CIO believes the window is narrow to reduce and hedge USD exposure before further dollar declines. (UBS)

CIO anticipates renewed USD weakness ahead

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While the US dollar has climbed from its lows, CIO anticipates renewed USD weakness ahead as the US economy slows and the focus on fiscal deficits expands.

CIO believes the window is narrow to reduce and hedge USD exposure before further dollar declines.

The US dollar has regained ground from its tariff-induced lows

- The DXY Index hit 2025 lows on 21 April as harsher-than-expected US tariffs challenged investors' perceptions of US exceptionalism.
- The dollar index has since rebounded around 1% as signs of easing US-China trade tensions and the Trump administration's first trade deal outline with the UK eased some investor concerns.
- That leaves the broad gauge of the US dollar down 8.4% in the year to date.

But we expect the dollar decline to continue as investors likely "sell the rallies."

- Previously, the USD was supported by a combination of expansionary fiscal policy and restrictive monetary policy. This is likely to switch, with US government spending unlikely to become more expansionary, and the lingering effects of the trade war are expected to prompt a more accommodative Fed stance over 2025.

- The country's unsustainable twin deficits would also weigh on the greenback in the medium term, despite the move higher in longer-dated Treasury yields.
- The independence of the US central bank could also be called into question again as Trump nominates the next Fed Chair.

Investors can reduce, hedge, and diversify USD exposure

- We move our rating on the US dollar to Unattractive and believe non-USD-denominated investors should take action to reduce excess USD cash.
- We recommend using near-term dollar strength to reduce excess US dollar cash by investing or diversifying into other currencies such as the yen, euro, British pound, and Australian dollar.
- International investors should also review their strategic currency allocations and consider hedging US dollar exposure in US assets back into their home currencies.

Did you know?

- The US spends the highest share of revenues on interest, of the countries surveyed by the International Monetary Fund, with a net cost of debt to general government revenues of 12.5% as of 17 May 2025.

Investment view
Looking ahead, we anticipate renewed dollar weakness as the US economy slows and the focus on fiscal deficits expands. We recommend using near-term dollar strength to reduce excess US dollar cash by investing or diversifying into other currencies such as the yen, euro, British pound, and Australian dollar. International investors should also review their strategic currency allocations and consider hedging US dollar exposure in US assets back into their home currencies.

Original report: **Will the US dollar fall further?, 23 May 2025.**

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