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FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

A steady drip of negative news surrounding the U.S. Dollar in recent weeks has brought into question its staying power as the world's reserve currency and led many to ponder what the economic implications would be if the greenback were to be dethroned. While these questions are warranted, it's important to cut through some of this headline noise and focus on the empirical data, and the history of the dollar, to put things into context.

The Federal Reserve Act of 1913 created the U.S. Federal Reserve and effectively started the printing of the U.S. dollar as we know it today. The move was made to stabilize a currency system previously comprised of notes issued by individual banks. During this time, most countries pegged their currencies to gold as a way to stabilize currency exchange. However, this practice was quickly abandoned during the outbreak of WWI as ally countries began paying the U.S. in gold for supplies to support their war efforts. This led to the U.S. quickly becoming the largest owner of gold in the world and, thus, the preferred lender for other nations. This also meant that a return to the gold standard was now impossible for many countries that had depleted their gold reserves, a significant problem for the global economy. Enter, The Bretton Woods Agreement. In July of 1944, at the Mount Washington Hotel in New Hampshire (a now Omni-Resort that my wife and I have visited and cannot recommend enough), 44 countries met to address this problem. They ultimately agreed to peg their currencies to the U.S. dollar, cementing it as the world's reserve currency and the preferred medium of exchange for foreign transactions. To put into context what this looks like, today, USD accounts for 90% of global transaction volumes, 60% of central bank currency reserves, and 50% of international trade invoices[1]. Without getting into specifics, this dominance can present challenges for other countries, both political and economic. As such, BRICS countries in recent weeks have renewed decades-long efforts to reduce their dependency on the dollar and settle foreign transactions in their local currencies. Despite these movements, a scenario in which another currency supplants the dollar as the world's reserve currency is unlikely to happen anytime soon. The dollar is still held three-times as much in reserves as the next most popular currency (euro) and nearly twenty-times as

[1] Bank for International Settlements

much as all the BRICS currencies combined; this is not something that can be unwound in a short period of time. Furthermore, 66 countries still have their currency pegged to the U.S. dollar; removing USD as a reference currency in most of these countries would lead to a spike in inflation and a significant devaluation of their local currency. While I do believe the near-term path for the dollar is that of a moderate decline, I would argue that economic influences here at home will have a more significant impact on the direction of the greenback than other countries settling trade in local currencies.

Although the globalization of markets will continue to proliferate change for currencies, the dollar losing its position in the currency hierarchy is unlikely. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

Brandon Hethcoat

Brandon Hethcoat
Investment Strategist
Registered Representative, RJFS

FUSCO FINANCIAL ASSOCIATES
PRIVATE WEALTH MANAGEMENT

505 Baltimore Ave.
Towson, MD 21204
(410) 296-5400

3825 Leonardtown Rd., Suite 6
Waldorf, MD 20601
(301) 710-5880

Visit us at www.fuscofinancial.com

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