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FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

The U.S. Dollar reached a 20-year milestone last week, trading at parity with the euro for the first time since December of 2002. What does this mean? Simply put, from Tuesday to Thursday of last week €1 = \$1. The move underscores a recent period of notable USD gains, after falling during the initial wave of COVID lockdowns in 2020, the Dollar rallied over 20% from December of 2020 through the end of last week. This can be measured by the DXY index which shows the value of the dollar versus a basket of global currencies such as the euro, Japanese yen, British pound, etc.

Although the majority of us don't go through our day-to-day weighing the impact of global currency fluctuations, or at least I hope that's not the case, at certain levels they can have significant economic implications. The combination of the U.S. Federal Reserve raising interest rates, murky economic outlooks across the globe, and heightened geopolitical risk, has led to an influx of foreign capital into the U.S. as foreign investors seek perceived 'safe' assets that are now offering more attractive yields. This increases demand for USD and boosts its value relative to the domestic currencies of the foreign investors. A stronger dollar significantly influences foreign trade as it makes imports of foreign goods cheaper for U.S. companies and consumers, a dynamic that could help ease inflationary pressures. However, it also makes U.S. exports less attractive to foreign nations as they are now more expensive in terms of their domestic currency. This dynamic has the potential to negatively impact the trade deficit as demand for imports rises and demand for exports softens. Additionally, American companies operating internationally will likely see their revenues shrink as they translate foreign sales back into USD, something to keep an eye on now that the Q2 earnings season is underway.

Currency markets are complex and their economic impacts are often very hard to nail down. Moving forward the direction of the Dollar will largely depend on Fed policy and economic data, but you can be sure conversations surrounding the strength of the greenback will continue as the economic outlook evolves. Thanks for reading, and as always, if you have any questions, or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

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