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INVESTMENT LETTER
The Role of the U.S. Dollar
As the Global Reserve Currency

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Sheryl Vieira's Successful Term
as President of the Central West
Coast Florida Public Relations
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INVESTMENT LETTER | The Role of the U.S. Dollar As the Global Reserve Currency

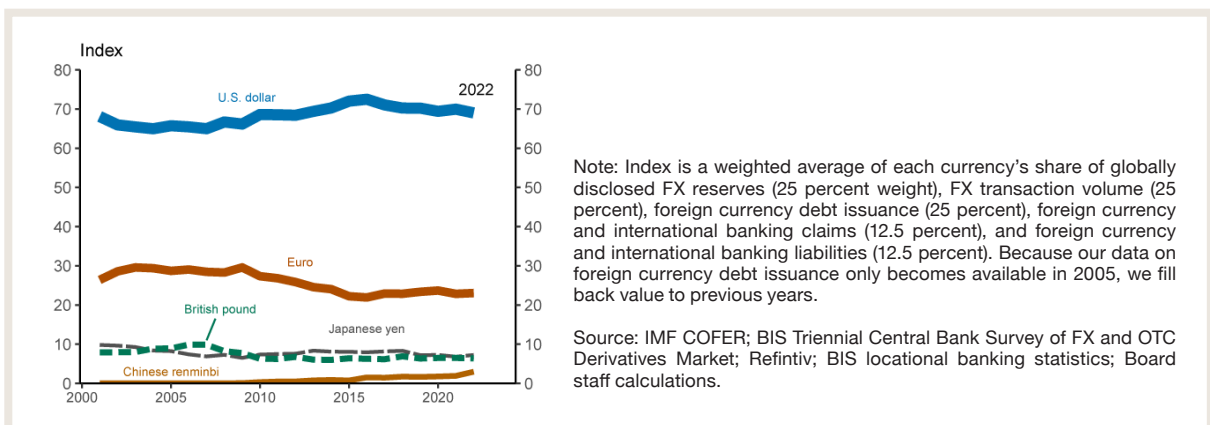
The paramount role of the U.S. dollar in the global economy confers many advantages but also invites challenges from around the world. This is a complex issue. It has come into sharper focus in recent months, beginning with the U.S. imposition of heavy economic sanctions on Russia after the Ukraine invasion, continuing with the August 2023 downgrade of U.S. Treasuries' credit score from AAA to AA+ by Fitch Ratings, and highlighted again in late August at a summit of developing economies where the "BRICS-plus-six" voiced their aspiration to increase trade in local currencies. For this discussion, we'll provide a brief history of the U.S. dollar's rise to prominence, its current status, recent challenges, and a consensus view of what lies ahead.

A BRIEF HISTORY The U.S. dollar assumed the mantle of global reserve currency from the British pound nearly eight decades ago. At the end of World War II, delegations from forty-four Allied countries met in Bretton Woods, New Hampshire and created a system of international economic cooperation. The Bretton Woods Agreement aimed to help the countries recover from the ravages of the war and initiated a fixed currency exchange rate. The mechanics of the Bretton Woods exchange rate structure eventually failed, but the central role of the U.S. dollar as the global reserve currency endures to this day.

The factors that are key to this standing include the size and strength of the U.S. economy, its stability and openness to trade and capital flows, the depth and liquidity of U.S. financial market (particularly U.S. Treasury securities), and the world's trust in the ability of the U.S. to pay its debts.

CURRENT STATUS One summary measure of the dominance of the U.S. dollar is an index of international currency usage devised by the economists at the Federal Reserve. The index represents the weighted average of five measures of currency usage. As shown below, the dollar's index level has remained stable at a value around 70 for over twenty years.

Delving deeper into two of the more heavily weighted inputs -- specifically foreign exchange reserves and foreign exchange transaction volume -- provides additional insight.



The following chart of foreign exchange reserves illustrates the dollar's function as a store of value which can be saved and retrieved in the future. Despite declines since 2020, the dollar remains by far the dominant reserve currency. These reserves are typically held in the form of U.S. Treasury securities and explains the strong relationship between the U.S. dollar and the U.S. Treasury market. The continued depth and safety of Treasuries is key to maintaining a large supply of dollar-denominated assets.



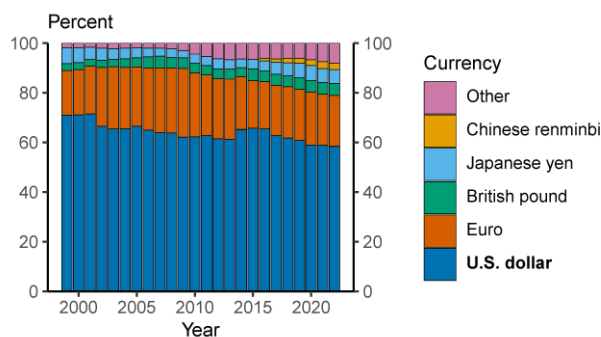
Foreign exchange transaction volumes reflect the many sources of demand for US dollars. This widely cited survey from the Bank for International Settlements shows that the share of transactions involving the U.S. dollar has remained stable at about 88% over the past 20 years.

RECENT CHALLENGES The power of the United States government to impose economic sanctions on other governments is arguably the strongest issue igniting the debate around the supremacy of the U.S. dollar. How do sanctions work? Other countries conduct trade by so-called correspondent banks with accounts at the Federal Reserve. When the U.S. imposes sanctions – as it did and continues to do with Russia after it invaded Ukraine in 2022 – the foreign country's central bank assets are frozen, resulting in defaults on its own sovereign debt and other obligations. While the sanctions clearly crippled Russia's economy, a follow-on effect was that several of Russia's other trading partners (notably India, Greece, Turkey, and to a lesser extent China) established ways to continue trading with Russia in non-dollar means of exchange.

The significance of Fitch Ratings' August 1st downgrade of U.S. Treasuries' creditworthiness from top-rated AAA to AA+ relates to current trends that could challenge the dollar's global reserve status. Fitch lists these trends as the "deterioration" of US finances, the growing debt burden and the "erosion of governance". All of these are addressable to defend the future of the dollar. The downgrade may well be seen as a warning shot across the bow giving regulators and the government an opportunity to reverse these trends and avoid more serious consequences in the future.

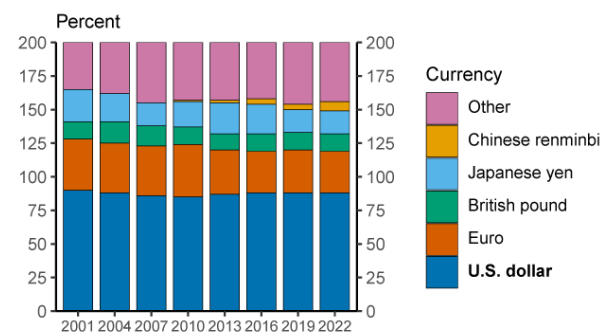
"De-dollarization" is a central topic among leaders of developing countries. Earlier this year, Brazil's president asked, "Why can't we do trade based on our own currencies?" Let's try to answer this question and look at other suggested dollar alternatives.

- **A BRICS (Brazil, Russia, India, China, and South Africa) currency is not feasible due to the lack of robust central banks and monetary policies as well as geopolitical challenges.**
- **The Chinese renminbi (yuan) is often discussed but as shown in the above charts, it is far from a current threat. Opposing forces limit the widespread adoption of the renminbi; China urges the use of its currency in bilateral trade while also imposing strict controls on the flow of money.**
- **The euro is the most viable challenger given its ease of transactions, strong central bank, and robust financial markets. However, major drawbacks are the lack of both a common treasury and a unified European bond market.**
- **Cryptocurrencies, Central Bank Digital Currency (CBDC) and other innovative methods of exchange are beyond the scope of this article. Still, it bears mentioning that some experts at the Fed believe "it is possible that technological progress may solidify the dominant role of the dollar," citing the fact that "about 99 percent of stable coin market capitalization is linked to the U.S. dollar, implying that crypto assets are de facto traded in U.S. dollars."**



Note: Share of globally disclosed foreign exchange reserves. At current exchange rates. Data are annual and extend from 1999 through 2022. Legend entries appear in graph order from top to bottom. Chinese renminbi is 0 until 2015-Q2.

Source: IMF COFER



Note: On a net-net basis at current exchange rates. Percentages sum to 200 percent because every FX transaction includes two currencies. Legend entries appear in graph order from top to bottom. Chinese renminbi is 0 until 2007.

Source: BIS Triennial Central Bank Survey of FX and OTC Derivatives Markets.

WHAT LIES AHEAD? Ensuring a healthy future for the U.S. dollar merits the attention of all participants in the global financial markets. Indeed, major institutions and most market commentators have recently addressed the issues discussed in this article and have come to these conclusions:

- "Despite its high public debt, once one considers the U.S.'s economic size, growth prospects, and global status, there is no good alternative to the dollar." – Alejandra Grindal, Chief Economist, Ned Davis Research, August 17, 2023
- There is "no competitor to [the U.S. dollar's] reserve currency status." – Joe Kalish, Chief Global Macro Strategist, Ned Davis Research, August 31, 2023
- "This topic is worth considering but has a very low likelihood of materializing. I relegate it to the world of Black Swans." – Don Luskin, Chief Investment Officer, TrendMacro, August 11, 2023
- "It [is] unlikely that the greenback will be replaced as the leading reserve currency anytime soon." – Council on Foreign Relations Background publication July 19, 2023
- "... the dollar will likely remain the world's dominant international currency for the foreseeable future." FEDS Notes, June 23, 2023.

SHERYL VIEIRA: Celebrating a Year of Exceptional Leadership as President of the Central West Coast Chapter of the Florida Public Relations Association

The Central West Coast Chapter of the Florida Public Relations Association (CWC-FPRA) bids a fond farewell to Sheryl Vieira as she completes her one-year term as President. Sheryl's leadership has been truly exceptional, leaving an indelible mark on our organization and its members.

From the very beginning of her tenure, Sheryl set her sights on a vision that would strengthen the chapter's commitment to excellence, growth, diversity, equity, and inclusion, as well as community engagement. Her tireless dedication and unwavering enthusiasm have not only achieved these goals but exceeded them.

Those goals resulted in championing members through a newly created position called Community Liaison to foster a culture of belonging, elevating PR for a purpose through a new community endeavor called Mission Mavericks (a pro-bono program offering PR support to area businesses), honoring long-time members and nurturing area students as future members, building, launching and expanding a first of its kind corporate sponsorship program to use for years to come, and celebrating being a first-time award recipient for Best Networking Group by SRQ Magazine.

Caldwell Trust is proud of Sheryl for her extraordinary service and eagerly anticipate her ongoing contributions to the field of public relations and the Central West Coast community. Congratulations, Sheryl Vieira, on a successful term as President!



Corporate Sponsors Jan Miller of Caldwell Trust Company, Sheryl Vieira, President, Travis Cornwell of Next-Mark, Yolanda Mancha of Boys & Girls Clubs of Sarasota & DeSoto Counties and Sarah Glendening, President-Elect



Joe Curley, APR, CPRC, Lifetime FPRA member, and Corporate CWC-FPRA Sponsor, alongside Sheryl Vieira

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Grand Opening
of Original Office

2007

Roland Caldwell Retires,
R.G. "Kelly" Caldwell
Accepts Role as President
& CEO

2020

Achieves
\$1 Billion in Assets
Under Management

2022

Grand Opening
of Downtown
Sarasota Office

2023

Caldwell Trust
Company Celebrates
Its 30th Anniversary!

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We recognize the staff that have dedicated a decade or more of taking care of our clients and their families

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RG "Kelly" Caldwell, Jr.	30 years
Lee Thacker.....	26 years
Suzanne Thacker.....	26 years
Jan Miller.....	22 years
Sonya Kristie	18 years
Wendy Fishman.....	16 years
Alan Blair.....	15 years
Sheryl Vieira.....	12 years
Scott Antritt.....	12 years

CALDWELL TRUST COMPANY BOARD MEMBERS WITH SERVICE OF A DECADE OR MORE

RG "Kelly" Caldwell, Jr.	30 years
Jim Woods	18 years
Lee Thacker.....	16 years
John Booth, III	14 years
Christopher Gray	13 years
Margaret Maisto.....	12 years
J. Mack Reid	10 years



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