Business

Is the rising dollar bearish for stocks?

Some say the market rides an escalator up, but takes an elevator down. The market is on an escalator now, but we've seen some elevator moves this year, too.

With each move lower the media attribute the selling to something other than profit-taking. Blame the rising dollar's impact on exports and the diminishing value of overseas sales. Blame a worry that interest rates will rise.

Both are convenient explanations for selling. Convenient ... and wrong.

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Market Pulse

The dollar's surge is partly due to expectations that interest rates will rise here while they will fall overseas (they are negative now in much of Europe) and make the Greenback even more attractive.

Our trading partners are suffering now and they'll suffer more if the Fed raises rates even slowly. How slowly? The financial futures market is pegging a fed funds rate in 2018 that is below two percent.

More than three years from now, and two percent would still be very low and well below a "normalized" rate (approx. 4 percent).

Over many decades I've seen the dollar rally, then fall, then rally, then fall again more than a few times. When the dollar rallied naysayers insisted that U.S. exports would suffer. True.

When the dollar fell they said imports would be more expensive so inflation would rise. Also true. These are people for whom the glass is always half-empty.

Here is another perspective. A rising currency is on balance a good thing. It coincides with an economy growing faster than others and investment opportunities that are more promising than those abroad, which means foreigners have to buy dollars and sell their currency to participate, ergo a rising Greenback.

If a falling currency were a good thing because it helps exporters and tourism (it does), Argentina, Brazil and other South American countries would be remarkable growth stories and Switzerland would be a basket case.

So don't focus on the short-term impact — real or perceived — of a rising dollar and ignore those who invariably see the downside of any move, history notwithstanding.

Investors worldwide are buying stocks as central bankers continue the "full-court press" I wrote about two weeks ago. Markets in Europe, Japan and China are on a tear.

Economist Ed Yardeni calls it a "melt up" and for some markets that's a good way to put it. Not here, at least not yet, but it could happen.

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