

Macro Roundup Article

Headline: [Local Currency Returns](#)

Article Link: <https://fedguy.com/local-currency-returns/>

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Tweet: .@FedGuy12 argues that foreigners, who hold about 30% of total dollar-denominated stocks and bonds, will likely sell assets ahead of policy actions to improve US manufacturing competitiveness by weakening the dollar, creating “a notable tail risk.”

Summary: A dollar depreciation is possible under a Trump presidency and it could trigger foreign selling that actually puts downward pressure on asset prices. Foreign exchange policy has been completely within the purview of the U.S. Treasury ever since President Roosevelt devalued the dollar in 1933. President Trump could depreciate the dollar through direction intervention using the Exchange Stabilization Fund, or high level diplomatic talks with other countries. On the surface, a weaker dollar inflates financial assets and eases global financial conditions, but it could also encourage foreign investors to sell dollar assets to avoid currency losses. The tremendous size of non-official foreign holdings in U.S. equities and recent surge in equity prices suggests this is a notable tail risk.

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Primary Topic: Trade (not deficits)

Topics: Financial Markets, GDP, Op-Ed/Blog Post, Trade (not deficits)

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