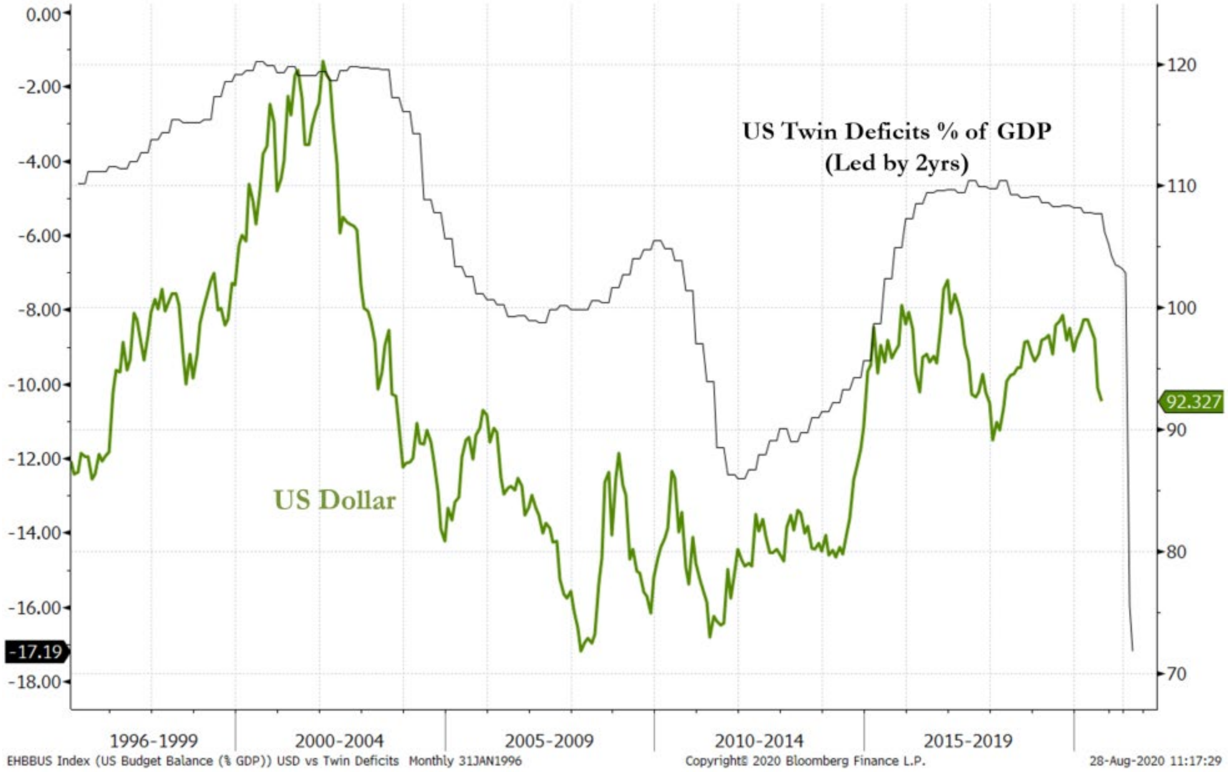
TODD Asset Management

Todd's Chart of Interest

September 2, 2020

The Dollar "Bears" Watching



Source: Bloomberg, US Treasury and Todd Asset Management as of 8/28/2020
US Twin Deficits = US Federal Budget Deficit + Current Account Balance. These series are shown as a percent of US Nominal GDP and led by 2 yrs.

- The Covid-19 Pandemic has been unprecedented in many respects, as has the response from policy makers to stabilize the economy. As a result deficit spending has exploded to the widest level since WWII, accounting for more than -17% of US GDP.
- Historically, ***rising deficits have led to a much weaker Dollar***. With the Dollar trading at multi-year lows, we believe headwinds continue to pile up (i.e. lower interest rates in US, global economic recovery, etc.) that can push the Dollar much lower over the coming years.
- A bear market for the Dollar would also have implications on several other familiar trades that have become historically stretched. A weakening Dollar has typically coincided with Value outperforming Growth and International markets outperforming the US. Leadership changes tend to occur around recessionary bear markets and the weakening Dollar may be indicating a rotation from Growth to Value and US to International is on the way.

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