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 once the Iran War is resolved or if concerns about the AI outlook weaken foreign demand, given elevated foreign exposure to US assets and rich US equity valuations. This trade is intended for US-based investors and reflects our negative outlook on the dollar, not on the underlying bonds.

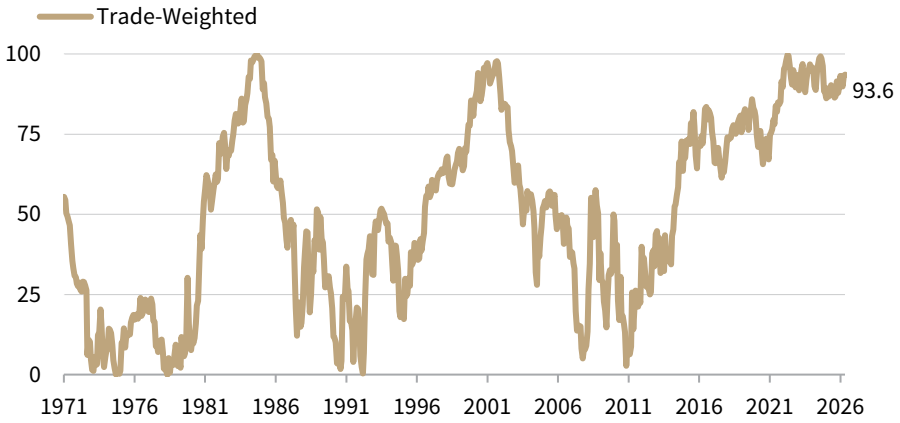
Key support 1: The USD's trade-weighted real effective exchange rate (REER) is elevated. Historically, such valuation levels have preceded multi-year dollar declines, favoring positions that benefit from dollar weakness, such as unhedged world ex US Treasuries over US Treasuries. When the USD's REER rises above the 90th percentile, subsequent three-year annualized returns have ranged from -2% to 19%, averaging 6.1%.

Key support 2: The dollar has appreciated this year versus a currency basket of DM peers. Near-term forces could continue to support the dollar, including the Iran War and US AI leadership, which have lifted relative growth and rate expectations and attracted capital inflows to the US. But these supports are unlikely to be durable over a three- to five-year horizon, and we continue to expect a medium-term weakening trend. Relative growth and yield differentials should narrow over time, while foreign investors may slow record-high purchases of US assets amid elevated valuations, US policy uncertainty, and rising investment needs at home.

Key risks: An escalation in the Iran War or improvement in sentiment around the AI outlook remain the biggest near-term risks. Longer term, advances in AI and productivity within the US present the biggest risk. This could benefit US growth and profits and attract more foreign capital into the US, supporting the dollar for longer. Implementation comes at a cost; US Treasuries yield approximately 141 bps more than global ex US Treasuries.

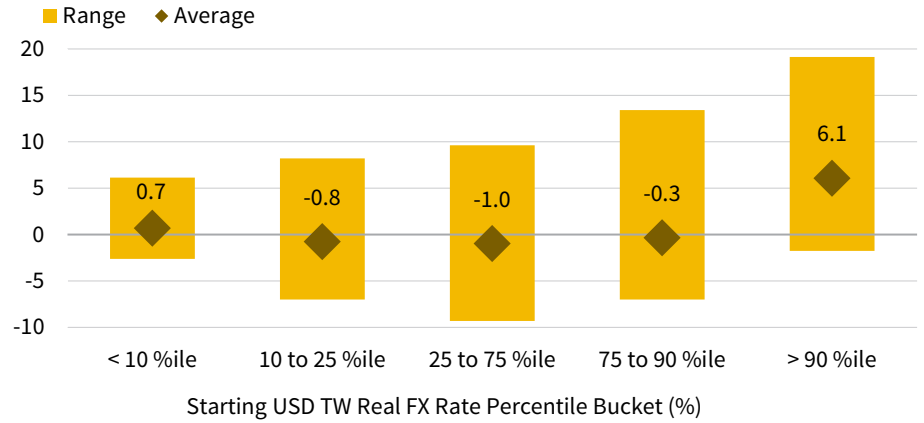
USD basket trade-weighted real effective exchange rate

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



Relative unhedged world ex US vs US treasury bond returns

January 31, 1985 – October 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 September 30, 2026.

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