

What Does a Weaker U.S. Dollar Mean for Your Money?



The U.S. Dollar Index — which measures the value of the dollar against the world's six most traded currencies — took a historic 11% dive in the first six months of 2025, delivering the worst first-half performance since the 1973 oil crisis. As of February 27, 2026, the dollar had lost more than 10% of its value since the beginning of 2025.¹⁻²

It's not unusual for the dollar to fluctuate through cycles of strength and weakness, often in response to shifting economic or market conditions. For example, the dollar index rose nearly 7% in 2024 — buoyed by elevated interest rates and expectations for pro-growth policies, such as tax cuts and deregulation.³

As both a consumer and an investor, you might consider how the depreciation of the dollar can impact U.S. businesses, the economy, and your own finances.

REASONS WHY

Like most assets, the value of the U.S. dollar is set by supply and demand. A combination of factors diminished demand and contributed to the dollar's decline in 2025, including tariffs and uncertainty around trade policies, forecasts for slower U.S. economic growth, and concerns about widening budget deficits and mounting national debt. (Excessive borrowing hurts the dollar by eroding investor confidence in the government's ability to fulfill its debt obligations.) Then in the latter months of 2025, the Federal Reserve began to cut interest rates, which typically devalues a nation's currency.⁴

CURRENCY DYNAMICS

A weak dollar makes it more expensive for Americans to travel internationally and reduces their purchasing power at home.

On the other hand, it encourages more foreign tourists to visit and spend money in the United States.

A less valuable currency also makes imported goods more expensive and exported goods cheaper. Higher import prices can spur inflation, take a toll on consumers' household budgets, and cut into the profits of companies that depend on foreign supplies and components.

For companies that manufacture products in the United States, higher import prices support domestic sales, while lower export prices make U.S. products more competitive in global markets. Plus, foreign assets gain value when converted back to dollars, which can boost profits earned overseas by U.S. exporters.

As a group, international stocks outperformed U.S. stocks over the last year, partly due to the dollar's weakness. In 2025, international stocks (represented by the MSCI World ex USA Index) returned 32.55%, almost double the 17.37% return on U.S. stocks (represented by the Russell 1000 Index).⁵



DOLLAR DOMINANCE

Because of the size of the U.S. economy and liquidity of its financial markets, the U.S. dollar has long been the world's reserve currency. As such, it's held in large quantities by central banks, foreign governments, and global financial institutions to facilitate international trade and finance, providing a level of demand regardless of other forces.

According to a 2025 report by the Federal Reserve, about 50% of international financial transactions are executed in dollars, with or without U.S. involvement. Moreover, about 60% of all debt issued by foreign firms in a currency other than that of their home country is denominated in dollars.⁶

Reduced foreign demand put significant downward pressure on the dollar in the first half of 2025. U.S. trade and fiscal policies, along with concerns about the continued independence of the Federal Reserve, seemed to shake some global investors' confidence in the nation's financial stability and the dollar as a safe haven. And in recent years, some central banks, foreign governments (primarily China), and private investors have been diversifying their reserves into other currencies and assets such as gold.⁷

Even so, the U.S. dollar represented 58% of disclosed global official foreign reserves as recently as 2024, far surpassing all other currencies, including the Eurozone euro (20%), Japanese yen (6%), British pound (5%), and Chinese renminbi (2%). The bulk of official U.S. dollar reserves are held in the form of U.S. Treasury securities, which reportedly are still in high demand by both official and private foreign investors.⁸

All investments are subject to market fluctuation, risk, and loss of principal. Investments, when sold, may be worth more or less than their original cost. Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, and economic and political risk unique to a specific country. Diversification is a method to help manage risk; it does not guarantee a profit or protect against loss. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Rates of return vary over time, especially for long-term investments. Past performance is not a guarantee of future results. Actual results will vary.

U.S. Treasury securities are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. The principal value of Treasury securities fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid.

1, 4, 7) Morningstar, July 11, 2025

2) Yahoo Finance, 2026

3) Reuters, December 31, 2024

5) London Stock Exchange Group, 2026, Russell 1000 Index and MSCI World ex USA Index for the period 12/31/2024 to 12/31/2025

6, 8) Federal Reserve, 2025

If you have questions regarding the topics in this document, or would like to work with a financial advisor, First Bank & Trust's Wealth Management Services team would be happy to assist you. Visit your local banker, and they will connect you with one of our officers. Alternatively, call us at 605.696.2202 or toll-free at 800.843.1552.

WEALTH MANAGEMENT TEAM

Brookings, SD

Adam Dentlinger

Chief Wealth Management Officer

Nicole Yseth

Director of Retirement Plan Services

Mark Stevenson

Wealth Management Senior
Advisor Manager

John Gustafson

Wealth Management Sr. Officer

Marc Venekamp

Wealth Management Sr. Officer

Lance Howard

Wealth Management Sr. Officer

Devan Schaefer

Wealth Management Officer

Sioux Falls, SD

Peter Scott

Wealth Management Senior
Advisor Manager

Brian Christensen

Wealth Management Sr. Wealth Advisor

Dylan Hage

Wealth Management Officer

Jordin Edwards

Wealth Management Relationship
Manager

Kim Banks

Wealth Management Relationship
Manager

Watertown, SD

Tyler DeBoer

Senior Wealth Advisor

Edina, MN

Matt Johnson

Chief Investment Officer

Barry Kelner

Senior Wealth Advisor

Tyler Bowen

Senior Wealth Advisor