



(UBS)

US dollar hits year-to-date low amid anticipated rate cuts

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The US dollar reached its lowest level of the year on Wednesday, as markets brace for the Federal Reserve to begin cutting rates.

A rebound in the S&P 500 and fading fears of an imminent recession have shifted investors back into riskier assets, adding pressure on the currency. The US dollar has depreciated by over 2% against the euro month over month, to the lowest point in more than a year. The rapid unwinding of the yen carry trade has also accelerated the US dollar's decline, pushing the yen 7% higher against the dollar over the last month. Markets are now focused on Fed Chair Jerome Powell's upcoming Jackson Hole speech on Friday, where investors expect to gain more insight into the central bank's rate-cutting plans.

Our view: The weakening of the US dollar in response to softer monetary policy expectations by the Fed aligns with our view that the US economy is headed for a soft landing. Recent data on both inflation and the labor market have undershot expectations. We see the Federal Reserve front-loading monetary easing, with interest rate cuts at each of the three remaining Fed policy meetings in 2024. In this environment, investors may want to consider an allocation to gold, which serves as an effective hedge against rising geopolitical tension, inflation, and excessive deficits, while also benefiting from central bank purchases. Alongside modest allocations to gold, we recommend investors further diversify their portfolios through exposure to alternative assets, such as private market and hedge fund investments.

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See more in the Caught our attention section of the US Daily - [An equity rally into Jackson Hole](#), 21 August, 2024.

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