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Relationship over? Dollar, stocks break up

By STEPHEN BERNARD
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The relationship between the dollar and stocks that helped define last year's stock market rally is over.

Last summer and fall, stocks generally rose on days when the dollar fell, and vice versa.

The dollar had been pushed lower by record-low interest rates and other measures from the Federal Reserve to boost the economy. The weak dollar was a boon for the stock market as investors were eager to get money out of low-yielding U.S. dollars and put them to work just about anywhere else, such as stocks.

The currency's weakness also was good for large U.S. companies while the country was still mired in recession. For companies that rely heavily on exports, their earnings translate into more dollars when they bring their revenues home if the dollar is weak against other currencies.

Now, the dollar and the stock market are going their own ways.

The dollar is regaining ground against other currencies partly because of concerns about debt burdens in Greece, Spain, Portugal and Ireland, which could undermine Europe's shared currency, the euro. Investors tend to put money into dollars in times of trouble for other currencies.

"The Greek problems were a mad dash back to the dollar as a place of safety," said Barry James, president and portfolio manager at James Investment Research. "When the world gets nervous, it runs back to the dollar."

At the same time, the U.S. economy is showing more signs of promise. That has helped lift the dollar against other currencies as investors anticipate that U.S. interest rates could soon rise above their historic lows.

But instead of falling in response, stocks are rising too, as a better U.S. economy also provides more reasons for people to put their money into equities as hopes improve for corporate earnings. Fourth-quarter earnings have largely beat expectations, and companies won't have to rely so heavily on foreign sales for growth now that the U.S. economy is rebounding.

Another factor helping U.S. stocks is a sharp pickup in corporate deal activity. Kraft Foods Inc.'s purchase of British candymaker Cadbury PLC and other bold acquisitions have investors "excited," said Justin Golden, a strategist at Macro Risk Advisors. Corporate deals send a signal to markets that businesses are confident about the economy, able to

raise funds and think that some companies are undervalued — all positive factors for stocks.

A pickup in consumer spending, the backbone of the U.S. economy, also is getting investors encouraged about owning stocks and focused back on an improving economic picture at home.

Retailers said Thursday that February sales were sharply higher than the year-ago period, indicating customers are starting to spend again. The Labor Department on Friday said employers cut fewer jobs than expected last month, helping send major indexes up about 1 percent.

"The U.S. consumer is coming back," said James O'Leary, portfolio manager of the Touchstone International Growth Fund. "There's room to grow in stocks."

The differences between movements in the dollar and the stock market last summer and the past few months have been stark.

_ Then: When the stock market was in the middle of its best rally in decades, from July 1 to Dec. 1, the Standard & Poor's 500 index rose 19.2 percent. During that same stretch the ICE Futures US dollar index, which measures the dollar against six other currencies, fell 2.4 percent.

_ Now: Even as stocks continued to rise in recent months, the dollar did an about-face and began to rally too. Since Dec. 1, the S&P 500 is up 2.5 percent, while the dollar has gained 7.7 percent.