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

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. It closed on 5/21/19 at 98.06.

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 90.76 and 91.00, respectively, as of 5/21/19, 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 2018.

5. 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 (President Trump believes it has tightened too much) could negatively impact global growth moving forward.

6. The Federal Reserve has indicated that it does not anticipate any additional rate hikes for the remainder of 2019. Investors are still waiting for a new trade agreement between the U.S. and China.

7. The strengthening of the U.S. dollar since April 2018 could just represent a flight to quality/safe-haven. It will be interesting to see once a deal gets struck which direction the U.S. dollar moves. Based on today’s premise, there is a good chance it would move lower, in our opinion. 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.

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