Seven steps to managing currency exposure

25 July 2025, 13:40 UTC, written by Daniel Kalt

Getting the right currency exposure is not an easy task, but when times are volatile, it's critical. It requires analyzing current and future spending needs across currencies, considering legacy and income factors, and weighting different time periods to build a tailored currency mix.

Since the start of the year, acute currency volatility has reminded investors of the importance of managing currency exposures. We expect further dollar weakness in the coming 12 months, with USDCHF forecast at 0.76 by June 2026. In that context, a seven-step approach can help investors align their portfolios with their objectives.

1. **Assess current currency needs -** Investors must consider which currency is required for their spending needs. It typically corresponds to the currency of primary residence, but significant portions may be in foreign currencies for overseas travel, supporting relatives abroad, or maintaining international properties. Estimating the percentage of total spending in each currency over the next five years helps determine an appropriate short-term currency allocation. For example, a Swiss investor with a holiday home in Italy might spend 80% in Swiss francs and 20% in euros.
2. **Estimate lifetime currency mix -** Spending habits and life circumstances evolve, affecting future currency needs. This may include children studying abroad or planned relocation upon retirement. By estimating the percentage of spending in each currency over the next 5 to 20 years, investors can align their portfolio's currency mix with long-term plans.
3. **Consider long-term and legacy needs -** Legacy planning can further impact the currency allocation as beneficiaries may have different requirements, such as children settled in other countries or supporting charities abroad. For investors focused on preserving global capital value, a neutral mix of key currencies may be more feasible. This mix should aim to preserve long-term global purchasing power, considering factors like long-term valuations; safe-haven characteristics

of a currency such as Swiss franc, the Japanese yen, and the US dollar; and a currency's share of global trading, such as the USD and the EUR.

4. **Scale time horizons for target allocation -** A difficult task is combining weights to the different time horizons. The appropriate weighting depends on factors like age, certainty about future plans, and the importance of legacy goals. Younger investors with uncertain long-term plans may prioritize near-term needs, while older investors with established legacy intentions may focus on long-term allocations.
5. **Adjust for income, business assets, and debts -** Investors should consider future income streams, business assets, and outstanding debts. Income expected in a particular currency can offset future spending needs, reducing the need for additional portfolio exposure. Conversely, debts in a given currency may require an increased allocation to manage the risk of currency appreciation relative to income or assets.
6. **The currency exposure should feel comfortable -** Investors may adjust currency allocations based on investment convictions or emotional comfort with potential currency moves. A practical method is to assume a 20% depreciation in the largest currency allocation and assess the impact. If this scenario causes discomfort, the allocation may be too high; if met with indifference, it is likely appropriate.
7. **Implement the target currency mix -** Once a target allocation is established, implementation is the next step. Practical approaches include using currency-hedged portfolios or shifting investment grade fixed income holdings into under-allocated currencies and hedging equity exposures. Moreover, sophisticated investors can employ currency forwards, options, and structured solutions for more flexible exposures.

Managing currency exposures is a dynamic, multi-step process blending quantitative analysis with qualitative judgment. A structured framework can potentially reduce risk, preserve purchasing power, and provide greater peace of mind. In today's environment, a practical, data-driven approach to currency management is essential for achieving financial goals and ensuring long-term financial security.

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, “junk bonds,” derivatives, distressed securities, non-U.S. securities and illiquid investments.
- Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer’s “home” currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

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