Prime Capital
FINANCIAL

A Weaker Dollar

What Does it Mean for Portfolios?

In the first half of 2025, the U.S. dollar index fell nearly 11%, the biggest decline in more than 50 years, ending a 15-year bull cycle. When the U.S. dollar loses value in relation to other currencies, the dollar weakens. This means that one greenback buys less foreign currency and vice versa. A weaker USD usually lifts import prices and foreign-travel costs, while making U.S. exports more attractive to buyers, as they are now able to buy more U.S. goods for less money. However, it can also shift capital toward foreign markets.

What Weakened the Dollar?

In the first half of 2025, two major factors influenced the dollar's decline.

1. President Trump's tariffs announced on Liberation Day stoked U.S. inflationary fears and trade uncertainty.

2. Anticipation that the Federal Reserve would cut rates amidst a tricky macroeconomic environment put strong downward pressure on the USD, even as the policy and economic data evolved through mid-year.

How it Impacts Investors

A weaker dollar makes foreign assets more attractive, potentially reducing foreign capital flows in the U.S. Foreign equities tend to outperform their historical returns and U.S. investors benefit from higher global risk-taking as well as currency tailwinds when exposed to foreign markets. U.S. companies with international large overseas operations benefit as they get a currency translation tailwind (AAPL, MSFT, CAT), while firms reliant on imports often lag. Additionally, when the dollar weakens, inflation pressures increase, and U.S. bonds see rising yields and lower prices. Investors generally move towards real assets when the dollar weakens (gold, real estate, oil), partly as they can outperform in weaker-USD environments.

The Bottom Line

A weakening U.S. dollar can induce fear in investors. However, a fall in the dollar hurts cash, not investments, and well-diversified investors should see that their investments help to offset the negative impacts of a cheaper dollar. The primary risk of a weaker dollar is domestic inflation, which can be minimized by remaining invested and diversified. In the short term, investing in foreign markets, international companies, and real assets can help hedge the negative impacts of a weak dollar.

What's Next?

Speak to a professional. It's that simple. Our advisors at Prime Capital Financial have the knowledge to help shepherd you through the intricacies of the current economic environment. Our financial professionals are ready to help you get started.

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