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 and foreign demand for US assets moderates 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.

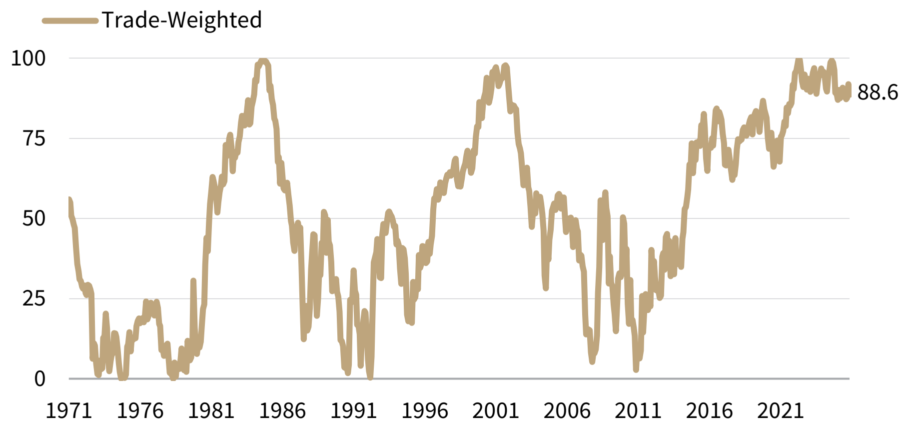
Key support 1: The USD's trade-weighted real effective exchange rate (REER) recently reached its fourth highest level since 1971. Historically, such elevated starting valuations have preceded multi-year dollar declines, favoring unhedged global ex US Treasuries over US Treasuries. When the USD's REER rises above the 90th percentile, subsequent rolling three-year annualized returns have ranged from -2% to 19%, averaging 6.6%.

Key support 2: 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 and increased fiscal support in Europe and Japan should narrow growth and rate differentials. Additionally, foreign investors have started to hedge more of their dollar exposure and may eventually slow US asset purchases, which are at record levels, amid elevated valuations and rising US policy uncertainty, putting additional pressure on the dollar.

Key risks: Advances in AI and productivity could sustain the US growth advantage and continue to attract capital, while a deeper global slowdown could trigger risk aversion and a flight to safety. The Iran War illustrates a unique example of this risk. However, while the US dollar typically appreciates in geopolitical conflicts, it is only up 0.4% since the start of the war and we anticipate it will continue its decline this year once the war is resolved. Lastly, implementation comes at a cost, as US Treasuries currently yield 107 bps more than global ex US Treasuries.

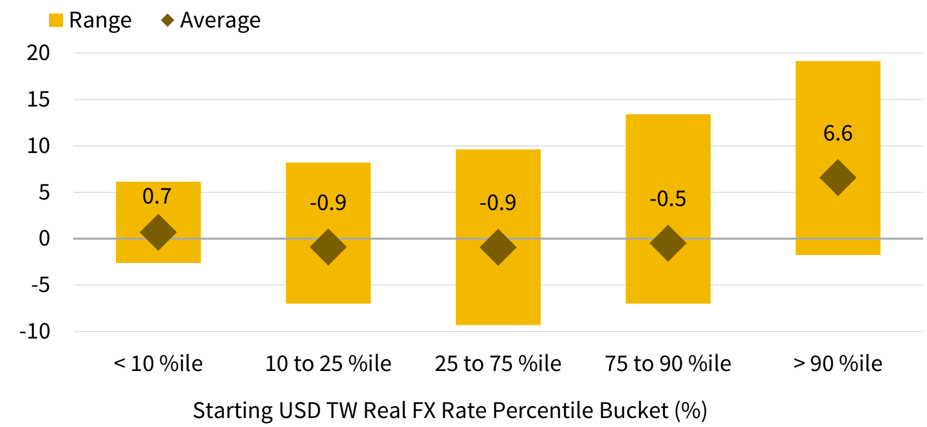
USD basket trade-weighted real effective exchange rate

June 30, 1971 – April 30, 2026 • Percentile (%)



Relative unhedged world ex US vs US treasury bond returns

January 31, 1985 – April 30, 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 March 31, 2026.