August 24, 2020

FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

A prolonged period of US dollar gains has reversed abruptly. The dollar had enjoyed a decade of nearly uninterrupted gains that saw it appreciate more than 40% versus a broad basket of other major currencies. However, the dollar has fallen nearly 10% since its mid-March peak.

Several factors that typically influence the direction of the US dollar have shifted in sentiment since the beginning of the COVID-19 pandemic. The Federal Reserve's policy response to the coronavirus crisis has been both quick and significant. By cutting interest rates to near zero to provide liquidity to financial markets, the Fed has essentially narrowed the gap between US interest rates and those in other major countries, having a weakening effect on the dollar. Ceteris paribus, higher interest rates make a country's currency more attractive to hold.

Another catalyst for a weaker dollar relates to the United States' slow and, albeit poor, response to the COVID-19 outbreak relative to other nations. Economists and market participants believe that a lack of virus containment will ultimately result in slower US economic growth versus other developed countries. Consequently, the US recovery is forecasted to be a tougher challenge, with higher unemployment and lower consumer spending. Additionally, with a US presidential election coming in just a few months, political uncertainty has risen among market participants as it relates to domestic and international policy and regulations, making the outlook for the US economy more uncertain.

Turning to inflation, consumer prices, excluding often-volatile food and energy, rose the most in one month in July, since 1991. However, the unexpected increase is seen more as a recovery from the COVID-19 recessionary pressures that sapped demand in the economy in the first half of 2020. Core inflation rose 0.6% in July to a 1.6% annualized rate, still below the Federal Reserve's target of 2%. The jump in prices is being widely attributed to an unwinding of sharp declines experienced when non-essential businesses were shut down in mid-March to control the spread of the virus. Inflation has been often described as too much money chasing too few goods. However, right now, it is believed that there is simply not enough demand for goods and services in the US to create a sustained rise in inflation.

We thank you for your continued trust and confidence in us as we continue to monitor these developments closely in the third quarter.

Sincerely,

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