

US dollar explainer

What a weaker dollar means for investors

US dollar under pressure

World's reserve currency is facing headwinds

- Long considered a safe-haven and a symbol of US financial dominance, the dollar's status is starting to be questioned.
- After many years of impressive gains, the currency has come under significant pressure in recent months.
- The dollar has lost more than 6% of its value against a broad basket of its trading partners.* Compare its fate with the euro, which has appreciated by 11% against the dollar.

US dollar accounts for nearly

60% of global foreign exchange reserves**

Dollar close to its lowest level since 2022

US dollar trade weighted index



Source: Bloomberg. Data as at 7 October 2025.

*In the year to date up to 14 October 2025. **According to IMF data up to the end of 2024.

What is pushing the dollar lower?

We see several factors contributing to the dollar's slide:

1. Weaker US growth

- Dollar strength since the 2008 financial crisis was built on the US economy performing better than other countries.
- US GDP suffered a short-term contraction in Q1 2025 as imports surged ahead of the onset of US tariffs. Underlying demand has been more stable but has slowed.
- At the same time, inflationary pressures have risen. As a result, we think stagflationary risks have risen.

2. Less friendly US policy

- The US administration thinks a weaker dollar would benefit US manufacturing – other nations could buy US goods more cheaply.
- New policies on trade and immigration have also contributed to investor uncertainty about the US outlook.

The One Big Beautiful Bill Act may swell the US budget deficit to around

USD 2.5 trillion

by 2034*

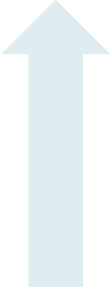
3. Tarnished safe-haven value

- Since the equities sell-off after April 2025's "Liberation Day", the dollar has become less useful as a portfolio hedge against market downturns.
- Both in April's market fall and in September, when the trade dispute with China threatened to resurge, the dollar dropped against the euro and the Japanese yen.
- Reflecting these stresses, many non-US investors have added additional currency hedging on their US exposure.

What does a weaker dollar mean for markets?

The dollar holds significant sway in markets, influencing economic performance, return expectations, valuations and currency risk.

Upside

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- Periods of dollar weakness have often been associated with cyclical recoveries in the global economy. For non-US companies and countries dependent on US capital markets, it is easier to raise capital when the dollar is weaker because their assets are valued more highly.
 - A lower dollar also makes it easier for countries with high exposure to the US to lower interest rates. Asian countries may benefit as lower domestic rates can boost growth.

Downside

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- The high weight of US assets in many investor portfolios means a declining dollar can act as a drag on performance. Currency hedging costs for portfolios may rise.
 - Investors may need to actively consider greater diversification. This has been challenging as performance has been concentrated among a small group of leaders in equity markets.
 - A weaker dollar can make imports to the US more expensive, potentially raising prices. This may make it more challenging for the US Federal Reserve to cut interest rates.

USD 26 trillion

= foreign ownership of US dollar assets*

Looking ahead, what is the outlook for the dollar?

The dollar is still overvalued and we anticipate a decline in value against major peers over the medium term.

We expect the euro to trend higher against the dollar, with USD 1.20 the first target. We see two factors supporting our outlook:

1. European strength

- Plans for increased government spending by new German Chancellor Friedrich Merz have served to boost growth expectations in the euro area (versus a deteriorating picture in the US).
- In the longer term, the prospect of higher defence spending may also further support the euro, via stronger growth and improved investor confidence.

2. US uncertainty

- Do not write off the US: its tech leadership makes it a portfolio staple and it remains an unparalleled place to do business. The US's currently higher interest rates (versus other G10 countries) should support the dollar.
- However, the value of these higher interest rates may be undermined by frequent attacks on the Federal Reserve's independence by US President Donald Trump, who is pushing for lower rates.

Where should I invest when the dollar is weaker?

Given prevailing dollar weakness, we see opportunities across asset classes*:

| | |
|---------------------|---|
| Equities | Emerging market equities are aided by strong momentum and solid fundamentals helped by a weaker US dollar, improved earnings prospects and supportive policy conditions. |
| Fixed income | In sovereign fixed income, we prefer euro zone bonds – especially German Bunds – where inflation is under control and fiscal stimulus is set to expand market breadth. |
| Currencies | US dollar fragility is still the dominant theme in currency markets. In contrast, many emerging market currencies are showing promise due to improved policymaking and growth prospects. |
| Commodities | Gold has reached record highs, and we think it will continue to receive a boost from a weaker dollar and strong buying from central banks. |

The US’s investment case remains strong: Investors can’t avoid the US. A high return on capital, AI leadership, favourable demographics and huge economy make the US an integral part of many portfolios. But for non-US investors, declines in the dollar can put pressure on holdings weighted in the currency, affecting the overall portfolio value. Investors can consider managing these risks by hedging their dollar exposure.

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