# DoubleLine Views on the U.S. Dollar

July 18, 2022

## Near-Term

DoubleLine believes the U.S. dollar will likely remain supported in the near-term due to the following factors: tightening Federal Reserve policy, high U.S. inflation levels, and the dollar's safe-haven status amid low investor confidence and consumer sentiment. The Fed is likely to hike interest rates another 75 basis points (bps) on July 27 while the European Central Bank (ECB) is likely to hike only 25 bps on July 21, which would be dollar supportive. That disparity is likely being priced in already. As of now, expectations are for the ECB to play a bit of catch-up with 50-bp hikes thereafter, dependent on economic conditions. Potential mitigating factors to dollar strength in the near-term include the ECB, Bank of England and Bank of Japan potentially closing the gap with the Fed in terms of hawkish behavior to combat inflation, on which DoubleLine believes they are currently behind the curve.

## Medium-Term

There are a few factors to consider that could be potential headwinds to the dollar in the medium-term.

- **Fiscal deficit spending:** DoubleLine expects a ramp-up in the fiscal deficit due in part to the Build Back Better plan and potentially increased automatic unemployment insurance payments. Increased deficit spending is historically dollar negative, as it is essentially printing dollars, which in turn should debase the currency.

- **Lower long-term U.S. growth rates:** Market expectations are for lower long-term U.S. growth rates, which would also be dollar negative.

- **Large current account/trade deficit:** The current account deficit and net international investment position are of particular importance. *(Figure 1)* All else equal, by running a significant current account deficit, the U.S. imports far more than it exports. To make up for that deficit and limit dollar depreciation, the U.S. needs to attract foreign savings each year in the amount of, or more than, the imports. The U.S. has been accomplishing this by drawing significant portfolio and direct investment, largely due to an attractive growth rate. *(Figures 2 & 3)* Our expectation is for the U.S. growth rate to come down. If the portfolio investment continues to flatten as it did in the first quarter, it would be enough in our opinion to have a rather significant negative impact on the dollar in the medium to long term. The recent decrease in both U.S. assets and liabilities reflected in first quarter data mostly represents price declines in portfolio and direct investment assets. Portfolio investment assets decreased $817.4 billion to $15.49 trillion, driven mainly by declines in foreign stock and bond prices. Direct investment assets decreased $557.9 billion to $10.41 trillion, also driven mainly by declines in foreign stock prices that lowered market value of direct investment equity assets.

We believe if portfolio and direct investment were to pull out of the U.S. in a more dramatic manner, in addition to the price decreases, it would put negative pressure on the dollar.

**U.S. Net International Investment Position** | As of March 31, 2022


*Figure 1*
Source: U.S. Bureau of Economic Analysis

**U.S. Assets by Category** | As of March 31, 2022

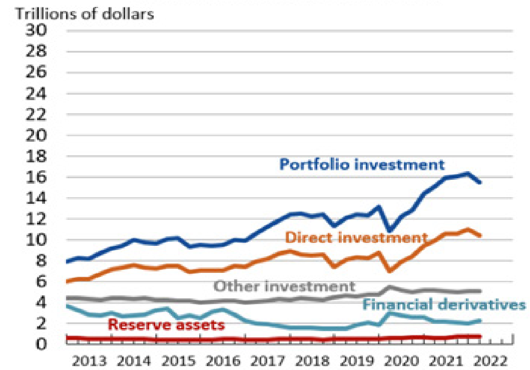


*Figure 2*
Source: U.S. Bureau of Economic Analysis
End of quarter, not seasonally adjusted.

**U.S. Liabilities by Category** | As of March 31, 2022

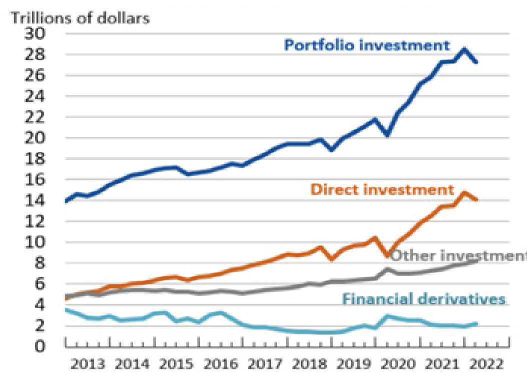


*Figure 3*
Source: U.S. Bureau of Economic Analysis
End of quarter, not seasonally adjusted.

The BBDXY is more diversified than the DXY, which is heavy weight to the euro and yen. The BBDXY includes heavier components to the Australian and Canadian dollars, Chinese yuan, South Korean won and other currencies.

**U.S. Dollar Index (DXY)** | December 31, 1999 – July 18, 2022

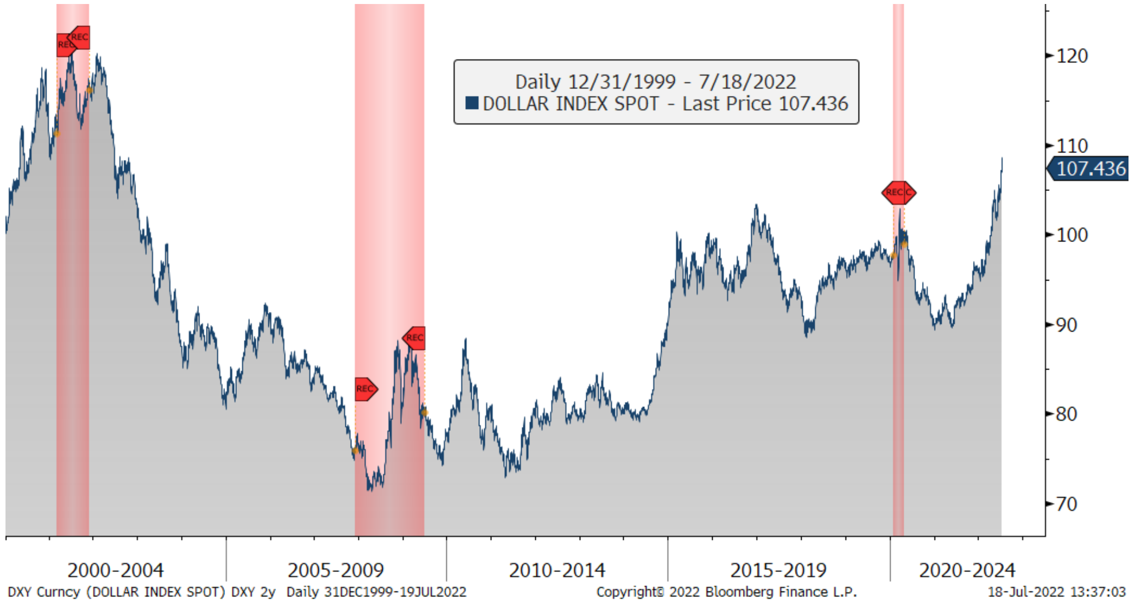


*Figure 4*
Source: Bloomberg, DoubleLine. Red shaded areas indicate recessionary periods.

**Bloomberg Dollar Spot Index (BBDXY)** | December 31, 2004 – July 18, 2022

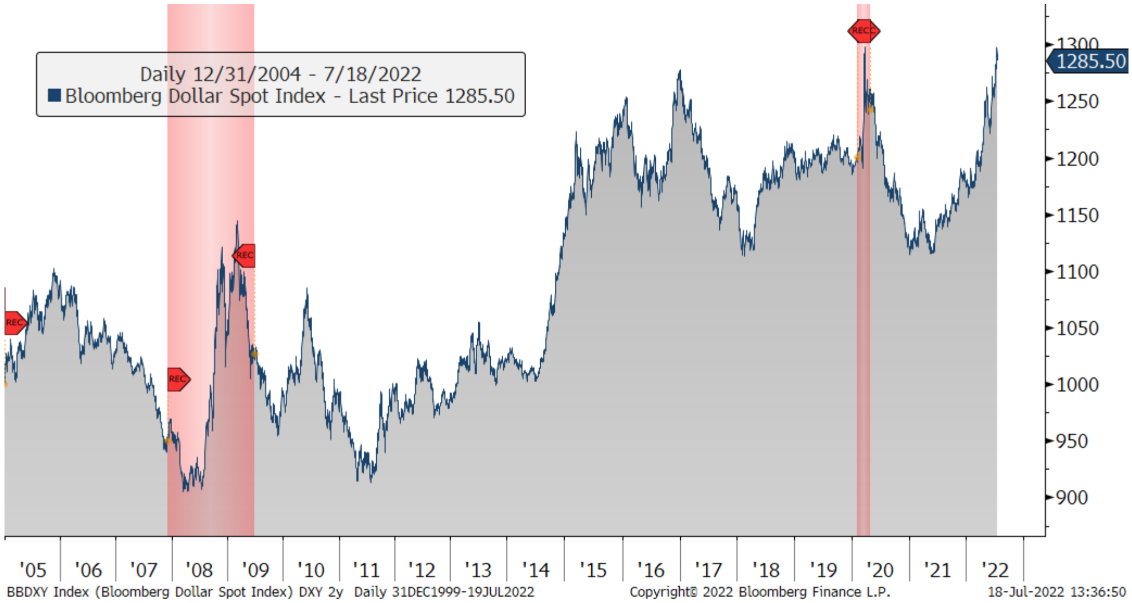


*Figure 5*
Source: Bloomberg, DoubleLine. Red shaded areas indicate recessionary periods.

**Basis Points (BPS)** – Basis points (or basis point (bp)) refer to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% or 0.0001, and is used to denote the percentage change in a financial instrument. The relationship between percentage changes and basis points can be summarized as: 1% change = 100 basis points; 0.01% = 1 basis point.

**Bloomberg Dollar Spot Index (BBDXY)** – This index tracks the performance of a basket of 10 leading global currencies versus the U.S. dollar: the euro, Japanese yen, British pound, Canadian dollar, Mexican peso, Australian dollar, Chinese yuan, Swiss franc, South Korean won and Indian rupee.

**Build Back Better** – Social safety net and climate legislation drafted and backed by the Democratic Party that originally proposed more than $1.75 trillion in spending. A "social infrastructure" bill that was originally paired with the Infrastructure Investment and Jobs Act, a "hard infrastructure" bill, which was signed into law Nov. 15, 2021. The Build Back Better Act has undergone revisions and has yet to pass Congress.

**U.S. Dollar Index (DXY)** – A weighted geometric mean of the U.S. dollar's value relative to a basket of six major foreign currencies: the euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc.

You cannot invest directly in an index.

Views and opinions expressed herein are those of the investment team and do not necessarily reflect the views of DoubleLine Capital LP, its affiliate or employees.