



CIO expects the US dollar to weaken over the medium term as the US economy slows and the focus on fiscal deficits expands. (UBS)

# Is it time to reduce, hedge, and diversify USD exposure?

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**The US dollar index fell to a three-year low in June amid uncertainty over the US tariff and economic outlook. The Chief Investment Office anticipates further USD weakening over the next 12 months as the US economy slows and the focus on fiscal deficits expands.**

CIO now believes it is time to reduce and hedge USD exposure before further dollar declines.

## **The US dollar index has fallen to multi-year lows.**

- The DXY Index has fallen by close to 10% in 2025 (as of 16 June).
- Harsher-than-expected US tariffs have eroded investors' perceptions of US exceptionalism.
- We see challenges to the USD's traditional role as a perceived "safe haven" asset.

## **We expect the dollar's decline to continue as investors likely "sell the rallies."**

- We believe any near-term dollar bounce is unlikely to be sustained, given ongoing ex-dollar global diversification and rising concerns over the US fiscal outlook.
- 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 likely to prompt a modestly more accommodative Federal Reserve stance over 2025.

- The country's unsustainable twin deficits should also weigh on the greenback in the medium term.

### **Our view is to reduce, hedge, and diversify USD exposure.**

- We rate the US dollar as Unattractive. We forecast the EURUSD rising to 1.20 by June 2026.
- We favor 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.
- We think now is the time to review strategic currency allocations in international portfolios and consider hedging US dollar exposure in US assets back into home currencies.

### **Investment view**

Looking ahead, we anticipate further dollar weakness as the US economy slows and focus on fiscal deficits expands. We like using near-term dollar strength to reduce excess US dollar cash by investing or diversifying into other currencies such as the Japanese yen, euro, British pound, and Australian dollar. We think now is the time to review strategic currency allocations in international portfolios and consider hedging US dollar exposure in US assets back into home currencies.

Original report: [Will the US dollar fall further?, 16 June 2025.](#)

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