



WEEKLY ECONOMIC UPDATE MARCH 20, 2023

Amid the reverberations of two U.S. banks being taken over by regulators and the spread of uncertainty to European banks, stocks trended higher last week on the strength of the technology sector.

The Dow Jones Industrial Average was flat (-0.15%), while the Standard & Poor's 500 rose 1.43%. The Nasdaq Composite index picked up 4.41%. The MSCI EAFE index, which tracks developed overseas stock markets, dropped 3.12%.^{1,2,3}

MARKET
INSIGHTS



Market Index	Close	Week	Y-T-D
DJIA	31,861.98	-0.15%	-3.88%
NASDAQ	11,630.51	+4.41%	+11.12%
MSCI-EAFE	1,988.12	-3.12%	+2.27%
S&P 500	3,916.64	+1.43%	+2.01%



	Treasury	Close	Week	Y-T-D
	10-Year Note	3.38%	-0.31%	-0.49%

Sources: The Wall Street Journal, March 17, 2023; Treasury.gov, March 17, 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, March 10, to Friday, March 17, close. Weekly performance for the MSCI-EAFE is measured from Friday, March 10, open to Thursday, March 16, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

Stocks Gain Despite Banking Woes

Stock prices gyrated as investors wrestled with banking troubles that appeared to spread to Europe. Worries of financial instability rocked financials and sent bond yields falling. While the rush into Treasuries was expected, the dash into technology stocks was a surprise. Falling yields made the high-growth names more attractive, though investors targeted their buying in high-quality companies that offered defensive characteristics, such as profits, healthy cash flows, and strong balance sheets.

When Switzerland's central bank provided a lifeline to a troubled Swiss bank, and a group of U.S. banks provided aid to a struggling regional bank, stocks powered higher on Thursday. Banking jitters, however, returned on Friday, closing out a tumultuous week and paring some of the week's gains.

Reverse Psychology

Less than two weeks ago, Fed Chair Jerome Powell testified interest rates might have to be hiked higher and faster. Since then, two U.S. banks were placed in receivership, sparking worries of financial instability and changing the market's outlook on future rate hikes.

The question now is if the Fed will hike short-term rates at all. By Thursday, traders saw an 18.1% probability of no rate increase at the March Fed meeting, which concludes this Wednesday. Just a week ago, it was a 0% chance. Traders also see a 0% chance of a 50 basis point rate increase in March. A week earlier, there was a 68.3% probability. Where the market previously saw little likelihood of a rate cut this year, the probability of a rate cut by July was 63.7% by Thursday.⁴

This Week: Key Economic Data

Tuesday: Existing Home Sales.

Wednesday: FOMC Announcement.

Thursday: Jobless Claims. New Home Sales.

Friday: Durable Goods Orders. Purchasing Managers' Index (PMI) Composite Flash.



"A mind is like a parachute. It doesn't work if it is not open"

– **Frank Zappa**

Of Note



Eurasia's geo-economic integration took a great leap forward as a result of the Iranian-Saudi rapprochement, which unlocks the Gulf Cooperation Council's (GCC) trade potential with Russia and China. Its wealthy members can now tap into two series of Iranian-transiting megaprojects in one fell swoop through this deal, with the North-South Transit Corridor (NSTC) connecting them to Russia while the China-Central-Asia-West Asia Economic Corridor (CAAWAEC) will do the same vis-à-vis China.

The bloc's de facto Saudi leader has been prioritizing a comprehensive economic reform policy known as "Vision 2030" that was introduced by Crown Prince and first-ever Prime Minister Mohammed Bin Salman (MBS) upon his rise to power in 2015. It regrettably stumbled as a result of the disastrous Yemeni war that he's been waging since that same year, but everything is now back on track and more promising than ever after securing \$50 billion worth of investments from China last December.

The People's Republic regards Vision 2030 as complementary to its Belt & Road Initiative (BRI) due to MBS' focus on real-sector investments for preemptively diversifying the Saudi economy away from its presently disproportionate dependence on oil exports. His country's location at the crossroads of Afro-Eurasia also makes investments there extremely attractive from the perspective of China's logistical interests, hence its massive commitment to his comprehensive economic reform policy.

Without last week's Beijing-brokered deal, China would have had to rely on maritime routes under the control of the powerful US Navy to facilitate the forthcoming explosion in bilateral real-sector trade, but now everything can be conducted much more securely via the Iranian-transiting CAAWAEC. Looking forward, there's also a theoretical possibility of Chinese energy investments in Iran connecting the Gulf to

Central Asia and thenceforth to the People's Republic, thus fully securing its strategic interests.

That's still a far way's off, if it even happens at all, but it nevertheless can't be ruled out. Saudi Arabia's desire to join BRICs and the Shanghai Cooperation Organization, which are the most influential multipolar organizations in the world right now, could turn this scenario into a reality a lot sooner than even the most optimistic observers might have expected. All of this in and of itself will herald a revolution in geo-economic affairs, and that's even without Saudi Arabia having yet to throw its full support behind the "petroyuan".

Once this major oil exporter begins to sell its resources in non-dollar-denominated currencies like China's, then the petrodollar upon which the economic-financial aspect of the US' unipolar hegemony is predicated will be dealt a deathblow. The global systemic transition to multipolarity and the impending trifurcation of international relations that will precede the final form of this process would unprecedentedly accelerate once this happens, thus further hastening America's ongoing demise.

India, which sits on the South Asian end of the NSTC that transits through Iran en route to Russia, also scaled up its purchases of discounted oil from Moscow to the point where its decades-long strategic partner is nowadays its largest supplier. Of crucial significance to the present analysis, a growing number of its deals are in non-dollar-denominated currencies, which sped up de-dollarization processes to such an extent that even Reuters felt compelled to write about this.

Considering this newfound financial context, there's no doubt that upcoming Saudi moves in support of the petroyuan that are taken in coordination with Iran and Russia would catalyze the next natural phase of de-dollarization. Russian-GCC real-sector trade that'll be carried out via Iran across the NSTC will be conducted in national currencies and thus prepare those three for the moment when they finally decide to deal a deathblow to the petrodollar.

All in all, it's not hyperbole to declare that the dollar's prior dominance is done for as a result of the Iranian-Saudi rapprochement. That Beijing-brokered deal makes this outcome an inevitability unless some subversive black swan event takes place such as a coup against MBS, though that's unlikely to happen after he successfully consolidated his

power in late 2017. With this in mind, it can confidently be declared that last week's development will be seen in hindsight as a game-changer.⁵

Footnotes and Sources

1. The Wall Street Journal, March 17, 2023
2. The Wall Street Journal, March 17, 2023
3. The Wall Street Journal, March 17, 2023
4. CME FedWatch Tool, March 16, 2023
5. [zerohedge.com/geopolitical/iran-saudi-rapprochement-will-deal-deathblow-dollar](https://www.zerohedge.com/geopolitical/iran-saudi-rapprochement-will-deal-deathblow-dollar)

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The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance 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.

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