



DEFENDING AGAINST A DECLINING DOLLAR

Has the US dollar bear emerged from hibernation?

April 2021



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By the fourth quarter of 2020, investors realized the US dollar had been declining for the past several months. From mid-May's high of 100.47, the US Dollar DXY Index dropped 6.25% to 93.86 by the end of the third quarter. Investors began constructing scenarios to explain the weakness, with extra attention on Georgia's senate elections, which paved the way to Democratic control of government, opening the door to aggressive stimulus. Despite Federal Reserve chairman Jay Powell's assurances that any inflation arising from the stimulus combined with pandemic recovery would be short-lived, the potential corrosive effect of inflation on the dollar remains top of mind. Of course, since its nadir on January 5, the US dollar has been recovering, though volatility remains an issue.

How should investors interpret the US dollar's gyrations? Does the modest price movement during the fourth quarter of 2020 represent the extent of the dollar's decline, or does it foretell of more to come? The market has a nickname for an investor who believes the dollar will decline: a US dollar bear. Will the US dollar bear emerge from hibernation in the coming spring and summer, or should we expect it to simply continue its slumber?

More importantly, what can investors do to protect themselves if we do face a US dollar decline?



The Previous US Dollar Bear Market, 2001-2008

We can look to history to offer a guide, if not a possible road map of how a US dollar bear market adversely affected investors and consumers.

The previous US dollar decline lasted about seven years, beginning in 2001 and ending in the summer of 2008. During that time, the relative value of the dollar decreased -39%, or -7% compounded annually. Over the same period, inflation, as measured by the Consumer Price Index (CPI), averaged 3% annually, well above the Federal Reserve's target rate of 2%. Over the same period, the prices of key household items increased; for example, a gallon of milk rose 3.8%, while gasoline rose 14.2%.

Consumer Price and Foreign Currency Movements 2001-2008

Selected Mid-Yr Dates	DXY	WTI ^A	Avg. Price of Gas (per Gallon)	Avg. Price of Milk (per Gallon) ^B	US CPI ^C	EUR	CAD \$	AUD \$	NOK
						vs. USD			
6/30/08	72.46	\$140.32	\$4.10	\$3.77	5.00%	1.58	1.02	0.96	5.09
6/29/07	81.92	\$70.60	\$3.06	\$3.43	2.70%	1.35	1.07	0.85	5.89
6/30/06	85.16	\$73.92	\$2.89	\$3.00	4.30%	1.28	1.12	0.74	6.22
6/30/05	89.09	\$58.75	\$2.16	\$3.12	2.50%	1.21	1.23	0.76	6.53
6/30/04	88.80	\$37.55	\$1.97	\$3.57	3.30%	1.22	1.33	0.70	6.93
6/30/03	94.73	\$30.19	\$1.49	\$2.68	2.10%	1.15	1.35	0.67	7.20
6/28/02	106.11	\$25.86	\$1.38	\$2.77	1.10%	0.99	1.52	0.56	7.50
6/29/01	119.47	\$26.48	\$1.62	\$2.91	3.20%	0.85	1.51	0.51	9.04
Absolute Chg (%)	-39.3%	429.9%	153.4%	29.6%		85.6%	48.2%	87.3%	77.7%
7-year CAGR	-6.9%	26.9%	14.2%	3.8%	3.0%	9.2%	5.8%	9.4%	8.6%

Sources: Bloomberg and Energy Information Administration

^A WTI is the commodity price of a barrel of crude oil

^B Milk, fresh, whole, fortified, per gal. (3.8 lit) in US city average price, not seasonally adjusted.

^C CPI data includes year-over-year increases as of the stated period. 3.0% represents average inflation over identified period

EUR = euro, CAD \$ = Canadian dollar, AUD \$ = Australian dollar, NOK = Norwegian krone

As a result of the inflation, US consumers experienced a meaningful purchasing power decline, which accelerated toward the end of the decade as the CPI rose by an average 3.9% during the latter three years. Unless an individual's earnings grew at least the same rate as inflation, their purchasing power declined due to the rising prices. While consumers' budgets may not have changed in nominal terms, the lower value of the dollar caused budgets to shrink in real terms.



The Great Financial Crisis (GFC) began in the first half of 2008, when financial assets and home prices experienced a pronounced decline and job losses skyrocketed. During the GFC, grocery stores and other retail industries began implementing gas surcharges and fees to offset the accompanying rapid rise in gas prices. This only further diminished the purchasing power of US consumers. The price of crude oil, expressed as Western Texas Intermediate (WTI) in the *Consumer Price and Foreign Currency Movements 2001–2008* chart, nearly doubled from June 2007 to June 2008. The entire supply chain of key household items was adversely affected by the precipitous rise in the cost of oil and falling consumer incomes. Real household median income declined by almost -10% from 2007 to 2012, and real median household net wealth fell by -40% from 2007 to 2013.²

Other currencies such as the euro, the Canadian dollar, and the Australian dollar appreciated relative to the US dollar. The euro appreciated at a seven-year CAGR of 9.2%, the Canadian dollar rose at a 5.8% clip, and the Australian dollar by 9.4% annually. In effect, the US dollar bear market reduced US consumers' ability to afford goods from those regions. While the GFC impaired developed economies around the world, foreign currency appreciation against the US dollar helped offset some of the purchasing power decline for residents of those respective countries. Global commodities are generally priced in dollars so rising gasoline and other prices for an American consumer presented less of a problem for consumers in other countries.

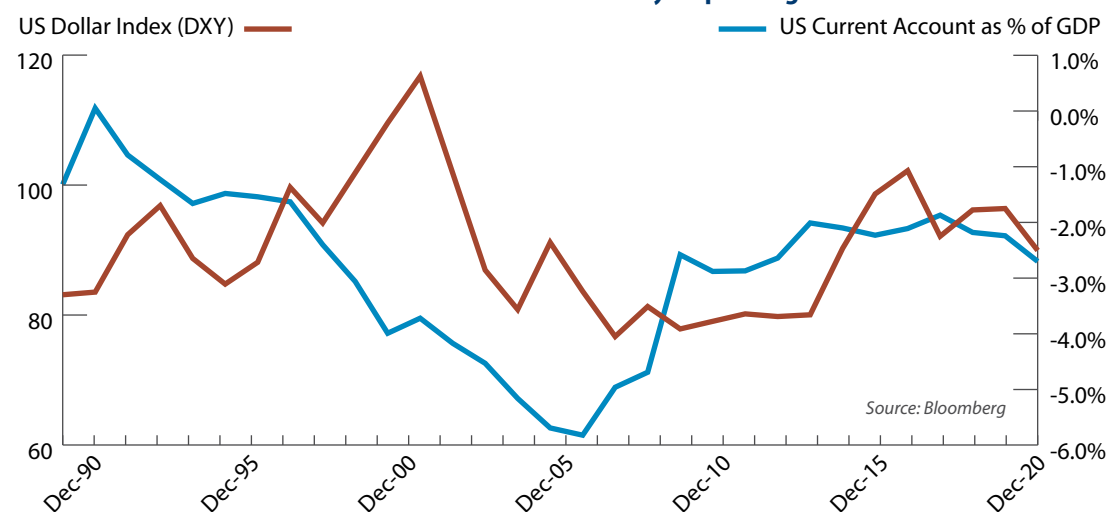
Similarly, investing in a diversified portfolio that includes foreign securities priced in foreign currencies can be an effective way to preserve purchasing power.

Examining the Causes of the Last US Dollar Bear's Awakening

A number of causes and conditions can lead to the decline of a country's currency, including rampant domestic inflation, weak economic growth, large trade deficits, loose fiscal policies, deteriorating fiscal deficits, and increasing debts. In the United States, currency decline is further complicated by the US dollar being the world's reserve currency. The dollar and euro combined are the leading mediums of exchange, accounting for about three-quarters of international payments for cross-border trade and financial transactions. As a result, there are numerous complicating factors when a country's currency is a reserve currency.

The decline of the US dollar from 2001 to 2008 has largely been attributed to an unprecedented US trade deficit, which grew in excess of 5.5% of GDP in 2006.⁴ Large trade deficits caused an imbalance that led to a circuitous decline in the US dollar and had "the effect of pouring massive amounts of US dollars into the world, which in turn, pushes down the value of the dollar," authors Jones and L'Oste-Brown assert in their book, *The Devaluation of the United States Dollar: Causes and Consequences*. They continue by arguing that as countries that produce higher priced commodities, such as oil and minerals, began to accumulate vast reserves of US dollars, they began redirecting their allocations to investments that offered a more compelling post-currency adjusted return. "An insufficient inflow of dollars back into the US leads to further depreciation of the dollar."⁵ The supply-demand imbalance that resulted from the over-availability of the US dollar was a major factor in the 2001-2008 decline.

Trade Deficits Led to a Decline in the Dollar - is History Repeating?



Assessing Current Conditions – Is the Hibernation Over?

The central arguments among investors during the fourth quarter of 2020 point to another supply-demand imbalance. This time, they say, the imbalance would result from government spending, budget deficits, and debt rather than from a growing current account balance deficit. In simple terms, the US's fiscal house is in disarray following the pandemic's adverse economic impact. The expected outcome is an increase in the supply of US dollars.

Fortunately, we can examine the potential US dollar decline by reviewing other investment playbooks for guidance. Investment and currency trading icon, Stanley Druckenmiller, along with his former boss, George Soros, CEO of Soros Fund Management, earned notoriety when they "broke" the Bank of England on September 17, 1992, referred to now as "Black Wednesday." The trade reflected an epic event in foreign exchange markets as the Bank of England purchased £27 billion of its own currency in a failed attempt to offset the tremendous selling brought by Soros' hedge fund, the Quantum Fund. As a byproduct of the "currency attack," the Quantum Fund earned close to a \$1.0 billion profit. The English pound fell -15% against the German mark and -25% against the US dollar.⁶ In an interview for the book *The New Market Wizards*, Druckenmiller theorizes that if a country engages in expansionary fiscal policy while engaging in tight monetary policy, one could expect to see the currency of that country to appreciate. If, however, a country engages in both expansionary fiscal and loose monetary policy, one could expect the opposite.⁷ This is the current situation facing the United States.

In a September 2020 CNBC interview, Druckenmiller expressed his deep concern regarding potential inflation pressures due to increasing government spending and fiscal deficits. Druckenmiller said he "sees inflation rates rising to 5% or perhaps even 10% in the next 4-5 years... For the first time in a long, long time, I'm actually worried about inflation because we actually have the Chairman of the Federal Reserve with a three-and-a-half trillion-dollar deficit lobbying Congress to do more spending and guaranteeing those of us on Wall Street that he'll underwrite it."^{8,9} A month later on the same network, Druckenmiller stated he anticipates a three- to four-year decline in the US dollar.^{10,11}



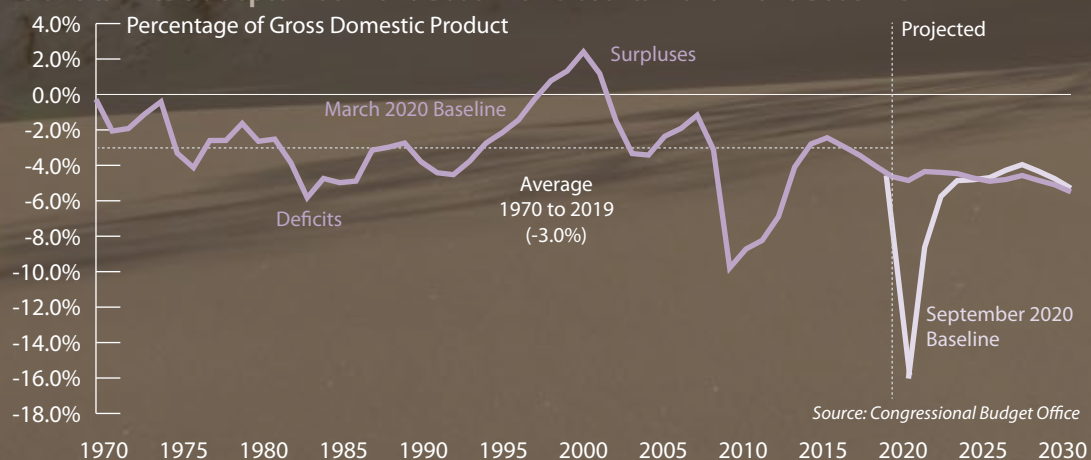
US public debt as a percentage of gross domestic product (GDP), is at an all-time high of 135.6%.¹² US debt and leverage metrics were already relatively high at over 100% of GDP during a period of economic expansion prior to the onset of the coronavirus. Typically, a country's debt and leverage metrics rise during periods of economic recessions or war; before this all-time high, US public debt after World War II reached its apex at 121% of GDP. We are now in uncharted territory. Government spending is projected to rise to address the pronounced economic impact of the pandemic and the tens of millions of unemployment claims over the last year.¹³

Federal Debt to GDP



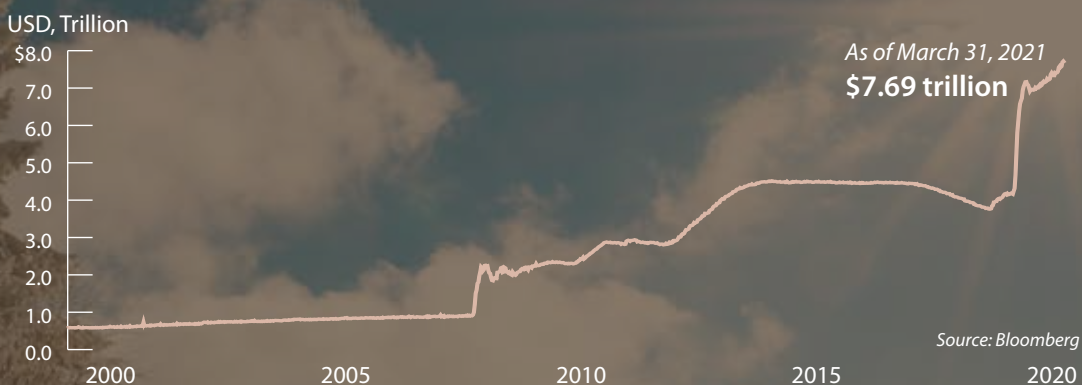
The Congressional Budget Office (CBO) assessed US deficit trends in their September 2020 publication. The CBO revised their April 2020 deficit projection of 4% to as much as 16%, the largest deficit since reaching nearly 30% during World War II.¹⁴ We believe that these projections dramatically understate US fiscal and debt-to-GDP metrics. It is reasonable to expect US fiscal policy to be accommodative to offset the deep economic impacts caused by the pandemic.

Deficits in CBO's September 2020 Baseline Versus its March 2020 Baseline



On December 16, 2020, the Federal Reserve reaffirmed its accommodative position by announcing plans to buy \$120 billion in assets a month (\$80 billion in US Treasuries and \$40 billion in mortgages) while seeking to achieve maximum employment and an inflation rate of 2% in the long run. The Federal Open Market Committee commented "these asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses."¹⁵ The Fed vigorously embarked upon a massive asset purchase program in February 2020 that brought the federal deficit to a record \$3.1 trillion during the 2020 fiscal year. The Fed's actions led to a 42% increase in its balance sheet that as of March 31, 2021 stood in excess of \$7.6 trillion.

Federal Reserve Balance Sheet



The Fed modified its inflation policy framework in August of 2020. It will now target a 2% inflation average, rather than 2% as a fixed goal, allowing greater policy flexibility.¹⁶ Tyler Powell and David Wessel, writing for the Brookings Institution, theorize that the adoption of the new inflation policy suggests that the Fed will now hold off on tightening monetary policy, even if the unemployment rate falls back to where it was before the pandemic and inflation is projected to rise above 2%.¹⁷

Historically accommodative monetary and now loose fiscal policies are sowing the seeds of a US dollar decline – an excess supply of US dollars.

The Dollar Bear's Hibernation May Have Ended

Exploring Your Options to Protect Your Purchasing Power

Moody's Analytics estimates President Biden's \$1.9 trillion fiscal plan may generate average GDP growth of 8.6% for 2021 versus 4.0% with no fiscal stimulus at all. Moody's Baseline anticipates GDP growth of 4.8% in 2021 based on a fiscal stimulus program of \$750 billion.¹⁸ Again, these are all projections. Actual outcomes will vary since such programs face challenges associated with execution and rollout after legislation is passed. Also, President Biden's plan doesn't take into consideration a separate \$2 trillion infrastructure plan that is in the queue.¹⁹

Projected GDP Growth Examples

		Biden's Plan	No Fiscal Support	Moody's Baseline
Q1	2020	-5.0%	-5.0%	-5.0%
Q2	2020	-31.4%	-31.4%	-31.4%
Q3	2020	33.4%	33.4%	33.4%
Q4	2020	4.4%	4.4%	4.4%
Q1	2021	7.9%	1.4%	4.4%
Q2	2021	11.3%	4.6%	5.2%
Q3	2021	9.0%	4.5%	4.7%
Q4	2021	6.1%	5.5%	4.8%
Q1	2022	3.0%	6.1%	5.1%
Q2	2022	0.4%	4.2%	6.4%
Q3	2022	0.1%	3.8%	4.3%
Q4	2022	1.5%	3.3%	3.1%
Actual	2020	-3.5%		
Avg.	2021	8.6%	4.0%	4.8%
Avg.	2022	1.3%	4.4%	4.7%

Source: Moody's Analytics, US Bureau of Economic Analysis

While the full extent of the various fiscal policies that could be cast during the Biden Presidency is unknown, repairing the economy along with increasing employment are top priorities. A bearish outlook for the US dollar has merit.

- **Fiscal:** Outlook for a loose fiscal policy is extremely likely. Current uncertainties remain on the size and the extent of what additional, if any, fiscal programs take place in the future.
- **Monetary:** Federal Reserve policymakers have confirmed an ongoing accommodative monetary policy. The Federal Reserve has engaged an accommodative policy ever since the GFC.
- **Debt Trajectory:** Currently, the US debt, as a percentage of GDP, exceeds levels observed during World War II. Both the debt and the deficit are expected to rise, and by a lot, dependent upon fiscal policy outcomes.
- **Trade Deficit:** There doesn't appear to be clear guidance on the direction of the US trade deficit at this point, but that trade deficit does not seem to be a factor in the same way that it was from 2001 through 2008. Conditions may change if a large infrastructure bill is passed, requiring the acquisition of commodities and other goods needed to satisfy the projects.

A US dollar bear market can have meaningful adverse implications for investors and consumers. The good news is that we have a defensive toolkit.

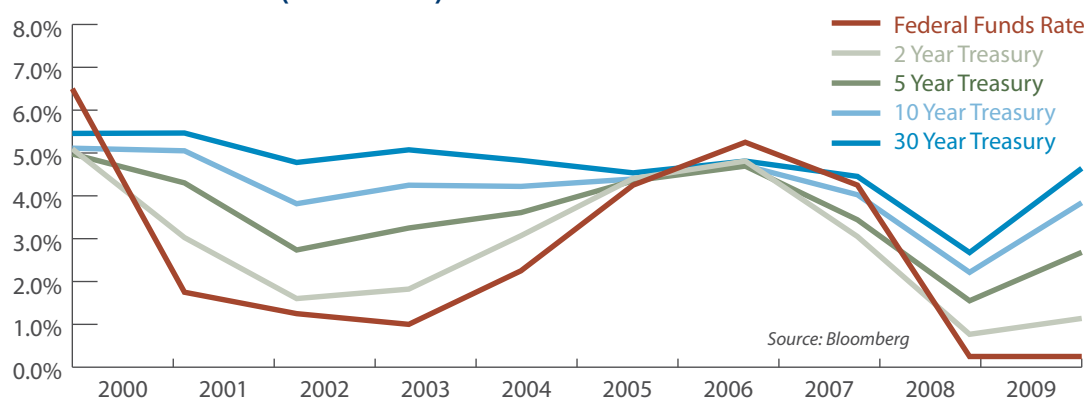


Investors may want to consider owning non-US denominated securities to preserve their purchasing power. Such venues exist through diversified global bond funds that incorporate unhedged multi-currency exposures. These funds can help provide capital preservation to protect investors' purchasing power against the rising prices of commodity items, such as gasoline, or the decline of the US dollar relative to other currencies. Alternatively, investors who prioritize capital appreciation rather than preservation may find diversified global equity funds that incorporate unhedged multi-currency exposures to be a favorable option.

What Can We Learn from the Past?

A US dollar bear market will undoubtedly have adverse implications for investors and consumers, particularly as it relates to changes in purchasing power. We can use history as our guide and look back to 2001–2008 to learn how asset classes performed during that period. Our aim is to help establish a playbook for investors to use, should the US dollar decline again. The adage “History may not repeat, but it does rhyme,” urges us to identify differences and similarities between the past and present.

Interest Rate Climate (2000 - 2009)



The federal funds rate plummeted between year-end 2000 and year-end 2001. Following this, US Treasury interest rates experienced an upward trajectory until the onset of the GFC, as shown in *Interest Rate Climate (2000–2009)*. Since then, central banks from around the world have been engaged in various accommodative monetary programs to foster economic growth. Today's interest rates are much lower than during 2001-2008 period.

Fixed Income and Equity Returns

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Value Equities 28.41%	Value Equities 12.08%	Global Bonds 16.53%	Small & Mid Cap 45.51%	Small & Mid Cap 18.29%	Global Equities 11.42%	Global Equities 21.57%	Global Equities 12.29%	US Treasurys 13.74%	High Yield Bonds 58.21%
US Treasurys 13.52%	Corporate Bonds 10.31%	Value Equities 15.67%	Global Equities 34.68%	Global Equities 15.79%	EM Bonds 10.76%	Small & Mid Cap 16.17%	Growth Equities 11.81%	Global Bonds 4.79%	Growth Equities 37.21%
EM Bonds 13.51%	EM Bonds 8.43%	EM Bonds 13.96%	Growth Equities 29.75%	EM Bonds 11.79%	Small & Mid Cap 8.11%	US Equities 15.78%	Global Bonds 9.48%	Value Equities 4.17%	Global Equities 35.48%
Corporate Bonds 9.08%	US Treasurys 6.75%	US Treasurys 11.79%	High Yield Bonds 28.97%	High Yield Bonds 11.13%	Growth Equities 5.26%	High Yield Bonds 11.85%	US Treasurys 9.01%	Cash 1.77%	Small & Mid Cap 34.39%
Cash 6.08%	High Yield Bonds 5.28%	Corporate Bonds 10.12%	US Equities 28.67%	US Equities 10.88%	US Equities 4.91%	Value Equities 11.84%	EM Bonds 5.95%	Corporate Bonds -4.94%	EM Bonds 28.78%
Small & Mid Cap 4.27%	Cash 4.07%	Cash 1.70%	EM Bonds 25.95%	Value Equities 9.28%	Cash 3.00%	EM Bonds 10.26%	US Equities 5.57%	EM Bonds -11.66%	US Equities 26.45%
Global Bonds 3.18%	Global Bonds 1.57%	High Yield Bonds -1.41%	Global Bonds 12.51%	Global Bonds 9.27%	US Treasurys 2.79%	Growth Equities 9.07%	Cash 4.78%	High Yield Bonds -26.16%	Corporate Bonds 18.68%
High Yield Bonds -5.86%	Small & Mid Cap 1.22%	Small & Mid Cap -17.80%	Corporate Bonds 8.24%	Growth Equities 6.30%	High Yield Bonds 2.74%	Global Bonds 6.64%	Corporate Bonds 4.56%	Small & Mid Cap -36.79%	Global Bonds 6.93%
US Equities -9.10%	US Equities -11.89%	Global Equities -18.94%	US Treasurys 2.24%	Corporate Bonds 5.39%	Corporate Bonds 1.68%	Cash 4.80%	High Yield Bonds 1.87%	US Equities -37.00%	Cash 0.15%
Global Equities -13.88%	Global Equities -15.76%	US Equities -22.10%	Cash 1.03%	US Treasurys 3.54%	Value Equities 1.62%	Corporate Bonds 4.30%	Small & Mid Cap 1.38%	Growth Equities -38.44%	US Treasurys -3.57%
Growth Equities -22.42%	Growth Equities -20.42%	Growth Equities -27.88%	Value Equities -0.18%	Cash 1.24%	Global Bonds -4.49%	US Treasurys 3.08%	Value Equities -10.66%	Global Equities -41.82%	Value Equities -11.61%

Market Segment	Represented By (1 year return for year indicated)	For More Information
Cash	Bloomberg Barclays US Treasury Bills: 1-3 Months Index	For index definitions, see page 19. Investors cannot invest directly in an index.
US Treasurys	Bloomberg Barclays US Treasury Index	
Corporate Bonds, Investment Grade	Bloomberg Barclays US Corporate Bond Index	
US High Yield Bonds	Bloomberg Barclays US Corporate High Yield Index	
Emerging Markets Bonds	JP Morgan EMBI Global Core Index	
Global Bonds (Non-US Dollar)	Bloomberg Barclays Global Aggregate	
US Equities	S&P 500 Index	
Growth Equities	Russell 1000 Growth Index	
Value Equities	Russell 1000 Value Index	
Mid & Small Cap Equities	Russell 2500 Index	
Global Equities (Developed World, Ex-US)	MSCI EAFE Index	

Source: Bloomberg

We compared risk-return attributes for the overlapping periods of 2001–2007 and 2001–2008 in order to contrast the risk-return attributes of these asset classes with and without the adverse impacts of the GFC.

2001–2007: Pre-Global Financial Crisis

Benchmark		Annualized return	Annualized standard deviation	Sharpe ratio
Cash	Bloomberg Barclays US Treasury Bills: 1-3 Months Index	2.93%	0.47%	NA
US Treasurys	Bloomberg Barclays US Treasury Index	5.54%	4.84%	0.57
Corporate Bonds, Investment Grade	Bloomberg Barclays US Corporate Bond Index	6.32%	4.72%	0.75
US High Yield Bonds	Bloomberg Barclays US Corporate High Yield Index	8.24%	7.85%	0.70
Emerging Markets Bonds	JP Morgan EMBI Global Core Index	12.28%	8.01%	1.19
Global Bonds (Non-US Dollar)	Bloomberg Barclays Global Aggregate	7.15%	5.47%	0.80
US Equities	S&P 500 Index	3.30%	13.28%	0.04
Growth Equities	Russell 1000 Growth Index	0.23%	16.43%	-0.16
Value Equities	Russell 1000 Value Index	5.30%	10.51%	0.24
Mid & Small Cap Equities	Russell 2500 Index	8.95%	15.90%	0.39
Global Equities (Developed World, Ex-US)	MSCI EAFE Index	7.12%	13.43%	0.32

2001–2008: Including Impacts of the Global Financial Crisis

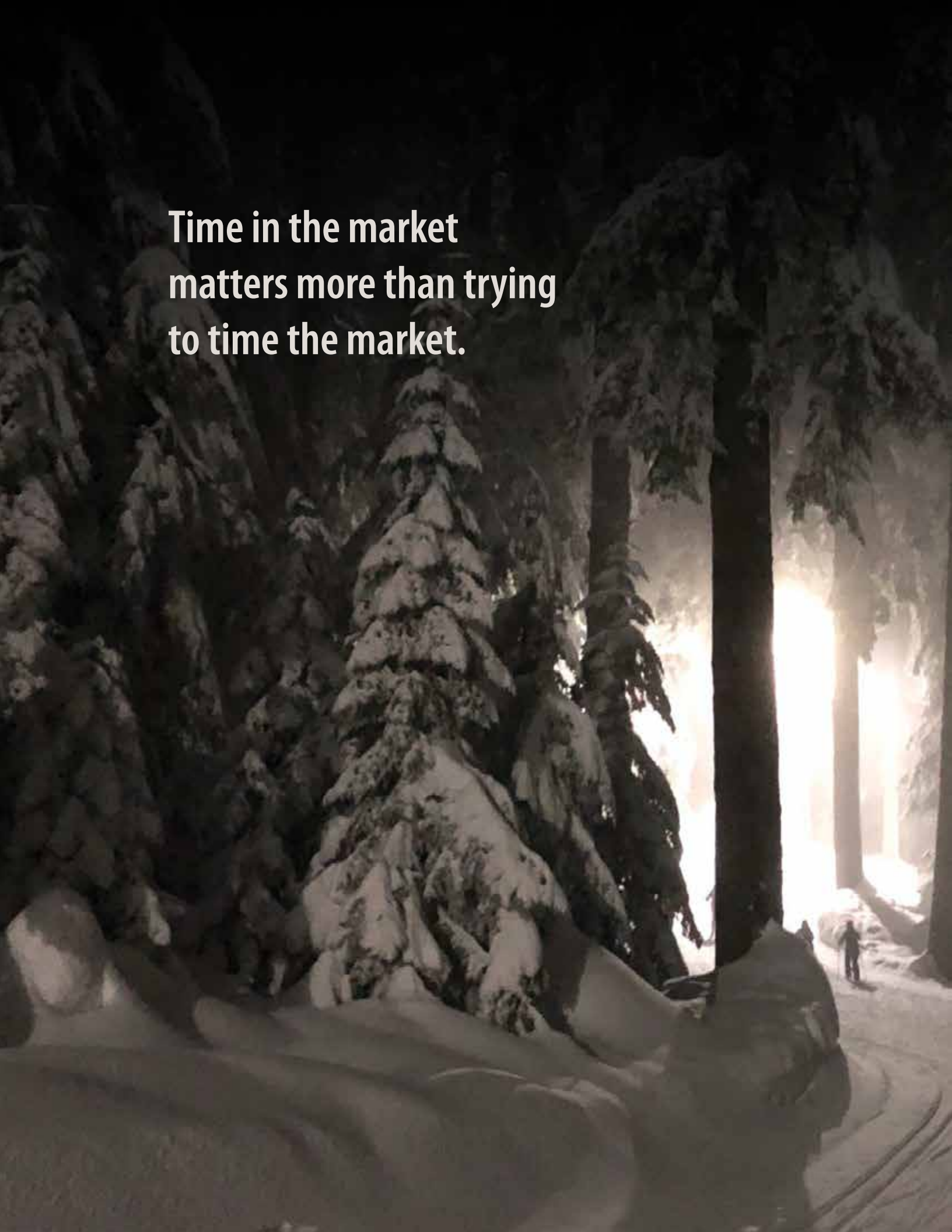
Benchmark		Annualized return	Annualized standard deviation	Sharpe ratio
Cash	Bloomberg Barclays US Treasury Bills: 1-3 Months Index	2.78%	0.47%	NA
US Treasurys	Bloomberg Barclays US Treasury Index	6.53%	5.11%	0.73
Corporate Bonds, Investment Grade	Bloomberg Barclays US Corporate Bond Index	4.84%	6.47%	0.32
US High Yield Bonds	Bloomberg Barclays US Corporate High Yield Index	3.19%	10.96%	0.04
Emerging Markets Bonds	JP Morgan EMBI Global Core Index	8.96%	10.44%	0.59
Global Bonds (Non-US Dollar)	Bloomberg Barclays Global Aggregate	6.85%	6.09%	0.67
US Equities	S&P 500 Index	-2.88%	15.04%	-0.38
Growth Equities	Russell 1000 Growth Index	-5.69%	17.88%	-0.47
Value Equities	Russell 1000 Value Index	5.15%	10.29%	0.23
Mid & Small Cap Equities	Russell 2500 Index	1.79%	18.39%	-0.05
Global Equities (Developed World, Ex-US)	MSCI EAFE Index	-0.74%	16.14%	-0.22

Source: Bloomberg

Sharpe ratio: Developed by Nobel laureate William F. Sharpe, it helps investors evaluate a portfolio's return in terms of risk exposure. A higher Sharpe ratio indicates lower risk exposure relative to the return generated, while a lower ratio indicates relatively high risk exposure. The Sharpe ratio is calculated by subtracting the risk-free interest rate (e.g., that of US Treasury bills) from a portfolio's return, then dividing by the standard deviation of the portfolio's returns.

Standard Deviation: The measure of how closely a set of data matches the mean (average) value of that data. The higher the standard deviation, the more spread out (or variable) the data points are. The lower the standard deviation, the more closely each data point matches the mean value of the group. Standard deviation can be used to measure the historical variability of a mutual fund's annual return.

**Time in the market
matters more than trying
to time the market.**



Key Takeaways

- Bond investors can experience positive returns in an environment with rising interest rates.
- During both the 2001-2007 and 2001-2008 periods, the non-US dollar fixed income benchmarks (in particular, emerging markets and non-US dollar bonds) exhibited attractive risk-adjusted returns and favorable performance.
- International non-US dollar bonds can give investors diversification and return benefits as part of their comprehensive asset allocation. They can also help preserve investors' purchasing power during a US dollar decline and help to preserve capital in a diversified portfolio.
- US dollar-denominated global bonds offer a compelling diversification component, as measured by their high Sharpe Ratio metrics and favorable returns. However, the asset class does have higher volatility, as measured by standard deviation.
- US dollar-denominated emerging market bonds exhibit as much volatility as US Corporate High Yield bonds, so investors need to manage their expectations and use a longer-term outlook if investing in this asset class.

Footnotes

¹ The DXY is a US dollar benchmark that is comprised of a basket of currencies to include the euro dollar with a weighting of 57.6%, Japanese yen at 13.6%, British pound at 11.9%, Canadian dollar at 9.1%, Swedish krona at 4.2% and the Swiss franc at 3.6%. Source: Bloomberg April 5, 2021.

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About The Author



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Patrick T. Drum, Senior Investment Analyst and Portfolio Manager, joined Saturna Capital in October 2014. He is a former adjunct professor of finance for the Sustainable MBA Program at the Bainbridge Graduate Institute (BGI), currently known as Presidio Graduate School. Mr. Drum holds a BA in economics from Western Washington University and an MBA from Seattle University Albers School of Business. He is a Chartered Financial Analyst (CFA) charterholder and a CERTIFIED FINANCIAL PLANNER®.

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More by Patrick Drum

GCC Sukuk: A Primer



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Investing involves risk, including possible loss of principal. Generally, an investment that offers a higher potential return will have a higher risk of loss. Stock prices fluctuate, sometimes quickly and significantly, for a broad range of reasons that may affect individual companies, industries, or sectors. When interest rates rise, bond prices fall. When interest rates fall, bond prices go up. A bond fund's price will typically follow the same pattern. Investments in high-yield securities can be speculative in nature. High-yield bonds may have low or no ratings, and may be considered "junk bonds."

Fund share prices, yields, and total returns will change with market fluctuations as well as the fortunes of the countries, industries, and companies in which it invests. Foreign investing involves risks not normally associated with investing solely in US securities. These include fluctuations in currency exchange rates, less public information about securities, less governmental market supervision and the lack of uniform financial, social, and political standards. Foreign investing heightens the risk of confiscatory taxation, seizure or nationalization of assets, establishment of currency controls, or adverse political or social developments that affect investments.

The Amana Funds limit the securities they purchase to those consistent with Islamic and sustainable principles. The Saturna Sustainable Funds limit the securities they purchase to those consistent with sustainable principles. This limits opportunities and may affect performance.

While diversification does not guarantee against a loss in a declining market, it can help minimize the risk of the decline of a single market.

Index Definitions

The US Dollar Index (DXY) indicates the general international value of the US dollar by averaging exchange rates between the US dollar and major world currencies.

The Bloomberg Barclays US Treasury Bill: 1-3 Months Index tracks the market for short-term Treasury bills issued by the US government.

The Bloomberg Barclays US Treasury Index measures the US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.

The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes US dollar-denominated securities publicly issued by US and non-US industrial, utility, and financial issuers.

The Bloomberg Barclays US Corporate High Yield Bond Index measures the US dollar-denominated, high-yield, fixed-rate, corporate bond market. High-yields securities are those rated by a Nationally Recognized Statistical Rating Organization (NRSRO) in the middle rating: Ba1/BB+ or below.

The Bloomberg Barclays Global Aggregate Index measures global, investment-grade debt from 24 local currency markets. This multi-currency index includes Treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging market issuers.

The JP Morgan EMBI Global Core Index is a broad, diverse US dollar denominated emerging markets debt benchmark that tracks the total return of actively traded debt instruments in emerging market countries.

The S&P 500 is an index comprised of 500 widely held common stocks considered to be representative of the US stock market in general.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe. It includes companies with lower price-to-book ratios and lower expected growth values.

The Russell 1000 Growth Index measures the performance of the large-cap value segment of the US equity universe. It includes companies with higher price-to-book ratios and higher forecast growth values.

The Russell 2500 Index measures the performance of mid- and small-capitalization US equities.

The MSCI EAFE Index is an international index focused on Europe, Australasia, and the Far East.



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