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Some investors warn the dollar's shift lower could buoy U.S. inflation. Shoppers bought groceries last week in Kentucky.
JON CHERRY FOR WSJ

Dollar's Big Decline Poses Risks To U.S. Prestige, Business Earnings

BY DAVID UBERTI AND CHELSEY DULANEY

Carol Tricoche shielded her clients from a big risk in December, when the Oregon travel advisor locked in a 10person group's upcoming fivenight stay in London at the then-exchange rate. Since then, the value of the dollar has plunged.

"If the dollar changes, your hotel cost goes up. With me, you're locked in," Tricoche said, adding that the currency's recent weakness has added to pressure on less affluent Americans hoping to go abroad. "Those aren't the folks I'm seeing right now."

The dollar's slide to its lowest level in years has renewed fears about the U.S.'s pre-eminent position in global markets, spurred conflicting statements from the White House, and shifted the math behind everything from international travel to U.S. corporate profits to European furniture exports.

Wall Street is betting there

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will be more weakness to come, potentially ending a yearslong run in which the dollar has far outstripped many peers, enticing investors the world over to park more money in the U.S.

The dollar's strength over the past decade was propelled in large part by "American exceptionalism," or the outperformance of the U.S. economy and markets compared with the rest of the developed world. Political stability and strong rule of law gave overseas investors—such as Japanese life insurers and European pensions—extra reason to snap up U.S. assets.

That pushed the stock market higher and helped Americans access cheaper loans to invest in homes or businesses. At the same time, a stronger dollar afforded consumers more purchasing power to buy goods and services from abroad, sending hordes of U.S. tourists to the Eiffel Tower and sunbleached Lisbon.

Now, the dollar is still strong by historical standards and remains the globe's reserve currency. But the intensity of the move in recent days—as well as President Trump's comments about the path forward—has given investors more reason to hedge their bets on the U.S.

"The world is not ready," said Stephen Jen, chief executive of London-based asset manager Eurizon SLJ Capital, who is expecting another 20% decline in the greenback. "The level of the dollar was and still is way out of balance."

The currency last year posted its worst annual performance since 2017. Trade shocks and signs of a slowing economy sparked a "Sell America" trade that dinged U.S. assets. While stocks and bonds recovered, the dollar remained lower, weighed down by fears that a debt-burdened U.S. is scrambling the global order underpinning its own growth.

In recent weeks, the dollar's slide resumed after Trump, a Republican, threatened a trade war with Europe and the Treasury Department took unusual steps that sparked speculation it could strengthen the Japanese yen versus the greenback.

Trump said Tuesday that he was unconcerned by a weakening dollar, adding momentum to the move and pushing its value versus a basket of foreign currencies to its lowest level since 2022.

On Wednesday, Treasury Secretary Scott Bessent said the U.S. is "absolutely not" strengthening the yen against the dollar.

"We don't comment other than to say we have a strong dollar policy," Bessent told CNBC about possible future interventions. "2025 was about setting the table. And now, I think we're going to have a very strong economy this year."

That will be key in dictating the dollar's road ahead. While economists have dialed up U.S. growth projections, stimulative economic policies in Japan, Germany and elsewhere have helped overseas stock markets in recent months outperform their counterparts stateside.

"We are seeing growth outside of the U.S., which is very important for currencies," said Antonina Tarassiouk, Reams Asset Management's director of international economic analysis.

At the same time, even after the Federal Reserve held interest-rates steady Wednesday, many on Wall Street expect the central bank to resume easing policy in 2026. Trump has pushed for such moves as part of a broader pressure campaign that has threatened the Fed's independence from the White House and irked investors.

More cuts could narrow the premium that U.S. Treasury yields offer relative to government debt in other countries, drawing investors elsewhere to help shield themselves from the risk of owning U.S. assets like stocks. "That hedging has become slightly cheaper," Tarassiouk said.

Overseas, the dollar's slide is becoming a headache for other economies. Two central bankers in Europe—the heads of the Austrian and French central banks—this week said that they are watching how the strength of the euro will impact inflation, which is already expected to fall below 2% this year in the currency bloc.

A stronger currency lowers import prices. Europe's exports, which have been dragged down by U.S. tariffs and China's slowdown, are suffering due to the dollar's weakness.

Businesses such as Polish furniture manufacturer Complet Furniture have been hit hard by the dollar's fall. The 12% drop against the Polish zloty—coupled with U.S. tariffs—has made its sofas more expensive for U.S. customers over the past year.

"It has become increasingly difficult to meet the price points expected by American buyers," said Agnieszka Chmielewska, whose husband and father-in-law run the company.

Some investors warn the dollar's shift lower could also hit the bottom lines of U.S. companies that import parts and materials and potentially buoy U.S. inflation. Fed Chair Jerome Powell declined on Wednesday to comment on the dollar's value.

The flip side is that big tech firms, oil exporters and other businesses with overseas customers could see a boost, potentially negating some of the negative impacts of a weaker dollar.

"We don't subscribe to the 'Sell America' trade. It's probably going to be investing less in America, rather than outright selling the U.S.," said Fredrik Repton, senior portfolio manager at Neuberger Berman. "It's the deepest capital market in the world. It's hard to see the currency in free fall."

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