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Stock Market Investing Tips, Techniques, and Resources



Weaker Dollar and Your Investments

By www.ProfitableInvestingTips.com

The US economy is going to need more stimulus money to recover and that will drive the dollar down. How about a weaker dollar and your investments? A weaker dollar is often good news for US exports but how does that work out in a world where every economy is weak and nobody has the money to buy anything? Let's look at how a weaker dollar might affect the various sectors of the stock market.

Weaker Dollar and Your Investments in the Stock Market

Whenever the dollar goes up or down it affects different sectors of the stock market differently. *Market Watch* looks at what Wells Fargo says about a [falling dollar and market sectors](#).

A falling U.S. dollar is getting a lot of attention from stock-market investors, and according to the chart below from Wells Fargo Investment Institute, the focus isn't misplaced.

The chart sums up how the stock market and a variety of sectors have performed during past episodes of dollar weakness stretching back to 1988. As noted previously, the dollar's long-term correlation with the S&P 500 SPX is somewhat negative, meaning that equities tend to rise as the dollar falls - though there are exceptions.

In general, a weaker dollar means more sales by multinationals offshore and thus higher profits. This is especially true with high tech companies that do not need to ship anything but simply download software via the internet. Companies that need to ship materials can still profit but have a higher overhead. On the other hand, companies that sell products and services within the USA tend not to do so well when the dollar falls. Much of this is because discretionary spending goes down in recessions and whenever the dollar is weak. Utilities also suffer a bit during these times.

Where Is the Dollar Going Next?

[Gold is going up](#) as the US prints more money to deal with the pandemic. Is this a short term phenomenon or something long term? *NBC* writes about the [dollar headed for a fall](#).

There are certainly plenty of economists out there who will tell you that the dollar is headed for a fall. If the rest of the world stops buying our IOUs, the Treasury Department would have to keep raising interest rates until it could find buyers. That could, in theory, throw the U.S. economy into a tailspin.

But for all its vulnerability, the U.S. dollar is still the most powerful currency in the world. And one big reason is that the U.S. economy is still the largest and most resilient in the world.

Because of this, the US has an outsized effect on the rest of the world. With a fifth of the world's GDP and the dominant currency, the dollar often drives the rest of the world's currencies and not the other way around. In regard to a weaker dollar and your investments, you can expect the USD to weaken from its three year high and then to slowly inflate over the years. But, because other currencies will follow the same course that part will have little effect on specific stock sectors. The greater effect over the next couple of years will be how the pandemic plays out and the abilities of nations to display the discipline needed to cope with this health crisis and its effect on their economies.

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