global capital increasingly reluctant to finance Washington’s deficits on previous terms, foreign inflows into dollar-denominated assets have moderated. Many foreign investors, particularly from Europe, are in a sustained “buyers’ strike” on US assets, compounding downward pressure on the dollar.

One of the most noteworthy shifts underlying the dollar’s recent slide has been its emerging role as a funding currency for global carry trades. In an environment characterized by stable but modest global growth, subdued volatility, and a widening divergence in interest rates across economies, investors have increasingly sold dollars to finance long positions in higher-yielding emerging market currencies such as the Brazilian real, Mexican peso, Chilean peso, and South African rand. That dynamic introduces a new class of structural dollar sellers, adding both to downward pressure and to heightened volatility. Becoming a favored funding currency — a role long played by the Japanese yen or Swiss franc — reflects declining confidence in the US growth exceptionalism narrative that once anchored the dollar’s premium valuation.

Yet even as the cyclical bearish case gains adherents, the broader question remains: does dollar weakness equate to de-dollarization? The short answer is: no, or at least not yet. The dollar still accounts for nearly 60 percent of global foreign exchange reserves, more than 50 percent of global trade invoicing, and nearly 90 percent of global foreign exchange transactions. Despite short-term market aversion — for central banks, commodity traders, and multinational corporations — the dollar remains indispensable. Its liquidity, the depth of US capital markets, and the breadth of dollar-denominated instruments such as US corporate bonds, Treasurys, and dollar-pegged financial products continue to make it the default global currency.

Incremental signs of de-dollarization are emerging, particularly in Asia and among members of the expanded BRICS bloc. The Association of Southeast Asian Nations (ASEAN) has actively committed to increasing the use of local currencies in intra-regional trade, aiming to reduce exposure to dollar volatility and geopolitical leverage. Countries such as China, India, and South Korea have increased currency swap agreements, promoted bilateral trade settlements in their own currencies, and repatriated portions of their foreign-held assets. Asian institutional investors, including life insurers and pension funds in Japan and Taiwan, have raised hedge ratios on dollar exposure, gradually shifting portfolio balances toward local currencies.

The BRICS alliance, recently expanded to include members such as Iran, Egypt, the UAE, and Indonesia, has amplified its political push toward de-dollarization. While the group remains economically diverse and geopolitically fragmented, its growing weight in global energy production, trade flows, and financial architecture reflects a strategic ambition to reduce reliance on the dollar. Joint liquidity pools, cross-border payment initiatives, and the creation of alternative commodity trading platforms further illustrate the group's long-term objectives. Nonetheless, internal frictions within BRICS — particularly between China and India — and the absence of a truly unified financial infrastructure have limited hopes to erode dollar primacy.

A significant development in the de-dollarization narrative is the surge in official sector gold purchases. Central banks, particularly those aligned with or adjacent to China and Russia, have accumulated over 1,000 tons of gold annually for three consecutive years — doubling the pace of purchases seen in the 2010s. The European Central Bank now reports that gold accounts for 20 percent of global reserves, up sharply from previous levels to eclipse holdings of the euro itself. Meanwhile, the dollar's share of global reserves has slipped from over 70 percent in 2000 to 57.8 percent in 2024. Gold's role as a politically neutral store of value makes it an attractive hedge against both inflation and geopolitical risks, particularly in an environment where financial sanctions and reserve asset weaponization have grown more common.

Still, gold's structural limitations mean that it is unlikely to fully supplant the dollar's reserve currency functions. Even amid recent turmoil, global dollarization continues in many respects, particularly through the rapid expansion of dollar-based nonbank financial intermediation, dollar-denominated debt issuance, and the technological proliferation of dollar-linked stablecoins.

In sum, dollar weakness and de-dollarization are not synonymous. The recent depreciation of the dollar relative to other currencies reflects a complex interplay of trade disputes, fiscal excesses, cyclical capital flows, and risk sentiment shifts.

True de-dollarization, by contrast, requires the sustained development of viable alternatives that can match the dollar's liquidity, legal protections, and institutional depth — an outcome that remains distant, though not unimaginable over the long term. While policymakers and market participants should not dismiss the slow, grinding adjustments occurring at the margins, the dollar nevertheless remains firmly entrenched as the central pillar of global finance.

A more sobering truth is this: the greatest threat to continued dollar dominance comes not from external challengers but within. Persistent fiscal indiscipline, rising debt-to-GDP ratios, erratic policy shifts, and the politicization of monetary and financial institutions collectively erode the confidence that anchors reserve currency status.

If that erosion continues, the dollar may eventually cede ground — not through a sudden collapse, but through the gradual accumulation of self-inflicted wounds. In the meantime, the world remains tethered to King Dollar, even as it cautiously explores alternatives.[7]

Footnotes and Sources

1. WSJ.com, July 3, 2025
2. Investing.com, July 3, 2025
3. CNBC.com, June 30, 2025
4. WSJ.com, July 2, 2025
5. CNBC.com July 3, 2025
6. WSJ.com, July 3, 2025
7. zerohedge.com/geopolitical/dollars-decline-meets-rising-dedollarization-threat-comes-within

The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. The Nasdaq Composite is an index of the common stocks and similar securities listed on the Nasdaq stock market and considered a broad indicator of the performance of stocks of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and 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.