International Market Update

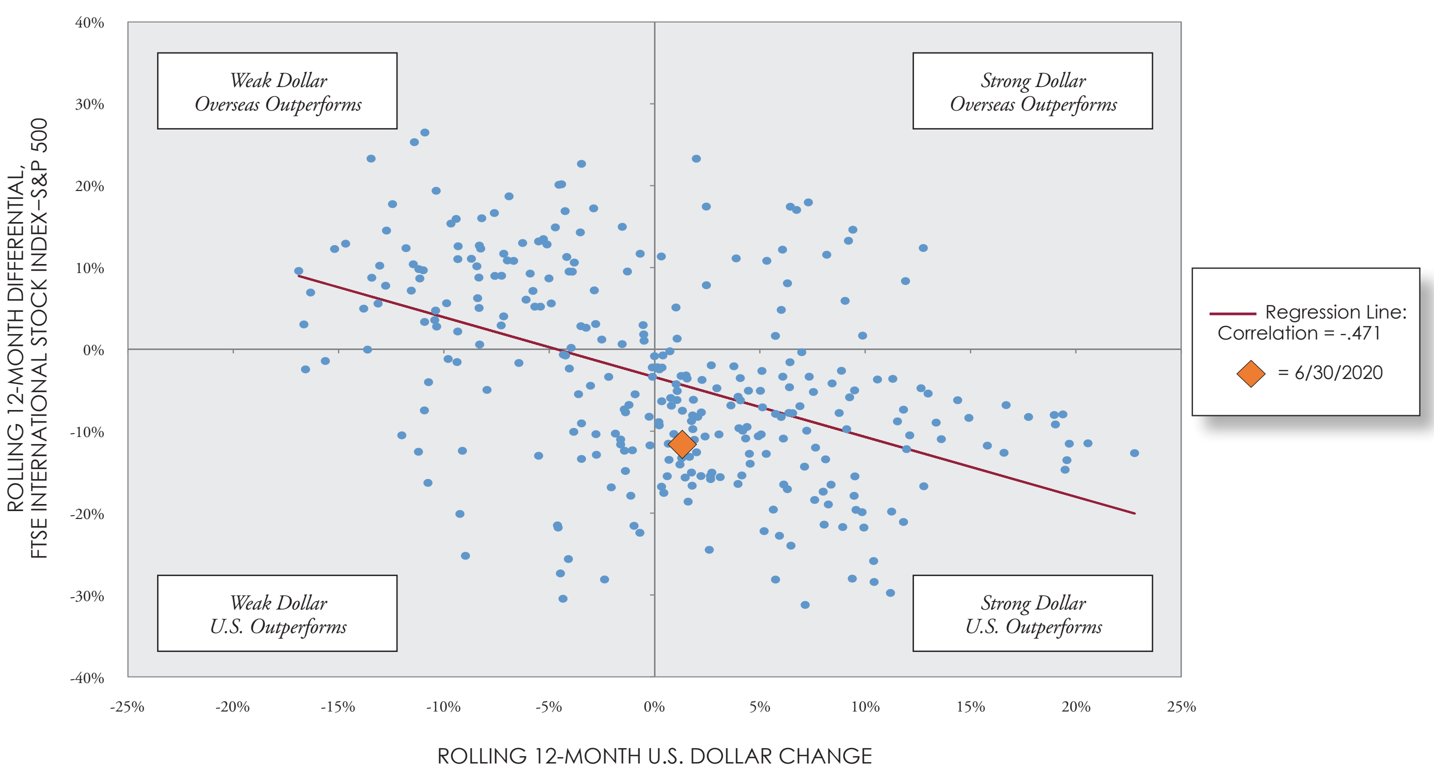
A Falling Dollar May Lead To Better International Stock Market Returns

The U.S. dollar has long been one of the world's strongest currencies. A rising U.S. dollar tends to reduce the return for U.S. investors who trade in foreign securities, accounting for some of the reason why investors in overseas markets have experienced disappointing returns in recent years. However, we may be entering a period of relative weakness for the U.S. dollar, which would in turn be a relative positive for U.S. investors in international stocks.

A rising number of COVID-19 cases throughout many areas in the U.S. has negatively impacted the dollar in recent weeks. By contrast, the European Union has generally better managed the pandemic, as recent infection and death rates in the EU have shifted from well above to well below U.S. levels. Another potential negative for the dollar is the extraordinary growth in the Federal budget deficit that has resulted from recent economic stimulus programs. The federal budget deficit was $2.7 trillion in the first nine months of fiscal year 2020, according to Congressional Budget Office estimates, equaling $2.0 trillion more than the deficit recorded during the same period last year. Many estimates project that total government debt held by the public will exceed GDP by the end of Fiscal Year 2020, and by 2023, the level of debt will eclipse the prior record set after World War II.

The clear relationship between the dollar and relative returns between U.S. and foreign stocks is illustrated in the chart below. We've compared 12-month changes in the U.S. Dollar Index with the 12-month differences in return between the FTSE All-World ex US Index and the S&P 500 since 1994. The horizontal axis plots changes in the U.S. dollar (moving to the right = a stronger dollar), and the vertical axis plots the difference in international stocks vs the S&P 500 (moving higher = foreign stocks outperform U.S. stocks). As the plotted line on the chart shows, during periods when the dollar has weakened, foreign stocks have tended to outperform the S&P 500. In fact since 1994, when the dollar has declined over a 12 month period, the return from the FTSE All-World ex US Index has averaged a return that is 2.1% above that of the S&P 500 over the same period.

U.S. DOLLAR INDEX vs OVERSEAS STOCK RETURN PREMIUMS



Data from 12/31/1994–6/30/2020

Source: Renaissance Research, Bloomberg, FTSE Russell, S&P Dow Jones

Of course, future changes in currencies are difficult to predict, but any weakness in the dollar going forward is likely to benefit U.S. investors in overseas stocks.

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REFERENCED INDICES

(Indices are unmanaged and are not available for direct investment.)

FTSE All-World ex US Index—The FTSE All-World ex US Index is comprised of Large and Mid cap stocks providing coverage of Developed and Emerging Markets excluding the U.S.

S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

U.S. Dollar Index—The U.S. Dollar Index is a measure of the value of the United States dollar relative to a basket of foreign currencies.

Renaissance Investment Management
800.837.3863 ■ 513.723.4500 ■ Fax: 513.723.4512 ■ www.reninv.com