How a Stronger Dollar Creates Winners and Losers

A strengthening US economy and the prospect of more interest rate hikes by the Federal Reserve have helped the US dollar stop its recent slide. But how does a stronger dollar affect the economy and the stock market? Today we look at how a stronger dollar creates winners and losers. *CNBC* writes that **stocks could take a hit** as the dollar strengthens.

> *The U.S. dollar is beginning to enjoy a bullish turnaround after declining for much of this year, and some strategists are watching for how its recent gains will impact equity markets domestically and abroad.*
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> *Should this bounce continue, domestic markets with large multinational companies such as the S&P 500 would likely take a hit, as the negative impact of a stronger dollar on foreign earnings begins to be felt.*
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> *Commodity markets such as crude oil and metals, priced in U.S. dollars, could also feel pressure from a stronger greenback, as could emerging markets, Maley wrote. The inverse moves in the large emerging markets exchange-traded fund, the EEM, were "incredibly exact" the last two times the dollar reversed, he wrote. Specifically, he pointed to the period between September and December of last year, as well as the period between this January and late September.*

Since oil is priced in US dollars the cost of oil goes up in foreign markets when the dollar strengthens. This creates losers, especially in developing economies. US exports also become relatively more expensive when priced in US dollars which can hurt US manufacturing. US exporters may continue to price their products offshore in local currencies and that will allow them to keep their customers but will eat into their profits. In the end US exporters are losers with a stronger dollar and foreign competitors are winners.

High Stock Prices Based on Earnings

The US stock market is priced at historic highs based on price to earnings ratios. But as earnings continue to impress investors keep buying. This is the **intrinsic stock value** approach. So long as earnings stay strong, stocks will remain high. But a stronger dollar could eat into profits and that would create winners and losers in the US stock market.

Poor Gold

Gold is a refuge in times of economic and social turmoil. Gold is what you buy when you no longer trust the stock market or paper currencies. But what happens to gold when the dollar goes up and stocks are hot? *CNBC* reports that **gold is at a seven week low**.

> *Gold sank as low as $1,271 on Tuesday, its lowest level since Aug. 9. And some strategists see the yellow metal falling further still.*
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> *"The fundamentals for gold in the long term are not very good. If you look at how gold tends to perform, it basically moves opposite interest rates or the dollar," said Gina Sanchez, CEO of Chantico Global.*
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> *As the market enters a rate normalization cycle, rates are likely going to rise, and with it the dollar, adding to the pressure on gold, she said Monday on CNBC's "Trading Nation."*

If you are interested in **gold investments** consider when to enter and when to exit the gold market and which vehicles to use. For the time being gold is a loser as the dollar strengthens and interest rates go up.

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