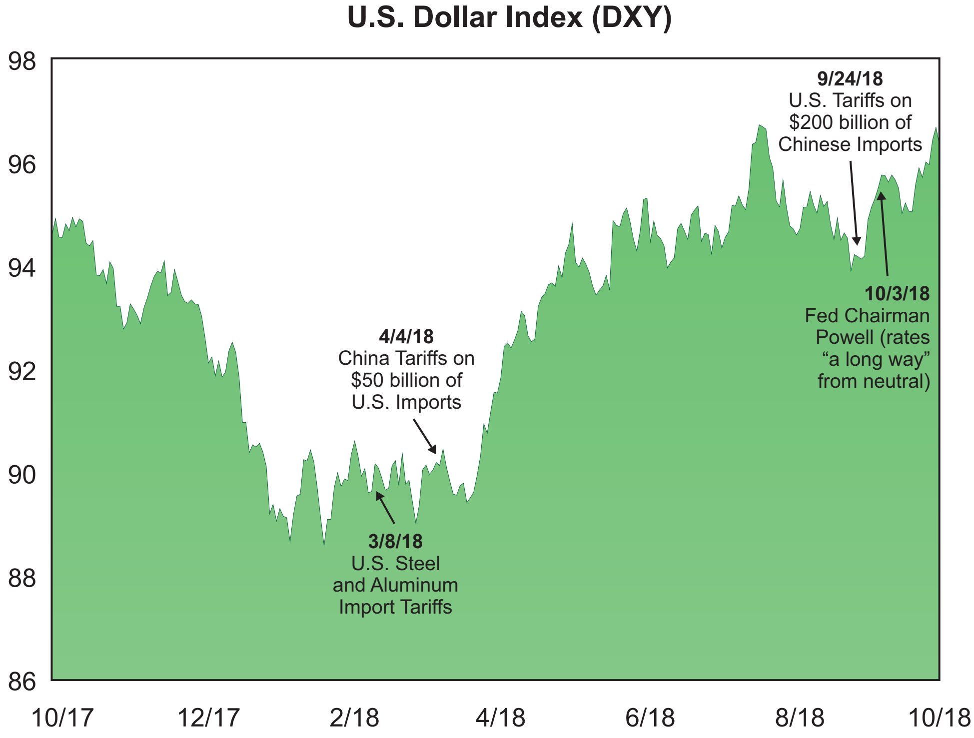
A Snapshot Of The Rally In The U.S. Dollar



Source: Bloomberg. Period is from 10/26/17 through 10/26/18.

View from the Observation Deck

1. When the Trump administration officially launched its initial round of tariffs on 3/8/18 targeting steel and aluminum imports the U.S. Dollar Index (DXY) stood at a reading of 90.18.
2. The 90.18 mark is an interesting reference point because it is in line with the U.S. Dollar Index's 20- and 30-year averages of 90.78 and 90.97, respectively, as of 10/26/18, according to Bloomberg.
3. Over the past 30 years, the index peaked at a reading of 120.90 on 7/5/01, while hitting a period-low of 71.33 on 4/22/08, according to Bloomberg.
4. As indicated in the chart, the index began to rally not long after China retaliated with its own round of tariffs targeting U.S. imports in early April of this year.
5. While the U.S. has made some progress in renegotiating trade agreements, as evidenced by the new U.S.-Mexico-Canada Agreement (replaces the North American Free Trade Agreement) unveiled at the end of September 2018, it has yet to strike a new agreement with China. As a result, both the U.S. and China have escalated the use of tariffs with neither side backing down publicly.
6. The Trump administration has indicated that it is prepared to target another $257 billion worth of Chinese goods as early as December if talks with China do not bring the two parties closer to a deal, according to Bloomberg. If so, that would mean the U.S. would essentially have tariffs on all goods imported from China.
7. The escalation of trade tariffs has played a significant role in the increased volatility in the markets and the rise in the U.S. dollar, in our opinion. Investors may be concerned that a combination of a trade war between the two largest economies and the tightening of monetary policy by the Federal Reserve (four more projected rate hikes through 2019) could negatively impact global growth moving forward.
8. The strengthening of the U.S. dollar since April of this year could just represent a near-term flight to quality. Stay tuned.

This chart is for illustrative purposes only and not indicative of any actual investment. Investors cannot invest directly in an index. The U.S. Dollar Index (DXY) indicates the general international value of the dollar relative to a basket of major world currencies.