



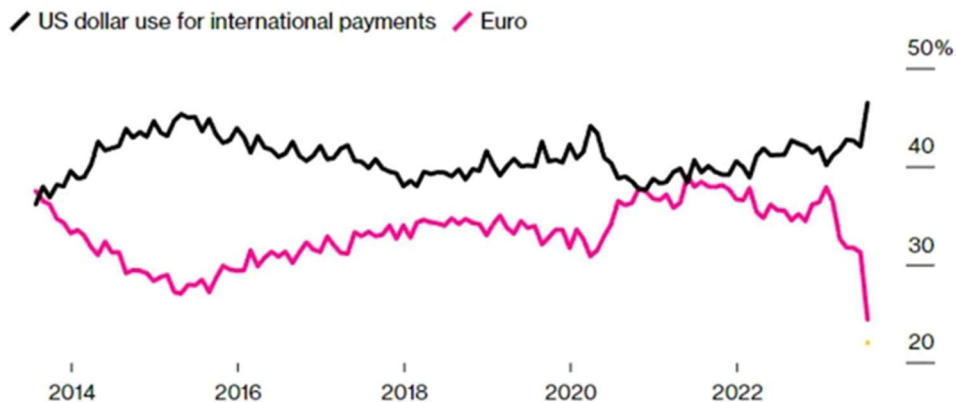
**Is the U.S. Dollar Doomed?**

This year we have heard an increasing number of negative views on the U.S. Dollar. There is plenty of speculation that it is doomed, and that the new currency of choice could be the BRICS (*reference to the five currencies used by the current BRICS members*) or maybe returning to gold, or maybe even Bitcoin. It looks like someone forgot to include the Dollar in this conversation. In the chart below, we see that it has surged to the highest level this year after recently breaking out of a sideways base.



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In fact, this year the U.S. Dollar has surged compared to the perceived second strongest currency, the Euro, in terms of usage for international payments.



Source: SWIFT

Predicting most things is very difficult, but the future of currencies is particularly challenging. In this case, we prefer to take our message from the market itself and the strength of the U.S. Dollar showing its resilience until proven otherwise.

## Adjusting to Higher Interest Rates

The recent surge in the 10-year Treasury yield to the highest level in sixteen years has understandably created a great deal of attention and likely is the single most important catalyst for this year's stock rally to have fizzled out. In fact, yields on the 10-year Treasury have broken out to a new recent high after a period of consolidating last year's huge run higher.



While a 10-year yield at the current 4.3% might feel high compared to recent years, we see below that many decades had rates significantly higher. Recall that stocks began a massive bull market run throughout the 1980's and 1990's despite much higher yields, though there were certainly other noteworthy differences.

### Average U.S. 10-Year Yield by Decade

1930s	2.97%
1940s	1.99%
1950s	2.94%
1960s	4.69%
1970s	7.51%
1980s	10.59%
1990s	6.64%
2000s	4.41%
2010s	2.36%
2020s	2.12%

Historically, it is common for the 10-year to yield approximately 2% more than CPI. At current inflation rates that would imply a 10-year yield of around 5%. That also coincidentally, or not, would be a minimum target that the current breakout in yields matters from a technical perspective.

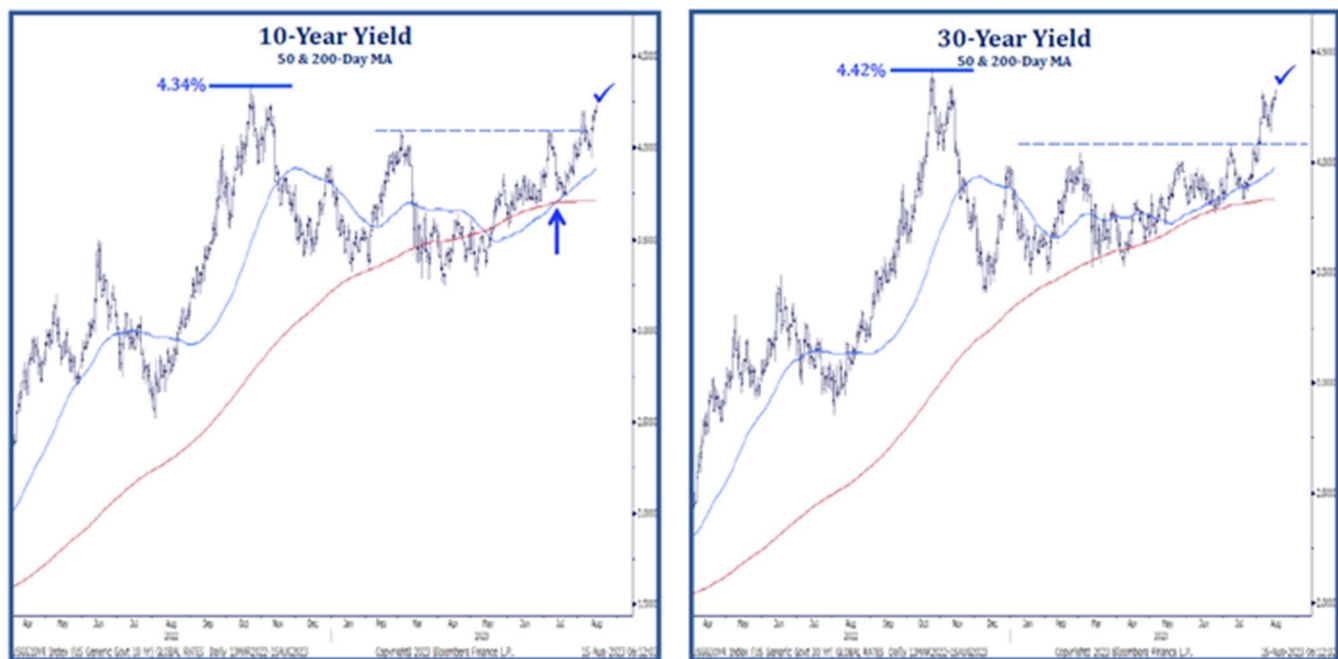
<b>10-Year Yield vs. CPI</b> <i>Data Since 1962</i>	
% of Months 10-Year Yield > CPI	83%
Average Premium 10-Year Yield to CPI	201bps

Higher yields offer greater competition for stocks as investors have more choices. Higher rates also make it more costly for companies that choose or need to fund operations via debt. However, unless rates surge at a rapid pace, we think investors could get comfortable to higher levels over time. Remember, much of investing and finance in general is behavioral. Think about the first time you paid \$3 for gasoline. It was a shock, but eventually it seemed like the norm.

The unknown of how high rates can go is one of the main factors why we continue to see stocks stuck in a wide trading range for the foreseeable future. If investors get used to higher rates or come to the conclusion that they are higher because the economy is stronger, certain sectors of the markets are apt to benefit.

**Interest Rates Move to the Upside**

We have been pointing out how interest rates have spent months trading in a sideways range. Finally, rates have broken out of this range with a move to the upside. Below, we see the 10-year and 30-year Treasury yields nearing the highs from last fall.



Source: Strategas Research

While there are always many factors affecting financial markets, we think it is no coincidence that as this move higher in yields has occurred stocks have pulled back. It will take time for stock investors to adjust to higher yields and emphasizes our belief that stocks will be stuck in a wide range for the foreseeable future. Whether equities visit the upside or downside of that range, they most likely will be heavily influenced by the future path of interest rates.

*Past performance is no guarantee of future results.*

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