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## Current Views

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In this commentary we discuss our views regarding the depreciating dollar and its impact on US equity markets. The dollar has declined steadily against most major currencies over the last several years. Generally speaking, this may be attributed to shifting perceptions regarding the attractiveness of the United States economy from an investment perspective relative to certain other major and developing countries. A more detailed analysis of the underlying reasons is beyond the scope of this note. What is relevant is our belief that an orderly depreciation of the dollar is beneficial for the stock market, at least over the near to intermediate term. The weak dollar has been beneficial to US based exporters, enabling them to price their products more competitively in foreign markets. In a similar vein, the declining dollar has helped to insulate US domestic companies against their foreign counterparts whose products have become more expensive in dollar terms. Most importantly, in so far as the dollar's weakness is a function of low interest rates which the market views as being supportive to an economic recovery, equities should continue to benefit.

What we have described above pertains to an orderly decline. We believe that an accelerated depreciation of the dollar would likely have a detrimental impact on stock prices. Should this occur, overseas demand for US securities could be diminished as returns would be negatively impacted by currency translation. This would most likely result in sharply higher interest rates as falling bond prices would send yields soaring; likely dealing a serious blow to an economy in a state of fragile recovery.

It is our feeling that the dollar is unlikely to rapidly decline from current levels. Past currency crises share commonalities that are not evident in today's US economy. Examples include fixed exchange rates and massive political uncertainty. Our base case is that the dollar continues to steadily decline, driven by the interest rate differential between dollar denominated short-term securities and those of other major currencies. That being said, we understand the risk that a sharp change to the dollar's trajectory would pose to equity markets, and will continue to monitor that risk accordingly.

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