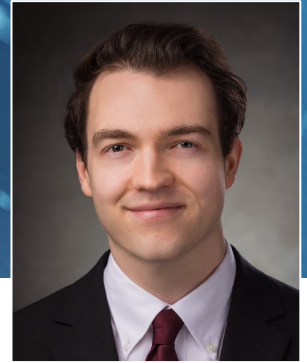


A Small Trade. A Much Bigger Signal.

By Jacob Mullen
Quantitative Derivatives Trader
Summit Global Investments



SUMMITGLOBAL
INVESTMENTS



A handwritten note from the Treasury Secretary raises an intriguing question about U.S. currency policy — and what a shift in the dollar could mean for earnings, markets, and investors.

"To Do: Buy Japanese Yen \$5-10 bil." That was the phrase captured by a Reuters¹ photographer on a note sitting in front of Treasury Secretary Scott Bessent during a recent cabinet meeting. In the context of the roughly \$9.6 trillion traded daily in global foreign exchange markets, \$5-10 billion isn't a market-moving amount on its own.² But the note may reveal something far more important than the size of the trade: a shift in how the U.S. government views the dollar.

Currency markets rarely make headlines for retail investors, but this development is worth paying attention to because the value of the U.S. dollar has a direct impact on corporate earnings, stock valuations, and ultimately your portfolio.



The United States has historically been reluctant to intervene in currency markets. Since 2000, it has only done so in a significant way a handful of times: supporting the euro after its launch, coordinating efforts following Japan's 2011 earthquake, and providing dollar liquidity during the Global Financial Crisis. Outside of extraordinary circumstances, the U.S. has preferred to let markets determine exchange rates.

So why would policymakers consider buying yen and weakening the dollar?

The answer starts with Japan. For decades, Japan has maintained some of the lowest interest rates in the developed world in an effort to stimulate economic growth after the collapse of its asset bubble. Meanwhile, the Federal Reserve aggressively raised rates to fight post-pandemic inflation. That divergence created one of the largest interest rate gaps in recent history. Investors responded exactly as economic theory would predict. They borrowed cheaply in Japanese yen and invested in higher-yielding U.S. assets, driving demand for dollars while pushing the yen to multi-decade lows.

But why take action now? In a nutshell, the move implies that the U.S. thinks there may be room for the USD to weaken and thinks the volatility is worth containing. It wouldn't be out of the question to further surmise that the current administration would welcome some amount of USD weakness to boost corporate earnings, create a smaller deficit, and encourage buying and manufacturing in the U.S.

SOURCE:

- 1) *Reuters: Bessent's 'to do' list: buy \$5-10 billion worth of Japanese yen, Reuters photo shows* | Reuters
- 2) *BIS: https://www.bis.org/statistics/rpfx25_fx.htm*

How does this affect US investor portfolios?

A weaker dollar can be a meaningful tailwind for many of the companies that dominate U.S. stock indexes. Roughly 40% of S&P 500 revenue is generated outside the United States³. When companies like Apple, Microsoft, Coca-Cola, or Caterpillar earn revenue overseas, those foreign sales translate into more U.S. dollars if the dollar weakens. Nothing has to change operationally for reported earnings to improve.

That's one reason companies with substantial international revenue can outperform more domestically focused companies in a weaker dollar regime.⁴ A weaker dollar can also benefit U.S. exporters by making their products more competitive abroad, while international investments become more valuable for American investors as foreign currencies appreciate against the dollar.

Of course, there are tradeoffs. Imported goods become more expensive, which can put pressure on retailers and manufacturers that rely on overseas supply chains. Higher import prices can also contribute to inflation, potentially keeping interest rates elevated for longer than investors would like. If that occurs, sectors that depend heavily on lower borrowing costs (real estate, smaller growth companies, etc) could face additional headwinds.

Perhaps the most important takeaway isn't the potential intervention itself, but what it signals. Governments rarely discuss currency intervention unless they believe exchange rates have become economically significant. If policymakers are willing to lean against a historically strong dollar, they may be expressing concern that the currency's strength is beginning to weigh on U.S. exports, corporate earnings, or broader economic growth.

For retail investors, this isn't a signal to suddenly trade currencies or overhaul a diversified portfolio. If anything, it's another reminder of the importance of diversification as macro-events can cause ripples throughout economies (and ultimately asset prices), even across borders.



KEY POINT

Currencies may trade in the background, but their impact can ripple through nearly every corner of an investor's portfolio.

SOURCES:

3) Artisan Partners: <https://www.artisancanvas.com/en/posts/international-equities--more-than-geographic-diversification.html>

4) Financial Times: <https://www.ft.com/content/a8a74083-18e0-409c-9346-ed8979cfd40a>

This material is provided for informational purposes only and should not be construed as investment advice or a recommendation to buy or sell any specific security, strategy, or investment product. The information contained herein reflects the views of Summit Global Investments ("SGI") as of the date of publication and is subject to change without notice.

Investment advisory services are offered by Summit Global Investments, LLC, an SEC Registered Investment Adviser. Investing involves risk, including possible loss of principal, and there is no guarantee that targets or objectives will be met. Diversification does not eliminate the risk of loss.