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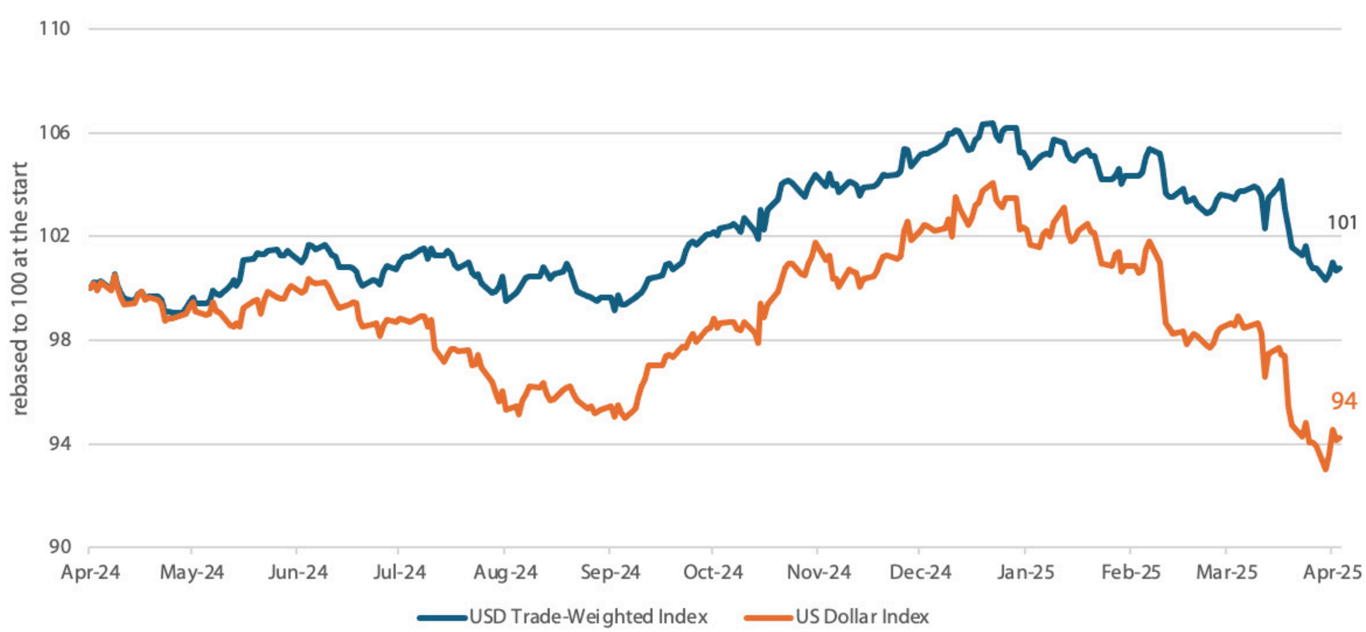
The Dollar's Descent

- The U.S. dollar has declined notably versus developed market currencies, reflecting growing investor concern over rising policy uncertainty. The Trump administration's erratic approach to trade, particularly shifting stances on tariffs, and concerns over reducing Fed independence have undermined confidence in the U.S. policy outlook.
- While the dollar's slide is concerning, we do not believe it marks the beginning of a secular decline.
- Which dollar are we talking about?
  - The US Dollar Index (DXY) is composed of 6 developed market currencies (the euro represents 57% of the index), and it has fallen more sharply
  - In contrast, the trade-weighted dollar (broader and more reflective of U.S. trade flows, including emerging markets) has been more stable
- In times of stress, markets typically seek out safe-haven assets. But with the U.S. perceived as the source of global uncertainty, capital is flowing into other traditional safe havens like the euro, yen, and Swiss franc. This shift underscores a temporary loss of the dollar's safe-haven appeal, but not its structural role in the global system.
- We do not view this as a threat to the dollar's role as the world's primary reserve currency or a global medium of exchange. The U.S. continues to offer the world's deepest, most liquid capital markets and strong institutional credibility, all supportive of the dollar's long-term position. The dollar is used in over 80% of all global currency transactions, and 64% of global debt is issued in dollars.
- The dollar's recent weakness is not consistent with interest rate differentials, whether nominal or real, which remain supportive. These differentials should help limit the downside, even amid ongoing trade uncertainty.
- Dollar weakness has benefited U.S. investors in developed international equities. However, we are concerned that a stronger euro and yen could hurt foreign corporate profits. Adding to the risk, tariffs and slowing economic growth in the two largest trade partners (U.S. and China) heighten earnings vulnerability for these export-oriented economies (Europe and Japan).

US Dollar Indexes



Source: Bloomberg. 1 year of daily data. Last data point April 25, 2025.

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