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Making Sense of the Dollar's Changing Value

Currency movements are complex and unpredictable—but they can have real-time effects on your portfolio.

Insight from Hartford Funds

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Key Points

- The US dollar's value is shaped by a complex mix of economic trends and unpredictable global events, making currency movements difficult to forecast.
- Shifts in the dollar can directly affect the returns on international investments, as well as the cost of imports and exports for US-based investors.
- Instead of trying to predict currency swings, investors can build resilience by focusing on diversification, long-term goals, and a disciplined investment strategy.

Global currencies, especially the US dollar (USD), play a key role in shaping investment outcomes. While currency shifts often happen behind the scenes, their impact on portfolios can be significant and sometimes surprising. With recent swings in the dollar catching many investors off guard, it's worth taking a closer look at what drives these changes and what it means for investments.

The Dollar's Recent Trends

For much of the past decade, the USD was on a steady winning streak. Investors got used to seeing the dollar grow stronger compared to other currencies, which made international investments look less attractive when those gains were converted back to dollars. Many professionals even used strategies to "hedge" against currency swings, and for a while, those moves paid off.

But in early 2025, things changed quickly. The dollar dropped about 10%—a sharp reversal driven by shifting US interest rates, changing global growth patterns, and evolving trade dynamics. As a result, the old playbook didn't seem to work anymore, and investors began asking new questions: What's next for the dollar? How will future currency moves influence portfolios?

Factors That Shape the USD (and Make it Unpredictable)

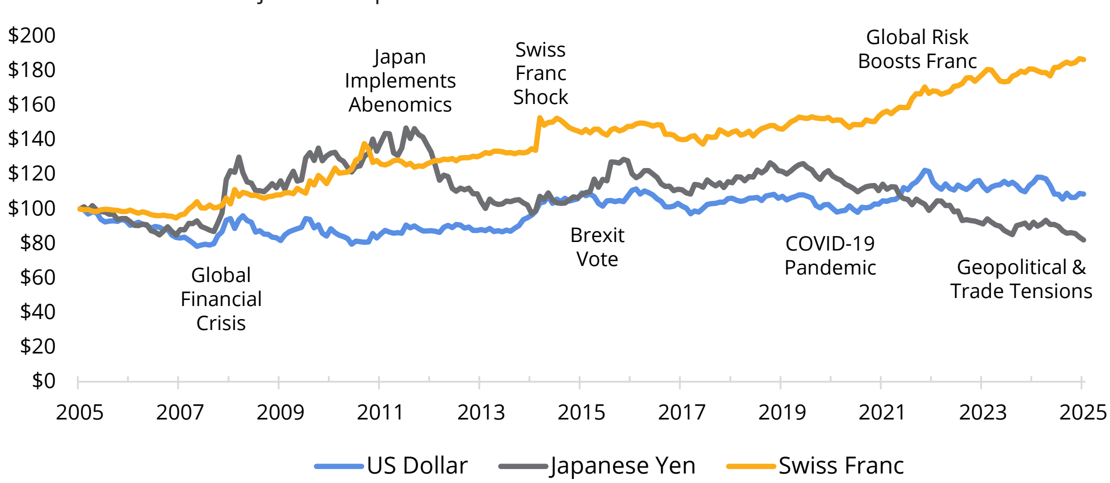
The USD doesn't move in a vacuum—it's shaped by a mix of factors. There are the by-the-numbers influences, such as differences in interest rates between countries, how fast economies are growing, and how much nations are trading with each other. Economists and market analysts track these closely, and they're often referenced in financial news to predict how currencies will react.

Other factors are harder to measure; wars, natural disasters, or shifts in trade policies can shake up currency markets in unpredictable ways. And when uncertainty rises, investors often flock to "safe-haven" currencies such as the USD, Japanese yen, or Swiss franc, driving up their value—but not always in sync (**FIGURE 1**).

FIGURE 1

Safe-Haven Currencies Don't Always Move in Lockstep

Growth Relative to Major Developed-Market Currencies



As of 12/31/25. **Past performance does not guarantee future results.** Indices are unmanaged and not available for direct investment. Index construction methodology: Underlying currencies mirror those of the US Dollar Index (DXY), excluding the reference currency. Weights are pro-rated from DXY's allocations as of 12/31/25 and rebalanced monthly. Please see page 4 for index composition details and definitions. For illustrative purposes only. Data Sources: Bloomberg and Hartford Funds, 1/26.

Yet, as we've seen recently, not every global event leads to the same outcome, and sometimes the market's reaction can surprise even seasoned professionals. Even with sophisticated models and abundant data, sudden shifts can quickly upend expectations. Central banks might adjust interest rates overnight, governments could announce new trade policies that shift the landscape in a matter of hours, or a sudden spike in oil prices might ripple through global markets and currency values.

> Currency markets are influenced by a mix of measurable trends and unpredictable world events, and both can shift quickly.

FIGURE 2

Economic Conditions That Can Boost or Undercut the Dollar

Increase USD Demand	Reduce USD Demand
Higher US interest rates vs. global peers	Lower or lagging US interest rates
Stronger US growth attracting capital inflows	Slower US growth vs. stronger global growth
Trade surpluses or strong export demand	Widening trade deficits or weaker export competitiveness
Global uncertainty driving safe-haven flows	Higher global confidence reducing safe-haven demand
Federal Reserve tightening	Federal Reserve easing
Rising foreign investment into US assets	Shifts toward emerging markets or alternative reserve currencies

Source: Hartford Funds.

Navigating Currency Shifts in Your Portfolio

While it's tempting to rely on economic indicators or expert predictions, there's always an element of uncertainty for investors. Currency markets are influenced by a mix of measurable trends and unpredictable world events, and both can shift quickly.

For US-based investors, changes in the strength of the dollar have a direct impact on returns from international investments. When the dollar gets stronger, the value of foreign investments drops when converted back to US dollars; when the dollar weakens, those same investments can look more attractive. Beyond this currency-translation effect, the impact of currency moves can be tricky to pin down. Global supply chains, local market conditions, and company-specific factors all play a role, making it difficult to predict exactly how currency shifts will affect your portfolio.

FIGURE 3

When the Dollar Moves: Key Investor Implications

Scenario	Potential Outcomes for Investors
USD strengthens	- Returns on international investments may decrease when converted back to dollars - Imported goods/services may become cheaper for US consumers - US companies that export may face tougher competition abroad
USD weakens	- Returns on international investments may increase when converted back to dollars - Imported goods/services may become more expensive - US exporters may benefit, as their products become more affordable overseas
Sudden global event (war, disaster, etc.)	- Investors may move money into “safe haven” assets such as the USD, causing rapid currency swings - International investments may become more volatile
Interest rates rise in the US	- The USD often strengthens, which can impact international investment returns and global business dynamics
Interest rates fall in the US	- The USD often weakens, potentially boosting returns on foreign investments but making imports pricier

Source: Hartford Funds.

While the dollar’s movements can influence international returns and global business dynamics, trying to anticipate every twist and turn is rarely productive. Instead, focusing on sound investment fundamentals—such as diversification, long-term goals, and a disciplined strategy—can help you manage the risks and seize opportunities that arise, regardless of how currencies move. By keeping perspective and staying committed to your plan, you may be better equipped to weather market changes and make the most of your portfolio over time.

To learn more about managing the USD's effect on your portfolio, please talk to your financial professional.

The Japanese Yen Index measures the value of the yen relative to a basket of major global currencies whose composition mirrors that of the DXY, excluding the yen itself; the weights (66.7% euro, 13.8% British pound, 10.5% Canadian dollar, 4.9% Swedish krona, and 4.2% Swiss franc) are pro-rated from DXY weights as of 12/31/25 and rebalanced monthly, with totals not necessarily summing to 100% due to rounding.

The Swiss Franc Index measures the value of the Swiss franc relative to a basket of major global currencies whose composition mirrors that of the DXY, excluding the Swiss franc itself; the weights (59.8% euro, 14.1% Japanese yen, 12.3% British pound, 9.4% Canadian dollar, and 4.4% Swedish krona) are pro-rated from DXY weights as of 12/31/25 and rebalanced monthly, with totals not necessarily summing to 100% due to rounding.

US Dollar Index measures the relative value of the US dollar against a basket of other foreign currencies.

Important Risks: Investing involves risk, including the possible loss of principal. • Foreign investments may be more volatile and less liquid than U.S. investments and are subject to the risk of currency fluctuations and adverse political, economic and regulatory developments. These risks may be greater, and include additional risks, for investments in emerging markets or if focused in a particular geographic region or country. • Diversification does not ensure a profit or protect against a loss in a declining market.

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