06.24.2025

'King Dollar' Challenged...But Not Vanquished

Still No Substitute for the World's Reserve Currency

by CHRIS KONSTANTINOS, CFA

THE WRITING TEAM

ADAM GROSSMAN, CFA
Global Equity CIO | Partner

CHRIS KONSTANTINOS, CFA
Managing Partner |
Chief Investment Strategist

KEVIN NICHOLSON, CFA
Global Fixed Income CIO | Partner

ROD SMYTH
Chairman of the Board of Directors

DAN ZOLET, CFA
Associate Portfolio Manager

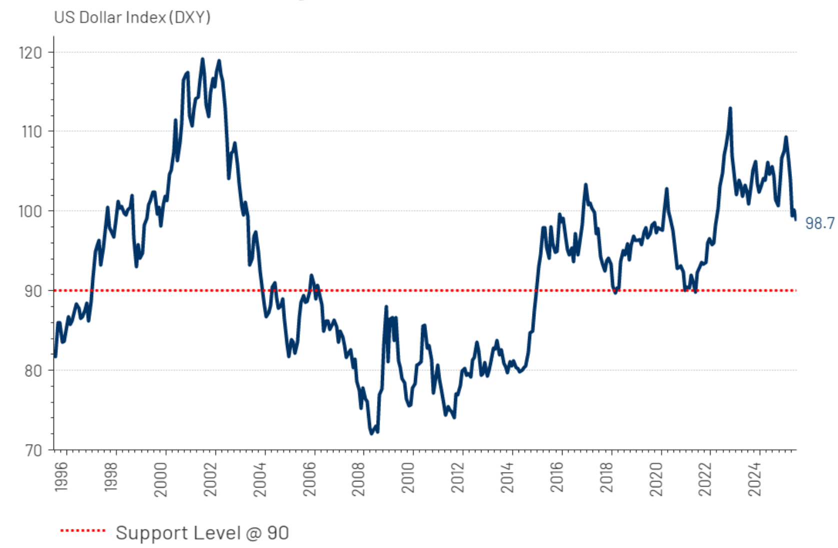
SUMMARY

- We believe the US dollar will maintain its reserve currency status.
- The path of least resistance for the dollar is likely down in the near-term.
- Dollar weakness is usually not a bearish sign for stocks, unless accompanied by recession.

Two summers ago, we wrote that we believed that the US Dollar (USD) "will maintain its reserve currency status for the foreseeable future." In the midst of a difficult year for the dollar– with the US Dollar Index (DXY[1]) dropping over -9% this year - **do we still believe the dollar will remain the world's preeminent currency for the foreseeable future? The answer is still 'yes.'**

While both valuation and technical factors suggest to us that the dollar may continue to weaken in the near-term, we would caution investors against reading too much concerning the US' long-term economic stability into further dollar weakness. In our view, even another ~5-10% downside from here – as our technical support levels on DXY (red line on Chart 1, below) suggest as an eventual target - does not necessarily mean the USD's 'exorbitant privilege' days as the world's reserve currency are numbered.

Chart 1: Dollar May Have Further Downside



Source: LSEG Datastream, RiverFront. Data monthly as of June 20, 2025. Chart shown for illustrative purposes only. Past performance is no indication of future results.

In addition, while weakness in the dollar may exacerbate the inflationary impact on US consumers with regard to tariffs, it will also likely aid the corporate earnings of large publicly traded US exporters, the types of companies that dominate the S&P 500. Thus, on balance, **we remain bullish on US stocks in the absence of a recession, which we don't expect.** In addition, foreign currency strength recently made us more constructive on international markets, leading to our upgraded view of stocks in Europe and Japan.

[1] DXY is the symbol for the US dollar index, which tracks the price of the US dollar against six foreign currencies, aiming to give an indication of the value of USD in global markets.

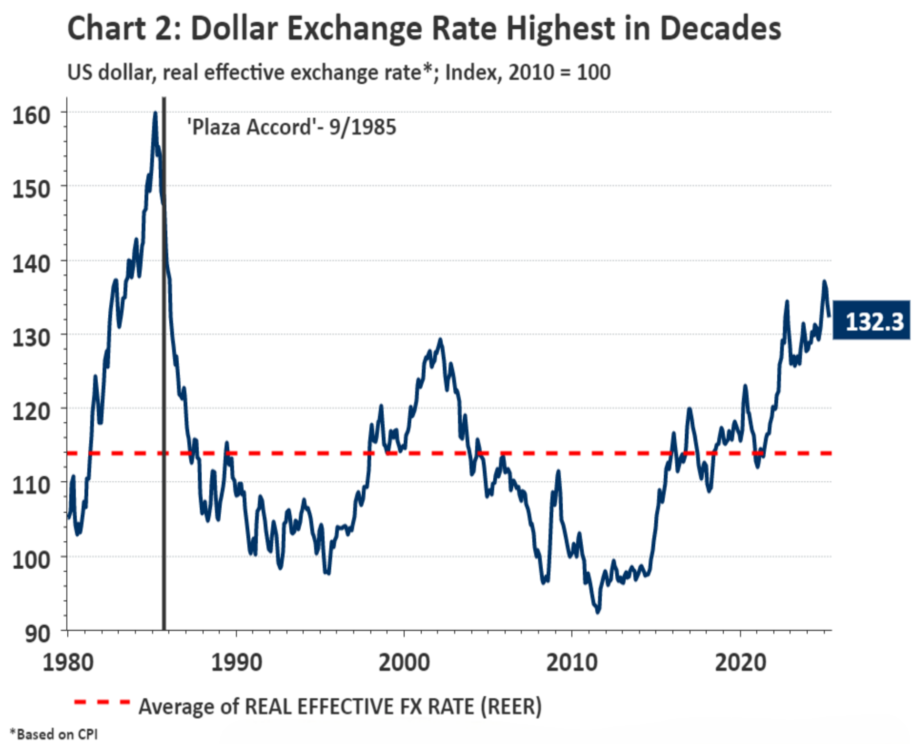
The Cause of Dollar Weakness Matters for the Stock Market

Analysis of why the dollar is dropping relative to foreign currencies contains important implications for investors. If the dollar is declining primarily due to eroding global confidence in the US economy and its' institutions, this is an undesirable outcome that is likely negative for US stocks. However, if instead the dollar is declining largely due to the expectation of future easing from the Federal Reserve, along with weak-dollar political policy and the USD's overvaluation to start the year on a purchasing power parity (PPP) basis, then this likely is a more benign scenario for stocks. Our current view is that it has been a bit of both this year... but concerns around the destabilizing nature of tariffs have been overblown and are now starting to recede.

It is no coincidence that the dollar's weakness this year has occurred against the backdrop of President Trump's dramatic attempt to minimize trade deficits via the widespread use of tariffs. Investor concerns around the potential negative growth and inflation ramifications of such a policy had stocks, Treasuries and the US dollar all dropping simultaneously in April – a rare event. However, since April a fair amount of the aggressive rhetoric around tariffs has been walked back, and the US has been making progress at the negotiation table with China and others. Stocks and Treasuries have largely recovered, with the dollar stabilizing somewhat.

On the policy side, we believe President Trump, Treasury Secretary Scott Bessent, and others are campaigning for a weak dollar...and thus far are getting their wish. For an Administration hyper focused on rebuilding US manufacturing capability and narrowing trade imbalances with other countries, this makes sense; a cheaper dollar makes US exports more attractive to foreign consumers. The dollar's valuation has heretofore likely been a drag on exports; looking at real effective exchange rates[2] or 'REER,' the dollar's large rise over the past 15 or so years has likely hurt US export competitiveness (see Chart 2, below).

While a globally coordinated, multilateral agreement among US trade partners to weaken the dollar (ala 1985's 'Plaza Accord') is unlikely today given contentious geopolitics and trade dynamics, we believe the US is capable of unilaterally pressuring the dollar... through policies both intentional and otherwise. Trump's harsh rhetoric towards Fed Chair Jerome Powell gives investors unwelcome flashbacks to the pressure that then-President Richard Nixon applied to Fed Chair Arthur Burns in the 1970s. A loss of political independence at the Fed or a meaningful 'revenge tax' on foreign holdings of US assets, if either were to occur, could cause foreign holders of US-denominated assets to decrease holdings...though we believe the Treasury market is still 'too big to fail', as we wrote about two weeks ago. In addition, the current House-approved version of the Administration's 'One Big, Beautiful Bill' is likely a deficit-buster in the unlikely event it is enacted in full by the Senate (the non-partisan Congressional Budget Office estimates the House proposal would add over $3T to the deficit over the next decade, according to Bloomberg). **However, we believe neither situation will end up in 'worst-case scenario' territory; we believe that the Fed will remain independent, and that the ultimate bill that will be passed will be moderated by deficit hawks in the Senate.**



Source: LSEG Datastream, IMF, Fathom Consulting, RiverFront. Data monthly as of April 15, 2025. Chart shown for illustrative purposes only. Past performance is no indication of future results.

[2]Real effective exchange rate (REER) - the weighted average of a country's currency in relation to an index or basket of other major currencies. These weights are determined by comparing the relative trade balance of a country's currency against that of each country in the index. An increase in a nation's REER is an indication that its exports are becoming more expensive and its imports are becoming cheaper, reducing its trade competitiveness. (definition: forex.com)

APPENDIX: Why We Still Believe USD Will Remain the World's 'Reserve Currency' Despite Near-Term Headwinds

Since World War II, the US Dollar (USD) has served as the world's preeminent 'reserve currency' – the means of exchange for most of the rest of the world to do business. From central bank holdings to international commerce and commodity transactions, the USD has served as the primary currency, commanding roughly 85% of the world's foreign currency exchange (FX) transactions, according to forex.com.

For years we have fielded questions about how long the USD could maintain its reserve currency status, as threats emerged from both within (related to instability and high debt levels of the US economy) as well as abroad. Additionally, the steady drumbeat regarding digital currencies also has investors concerned that they may be missing a future reserve currency in its infancy. Is the dominance of the USD as the world's 'reserve currency' set to end?

Don't believe the hype: We believe that the USD will maintain its reserve currency status for the foreseeable future. Despite its high debt levels and political division, the US's economic transparency, openness, flexibility, and governance suggest to us that our financial system is likely to remain at the center of global commerce. The US has problems like any economy, but potential contenders have more, as we will discuss. As Erasmus famously said, "in the land of the blind, the one-eyed man is king."

It is Not Only About Who is the Biggest…But Also Who is the Most Trusted

Dollar skeptics point to the fact that China's GDP is now larger than the US's, at least in purchasing power parity (PPP). But when it comes to reserve currency status, sheer size is not everything. Bear in mind that the US became the world's largest economy by GDP in 1916; yet reserve currency status for the USD did not really happen until after WWII.

Economists point to a mosaic of important factors for a currency's reserve status outside of just size, including depth and openness of a country's financial markets, ease of currency convertibility, rule of law, clarity around default resolution, the size and depth of government bond markets, and stability of domestic macroeconomic policies. By this rubric, we think so-called contenders such as the Chinese yuan fails the reserve currency 'test.'

Despite its Flaws, US Still the Dominant Economic Force in the World, In Our View

We will be first to admit that the US has allowed its federal debt-to-GDP level to spiral upwards in recent decades to alarming levels. Deepening political dysfunction and embarrassing episodes such the constant self-inflicted debt ceiling 'crises' recently resulted in Moody's becoming the third rating agency to remove the US AAA rating. These episodes are also a challenge to the USD's dominant stance with the international foreign exchange market (FX) community.

It is no wonder that global central banks have sought to diversify away from the USD with regard to foreign currency reserves, into large currencies like the Euro and smaller ones such as the Canadian dollar, the Australian dollar, and the Swiss Franc. However, despite it all, the US economy has proven itself to remain the most productive, flexible, and innovative of its kind in the world, in our opinion.

The Euro is arguably the closest thing the world has to a legitimate alternative to the USD; the Euro commands the second-highest share of worldwide transactions after the dollar (though it is a very distant 2nd). However, we would cite the Eurozone's lack of a common Euro-wide government bond market as one significant drawback for potential reserves status, as compared to the ubiquity and ease of transaction for US Treasury securities. Furthermore, we believe the deep structural economic, demographic, political, and geopolitical issues facing Europe and north Asia make the Euro and Japanese Yen useful alternatives but no real threat to the USD's dominance.

What about alternatives to fiat currency, such as gold or cryptocurrencies? There is not enough depth or liquidity in the physical gold market to replace the USD as the global reserve store of value, in our view. And in their brief history, cryptocurrencies have been much too prone to high price volatility to be relied upon as a store of value. Most importantly, crypto currently lives well outside the regulatory system, with few governments willing to recognize cryptocurrencies as legal tender, especially with their propensity to be utilized for extralegal 'black-market' purposes. In contrast, the US Senate's recent 'GENIUS' bill to promote US dollar-backed 'stablecoins' (cryptocurrencies whose value is linked to the US dollar) may actually drive more long-term demand for US dollars, as dollars serve as stablecoin collateral.

Finally, there is military might. The US is a trading nation and, like Britain before it, controls the major oceans and thus critical trade routes. China would like to dominate the South China Sea but the major economies of the region outside China such as South Korea and Japan support the US Pacific Fleet's role. Beyond the seas, the US is still the dominant global military force. The G7 countries from Europe plus Japan and Canada all seek the protection of the US in a crisis and their governments have not challenged the dollar's status.

Conclusion: Dollar Could Drop Another 5-10% From Here... Without the US Economy or Stocks Falling Apart

We suspect the path of least resistance for the dollar will remain lower for the foreseeable future…a function of 'Trumponomics' policies colliding with a structurally overvalued dollar and difficult near-term technicals. **However, this does not necessarily make us bearish on the prospects for the US economy, or for US stocks going forward.** This suggests a recognition that both that the USD is expensive and may have more room to fall, as well as that a continued decrease in the currency could be a potential positive for US exports and export-oriented large-cap stocks. We remain overweight US equities relative to our policy benchmarks in our balanced asset allocation portfolios and have moved to a more neutral weighing in developed international stocks, in part because of a more constructive view on European currencies.

Risk Discussion: All investments in securities, including the strategies discussed above, include a risk of loss of principal (invested amount) and any profits that have not been realized. Markets fluctuate substantially over time, and have experienced increased volatility in recent years due to global and domestic economic events. Performance of any investment is not guaranteed. In a rising interest rate environment, the value of fixed-income securities generally declines. Diversification does not guarantee a profit or protect against a loss. Investments in international and emerging markets securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability. Please see the end of this publication for more disclosures.

Important Disclosure Information:

The comments above refer generally to financial markets and not RiverFront portfolios or any related performance. Opinions expressed are current as of the date shown and are subject to change. Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.

Information or data shown or used in this material was received from sources believed to be reliable, but accuracy is not guaranteed.

This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

Chartered Financial Analyst is a professional designation given by the CFA Institute (formerly AIMR) that measures the competence and integrity of financial analysts. Candidates are required to pass three levels of exams covering areas such as accounting, economics, ethics, money management and security analysis. Four years of investment/financial career experience are required before one can become a CFA charterholder. Enrollees in the program must hold a bachelor's degree.

All charts shown for illustrative purposes only. Technical analysis is based on the study of historical price movements and past trend patterns. There are no assurances that movements or trends can or will be duplicated in the future.

Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Bonds represent a loan made by an investor to a corporation or government. As such, the investor gets a guaranteed interest rate for a specific period of time and expects to get their original investment back at the end of that time period, along with the interest earned. Investment risk is repayment of the principal (amount invested). In the event of a bankruptcy or other corporate disruption, bonds are senior to stocks. Investors should be aware of these differences prior to investing.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa). This effect is usually more pronounced for longer-term securities). Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit

2025-1553 Exp. 6/30/2026

quality of the issuer. Foreign investments involve greater risks than U.S. investments, and can decline significantly in response to adverse issuer, political, regulatory, market, and economic risks. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

Investing in foreign companies poses additional risks since political and economic events unique to a country or region may affect those markets and their issuers. In addition to such general international risks, the portfolio may also be exposed to currency fluctuation risks and emerging markets risks as described further below.

Changes in the value of foreign currencies compared to the U.S. dollar may affect (positively or negatively) the value of the portfolio's investments. Such currency movements may occur separately from, and/or in response to, events that do not otherwise affect the value of the security in the issuer's home country. Also, the value of the portfolio may be influenced by currency exchange control regulations. The currencies of emerging market countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by the portfolio.

Foreign investments, especially investments in emerging markets, can be riskier and more volatile than investments in the U.S. and are considered speculative and subject to heightened risks in addition to the general risks of investing in non-U.S. securities. Also, inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries.

Index Definitions:

The U.S. dollar index (DXY) is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.

Purchasing power parity (PPP) is the idea that the price of a good in one country should be the same as its price in another country after adjusting for the exchange rate between the two countries.

The real effective exchange rate (REER) is the weighted average of a country's currency in relation to an index or basket of other major currencies. The weights are determined by comparing the relative trade balance of a country's currency against that of each country in the index.

Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.

Definitions:

Gross Domestic Product (GDP) is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.

A recession is a significant, widespread, and prolonged downturn in economic activity. A common rule of thumb is that two consecutive quarters of negative gross domestic product (GDP) growth indicate a recession. However, more complex formulas are also used to determine recessions.

Inflation is a gradual loss of purchasing power, reflected in a broad rise in prices for goods and services over time.

A reserve currency is a large quantity of currency maintained by central banks and other major financial institutions to prepare for investments, transactions, and international debt obligations, or to influence their domestic exchange rate. A large percentage of commodities, such as gold and oil, are priced in the reserve currency, causing other countries to hold this currency to pay for these goods.

The Plaza Accord was a 1985 agreement among the G-5 nations—France, Germany, the United States, the United Kingdom, and Japan—to manipulate exchange rates by depreciating the U.S. dollar relative to the Japanese yen and the German Deutschmark. Also known as the Plaza Agreement, the Plaza Accord intended to correct trade imbalances between the U.S. and Germany and the U.S. and Japan, but it only corrected the trade balance with the former.

Stablecoins are cryptocurrencies whose value is pegged, or tied, to that of another currency, commodity, or financial instrument. Stablecoins aim to provide an alternative to the high volatility of the most popular cryptocurrencies, including Bitcoin (BTC), which has made crypto investments less suitable for everyday transactions.

US large cap equities include equities of companies with a market capitalization of over $10 billion. Although large cap equities are generally considered to be safer securities, large cap equities are still subject to the risks associated with stocks.

When referring to being "overweight" or "underweight" relative to a market or asset class, RiverFront is referring to our current portfolios' weightings compared to the composite benchmarks for each portfolio. Asset class weighting discussion refers to our Advantage portfolios.

RiverFront Investment Group, LLC ("RiverFront"), is a registered investment adviser with the Securities and Exchange Commission. Registration as an investment adviser does not imply any level of skill or expertise. Any discussion of specific securities is provided for informational purposes only and should not be deemed as investment advice or a recommendation to buy or sell any individual security mentioned. RiverFront is affiliated with Robert W. Baird & Co. Incorporated ("Baird"), member FINRA/SIPC, from its minority ownership interest in RiverFront. RiverFront is owned primarily by its employees through RiverFront Investment Holding Group, LLC, the holding company for RiverFront. Baird Financial Corporation (BFC) is a minority owner of RiverFront Investment Holding Group, LLC and therefore an indirect owner of RiverFront. BFC is the parent company of Robert W. Baird & Co. Incorporated, a registered broker/dealer and investment adviser.

2025-1553 Exp. 6/30/2026

ImportantDisclosures

This material is for use with investment advisory clients or prospects only

The information contained herein represents the opinions of the author and not necessarily Benjamin F. Edwards®. Benjamin F. Edwards® is providing it for informational purposes only, not as investment advice or a solicitation for the purchase or sale of any security or class of securities. Benjamin F. Edwards® & Co. (BFE) is a dually-registered broker-dealer and investment adviser and member of FINRA and SIPC, and its affiliate Benjamin F. Edwards SM Wealth Management, LLC, d/b/a Edwards Wealth Management (EWM) is an SEC-registered investment adviser. BFE and EWM are affiliates through their common ownership by Benjamin Edwards, Inc. Depending on the context, the name Benjamin F. Edwards® refer to either EWM, BFE or both.

As a registered investment adviser, Benjamin F. Edwards offers clients a variety of advisory portfolio options. Any portfolio discussed is offered at Benjamin F. Edwards as an investment advisory account. To participate, investors must sign an investment advisory agreement, select a manager, and pay an advisory fee. For additional information regarding fees, please refer to the third-party asset manager's (asset manager) applicable disclosure documents and Benjamin F. Edwards' disclosure documents, which may be obtained through your advisor or found on Benjamin F. Edwards' website, www.benjaminfedwards.com, under the Important Disclosures section.

Participating in advisory programs may cost the client more or less than if the client were to implement his or her selected program separately, such as by using a different program sponsor, pursuing the strategy through a brokerage account, or investing directly with the asset manager. Some factors that might impact the total cost to a client who implements a program separately include the frequency of trading activity; whether a client might be successful in negotiating a lower fee with a sub-advisor; rate of commissions, markups or other transaction-related compensation; or whether account fees, transaction fees or similar charges would be incurred.

Investing in securities entails certain risks, including the potential loss of all or a portion of the proceeds invested. Individuals should consider their specific financial needs, investment objectives and risk tolerance before making an investment. Investments can be significantly affected by certain events, including international political and economic developments, inflation, and other factors. Dividends are not guaranteed and are subject to change or elimination.

Exchange traded funds (ETFs) and mutual funds are sold by prospectus only, which should be read carefully before investing. Please consider the investment objectives, risk, charges and expenses before investing. The liquidity of ETFs may not reflect the level of liquidity of other instruments on listed exchanges such as well-recognized, large cap stocks. The prospectuses, which contain this and other information, can be obtained from your advisor.

Investing in fixed-income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high-yield or "speculative-grade" bonds, which have lower ratings and are subject to greater price volatility. All fixed-income investments are subject to availability and change in price and may be worth less than original cost upon redemption or maturity.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions. Distributions from REIT investments are taxed at the owner's tax bracket.