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BUSINESS & FINANCE

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Tax Plan Likely to Boost Dollar

Repatriation of profits is expected to bolster the currency—but how long will rally last?

By Ira Iosebashvili

A provision of the tax overhaul is expected to release a tide of U.S. corporate cash from abroad, a development likely to jolt the dollar and reverberate throughout financial markets early next year.

Companies could bring back as much as $400 billion, according to one estimate, as they take advantage of a one-time cut for repatriation of earnings and cash held overseas written into the GOP tax overhaul. That typically requires them to sell foreign holdings and buy assets denominated in dollars, which could boost the U.S. currency.

Gauging the dollar's trajectory is crucial to both investors and corporations. The currency's climb over the past several years has been blamed for pressuring profits among U.S. multinational companies and making exporters' goods less competitive abroad.

Its trajectory also influences prices for raw materials like oil, copper and gold, which are denominated in dollars and become more expensive to foreign investors when the dollar rises.

Many investors expected the dollar to strengthen in 2017, boosted by the Trump administration's fiscal-stimulus and infrastructure-spending pledges. Instead, the currency as of Friday had fallen nearly 7% against its peers, as key White House initiatives stalled.

$400B

Estimate of how much cash U.S. companies will bring home

"There should be some kind of boost to the dollar" from the tax plan, said Lee Ferridge, head of macrostrategy for North America at State Street Global Markets. "But I will be using that as a selling opportunity."

Some analysts said such a rally could mark a climax for the dollar's nearly seven-year-long bull market, as monetary policy begins to tighten in other developed economies. Many expect more central banks around the world to start unwinding nearly a decade of postcrisis stimulus measures in 2018, a process already under way in the U.S. As central banks begin normalizing interest-rate levels, the dollar may become less appealing to some investors, who for years had sought U.S. assets because they offered yields that were high compared with other developed economies.

Bank of America Merrill Lynch, BNP Paribas and **RBC Capital Markets** all believe the dollar will start 2018 stronger, according to forecasts released in the last several weeks. Out of those banks, however, only analysts at RBC predict the currency will hold

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◆ Heard on the Street: Advice on corporate tax cuts........ B10

Drug Prices Soar Without Generics

By Peter Loftus

Since 2013, the price of a 40-year-old, off-patent ca[…] drug in the U.S. has risen[…] fold, putting the life-exten[…] medicine out of reach [of] some patients.

Introduced in 1976 to t[…] brain tumors and Hod[…]

DOLLAR

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those gains into year-end.

There is less agreement among analysts on how much of the more than $1 trillion U.S. companies are estimated to have stashed abroad will be converted into dollars under the new tax law and what part of that amount is already in the U.S. currency. That makes it difficult to gauge how the tax bill will affect the dollar, or what impact the repatriations will have on the economy.

A tax-repatriation holiday enacted under the administration of George W. Bush in late 2004 prompted companies to bring in $312 billion, according to the Internal Revenue Service. The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, broke a yearslong downtrend to rise nearly 13% in 2005, a move analysts attributed to cash flowing in the U.S. The S&P 500, which includes many multinationals, rose 3%—a smaller gain than in either of the two previous years.

This time around, repatriations could total between $200 billion and $400 billion, Bank of America Merrill Lynch estimates. The firm expects the euro to fall to $1.10 against the dollar in the first quarter of 2018 from around $1.1862 on Friday.

Atul Lele, chief investment officer at **Deltec International Group**, which oversees $5 billion, said repatriation will create demand for U.S. dollars, driving the currency higher. He also expects the tax cuts to juice U.S. growth and stimulate inflation, inducing the Federal Reserve to raise rates at a faster clip. Higher rates tend to boost the dollar, as they make the U.S. currency more attractive to investors seeking yield.

Mr. Lele owns shares of U.S. financials such as **Citigroup** Inc. and **Wells Fargo** & Co., which he believes will benefit from stronger growth. He has also increased his dollar holdings to counterbalance assets he owns that are denominated in other currencies and would decline in value if the dollar strengthened.

The tax plan is likely to have ramifications for the broader markets as well, some analysts said. Analysts at **UBS Wealth Management** said the legislation could provide the "icing on the cake" for an economy that is already going strong, contributing as much as 8% to corporate profits and a further upside of 5% to the S&P 500.

BMO Capital Markets cut its 2018 gold forecast by 1.5% to an average price of $1,280 a troy ounce to account for potential headwinds from a stronger dollar. The metal settled Friday at $1275.40 a troy ounce.

The most immediate threat to a dollar rally, however, could come from outside the U.S., where a burgeoning eurozone economy is paving the way for the European Central Bank to unwind its monetary-easing policies and eventually raise rates. That would be a boon for investors who have wanted to diversify their dollar holdings but have stayed out of euros because interest rates in the region are currently near historical lows. The euro was up nearly 13% against the dollar this year as of Friday, and investors expect that rally to continue into 2018.

"We are positioned for the dollar to be a little stronger, and then we expect to lighten up on dollars in favor of euros," said Nick Gartside, international chief investment officer of fixed income at J.P. Morgan Asset Management. He expects the euro to rise as high as $1.30 against the dollar by the end of 2018.

The shift is one that likely spells the end for the dollar's yearslong rally, during which the U.S. currency has appreciated more than 30% against its peers, said Robert Tipp, chief investment strategist at **PGIM Fixed Income**. The dollar has appreciated more than 30% against its peers from its lows of 2011.

"You had a gigantic bull market in the dollar in recent years, but now the tide is turning," Mr. Tipp said.

WSJ Dollar Index

Source: WSJ Market Data Group (2017 data)

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A strengthening of the dollar could lift Wells Fargo and its peers.