



(UBS)

Why CIO thinks the bulk of the dollar's decline is already behind us

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The US Dollar Index, which tracks the USD against a basket of six currencies, is down 0.5% this week in what is likely to be its worst weekly decline in four months. This is adding to a tough year for the dollar, having already declined around 8% year-to-date, putting it on track for its worst annual performance since 2017. Gold, meanwhile, rose as high USD 4,192 per ounce on Friday, buoyed by renewed confidence in impending US rate cuts.

Fed commentary ahead of the December rate decision has been mixed: San Francisco Fed President Mary Daly and Governor Christopher Waller have recently signaled that labor market softness and contained inflation are sufficient to support further easing. However, several regional Fed presidents have taken a more cautious stance, emphasizing the need for a careful assessment before moving forward with another rate cut. Money markets are showing more conviction, pricing in an 80% chance of a 25-basis-point Fed rate cut at the December meeting, up sharply from a roughly 40% chance priced just a week earlier.

But while we think the bulk of the dollar's decline is already behind us, we still see room for additional weakness in the months ahead:

The recent vacuum in US macro data is unlikely to deter Fed easing. While the 43-day government shutdown has delayed or prevented the publication of several key US economic releases, we believe policymakers will find sufficient guidance from alternative indicators. The latest Fed Beige Book pointed to little change in activity but a modest decline

in employment across several Fed districts. Weekly data shows the number of Americans filing for unemployment benefits hit a seven-month low last week, but we think that will be counterbalanced somewhat by significant corporate layoff rounds announced by Amazon and others.

New Fed leadership could increase easing bias. Media reports suggest Kevin Hassett has emerged as the frontrunner to succeed Jerome Powell as Fed chair, with Polymarket now assigning him a 56% chance. Hassett is viewed as dovish on Fed policy and closely aligned with the Trump administration, which favors lower rates. If indeed appointed, he would likely reinforce market expectations for a more aggressive rate-cut cycle, adding further downward pressure on the dollar.

Structural diversification away from the US dollar won't quickly reverse. Central banks and private investors continue to diversify reserves and portfolios away from the dollar. Persistent US fiscal and current account deficits, combined with elevated valuations, reinforce the long-term case for a weaker greenback. Meanwhile, other major central banks, such as the Reserve Bank of New Zealand and Bank of Japan, have signaled a pause or a hawkish turn. The euro and sterling have both strengthened on recent policy and fiscal developments, and global currency markets are recalibrating as yield differentials shift.

So while the dollar has already weakened significantly, we see further declines over the coming months. We maintain an Attractive stance on the euro, Australian dollar, and Norwegian krone, and prefer long positions in select high-yielding emerging market currencies over low-yielders. We continue to rate the USD as Unattractive.

Elsewhere, dollar weakness, lower real yields, geopolitical uncertainty, and rising fiscal concerns should all underpin demand for gold, which we rate as Attractive, with a mid-year 2026 target of USD 4,500/oz. USD depreciation is a tailwind for US equity earnings, as overseas revenues translate into higher reported profits. We expect S&P 500 earnings per share to grow by 11% this year and 10% in 2026, which we think could bring the index to 7,700 by end-2026.

More broadly, we think investors should look to strengthen the core of their portfolio by diversifying across asset classes, geographies, and sectors, helping keep long-term goals on track while allowing room for more volatile "satellite" investments in riskier assets.

Original report – [No Thanksgiving reprieve for the dollar, 28 November 2025.](#)

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