

Weekly Market Commentary

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Quincy Krosby, PhD, Chief Global Strategist, LPL Financial

Joshua Cline, Associate Analyst, LPL Financial



Russia To Host BRICS Summit 2024 Amid Heightened Geopolitical Conflict

In December 2023, Vladimir Putin declared that the 2024 BRICS Summit, hosted by Russia, would be focused on establishing a “fair world order” based on shared principles. At the core of Putin’s goals for stronger BRICS economic integration is a longstanding and overriding objective to provide a viable alternative to the West’s global hegemony in nearly all facets of political, military, economic, financial, and security affairs.

Challenging Western Dominance

Creating a common currency designed to curtail — and displace — the dominance of the U.S. dollar as the world’s reserve currency has been a central theme when the BRICS Summit was formalized in 2009 with initial founding membership of Brazil, Russia, India, and China. Today, the dollar remains the commanding currency in global transactions, involved in an overwhelming number of exchanges, although a growing number of dealings involve the euro.

Putin has recently called for BRICS to establish a “safer and harmonious world” with a goal towards creating its own parliament.

Today, BRICS as an intergovernmental organization is comprised of Russia, China, India, Brazil, South Africa, Egypt, Ethiopia, Iran and United Arab Emirates. Saudi Arabia, due to join formally in January 2024, has not yet declared its official membership, while rumors persist that North Korea is seeking affiliation. Argentina was also invited to join, although newly elected President Javier Milei has made it clear the nation will not be joining in the near-term.

Turkey, a NATO member, has requested BRICS membership as — according to reports — it pursues a path that includes its partnership with the West, but broadens its influence beyond the West.

BRICS Summit 2024 will be in Kazan (Russia) from October 22–24 amid a global backdrop of increased geopolitical conflict and tension.

Dislodging the Dollar From the Spotlight

With the dollar still considered the world’s reserve currency, it continues to reflect the broader hegemony BRICS fervently seeks to dismantle. The dollar’s primary rival is China’s yuan — or renminbi — as Beijing, despite making progress in having trading partners execute purchases in the yuan, is seemingly determined to overturn the dollar as the leading global reserve currency.

In 2016, giving sway to Beijing’s lobbying efforts at the International Monetary Fund (IMF), the renminbi was included in the IMF’s Special Drawing Rights (SDR) basket despite the fact that China was technically an emerging market. The basket included the dollar, the euro, the yen and the British pound. For Beijing, this was deemed a major step towards recognizing its growing economic prominence and offered confirmation and legitimacy to the global importance of its currency.

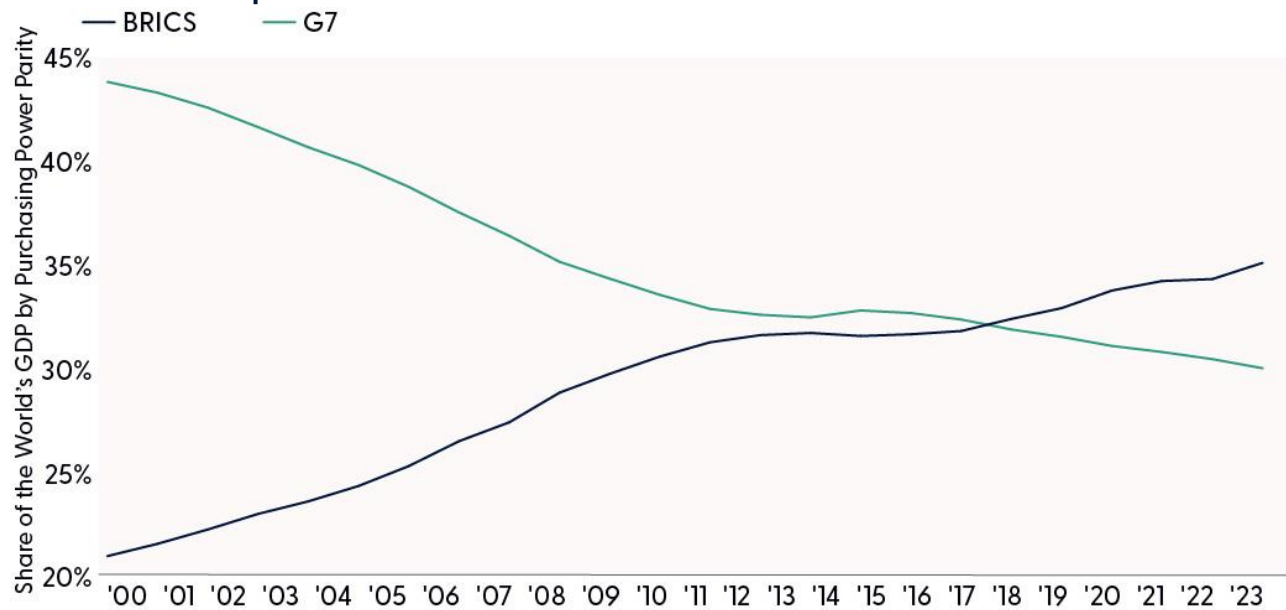
Beijing continues to transition away from the dollar as Russia and China claim Washington has weaponized the dollar by seizing dollar-denominated assets.

Moreover, as the dollar represents U.S. strength, transparency, and deep liquidity globally, reducing its influence is a primary objective for many in the BRICS community, although it still hasn't dented the underlying strength of the greenback. Recently, the dollar has eased against a basket of its trading peers as the Federal Reserve has made it clear it will initiate a rate easing cycle at its September 18 meeting as inflation edges lower.

This is a function of the so-called "interest rate differential," a financial/currency term that serves to soften a currency against other currencies when its central bank moves from higher to lower interest rates, as it similarly strengthens a currency when the respective central bank keeps rates higher.

The push against the dollar is expected to be, again, a major and popular theme at the upcoming BRICS Summit.

The Economic Importance of BRICS Continues To Grow



Source: LPL Research, International Monetary Fund 08/27/24

BRICS' Leading Members Forge Closer Military and Mutual Support Ties

Although the stated aim for the BRICS is centered chiefly on economic and financial policies, during 2023–2024 with the escalation of the Russia-Ukraine conflict, China's threats against Taiwan and force in the South China Sea, Russia's more deeply rooted bilateral relationship with North Korea, Iranian surrogates engaged in armed combat with Israel, and sales of Russian-sanctioned oil and liquified natural gas (LNG) to BRICS members, there's a developing potential for a wider platform that recognizes deeper mutual support within the broader realm of military cooperation among the BRICS constituency.

The military threat underpinning Russia’s relationship with China has been fortified with China’s steady shipments of military components destined for Russia’s arsenal. In late August, U.S. authorities leveled sanctions against Chinese companies that have been supplying parts for drones that Russia is using in its attacks on Ukraine. This is in addition to sanctions placed on a host of other Chinese companies supporting Russia’s war effort.

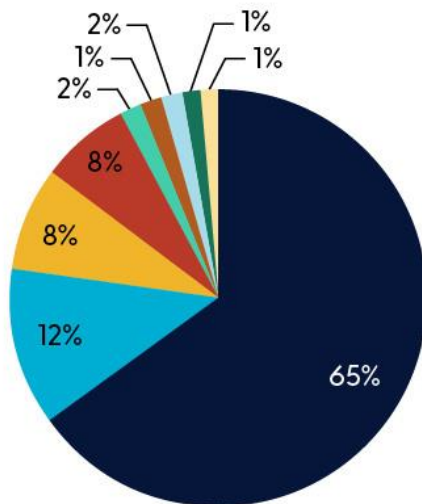
Also, the United Arab Emirates (UAE), another BRICS member, has had sanctions imposed on a UAE-based shipping company that is involved in shipping Russian LNG.

The Western alliance is facing a stronger bond among some of the members of the BRICS coalition, and although diffuse and non-binding, the associated rhetoric from the meeting could incorporate decidedly more combative themes and slogans.

The makeup of the BRICS includes relationships, such as India and China, which have experienced border tensions that have involved military skirmishes, but the general tone of the BRICS going into the summit remains contentious vis-à-vis the West on a number of levels regardless of the harmoniously-oriented sloganeering.

New BRICS+ Members Finalize Membership in the Bloc

- China
- India
- Russia
- Brazil
- Egypt
- South Africa
- United Arab Emirates
- Iran
- Ethiopia



Pie chart represents the percent of gross domestic product each BRICS+ country composes. Source: LPL Research, World Bank, Organisation for Economic Co-operation and Development (OECD), British Broadcasting Company (BBC) 08/27/24

The U.S. Election Implications

Although domestic issues in general — and economic conditions in particular — remain central to the electorate, both candidates are nonetheless expected to deliver their respective foreign policy agendas that reflect concerns and objectives for containing an escalation in world tensions.

U.S. markets have successfully navigated the headlines amid geopolitical uncertainty, thanks in large part to a backdrop of strong earnings momentum and unrivaled technology prowess, characterized as “American Exceptionalism.”

Global investors continue to buy U.S. Treasury bonds, equities, and real estate, helping to underpin the economy. According to the most current surveys, they are looking towards U.S. leadership, regardless of which party occupies the White House, to continue playing a key role in mitigating global hostility.

Asset Allocation Insights

LPL's Strategic and Tactical Asset Allocation Committee (STAAC) maintains its neutral stance on equities, while actively monitoring economic data, corporate profits, and technical analysis signals. The Committee expects volatility to remain elevated in the coming months as the market waits for more clarity on the economy, elections, and a better seasonal setup. The STAAC maintains its modest overweight to fixed income, funded from cash, which can help buffer against equity market volatility should economic conditions worsen, while also providing attractive income.

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The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

All index data from Bloomberg.

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