Tracking U.S. Dollar Movements: Economic and Market Implications

July 18, 2025

David Hagee: Hello and welcome to Conversations with Commerce Trust, our show about the markets, investment themes, and economic insights that matter to you. I'm your host, David Hagee, Chief Investment Officer with Commerce Trust.

Today we're discussing the dollar, the U.S. economy, and equity markets with Kelly Jernigan, our Director of Family Wealth Strategy. Welcome to the podcast, Kelly.

Kelly Jernigan: Thanks, David. Great to be here.

David: Well, excited to have you here. I think this is a topic that, you know, certainly has come to the forefront in 2025. We've been focused on the dollar inside 2025, but it's always been an undercurrent, but really sort of popped up more recently.

As we've seen inside 2025, this longer-term trend of the dollar has broken down and that you've started to see the dollar depreciate against a basket of global currencies. So far inside this year, what's your take been on the dollar's depreciation?

Kelly: So, we've seen really a couple of factors, David, that has caused the dollar to depreciate. One is that, you know, we are talking about a(n) industrial resurgence in the U.S. and so with that you want to have a what we would call a weaker dollar. Or a dollar that's, you know, priced lower to a basket of currencies, because that helps our exporters, right? That helps our companies that are going to send their goods overseas to have a lower dollar. So having a stated policy of a weaker dollar is going to drive the dollar down.

Of course, we also have negotiations ongoing about tariffs and really kind of a reordering of trade, of global trade. And so that's another impact that caused the dollar to depreciate against a basket of currencies. So, these factors have resulted in that long-term dollar strength kind of breaking down, but we've seen the dollar weakened before and this is certainly nothing new or, you know, or a shock.

David: So, I'm struck by some longer-term trends around the dollar. As I look at things going into the start of this year, really inside the 80s (1980s), you saw the dollar, you know, start to have some ascendancy. And then in the 90s (1990s) that was reinforced as you had currency crises inside Southeast Asia, as well as the Mexican peso crisis in the early 90s. But then that trend reversed with the advent of the euro. You saw 2000, 2008, the dollar depreciate against that basket of global currencies, meaning that your dollar bought less goods and services overseas.

But you know, in parallel to that, how that affects the financial markets is that, you know, during the 80s and 90s, the U.S. market firmly outperformed the international markets. But in that period of 2000 to 2008, international markets were in their ascendancy relative to the U.S.

And then post-global-financial-crisis or post-2009, you've seen this tremendous appreciation out of the dollar, roughly 40% against that basket of global currencies, which is roughly European currencies as well as the Japanese yen and the Australian dollar.

Kelly: Right.

David: As we sit right now, you know, you mentioned briefly tariffs. What about interest rates inside this whole equation here?

Kelly: So, both economic growth and interest rates have an impact on the dollar and right now the idea of the Fed (Federal Reserve) pausing and then cutting this year is going to actually weaken the dollar. Because you have a lower interest rate then there's not going to be as much demand for overseas investors for that higher yield because that yield is going lower. So that is going to, again, impact the demand for the dollar, cause the dollar to weaken.

Now, one of the things that we've seen is that those interest rate cuts by the Fed haven't happened yet. And they haven't happened for several reasons. One, of course, is that, you know, inflation has been rather stable. You really haven't seen tariff impacts flow through to those inflation numbers yet. That's certainly something that we are carefully watching. Our Chief Economist, Scott Colbert, of course, is keeping a very close eye on that.

And we've actually revised our rate cuts from two this year to possibly one rate cut in the latter half of the year. That may be a little bit out of consensus. I know a lot of people are still calling for two rate cuts. So that's having a bit of an impact.

And then you mentioned economic strength in the in the history of dollar appreciation or depreciation and that has another impact. Our economy has been rather resilient. And so, with that resiliency, you know, you may have seen the dollar weaken.

When we had, you know, the tariff announcements go out, you know, April 2nd of course is when we had Liberation Day. So, dollar is going to weaken because there's going to be less demand for the dollar. But if you look at the numbers, if you look at, you know, unemployment, for example, it actually declined a little bit as 4.1 (percent) in the U.S., so the labor market's been resilient. Inflation still remains rather stable, so with that, you know, the dollar could actually strengthen even though it had weakened earlier in the year. So, all of those factors have weighed in on the dollar and it's valuation.

David: That's a great point that, you know, over the course of this year accompanying the market volatility and the economic volatility that tariffs has brought on, is that, not only did you see the dollar depreciate or other currencies appreciate versus the dollar of about 10%.

But over the course of summer here, as you've seen tariff impacts on inflation be a little more benign, at least at the onset here, as well as a strong U.S. jobs market, you've seen the dollar start to have a little bit of appreciation and break that trend that we saw for the first six months of the year, more recently here this summer.

You know, the other thing that I'm struck by, here we are in July. We've seen the One Big Beautiful Bill (Act) have its passage and signed into law July 4th. As we're still getting our arms around that, I think the one consistent theme there is deficit spending. And so, as we're talking about global currencies, certainly the amount of Treasuries that the U.S. Treasury would have to issue to finance that spending has a large impact on currencies. Maybe you could walk us through that a little bit there, Kelly.

Kelly: Yeah. And, you know, one would think that with the increasing deficits that, you know, you would see more weakness in the dollar because you wouldn't have the demand for Treasuries overseas, you know, because you need dollars to buy Treasuries, right? So you can't use yen or euros to buy Treasuries. So, if you're issuing more debt and there's not the demand for the debt, then the dollar's going to weaken.

Now to give you an idea on the complexity of the dollar in currencies, another thing that we had passed this this week was the GENIUS (Guiding and Establishing National Innovation for U.S. Stablecoins) Act. And the GENIUS Act provided for stablecoin. And stablecoin is basically a digital currency. And what makes it stable is that it's linked to a safe asset. Well, even though our credit quality of the U.S. is AA now, we're still considered the safest asset in in the world. So, what are you going to use to back that stablecoin? It's going to be Treasuries and it's going to be short-term treasuries. So that could actually drive the demand for the dollar up.

It can lower the cost of the debt. Because that's another huge factor, David, that we've seen, of course, is as interest rates go up, that cost to the U.S. government of paying off its debt has increased. So it's really a mixed bag. But if we can get the deficit under control, and this is one of the things that we saw the dollar appreciate in the late 90s is because we actually had a budget surplus.

So, we had a budget surplus combined with a growing economy, which strengthened the dollar in the late 90s in the early 2000s before the dot-com bust. Again, what happened in the late 90s is that you saw a growing economy, you saw technological innovation, and we had a budget surplus, so the dollar appreciated. If you just look at the dollar and the deficit in isolation, then yes, you would expect the dollar to depreciate.

David: Yeah, you know, as we talk about sort of the dollar in general, it's certainly a very complex topic that feeds into jobs, it feeds into inflation, interest rates, deficits, all those are factors in how the dollar moves. But as you mentioned, you know, the U.S. does have this incumbency of just having strength and viewed as a very stable place to both invest as well as transact business. And that's been a benefit to the dollar over time.

As we sort of unpack this and hopefully keep us from getting too spun around on the currency itself. Maybe let's talk a little bit about the impacts of dollar weakness. Certainly a lot of complexity surrounding both the dollar impacts as well as their impacts on financial markets. As we think about this in the context of a portfolio, how should we consider the dollar there?

Kelly: So, the dollar of course is going to impact our returns overseas. For example, one of the benchmarks that we use the MSCI All Country World ex U.S. (MSCI ACWI ex USA Index) or, you know, without the United States IMI (investable market index), you know that has returned about 9.7% through the end of June. If you add currency, if you add the dollar depreciation to that, it boosts up the returns by 8.4%.

So, if you're investing overseas, dollar weakness is going to benefit your returns. It's also going to benefit companies that have a lot of earnings overseas where we've seen growth such as in the Magnificent Seven or Eight. So that's one way.

And, of course, with bonds we can benefit if we're investing overseas into emerging market debt, for example. Those returns may benefit from a weaker dollar, but there it can be very complex because some of the emerging market debt is actually dollar denominated. So again, it's a very complicated situation.

David: Yeah, I think that's a great point that as you look through international investments, whether it's equities or fixed income still represent as great diversification for a portfolio and can be meaningful on that end. But certainly there's some complexity in getting international inside portfolios.

And yeah, certainly as we talk about this dollar weakness, having trade in there as another piece that we think about and that you know, certainly most of the S&P 500 (Index) has some sort of international component to their sales and earnings and so that's been a nice tailwind for them. And then finally, travel. You know, the question I get most is, when you spin through all these complexities around currency, what's that meant for U.S. travel this summer?

Kelly: So, you know, I remember in 2007 when we were going through another weak dollar period and I was overseas for business and the exchange rate was $2.00 for the (British) pound, which basically meant that it was really expensive to go to the U.K. (United Kingdom). If you're looking for your best bang for the buck, probably best to stay domestically rather than travel overseas. Although, there's certainly other benefits to going overseas as well.

David: Yeah, certainly a little bit extra of a headwind on your spending there that things with this dollar move are roughly 10% more expensive as you go overseas here.

Well, Kelly, thanks for the interesting discussion today. For more on this topic, please visit www.commercetrustcompany.com for additional commentary on the dollar, our Midyear Outlook, as well as our Look at the Markets.

If you've enjoyed what you've heard, you can subscribe to our show on Apple Podcasts, Spotify, Amazon Music, or wherever you get your podcasts from. Thank you for joining us on Conversations with Commerce Trust. I'm David Hagee we'll talk again soon.

Important material disclosures regarding the content of this program follow. Commerce Trust is a division of Commerce Bank. Generally, non-depository investments offered in connection with Commerce Trust and its affiliates are not guaranteed, are not FDIC insured, and may lose value.

Opinions and other information provided are effective as of the date of the recording and presented for the purpose of general education, information, or illustration only. This material provided should not be construed as a recommendation to buy, hold, or sell securities or as advice relating to the profitability of any investment product, strategy, or plan. You, as the investor, are fully responsible for any investment transaction you choose to enter into, including determining whether such investment is appropriate in light of your investment objectives and personal circumstance, and you shall not have relied on the preceding information from Commerce as the basis for any investment decision.

This material is not intended to replace the advice of a qualified attorney, tax advisor, or investment professional. In considering whether to trade or invest, you should inform yourself and be aware of the risks. Past performance is no guarantee of future results, and the information in the commentary provided is subject to change based on market or other conditions. Diversification does not guarantee a profit or protect against all risk.

Commerce Trust does not offer tax, legal, or specific estate planning advice. And while we may provide information or express general opinions from time to time, such information or opinions are not offered as professional tax or legal advice.

Commerce Trust does not provide advice relating to rolling over retirement accounts. Commerce Trust is not a Municipal Advisor under Section 15B of the Securities Exchange Act and does not offer advice or recommendations concerning bond proceeds or other municipal advice subject to this section.

Any data contained herein from third-party providers is obtained from what we considered reliable sources. However, its accuracy, completeness, or reliability cannot be guaranteed.

July 18, 2025
Commerce Trust is a division of Commerce Bank.