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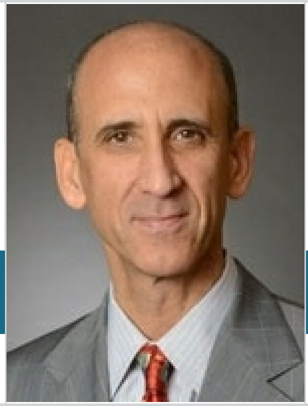

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In this week's recap: Stocks slip on mixed economic news.

Weekly Economic Update

Presented by Ed Papier, June 6, 2022

THE WEEK ON WALL STREET

In a holiday-shortened week of volatile trading, stocks surrendered some of the previous week's strong gains.

The Dow Jones Industrial Average fell 0.94%, while the Standard & Poor's 500 declined 1.20%. The Nasdaq Composite index lost 0.98% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, slipped 0.17%.[1,2,3]

AN UNCERTAIN MARKET

Stocks experienced wild swings last week, in part, due to ongoing uncertainty over economic health and the path of inflation. Investors seemed conflicted when interpreting the data, in some instances viewing economic strength as a negative since it may mean more aggressive rate hikes from the Fed.

Illustrative of how this uncertainty has played out, stocks surged higher on Thursday despite comments from Fed Vice Chair Lael Brainard indicating it's unlikely that the Fed will pause on rate hikes. Then on Friday, stocks dropped as a better-than-expected jobs report raised concerns about monetary policy.

STRONG JOB GROWTH

The U.S economy added 390,000 jobs in May, a slowdown from recent months but higher than consensus estimates. Job gains registered in several categories, led by leisure and hospitality, professional and business services, and warehousing and transportation. The retail sector lost jobs.[4]

The unemployment rate remained unchanged at 3.6%. Wage growth cooled off, with a 12-month increase of 5.2%, down from April's year-over-year jump of 5.5%. Finally, the labor participation rate ticked higher again, reflecting how job availability is helping to pull Americans off the labor-market sidelines.[5]

THE WEEK AHEAD: KEY ECONOMIC DATA

Thursday: Jobless Claims.

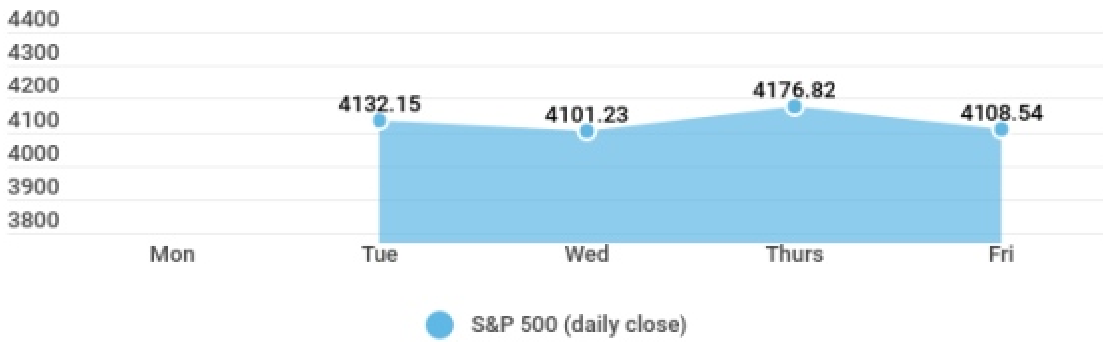
Friday: Consumer Price Index (CPI). Consumer Sentiment.

QUOTE OF THE WEEK

"Remember not only to say the right thing in the right place, but far more difficult still, to leave unsaid the wrong thing at the tempting moment"

BENJAMIN FRANKLIN

Market Index	Close	Week	Y-T-D
DJIA	32,899.70	-0.94%	-9.46%
NASDAQ	12,012.73	-0.98%	-23.22%
MSCI-EAFE	2,032.45	-0.17%	-13.00%
S&P 500	4,108.54	-1.20%	-13.80%



	Treasury	Close	Week	Y-T-D
	10-Year Note	2.96%	+0.22%	+1.44%

Sources: The Wall Street Journal, June 3, 2022; Treasury.gov, June 3, 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, May 27, to Friday, June 3, close. Weekly performance for the MSCI-EAFE is measured from Friday, May 27, open to Thursday, June 2, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

The cryptocurrency market valuation is less than half of the $2.9 trillion it was worth in November. What's going on with the cryptocurrency market?

More people than ever before have been holding "cryptos" as a safe-haven asset to hedge against inflation and other central bank offenses. It wasn't very long ago that investors were paying premiums to get into the hot crypto market action.

The thinking behind investing in cryptocurrencies is basically sound. Unlike fiat currencies, cryptos were initially designed to hold their value, be inflation-proof and, thus, be a wise position to take during economic downturns.

And, of course, large value fluctuations are now normal for the many thousands of new cryptos that have been created since bitcoin came on the scene. It has been difficult for most investors or speculators to be certain about the particular intrinsic value of the coin in terms of both use and market value from one day to the next.

Some have become multimillionaires overnight, while others have seen their crypto holding fall to near zero. That Wild West aspect of the cryptocurrency market was expected to moderate over time as acceptance of cryptocurrencies, particularly bitcoin, increased.

Bitcoin, you will recall, is the original cryptocurrency. It was created amid the global financial crisis in 2009 to be a stable currency in an era of currency instability and uncertainty. Founded on distributed ledger technology commonly known as blockchain, cryptocurrency was intended to be the currency for the digital age.

Because it's anonymous, no bank, government, or other authority has any visibility or control over your transactions. Cryptocurrency is also fast, easy, and inexpensive to use for transactions worldwide.

Mining Bitcoin, however, does take an enormous amount of electrical energy to power the millions of computers that are used to solve algorithms in order to mine or create more bitcoins. But even that hasn't been too much of a liability, considering the massive tradeoffs mentioned above.

Initially, bitcoin and other cryptos were supposed to be immune to geopolitical events, interest fluctuations, inflation, and other uncertainties. And for a while, they were. In 2020, during covid pandemic, a period of massive uncertainty, the value of the cryptocurrency market tripled.
Similar growth was seen in 2021. Some coins saw incredible gains in both use and value. Ethereum, for example, saw its market capitalization by 530 percent, rising from just under $83 billion to over $411 billion. A bitcoin competitor, ethereum's daily transaction levels year-over-year rose 135 percent.

And yet today, cryptocurrencies are in the midst of yet another market collapse. At the time of writing, the market capitalization is just $1.2 trillion, down by 50 percent in just the past couple of months. Like the crypto market as a whole, even bitcoin is seeing massive price volatility. Representing 41 percent of the entire crypto market value, bitcoin is down around 60 percent from its high of $69,000 in November 2021.

What's more, Coinbase, a popular cryptocurrency exchange, is on the cusp of bankruptcy. Even stable coins, which are often pegged to the dollar and are intended to be a safe haven for crypto investors seeking to avoid the volatility of cryptocurrencies, have seen their values plummet. The stablecoin UST, which was, in theory, pegged to the dollar, has dropped to 26 cents. Its associated token, luna, fell by 99 percent over the past couple of weeks.

Suppose cryptos aren't the safe haven that they were intended to be. In that case, putting your money into cryptocurrencies is more akin to playing the roulette tables in Las Vegas than investing in a market. Of course, the same could be said of the stock markets as well. But given the deteriorating state of the world, shouldn't bitcoin and other cryptos be a haven from all that?

Shouldn't the uncertainty of the war in Ukraine, the food and fuel shortages that we're seeing, rising inflation, a massive influx of illegal aliens into the United States and Europe, and other global economic and geopolitical disturbances be driving investors into cryptocurrencies instead of out of them?

Even though the level of uncertainty in the world is arguably just as high, if not worse, than it was during the pandemic, cryptos are proving not to be a safe haven for value and stability that many hoped they would be. On the flip side, some small nations such as El Salvador and the Central African Republic have made bitcoin a legal currency.

But with this latest period of massive volatility and investors fleeing the market in droves, is this the end of the cryptocurrency era? It just might be.

Obviously, there's a major disconnect in the crypto markets. What could possibly be driving the cryptocurrency market into collapse? Could the world's central banks be a factor? The argument certainly has merit from a "who benefits from it" point of view.

When you think about all of the advantages that cryptocurrencies have, it's understandable why central banks would feel threatened by them. That was the whole point of bitcoin in the first place. Today, with the world's central banks issuing or preparing to issue central bank digital currencies (CBDCs) in the near future, the timing is certainly convenient.

China, for instance, outlawed bitcoin and all cryptocurrency transactions in September 2021, a few months before issuing their digital yuan at the 2022 Winter Olympic Games. With control over everything at the top of the Chinese Communist Party (CCP) agenda, the banning of cryptocurrencies in favor of the digital yuan makes sense.

What's good for the yuan is good for the dollar because no central bank in the digital age can tolerate a currency that is unregulated, untraceable, untaxable, fully transactable across the world, and cannot be confiscated.

In short, cryptocurrencies are central banks' worst nightmare, which is why the banks must destroy them and it looks like that's exactly what might be happening.

Although based on blockchain technology, CBDCs remove the anonymity that cryptocurrencies provide, enabling governments to have complete visibility into all transactions. This transparency puts enormous power and control into the hands of central bankers and governments.[6]

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CITATIONS:

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