

Partnership Solutions

Your goals, our expertise

Marketing material.

For professional / qualified / institutional clients and accredited investors.

Canada: Limited to permitted clients.

Edition: CH, CA, EMEA, US, SG, HK

April 2026

FX exposure in focus

Deep dive

UBS Asset Management



UBS

Strategic currency hedging and the dollar

Since early 2025, the United States dollar (USD) has exhibited sustained depreciation, accompanied by a notable shift in its correlation dynamics with risk assets. During the tariff-driven 'Liberation Day' sell-off in April 2025, the dollar declined alongside equities and other risk-sensitive instruments, diverging from its historical safe-haven role.

One factor increasingly cited in this shift is currency hedging itself. Foreign investors have raised hedge ratios on US assets, exerting additional downward pressure on the dollar¹.

This note provides an in-depth examination of strategic currency hedging and its potential role in shaping the latest USD dynamics. We assess the material impact of hedging decisions on portfolio outcomes, outline a risk-based framework for strategic currency hedging, and assess the extent to which these strategies may have contributed to the recent depreciation of the USD.



The currency decision investors underestimate

The decision to hedge or not is often overlooked, with many investors relying on simple heuristics. In practice, optimal hedge ratios vary by base currency and region, but often the primary determinant is an investor's asset allocation.

Equity portfolios are typically unhedged or lightly hedged, whereas fixed income portfolios are almost always hedged. Maintaining a high hedge ratio in fixed income is prudent as these assets provide predictable cash flows and are often used to meet near-term liabilities.

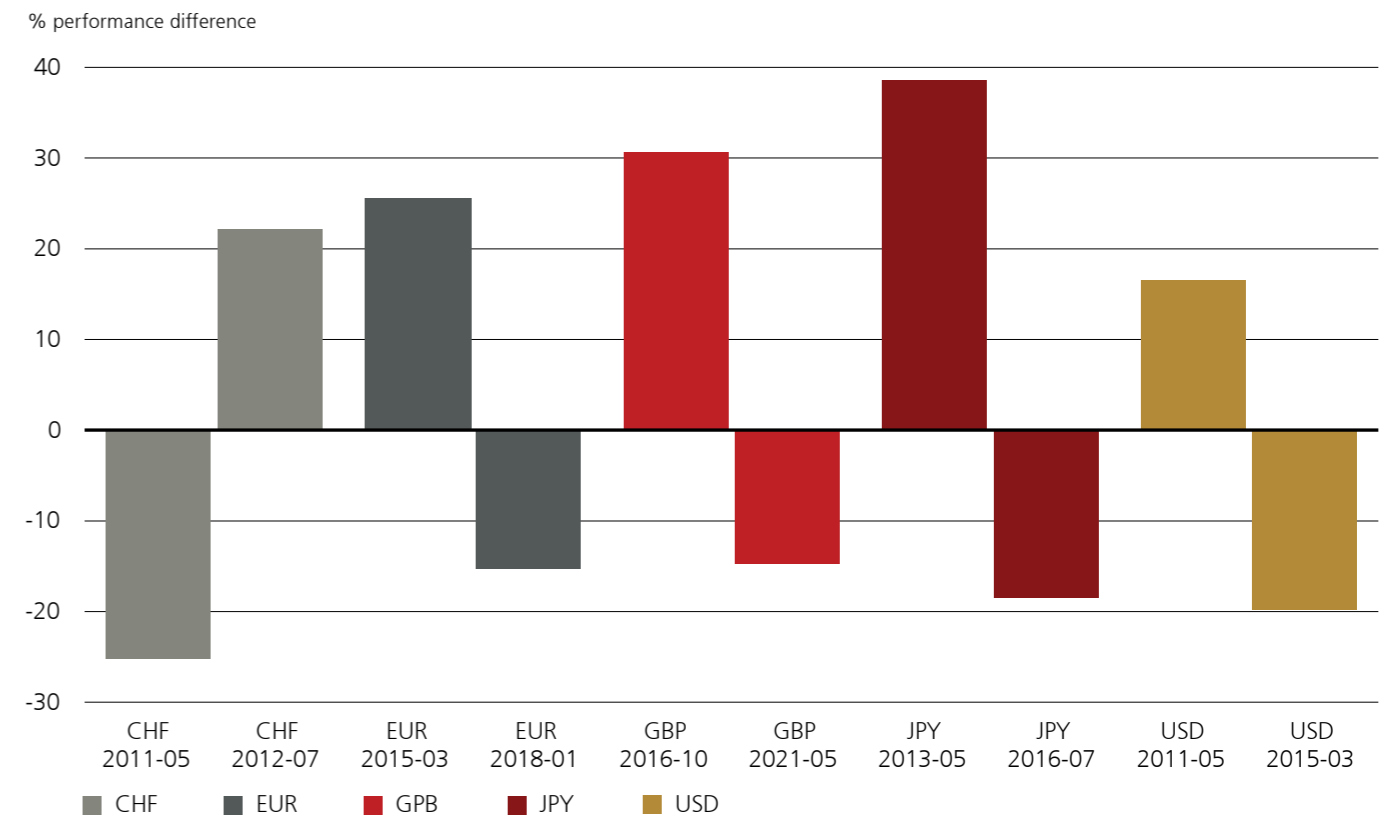
Additionally, given the relatively low inherent risk of fixed income, leaving currency exposure unhedged would make it the dominant source of total portfolio risk.

Equities present a more complex challenge. Market risk tends to exceed currency risk, making the hedging decision less obvious and far more consequential.

To illustrate the impact of hedging decisions, we constructed both hedged and unhedged international equity portfolios for investors based in CHF, EUR, GBP, JPY, and USD. We then calculated the rolling one-year performance differential between the two approaches over the period from 2010 to the present.



Figure 1: Most pronounced positive and negative 1-year performance gaps between unhedged and hedged international equity portfolios, by currency, 2010–2025



Source: UBS Asset Management, Bloomberg, Refinitiv Datastream. Chart above illustrates the performance differentials between international equity portfolios that are unhedged and fully hedged, across a range of base currencies (CHF, EUR, GBP, JPY, and USD). The chart shows the most positive and most negative performance gaps between hedged and unhedged portfolios for each base currency between 2010 and 2025.

The results are striking. Frequently, tracking error between hedged and unhedged portfolios can range from 8% to 10%; however, Figure 1 shows that in extreme episodes, the impact can be far larger. For example, a EUR-based investor holding an unhedged international equity portfolio outperformed a fully hedged equivalent by more than 20% in the year to March 2015, as euro weakness during the Greek debt crisis amplified foreign equity returns. During this time, the ECB cut rates, driving capital flows away from the euro toward currencies such as the USD, which benefited from stronger growth and tighter monetary policy.

These outcomes highlight a simple truth: currency hedging decisions can materially shape portfolio outcomes. The critical question, therefore, is not whether currency risk matters, but what the optimal approach of managing it is. Our focus will be on the strategic dimension of this issue.

Strategic currency hedging

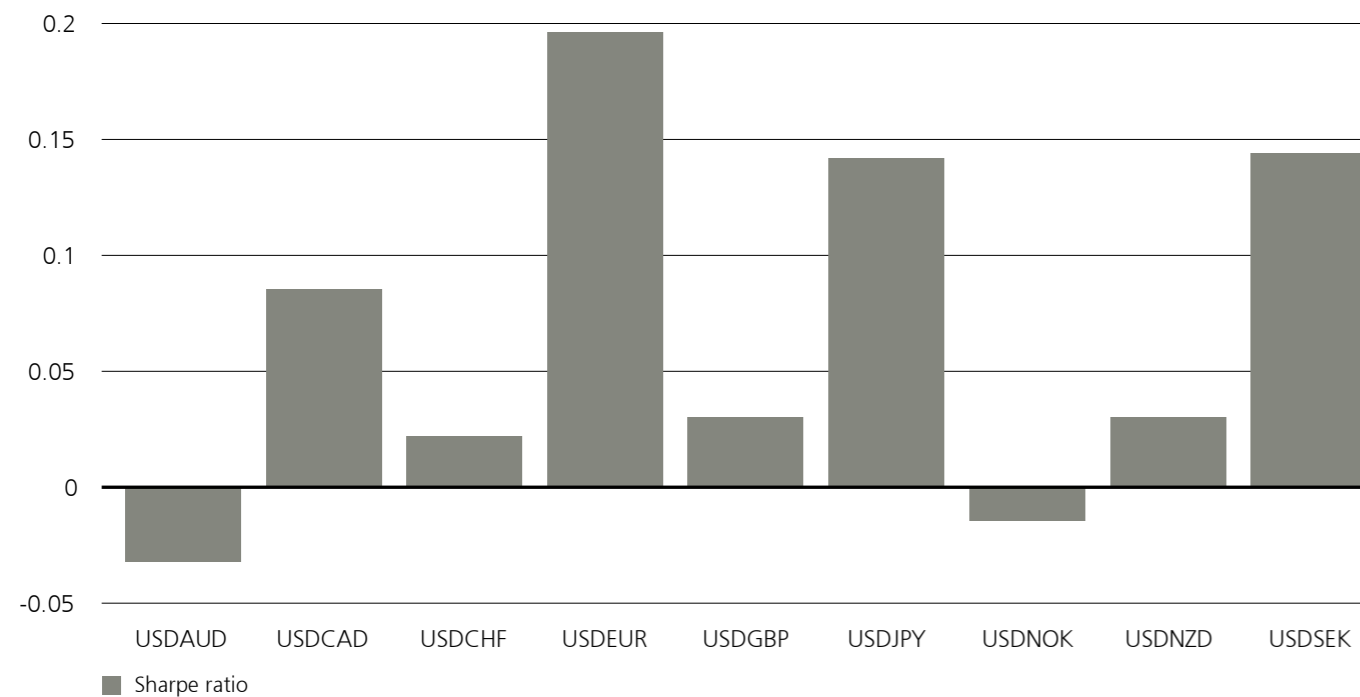
Risk matters more than you think

Strategic currency hedging approaches often seek to establish an optimal, relatively stable currency allocation over time. From a mean-variance perspective, a currency will command a significant portfolio weight when its expected return is materially high or when its correlation with other portfolio assets is notably low.

Over the long term, expected excess returns on foreign currencies—accounting for both exchange rate movements and interest rate differentials—tend to be minimal.

Figure 2 illustrates the historical risk-adjusted excess returns (Sharpe ratios) of G10² currencies versus the USD since 1970. On average, these Sharpe ratios are low, with the highest observed value of 0.2 for USD/EUR. For perspective, a Sharpe ratio of 0.2 is approximately half that of equities over the same horizon and is not statistically distinguishable from zero under conventional significance thresholds.

Figure 2: Long-term sharpe ratios of G10 currency pairs, January 1970 to December 2025³



Source: UBS Asset Management, Bloomberg, Refinitiv Datastream. Sharpe ratios are full sample estimates using currency excess returns. Currency excess returns are computed as spot returns plus interest rate differentials. In the early sample period, interest rate differentials are computed using 3-month interest rates, starting in 1998 we use forward implied interest rate differentials.

Past performance information is not indicative of future performance.

² G10 currencies represent the ten most heavily traded and liquid currencies. They include USD, EUR, JPY, GBP, CHF, AUD, NZD, CAD, NOK, and SEK.
³ Before the introduction of the Euro, USDEUR is computed using the different national currencies and European Currency Unit (ECU) basket weights.

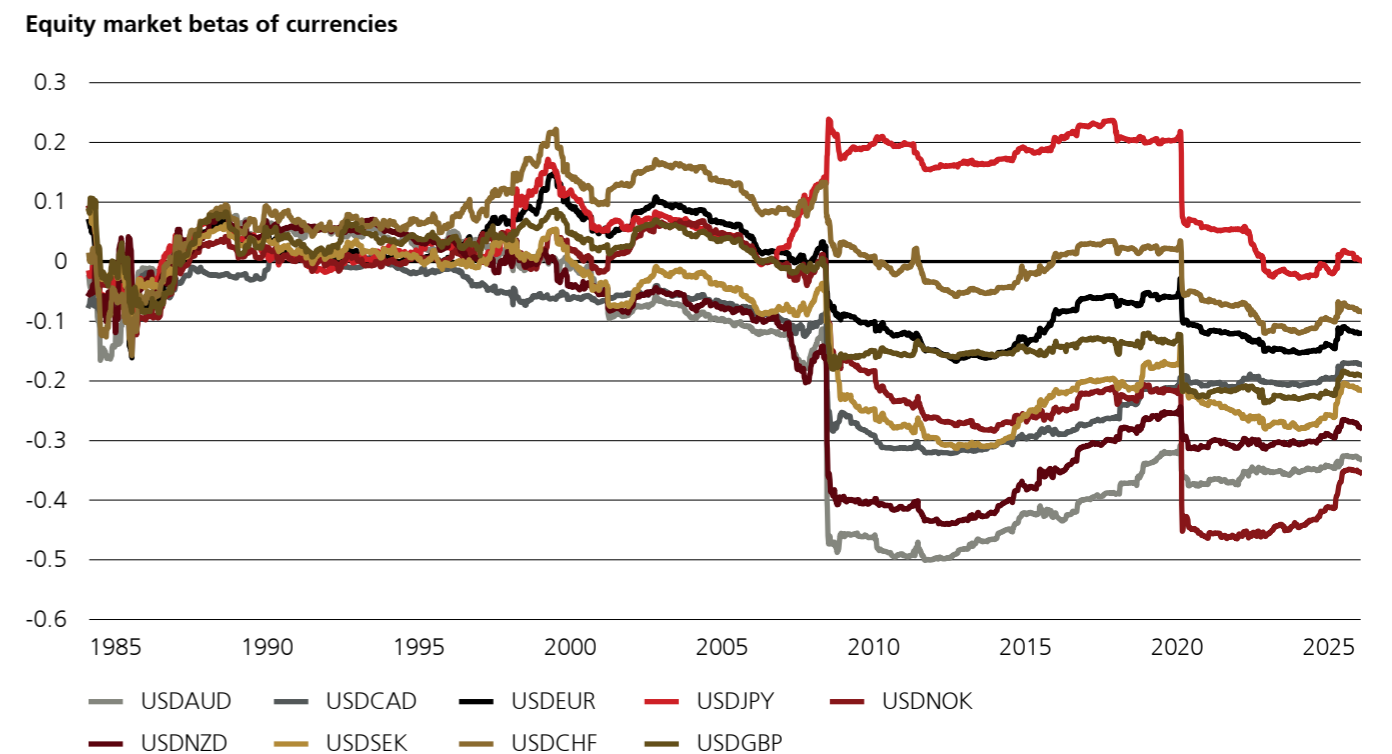
There is also a theoretical argument for low expected returns in currency markets. The principle of uncovered interest rate parity (UIP) posits that foreign exchange excess returns should equal zero, as spot currency movements are expected to offset interest rate differentials between two currencies. For example, if US interest rates exceed those in the Euro area by 2%, UIP predicts a corresponding 2% appreciation of the euro against the dollar.

The implication is clear: large strategic currency positions cannot be justified by expected returns alone.

Instead, any strategic demand for currency exposure should be driven by risk mitigation and correlation considerations. Within an equity portfolio, it is advantageous to maintain meaningful exposure to currencies negatively correlated with equities to reduce overall portfolio risk.

Figure 3 plots the equity market betas of G10 currencies against the USD, offering valuable insight into which currencies warrant overweight or underweight positions.⁴

Figure 3: US equity market betas over time 1985 to 2025



Source: UBS Asset Management, Bloomberg, Refinitiv Datastream. The equity market betas are estimated using weekly data with a 3-year half-life exponential weighting scheme and the MSCI USA as the equity market. Betas are shown for currency pairs versus USD.

Past performance information is not indicative of future performance.

⁴ The equity market betas are estimated using weekly data, an exponential weighting scheme with a half-life of 3 years and the MSCI USA as the equity market.

Why hedge ratios should not stand still

For a US-based investor, holding an unhedged global equity portfolio effectively means being short the USD. As illustrated in Figure 3, the USD functions as a risk-off currency; across G10 markets, a long USD position exhibits a negative equity beta with all pairs, apart from the JPY (another empirically risk-off currency). Therefore, risk minimization for a US equity investor generally favors hedging all foreign currency exposures except JPY.

By contrast, an Australia-based investor with an unhedged global equity portfolio holds a substantial short position in the AUD – a risk-on currency. For such an investor, risk reduction is more likely achieved by leaving foreign currency exposures unhedged. We conducted a formal assessment by constructing an international, market-capitalization-weighted equity portfolio for each G10 investor, excluding the respective home country from the allocation. Three hedging strategies were applied: fully hedged, fully unhedged, and optimally hedged.

Under the optimally hedged approach, hedge ratios for each country or region within the global equity basket varied between fully hedged and fully unhedged to minimize overall portfolio risk. This process involved estimating a covariance matrix and applying a risk-minimization algorithm. To avoid look-ahead bias, estimations were performed recursively, and over-hedging was prohibited⁵ (a constraint consistent with the limitations faced by most investors, even though some unconstrained investors may have this flexibility).

The optimized hedge ratio is dynamic, adjusting over time in response to changes in correlations and risk characteristics. These variations can be substantial, as illustrated in Figure 3.

Table 1 summarizes performance metrics for the various hedging strategies across G10 currencies. When comparing fully hedged and unhedged approaches, investors domiciled in reserve currency countries such as USD, CHF, and JPY generally benefit from full hedging, whereas investors in non-reserve currency countries are better served by leaving exposures unhedged.

Table 1: Performance statistics of hedging strategies 01/1975-12/2025

Hedged	Unhedged			Optimized					
	Return	Risk	Return/Risk	Return	Risk	Return/Risk	Return	Risk	Return/Risk
AUD	8.13%	13.51%	0.60	13.82%	14.16%	0.98	8.46%	12.22%	0.69
CAD	9.99%	13.56%	0.74	12.17%	12.83%	0.95	10.31%	12.37%	0.83
CHF	13.48%	13.63%	0.99	9.79%	16.25%	0.60	13.50%	13.47%	1.00
EUR	11.89%	13.60%	0.87	13.10%	15.00%	0.87	12.61%	13.14%	0.96
GBP	8.69%	13.58%	0.64	13.17%	14.84%	0.89	9.30%	13.02%	0.71
JPY	15.31%	13.96%	1.10	11.71%	17.79%	0.66	14.95%	13.97%	1.07
NOK	8.79%	13.48%	0.65	13.68%	13.98%	0.98	9.56%	12.56%	0.76
NZD	8.24%	13.49%	0.61	14.40%	15.02%	0.96	9.03%	12.54%	0.72
SEK	10.10%	13.49%	0.75	14.01%	14.61%	0.96	11.10%	12.73%	0.87
USD	8.31%	13.76%	0.60	9.01%	16.86%	0.53	8.01%	13.60%	0.59

Source: UBS Asset Management, Bloomberg, Refinitiv Datastream.

Past performance information is not indicative of future performance.

⁵ We estimate the covariance matrix using weekly data and exponential weights with a half-life of 3-years. The minimization is a constrained optimization where the equity weights are fixed at the market capitalization weights, and the hedge ratios are allowed to fluctuate between fully hedged and fully unhedged.

Optimized strategy performance typically falls between the other two approaches. And for several investors (EUR-, JPY, and CHF-based), it delivers the strongest results.⁶

The conclusions shift when focusing on the more recent period in Table 2. With few exceptions, optimized strategies outperform both hedged and unhedged approaches.

Notably, since the Global Financial Crisis (GFC), unhedged strategies have exhibited lower average risk compared to fully hedged strategies.

Table 2: Performance statistics of hedging strategies 01/2009-12/2025

Hedged	Unhedged			Optimized					
	Return	Risk	Return/Risk	Return	Risk	Return/Risk	Return	Risk	Return/Risk
AUD	10.96%	13.52%	0.81	13.52%	10.92%	1.24	11.00%	10.60%	1.04
CAD	12.40%	13.59%	0.91	13.27%	11.44%	1.16	13.28%	11.25%	1.18
CHF	14.63%	13.61%	1.07	10.83%	13.78%	0.79	14.30%	13.11%	1.09
EUR	13.97%	13.40%	1.04	14.22%	12.73%	1.12	15.01%	12.22%	1.23
GBP	12.83%	13.62%	0.94	13.19%	12.50%	1.05	13.18%	12.08%	1.09
JPY	14.69%	13.87%	1.06	17.12%	17.66%	0.97	14.73%	13.87%	1.06
NOK	11.96%	13.46%	0.89	15.73%	11.30%	1.39	13.87%	10.94%	1.27
NZD	10.91%	13.46%	0.81	13.67%	11.70%	1.17	11.10%	10.82%	1.03
SEK	13.15%	13.45%	0.98	14.01%	12.17%	1.15	14.45%	11.46%	1.26
USD	9.01%	12.14%	0.74	7.78%	15.88%	0.49	7.56%	12.05%	0.63

Source: UBS Asset Management, Bloomberg, Refinitiv Datastream.

The message is not that one strategy is universally superior; a more robust approach involves continuous monitoring of correlations and implementing a risk-minimizing strategy.

Since the GFC, optimized approaches have delivered the most favorable risk–return trade-off. Their strong performance suggests that, despite substantial changes in FX–equity correlations post-GFC, the pricing of equity market risk within currency markets remains limited.

Past performance information is not indicative of future performance.

⁶ Optimal hedge ratios are estimated at the end of each month and then used for the next month. Hence, the results simulate a monthly roll of currency (FX) forwards and are out-of-sample.

Back to the dollar

What does this framework imply for the US dollar today? As noted, optimal hedge ratios are not static and evolve over time.

Figure 4 illustrates the historical USD hedge ratio for investors domiciled in various currencies. During the 1980s and 1990s, the optimal strategy for most G10 equity investors was to fully hedge their USD exposure.

This changed after the GFC, as global reliance on dollar funding intensified and the dollar's safe-haven characteristics strengthened. Banks and corporates worldwide became increasingly dependent on USD funding, creating dollar shortages during periods of stress. Moreover, adverse events such as the European sovereign debt crisis solidified the position of the USD.

More recently, the US dollar has faced new headwinds. A combination of factors including shifting rate expectations, changing growth differentials, and evolving geopolitical dynamics have all played a role. At the same time, institutional investors have become more deliberate in managing currency exposure, particularly as US assets have grown in prominence within global portfolios.

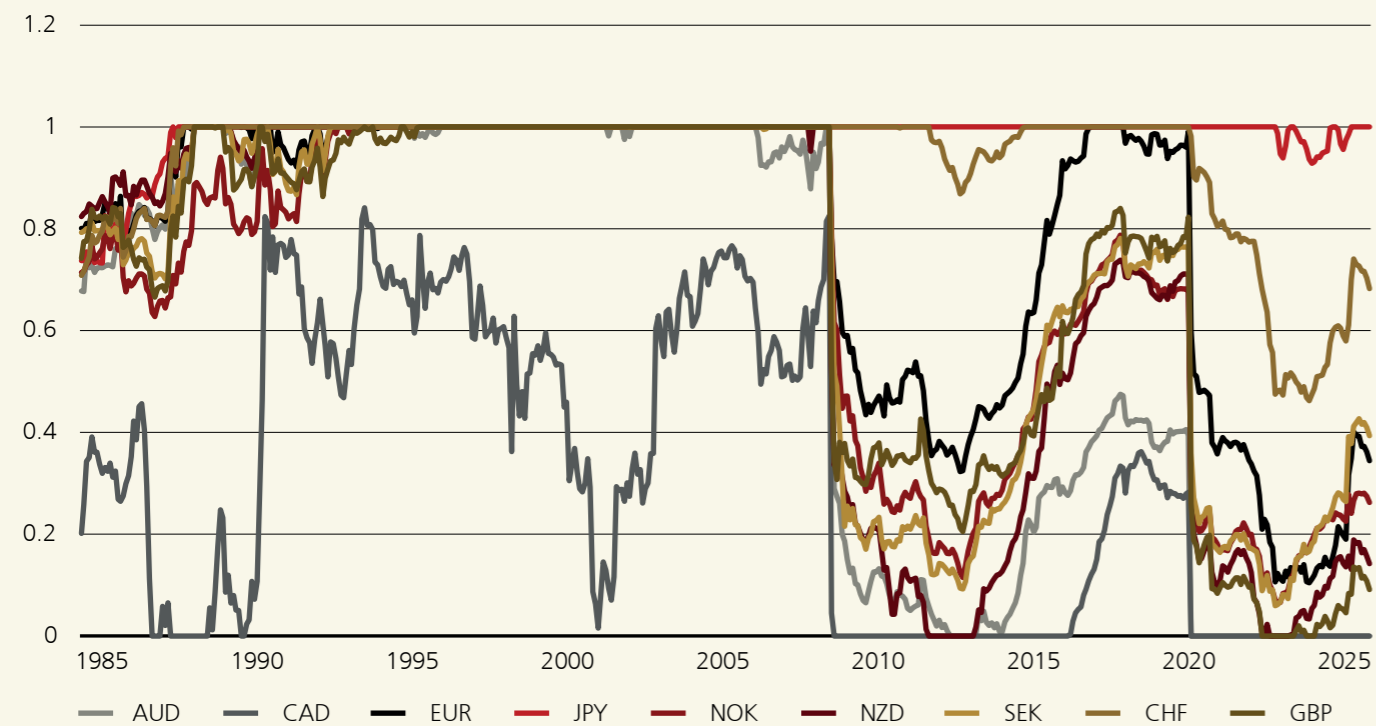
Our analysis is consistent with these broader developments, reflected in Figure 4, showing an increase in optimized hedging for US equity exposure across most major currencies. While these dynamics can reverse quickly, they reinforce the importance of moving beyond static or heuristic-based approaches.

Against this backdrop, strategic considerations have become more visible even if their direct market impact is difficult to isolate.

Figure 4: Optimized US dollar hedge ratios for equity investors, 1985–2025

Simulation of risk-minimizing USD hedge ratio within an market-capitalization weighted international equity portfolio (ex-base currency)

Optimal USD hedge ratios for equity investors



Source: UBS Asset Management, Bloomberg, Refinitiv Datastream. Data can range from 1 (fully hedged) to 0 (fully unhedged). Analysis is performed for a hypothetical investor allocating to a market value weighted G10 equity basket (ex-base currency). Results show the optimal FX weights which minimize the risk for the overall equity portfolio, assuming no leverage. Data shown is hypothetical and is shown to illustrate the fluctuating nature of FX weights that minimize portfolio risk. Optimization is based on exponentially weighted historical data with a 3-year half-life.

Hypothetical past performance information is not indicative of future performance. The hypothetical data presented does not represent actual trading and does not reflect the impact that material economic and market factors might have had on UBS Asset Management decision-making if UBS Asset Management were actually managing clients' money.



Hypothetical past performance information is not indicative of future performance. The hypothetical data presented does not represent actual trading and does not reflect the impact that material economic and market factors might have had on UBS Asset Management decision-making if UBS Asset Management were actually managing clients' money.

A dynamic approach to a dynamic currency regime

Currency markets are not static, and neither are their relationships with risk assets. As correlations shift, so too should hedge ratios. Investors who continuously monitor these dynamics and adjust exposure accordingly are better positioned to manage risk and capture diversification benefits.

At the same time, changing currency regimes create opportunities. Macroeconomic and geopolitical developments can drive dispersion across currencies, opening the door for tactical strategies that complement a robust strategic hedging framework.



Disclaimer

For professional / qualified / institutional clients and accredited investors.

Canada: Limited to permitted clients.

Edition: CH, CA, EMEA, US, SG, HK

This document does not replace portfolio and fund-specific materials. Commentary is at a macro or strategy level and is not with reference to any registered or other mutual funds.

Americas

The views expressed are a general guide to the views of UBS Asset Management as of February 2026. The information contained herein should not be considered a recommendation to purchase or sell securities or any particular strategy or fund. Commentary is at a macro level and is not with reference to any investment strategy, product or fund offered by UBS Asset Management. The information contained herein does not constitute investment research, has not been prepared in line with the requirements of any jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. All such information and opinions are subject to change without notice. Care has been taken to ensure its accuracy but no responsibility is accepted for any errors or omissions herein. A number of the comments in this document are based on current expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from expectations. The opinions expressed are a reflection of UBS Asset Management's best judgment at the time this document was compiled, and any obligation to update or alter forward-looking statements as a result of new information, future events or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual security, asset class or market generally, nor are they intended to predict the future performance of any UBS Asset Management account, portfolio or fund.

Canada

Services to Canadian persons for any strategy herein are provided by UBS Asset Management (Canada) Inc., a Nova Scotia corporation and a member of the UBS Asset Management business division of UBS AG, a publicly traded Swiss bank (NYSE: UBS). UBS Asset Management (Canada) Inc. is an indirect wholly-owned subsidiary of UBS AG and is registered as a portfolio manager (in all provinces of Canada), exempt market dealer (in all provinces of Canada and Yukon), commodity trading manager (Ontario), adviser – commodity futures (Manitoba) and investment fund manager (Ontario, Quebec and Newfoundland), all pursuant to Canadian securities law. This document can be distributed in Canada to Accredited Investors who qualify as Permitted Clients only. Any investment or fund referred to in this document may be a connected or related issuer of UBS Asset Management (Canada) Inc. in connection with a distribution of the investment or fund to investors in Canada. **The information contained herein, while obtained from sources believed to be reliable, is not guaranteed as to its accuracy or completeness and confers no right to potential purchasers. This document has been prepared solely for informational purposes by or for UBS Asset Management (Canada) Inc. and its affiliates. This information is being provided for discussion purposes only and is superseded in its entirety by any applicable private placement memorandum and associated limited partnership**

agreement or organizational documentation (collectively "Offering Documentation"). Investors should carefully review applicable Offering Documentation prior to investing as information contained herein may differ from the information contained in the Offering Documentation.

EMEA

For marketing and information purposes by UBS. Before investing in a product please read the latest prospectus and key information document carefully and thoroughly. Any decision to invest should take into account all the characteristics or objectives of the fund as described in its prospectus, or similar legal documentation. Investors are acquiring units or shares in a fund, and not in a given underlying asset such as building or shares of a company. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith, but is not guaranteed as being accurate, nor is it a complete statement or summary of the securities, markets or developments referred to in the document. Members of the UBS Group may have a position in and may make a purchase and / or sale of any of the securities or other financial instruments mentioned in this document. Units of UBS funds mentioned herein may not be eligible for sale in all jurisdictions or to certain categories of investors and may not be offered, sold or delivered in the United States. The information mentioned herein is not intended to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not a reliable indicator of future results. The calculated performance takes all costs on the fund level into consideration (ongoing costs). The entry and exit costs, which would have a negative impact on the performance, are not taken into consideration. If whole or part of the total costs to be paid is different from your reference currency, the costs may increase or decrease as a result of currency and exchange rate fluctuations. Commissions and costs have a negative impact on the investment and on the expected returns. If the currency of a financial product or financial service is different from your reference currency, the return can increase or decrease as a result of currency and exchange rate fluctuations. This information pays no regard to the specific or future investment objectives, financial or tax situation or particular needs of any specific recipient. Future performance is subject to taxation which depends on the personal situation of each investor and which may change in the future. The details and opinions contained in this document are provided by UBS without any guarantee or warranty and are for the recipient's personal use and information purposes only. This document may not be reproduced, redistributed or republished for any purpose without the written permission of UBS Asset Management Switzerland AG or a local affiliated company. Source for all data and charts (if not indicated otherwise): UBS Asset Management. This document contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to our future business development. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. A summary of investor rights in English can be found online at: ubs.com/funds-regulatoryinformation. More explanations of financial terms can be found at ubs.com/glossary

Singapore

This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in any jurisdiction. This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in any jurisdiction. No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of any jurisdiction. Using, copying, redistributing or republishing any part of this document without prior written permission from UBS Asset Management (Singapore) Ltd. is prohibited. Any statements made regarding investment performance objectives, risk and/or return targets shall not constitute a representation or warranty that such objectives or expectations will be achieved or risks are fully disclosed. The information and opinions contained in this document is based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any misrepresentation, errors or omissions. All such information and opinions are subject to change without notice. A number of comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results may prove to be different from expectations and any unforeseen risk or event may arise in the future. The opinions expressed are a reflection of UBS Asset Management (Singapore) Ltd's judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. You are advised to exercise caution in relation to this document. The information in this document does not constitute advice and does not take into consideration your investment objectives, legal, financial or tax situation or particular needs in any other respect. Investors should be aware that past performance of investment is not necessarily indicative of future performance. Potential for profit is accompanied by possibility of loss. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. Source for all data and charts (if not indicated otherwise): UBS Asset Management (Singapore) Ltd. (UEN 199308367C)

Hong Kong

This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in any jurisdiction. This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in any jurisdiction. No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of any jurisdiction. Using, copying, redistributing or republishing any part of this document without prior written permission from UBS Asset Management is prohibited. Any statements made regarding investment performance objectives, risk and/or return targets shall not constitute a representation or warranty that such objectives or expectations will be achieved or risks are fully disclosed. The information and opinions contained in this document is based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any misrepresentation, errors or omissions. All such information and opinions are subject to change without notice. A number of comments in this document are based

on current expectations and are considered "forward-looking statements". Actual future results may prove to be different from expectations and any unforeseen risk or event may arise in the future. The opinions expressed are a reflection of UBS Asset Management's judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. You are advised to exercise caution in relation to this document. The information in this document does not constitute advice and does not take into consideration your investment objectives, legal, financial or tax situation or particular needs in any other respect. Investors should be aware that past performance of investment is not necessarily indicative of future performance. Potential for profit is accompanied by possibility of loss. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Source for all data and charts (if not indicated otherwise): UBS Asset Management. © UBS 2026. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

UBS Asset Management is a large-scale asset manager, with a presence in more than 20 countries worldwide. We take a globally connected approach to find the answers to our clients' investment challenges and draw on the best ideas and capabilities of our global set-up. To provide you with first class solutions, UBS Asset Management may outsource business areas and services to (other) business divisions of UBS Group AG, affiliated companies of UBS Group AG and carefully selected third party service providers on a global level. This applies both with respect to different services provided to you as a prospect and as a client, such as analyzing and providing investment solutions, negotiations regarding our future relationship, onboarding, as well as to ongoing know-your-client due diligence, transactions, processing of securities and other financial instruments, compliance, risk management and monitoring, data processing, and IT and back- and middle-office services. Such a global approach may require transmitting client data to affiliated companies and carefully selected third party service providers. This might include entities that are not subject to banking secrecy (if applicable at all) and or that are not subject to the data protection laws applicable in your location, the location of the UBS Asset Management entity you are in contact with, or to your future relationship with UBS Asset Management. This global approach also may require storing client data in global IT systems. UBS Asset Management is subject to statutory obligations regarding the confidentiality of data relating to the business relationship with its clients.

You can rely on UBS Asset Management and its affiliated companies treating all data with strictest confidentiality; third party service providers are carefully selected and contractually bound to strictest confidentiality obligations in line with highest UBS standards.

Alexander Eisele

Head of Quant Analytics & Research

Thomas Oesch

Head of Global Multi-Asset Portfolio
Management EMEA ex-Switzerland



ubs.com/am-linkedin

© UBS 2026. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

ubs.com/am