

Overweight Unhedged World ex US Treasuries/Underweight US Treasuries

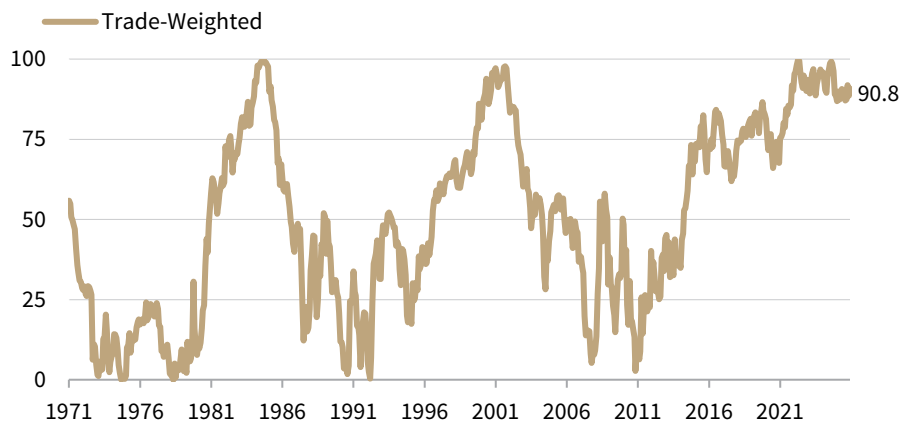
Recommended since May 31, 2025

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 outperformance 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 6.4%.

USD basket trade-weighted real effective exchange rate

June 30, 1971 – May 31, 2026 • Percentile (%)

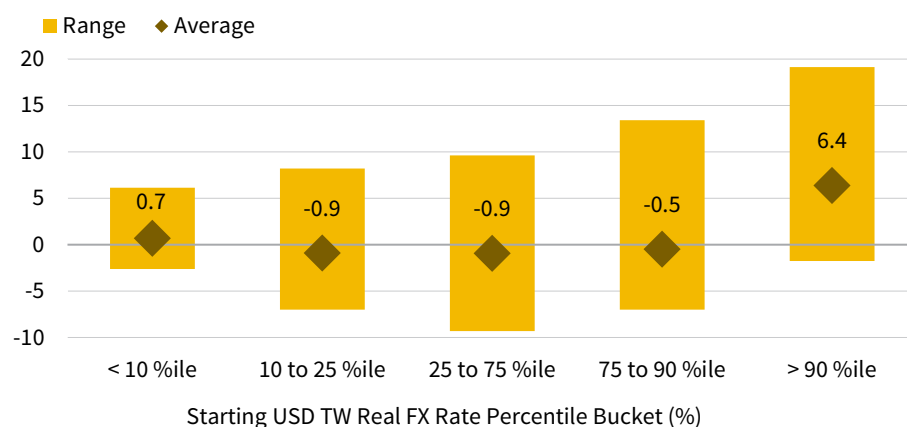


Key support 2: The dollar's recent strength was driven by robust US growth and higher rates, but these tailwinds are set to fade over a multi-year period. A more balanced US jobs market and structural shifts toward more pro-growth policies in countries like Europe and Japan should help narrow global growth and rate differentials versus the United States over time. 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.

Key risks: Advances in AI and productivity could sustain the US growth advantage and continue to attract capital, while the Iran War could delay any narrowing in rate and growth differentials and trigger a flight to safety. However, while the US dollar typically appreciates in geopolitical conflicts, it is only up 1.4% since the start of the war and we anticipate it will continue its decline once the war is resolved. Lastly, implementation comes at a cost; US Treasuries yield 130 bps more than global ex US Treasuries.

Relative unhedged world ex US vs US treasury bond returns

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