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The US dollar is likely to weaken further

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The US dollar has lost significant value over the past six months. There are many indications that this downward trend is likely to continue, even though uncertainty remains high. While a weaker dollar does not necessarily mean that investors should refrain altogether from investing in US securities, we favor at least partial hedging of currency risk, especially for investors in Switzerland and the eurozone.

Perhaps the biggest surprise of 2025 so far has been the persistent weakness of the US dollar. At the beginning of the year, many investors expected a stronger dollar. President Trump's focus on tax cuts and deregulation was supposed to boost growth and keep the US equity market ahead of the curve. This phenomenon—also known as "US exceptionalism"—contributed significantly to the dollar's overvaluation. Instead, however, tariffs moved to the center of the White House agenda. And rather than euphoria, investors shifted their focus to declining growth prospects, steadily rising debt, and inflation fears, with negative consequences for US government bonds and the currency. Over the past six months, all G10 currencies have grown stronger against the dollar, with the Swiss franc posting double-digit gains. Precious metals have also seen solid increases in value, and the outlook for further gains remains intact: our analysts have just revised their gold forecast upward.

We consider additional weakening more likely, which could further exacerbate the situation for Swiss exporters. According to our forecasts, investors in Switzerland and the euro area should at least partially hedge larger dollar positions. However, uncertainty remains high, especially due to the unpredictable US economic policy. Currency forecasts may not have the best reputation, but it is still worthwhile to consider some indicators in order to be better prepared for trend changes.

The chronic US trade deficit, for example, points to a still overvalued dollar. Tariffs are intended to help achieve a new balance, in which the US gains in location attractiveness and falling imports as well as rising exports lead to a reduction in the trade deficit. Whether these tariffs will actually have the desired effect remains to be seen. It is quite possible that they will be partially passed on to US consumers and companies. Accordingly, the hoped-for competitive advantage could evaporate. Further, structural weakening of the dollar would therefore be an important prerequisite for a more competitive US industrial nation. It is quite possible that the Trump administration will also take further steps here to keep its vision alive.

Additionally, we note the increasing political pressure on the US Federal Reserve regarding interest rate cuts. From an economic perspective, we can certainly understand the argument in favor of the Fed cutting rates in September. Despite high and temporarily rising inflation, the moderate weakening of the US economy is likely to be more relevant for monetary policy in the medium term. Compared to the Eurozone and Switzerland, where there is little or no room for further rate cuts, lower US rates could put additional pressure on the dollar. Much of this is already priced in, which could lead to negative surprises in the short term. If the Fed actually decides not to cut rates in September, the next phase of dollar weakness may be delayed somewhat. However, we still have a September rate reduction in our base-case scenario. From an institutional perspective, markets seem increasingly concerned that the independence of the central bank could be undermined. Due to high interest rates, the large debt burden is weighing on US government finances more than usual.

And finally: investment decisions can be made independently of currency exposure. An investment in technology stocks for example, which we continue to consider Attractive due to ongoing growth in the AI sector, does not seem sensible today without US stocks. But investors can relatively easily hedge the associated currency risk. This also fits the picture we are currently seeing in the markets: although the US equity market has recovered strongly since April, the dollar remains under pressure. After a moderate recovery last month, the US dollar has continued its downward trend in August.

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