Precious Metals Resource

Collapse of the U.S. Dollar

THE COLLAPSE OF THE US DOLLAR

The value of the US Dollar is in free fall, and there is no telling how low it will go. Savvy investors are already looking for ways to protect their portfolios from the impending crash, and you should too. While there is no simple solution when it comes to preserving your wealth, there are some steps that you can take to lessen your losses.

Retirement investors must confront the potentially hazardous consequences of uncertain fiscal and monetary policies against a backdrop of the ongoing worldwide pandemic and Biden's presidency. A rapidly growing national debt and the genuine-time danger of significant inflation are among them. One of the most serious problems resulting from the perfect storm of economic factors is a possible decrease in the dollar's purchasing power owing to inflation. The buying power of retirement savers may be destroyed at precisely the time they need it the most if inflation rises due to government action.

HERE'S A LOOK AT WHAT'S THREATENING THE VALUE OF THE US DOLLAR

INFLATION & INTEREST RATES

Inflation's irreversible reduction of the dollar's inherent value is, without a doubt, a serious problem. A modest inflation rate of 3% annually can result in a staggering decline in a retirement saver's purchasing power over time. In 20 years, a retirement saver who starts with $500,000 will require over $900,000 if the inflation rate is 3% per year. That's just three percent!

The dollar would suffer as a result of the crisis. The Federal Reserve would face enormous political pressure to raise interest rates quickly and aggressively, putting even more strain on all Americans, particularly those planning retirement.

QUANTITATIVE EASING

The Federal Reserve has used the same QE program it first employed in 2008 to combat the Great Recession at various points throughout history. The Fed's members have stated that with a few keystrokes, the central bank may print as much cash as it wants. Since 2008, it has produced $8.5 trillion in notes and coins.

Financial experts have been paying close attention to any discussions about a taper or decrease in the program since the mere mention of a reduction has had a negative impact on financial markets. The fact that the Federal Reserve has committed to keeping interest rates low for several years adds to the uncertainty surrounding any real tapering.

The Federal Reserve's money-supply-expansion policies have been successful, as intended. The M2 money supply, which measures the overall quantity of money in circulation, has risen 12 percent over the last year and 30 percent since 2020, reducing the worth of each U.S. dollar when it's time to buy something significantly.

NATIONAL DEBT

The federal debt has reached almost $29 trillion. Many causes have contributed to the debt's growth, including reckless government spending. The United States government may reach a stage where it is unable to pay interest if current estimates that this already-massive obligation might top $49 trillion by 2025 are accurate.

Foreign creditors might abandon the dollar as a global currency standard if there is a chance of default. The dollar's potential outright collapse may be avoided if this happens. So far, the country has avoided default, but the debt level is far beyond normal proportions, and nobody knows where things are headed.

COVID-19 MEASURES

As an effect of the COVID-19 epidemic, the United States adopted a strategy similar to that used during the housing bubble. To prevent a long-term economic recession, we substantially increased government spending. The Federal Reserve employed unlimited quantitative easing (QE) to assist this plan, flooding the economy with huge quantities of cash and artificially boosting the stock market by engaging in large-scale asset purchases.

Many experts are now predicting that these measures will be maintained in the future as the worldwide pandemic deteriorates with the more deadly delta variant and global economic conditions become increasingly uncertain.

GOVERNMENT SPENDING

The decrease in purchasing power of retirement savers is almost certainly a consequence of unrepentant government profligacy. It appears that the Biden administration has disregarded the dollar's volatility and advanced with record-breaking spending plans.

The Build Back Better plan is expected to cost anywhere from $7 trillion to $10 trillion. This would most certainly entail a rise in taxes, but it also has the potential of exacerbating the United States' reliance on foreign money — an increase in the national debt.

Furthermore, the global supremacy of the United States dollar is linked to our trade credit with other nations based on America's economic power. Foreign investors are concerned by the government's limitless money-printing policies and rising debt levels, which might lead to an even more substantial devaluation of the dollar.

SOCIAL SECURITY AND MED

In 2018, according to USA Today, Social Security and Medicare were expected to accumulate a staggering $82 trillion cash deficit over the next three decades. The anticipated influx of 74 million baby boomer retirees - and benefits that are three times as large - does nothing to aid matters.

It's uncertain how the government will respond to this problem — by increasing borrowing or cutting benefits. Neither "improvement" is ideal for Americans retiring in the near future because both would result in a decrease in retirement accounts' purchasing power during retirement.

CHINESE CURRENCY MOVES

China is seizing an opportunity to profit on bad news about the dollar, aiming to become the world's currency leader. Since March 2020, when the US began unprecedented levels of fiscal spending and QE to mitigate the pandemic's effects on interest rates, the yuan has appreciated by about 18% against the dollar.

On the other hand, the Chinese currency is gaining in value as the dollar's value is declining. As a result, the yuan is rising in worth on a worldwide scale. It's difficult for the United States to prevent a dollar value drop, according to Chinese experts, and economies will have to prepare in advance for any fallout.

WHAT WILL HAPPEN NEXT?

For years, economic forecasters have predicted the continuing depreciation of the US dollar. Here's one example: Stephen Roach is a Yale University economics professor who served as the Asia chair of Morgan Stanley. He projected in September 2020 that the dollar would collapse by the end of 2021. And, to say it another way, he has not adjusted his view even though new information has emerged.

When a drop in purchasing power persists, the consequences—including those linked to inflation—become ever more severe. Americans are already feeling the effects of all of these worrisome circumstances. The goal of the Federal Reserve is to achieve a 2% annual inflation rate, for example, to indicate that the economy is neither anemic nor overheating. However, in the months following May 2021, inflation rose to 5% or more on several occasions. The most recent report at the time of this writing shows a figure of 5.3%. Many economists expect prices to rise for many years to come.

Regardless of which one of these variables are involved, many people are concerned that as currency debasement continues to erode our purchasing power, they will not be able to keep the same standard of living or, even worse, run out of money in retirement.

WHAT SHOULD RETIREMENT INVESTORS DO TO FIGHT BACK?

Since the Federal Reserve was established, the dollar has lost 99 percent of its original purchasing power. Nonetheless, no one thinks the dollar will suddenly collapse. There is still time to take precautions against the consequences of these unique economic forces. Retirees should ask themselves, "How long will my dollar retain its purchasing power while all of this is going on?"

Don't be caught off guard in today's financial climate. It's critical to understand what this costly danger to the dollar might imply for your retirement funds, especially given the current economic situation.