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VIEWS FROM THE BRICK

OH HOW THE MIGHTY HAVE FALLEN

The strength of the dollar has gotten more than its fair share of attention over the last four or five years. With an administration assuming power in 2017 that carried a strong 'America first' philosophy, this topic of conversation showed no signs of slowing down (but the dollar did). Recent comments from U.S. leaders have thrusted the dollar back into the spotlight, so here is some food for thought on what you've been hearing about the greenback.

SEE, WHAT HAD HAPPENED WAS

Treasury Secretary Steven Mnuchin had an interesting choice of words in Davos last week regarding the strength of the dollar:

"A weaker dollar is good for us as it relates to trade and opportunities. Longer term, the strength of the dollar is a reflection of the strength of the US economy and that it is, and will continue to be, the primary reserve currency."[1]

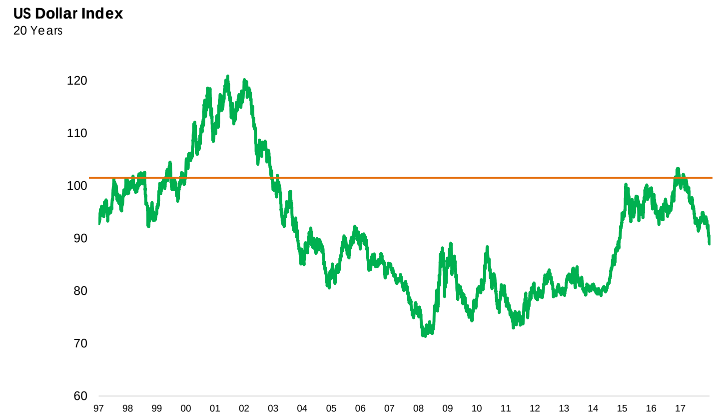
Nothing overtly scandalous but typically not commentary the world has grown accustomed to from U.S. Treasury Secretaries in the past. In response, President Trump responded to questions the following morning on the U.S.' desire for a weaker dollar:

"The dollar is going to get stronger and stronger, and ultimately I want to see a strong dollar," adding, "It should be what it is . . . It should also be based on the strength of the country."[2]

A bit of a mix-up coming from the administration on what the desired role the dollar should be playing in the global economy. Also, a bit of confusion regarding what determines the strength of a currency relative to its peers. Dollar strength (all currencies for that matter) is not gauged based off the subjective perception of the 'strength' of its home country. Currency strength is a result of several economic factors including supply and demand, inflation and interest rates both at home and abroad. A bit different than wetting your finger and sticking it in the air. But, regardless of what's been detailed in the news, the mighty dollar's fall didn't start last week. It started several years ago.

SOURCE: [1] Financial Times. [2] Financial Times. This presentation is solely for informational purposes and should not be taken as investment advice. For further information, please contact one of our investment adviser representatives.

Shown to the right you can see the valuation of the dollar relative to a basket of its peers as gauged by the dollar index. A peak in 2001 has set a downtrend in action for the last 17 years that has struggled to overtake the 100 level with any real significance. Fundamentally several factors are at play to prevent this relationship from appreciating above this level, or at least have been for a few years[3].



WHAT DOES A WEAK DOLLAR REALLY MEAN

A weak dollar carries more implications than what might being implied by the commentary coming from Davos. Fundamentally speaking, a weak currency reduces the currency holder's purchasing power (*remember all those risks that could be ignited by a pickup in inflation we've talked about?*), it devalues the liabilities denominated in said currency (*foreign holders of USD debt would bear the burden here, cue the budget debate*) and it is illusionary for assets denominated in the currency. So at least dollar asset investors will *think* they're wealthier. Let's also not forget that roughly 50% of revenues derived from the S&P 500 come from outside of the U.S. Therefore, you could fathom the scenario where shorter term revenues see a bump due to the slide in the currency.

FLASH BACK

To start 2018 stocks (the S&P) climbed more than 7% out of the gate. This is nearly the equivalent of every expected return for the year set out by numerous annual outlooks, btw. Hence, why we think price targets and forecasted levels are tremendously useless. But if you'd like, historical context allows us to remind you how 1987 started out. The dollar collapsed by more than 30% to begin the year (off the highs set in '84). Stocks caught the memo eight months later selling off by more than 20% in the following three months[4].

SOURCE: [3]Performance data derived from Bloomberg. Graph generated by GFG Capital. [4] Graph generated by TradingView. This presentation is solely for informational purposes and should not be taken as investment advice. For further information, please contact one of our investment adviser representatives.

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