# Overweight Unhedged World ex US Treasuries/Underweight US Treasuries

Recommended since May 31, 2025

**Investment thesis:** Unhedged world ex US Treasuries outperform US Treasuries when the dollar declines. We view the USD as expensive and expect it to weaken as the US advantages fade 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.

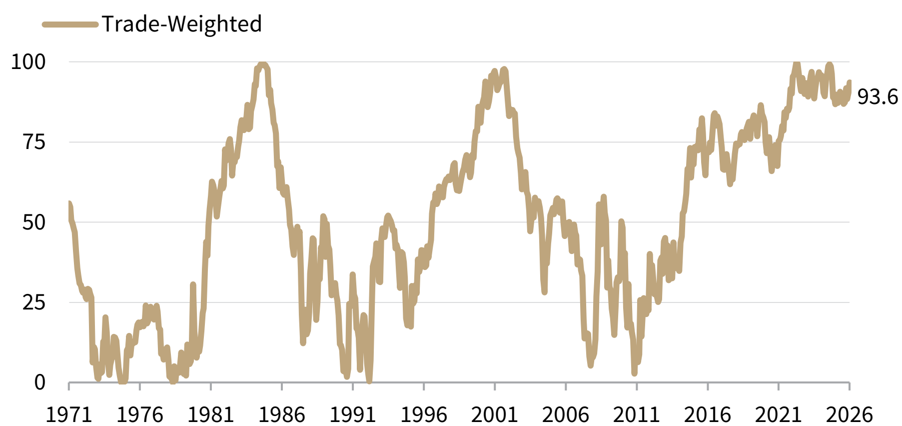
**Key support 1:** The USD's trade-weighted real effective exchange rate (REER) is elevated. Historically, such valuation levels have preceded multi-year dollar declines, favoring unhedged world ex US Treasuries over US Treasuries. When the USD's REER rises above the 90th percentile, subsequent three-year annualized returns have ranged from -2% to 19%, averaging 6.2%. The dollar had begun to weaken starting in early 2025 but has strengthened more recently driven by the Iran War and US AI leadership, which have supported the dollar through firmer growth and rate expectations, in addition to continued inflows into US assets.

**Key support 2:** These factors could continue to support the dollar in the near term, but our central view remains that these forces are more likely to delay rather than invalidate a medium-term weakening trend. Much of this repricing is likely already reflected in markets, and relative growth and yield differentials between the US and the rest of the world are still expected to narrow over the next several years. Foreign investors have continued to chase AI-driven gains in US equities in recent months, but they have also increased dollar hedging and may eventually slow their record-high buying amid elevated valuations, US policy uncertainty, and growing investment in domestic priorities such as defense, energy, and infrastructure.

**Key risks:** Advances in AI and productivity could sustain US growth and continue to attract foreign capital, keeping the dollar stronger for longer, and the fragility of peace in the Middle East also remains a near-term risk. Lastly, implementation comes at a cost; US Treasuries yield 130 bps more than global ex US Treasuries.

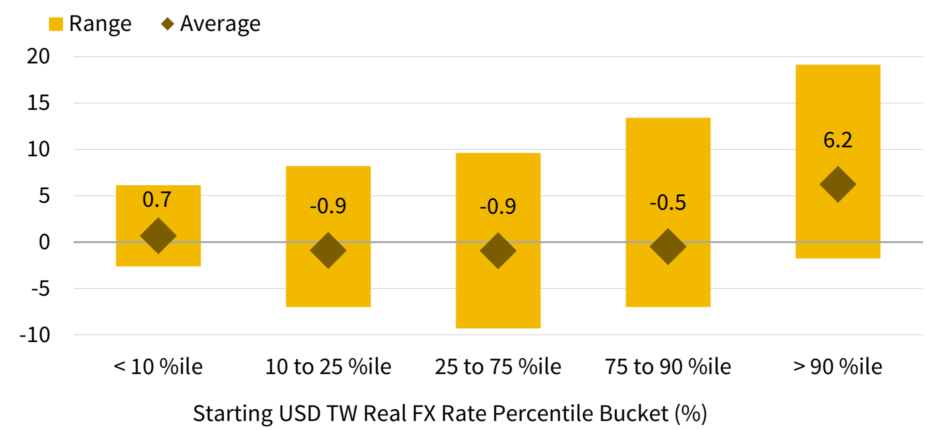
**USD basket trade-weighted real effective exchange rate**

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




**Relative unhedged world ex US vs US treasury bond returns**

January 31, 1985 – June 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 May 31, 2026.