Who Wins and Who Loses if the Dollar Keeps Falling?

By JONATHAN FUERBRINGER

A FALLING dollar has always been seen as a benefit for Americans with money abroad. A weaker dollar means that foreign profits will be higher and losses smaller.

But as long as the dollar decline is orderly and restrained, it is also likely to be good for Americans who stay invested in stocks at home, although it won't help those in bonds.

Some stocks that could do well in a declining-dollar environment include Microsoft, Intel, Ford, ExxonMobil and Citigroup. Gold and gold stocks should rally if the dollar keeps falling. And, the Standard & Poor's 500-stock index could climb 3 percent while the Nadaq 100 index could rise almost 5 percent if the dollar falls an additional 5 percent against the euro.

This analysis is based on the correlation between recent dollar moves and the stock and bond markets. It was done by RiskMetrics, which uses the same kind of analysis that many companies, investment firms and central banks employ to see what might happen if one market sector made a big move.

RiskMetrics is assuming that the dollar will fall 5.5 percent from where it was on Friday against the euro and 7.8 percent against the Japanese yen, according to Mike Thompson, a risk strategist at the company. Those declines, over an unspecified period, would leave the euro valued at $1.25 and the yen at 100 to the dollar and are in line with near-term dollar forecasts. The dollar has already slumped 7 percent against the euro and 7.2 percent against the yen since August.

An economist might say the outlook for stocks is positive because a fall in the dollar would help the struggling economy rebound in two ways. First, a weaker dollar makes American exports more competitive abroad, bolstering sales and corporate profits. And a weaker dollar makes imports less competitive against America's domestic businesses, also helping sales and corporate profits. In the bond market, however, a dollar decline would make it harder to attract the foreign investment needed to cover the country's $500 billion current account deficit. So interest rates would have to move higher to attract more money from abroad.

But this is not the analysis that is behind the predictions of RiskMetrics. Those predictions rely entirely on the statistical relationship between the movement in one market and other markets.

Mr. Thompson says the correlations cover the last 250 trading days ended on Wednesday but emphasize market performance in the last 11 of those days. How stocks and bonds moved as the dollar rose or fell during that period is translated into a prediction of how they would perform given a set decline in the dollar's value.
Under this analysis, the S.& P.'s metals and mining index, including gold and nonprecious-metals companies, could rise almost 14 percent during the dollar's decline. Indexes covering electronics, semiconductors, software, communications equipment and information technology could gain 6 to 9 percent. Footwear stocks could rally 9 percent, and hotel and lodging stocks could be up nearly 8 percent.

The few losing sectors would include airlines, off 0.5 percent; telecom services and telephones, off 0.9 percent to 1.4 percent; and photography, down 6 percent.

The stocks expected to be the best performers are Concord EFS, Monsanto, Cendant, the American International Group and the Anthem Group, all predicted to be up more than 60 percent. Only 63 stocks in the S.& P. 500 index are forecast to decline by at least 1 percent. Navistar International, FleetBoston Financial, Pitney Bowes, BMC Software and the Pall Corporation are expected to drop by more than 28 percent.

As for bonds, RiskMetrics says the total return for the Lehman Aggregate bond index could slip about 0.6 percent.

These predictions, Mr. Thompson said, "are, at best, approximations." But they do give a sense of direction, as long as there is no unexpected shock that overwhelms the recent pattern of market performance. And that means a dollar decline is right on right now.