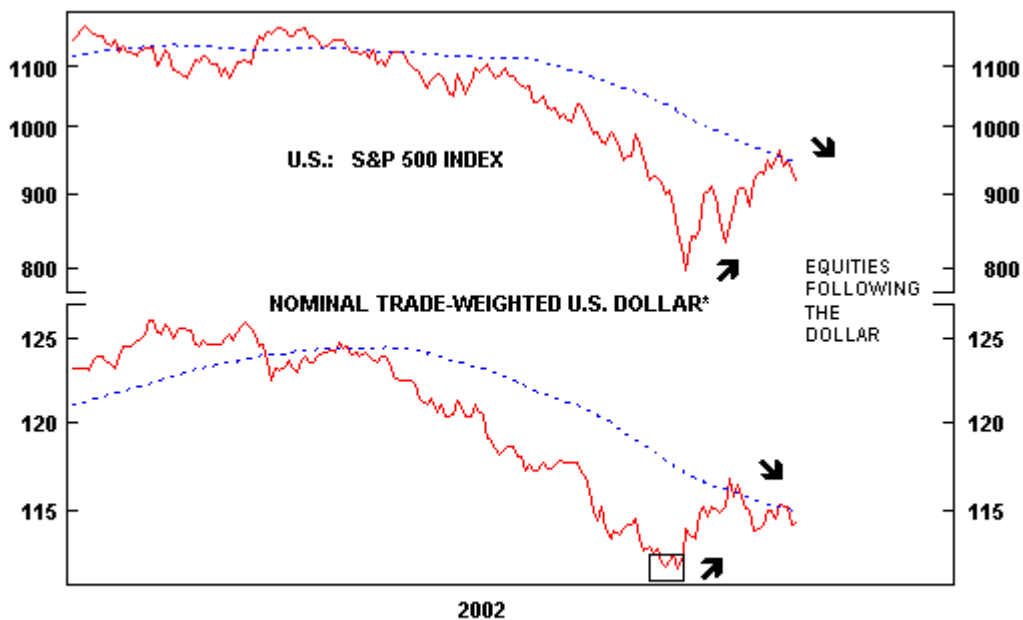


## Daily Insights - August 29, 2002

### U.S. Stocks: Watch The Dollar

***The Fed may need to ease before the equity market resumes its recent advance.***

The U.S. dollar started to firm before the U.S. equity market hit its low in late July, and the buck's recent weakness warns that the stock market is likely to correct in the near run. By mid-July the alarm bells were ringing loudly, as the equity meltdown was a clear warning to policymakers to respond. Expectations for Fed rate hikes evaporated and hopes for an easing surged. The expectation that the U.S. would become more pro-growth helped lift the dollar and eventually the equity rout petered out, as the panic by retail investors out of equity mutual funds crested. Now, the reverse is occurring, with the Fed failing to ease earlier this month when the FOMC met, which has cooled demand for the dollar and stocks.



\*SOURCE: J.P. MORGAN CHASE & CO.  
 --- 65-DAY MOVING AVERAGE

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