

Overweight Unhedged World ex US Treasuries/Underweight US Treasuries

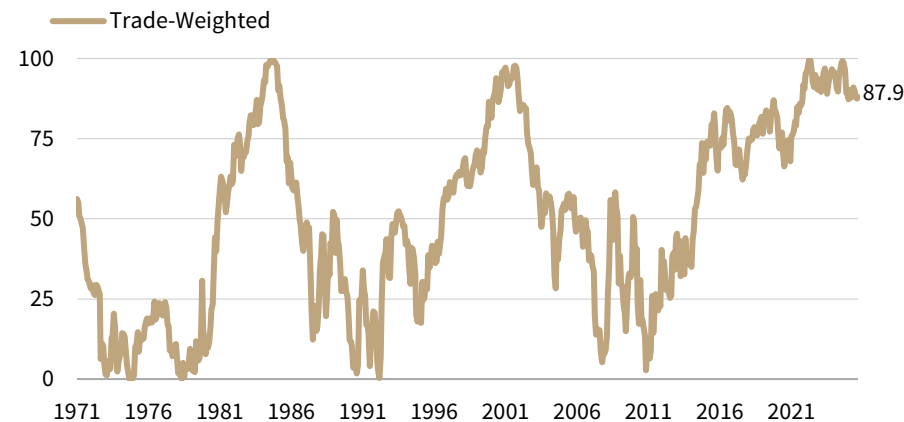
Recommended since May 31, 2025

Investment thesis: Unhedged global ex US Treasuries tend to outperform US Treasuries when the dollar declines. We view the USD as expensive and expect it to weaken as the US growth and interest rate advantage fades. Foreign demand for US assets may also diminish amid elevated US exposures, rich equity valuations, and recent policy shifts. This trade is intended for US-based investors and reflects our negative outlook on the dollar, not on the underlying bonds.

Key support 1: The USD's trade-weighted real effective exchange rate (REER) recently reached its fourth highest level since 1971. Historically, such elevated starting valuations have preceded multi-year dollar declines, favoring unhedged global ex US Treasuries over US Treasuries. When the USD's REER is above the 90th percentile, subsequent rolling three-year annualized returns have ranged from -2% to 19%, averaging 7.2%. Although the REER has since dipped below this threshold, past cycles suggest the dollar's current decline likely has further to run.

USD basket trade-weighted real effective exchange rate

June 30, 1971 – February 28, 2026 • Percentile (%)

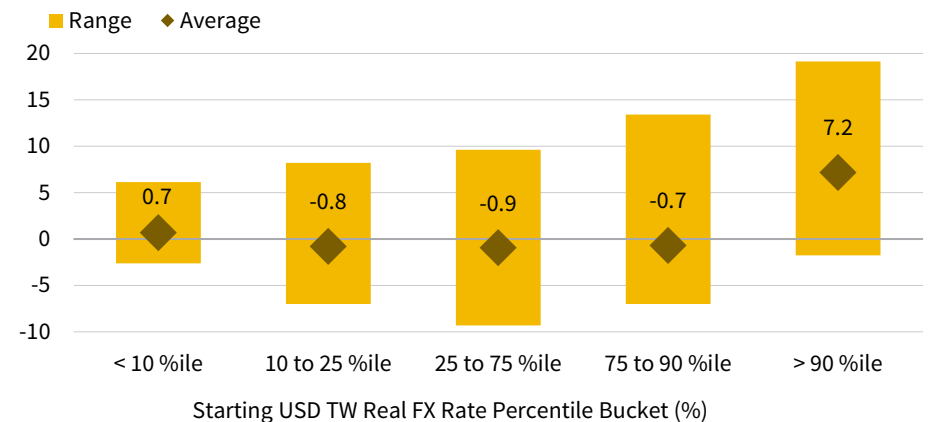


Key support 2: We expect USD weakness as secular US advantages diminish. The dollar's recent strength was driven by robust US growth and higher rates, but these tailwinds are set to fade. A more balanced US economy, increased fiscal support in Europe and Japan, and higher US tariffs should narrow growth and rate differentials. Additionally, foreign investors are already hedging dollar exposure and may further reduce US asset purchases amid elevated valuations, high allocations, and rising policy uncertainty, putting additional pressure on the dollar.

Key risks: Advances in AI could sustain the US growth advantage and attract capital, while a deeper global slowdown could trigger risk aversion and a flight to safety. The Iran war illustrates this risk. However, while the US dollar typically appreciates in geopolitical conflicts, we anticipate its recent appreciation will reverse once the war is resolved. Implementation comes at a cost, as US Treasuries currently yield 104 bps more than global ex US Treasuries.

Relative unhedged world ex US vs US treasury bond returns

January 31, 1985 – February 28, 2026 • 3-yr annualized return (%)



Sources: Bloomberg Index Services Limited, FTSE Russell, MSCI Inc., National Sources, OECD, Refinitiv, Thomson Reuters Datastream, and US Federal Reserve. MSCI data provided "as is" without any express or implied warranties.

Note: Inflation data are as of December 31, 2025.