



CIO believes investors should consider diversifying excess US dollar holdings and aligning their exposure with future liabilities or spending plans. (UBS)

Structural headwinds remain for the US dollar

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The near-term outlook for the US dollar is likely one of strength amid elevated energy prices. However, its structural headwinds remain. We believe it is important for investors to review currency allocations and ensure that they are broadly consistent with expected personal future spending.

CIO favors the Australian dollar, New Zealand dollar, Norwegian krone, Chinese yuan, and a selection of emerging market carry currencies.

The US dollar is likely to strengthen in the near term.

- The US dollar has rallied since the escalation of the US-Iran conflict amid higher oil and gas prices, with the DXY index up 2% so far in March.
- A further significant increase in energy prices could also push EURUSD back down to the 1.10-1.12 range.
- Recent data reflecting a resilient US economy has also supported the greenback.

Structural USD headwinds remain intact, however.

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- Structural headwinds including the US twin deficit, heavy global allocations to USD assets, and the transition to new Fed leadership should weigh on the US dollar's longer-term outlook.
- In the near term, potential government interventions may limit the weakness in certain Asian currencies, while Germany's fiscal spending should provide support for the euro.

Investors should manage their currency exposure.

- Aligning portfolio currencies with liabilities and spending plans can help reduce the risk of potentially large currency swings undermining financial goals.
- Investors can also consider hedging their portfolios against currency risk.
- We continue to like the Australian dollar, the New Zealand dollar, the Norwegian krone, the Chinese yuan, and some other high-yielding emerging market currencies in our global portfolios.

Did you know?

- For larger investors, diversifying across major currencies with strong fundamentals can help preserve global purchasing power. Strategic allocation should consider factors like valuation trends, perceived "safe haven" status, current account balances, and reserve currency roles.
- Investors can achieve the right strategic mix through a combination of reallocating cash or fixed income balances, by hedging equity exposures, or through direct currency trades.
- According to the latest Global Investment Returns Yearbook, which analyzes the long-term performance of assets from 1900 to 2025, currency risk on average added around 6 percentage points to total portfolio risk.

Investment view

Investors should try to align the currencies of their portfolio with their spending patterns and liabilities. This can reduce the risk that potentially large currency swings undermine financial goals. We continue to like high-yielding currencies across G10 countries and emerging markets.

Original report – [What should I do with my US dollar exposure?, 9 March 2026.](#)

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