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The Strength (or Weakness) of Your Money

How a change in the value of the US dollar impacts the US economy—and your wallet.

IMAGINE YOU JUST GOT BACK FROM THAT ROMANTIC PARISIAN VACATION YOU FANTASIZED ABOUT FOREVER. **The trip was a dream come true, but you notice something odd when you check your credit card statement. The cab ride from Charles de Gaulle Airport, those Eiffel Tower souvenirs, and that extra buttery croissant all cost more than you thought.**

People say that money doesn't go as far as it used to—and that may be true, but this is not simple inflation or Parisian price gouging. Your cash appears to have less value compared to the euro than it did just a few months ago when you planned your getaway.

What Happened?

Americans often first encounter the strength or weakness of the dollar when traveling internationally. In the case of your European vacation, a weaker dollar is why everything cost more than originally anticipated.

The factors involved in how a dollar grows stronger or weaker can vary. However, the one constant is that the dollar follows a cyclical pattern of rising and falling. This cycle impacts you a lot more than how much that café stop at the Louvre cost.

What a Strong Dollar Means

When the Federal Reserve (Fed) takes action to send interest rates up, the dollar's value usually strengthens. It can buy more of another currency than it could previously. As the Fed continues to normalize rates, the dollar will continue to strengthen.

A strengthening dollar can help fight against inflation since a strong dollar helps naturally slow down a US economy that may be growing too fast. In addition to cutting the cost of your next trip outside the US, investors in US bonds will earn higher yields when the greenback is strong. Goods produced abroad coming into the US end up costing less for domestic consumers.

A strong dollar is a positive for companies that do most of their business in the US, but ultimately bad for large-cap multinational companies. This is because American goods become more expensive for buyers overseas—which, in turn, makes non-imported products more appealing in foreign nations. So, companies must be disciplined in their business practices to stay competitive because they won't win on price.

Key Points

- The fluctuation between a stronger and weaker US dollar may necessitate shifting investment exposure.
- Each environment presents different opportunities and pitfalls for investors.
- A financial professional can sort out what impact the dollar's strength or weakness may have on portfolios and potentially help you pivot.

What a Weak Dollar Means

When the Fed lowers interest rates, the value of the US dollar declines because investing in US bonds is less attractive. American goods, in turn, become cheaper abroad. US companies that export most of their products prefer a weakened dollar because it helps make their products more affordable to buyers overseas. It often leads to lower unemployment numbers here in the US as production ramps up.

A weak dollar could also present tailwinds for global investment in emerging-market countries with external US debt (e.g., Latin America, Eastern Europe, Africa, the Middle East, and Asia). The loans they've taken in US dollars become less expensive for them to repay.

Countries that export commodities (e.g., nations in South America and Africa) typically see a boost, too. The dollar is the pricing benchmark for most raw material and agricultural products. After the 2008 Global Financial Crisis, there's been a strong inverse relationship between commodities and the US dollar.

However, a weak dollar also has downsides. Imported goods used to manufacture products in the US become more expensive. Travel outside of the US, including your next trip to France, may be more expensive, as well.

The strengthening dollar can also help fight against inflation since it helps naturally slow down a US economy that may be growing too fast.

A Strong Dollar Benefits...	A Weak Dollar Benefits...
US tourists traveling abroad	Big multinational US companies
Investors in US fixed income	US employment
Domestic- and foreign-based companies that sell mostly to US-based consumers	Emerging markets with US debt
US buyers of foreign products	Commodities-exporting countries
Non-US investors in US capital markets	US investors in foreign markets

Weighing Out What To Do

The implications of a strong or weak dollar can be far more lasting than forking out a little less or a little more for a bottle of Champagne while on vacation. A financial professional can help sort out what impact the strength of the dollar may have on your investment portfolio. With this in mind, they can help you pivot to opportunities and possibly steer you away from the pitfalls.

To learn more about positioning your portfolio for currency swings, please talk to your financial professional.

Investing involves risk, including the possible loss of principal. Fixed income security risks include credit, liquidity, call, duration, and interest-rate risk. As interest rates rise, bond prices generally fall.

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