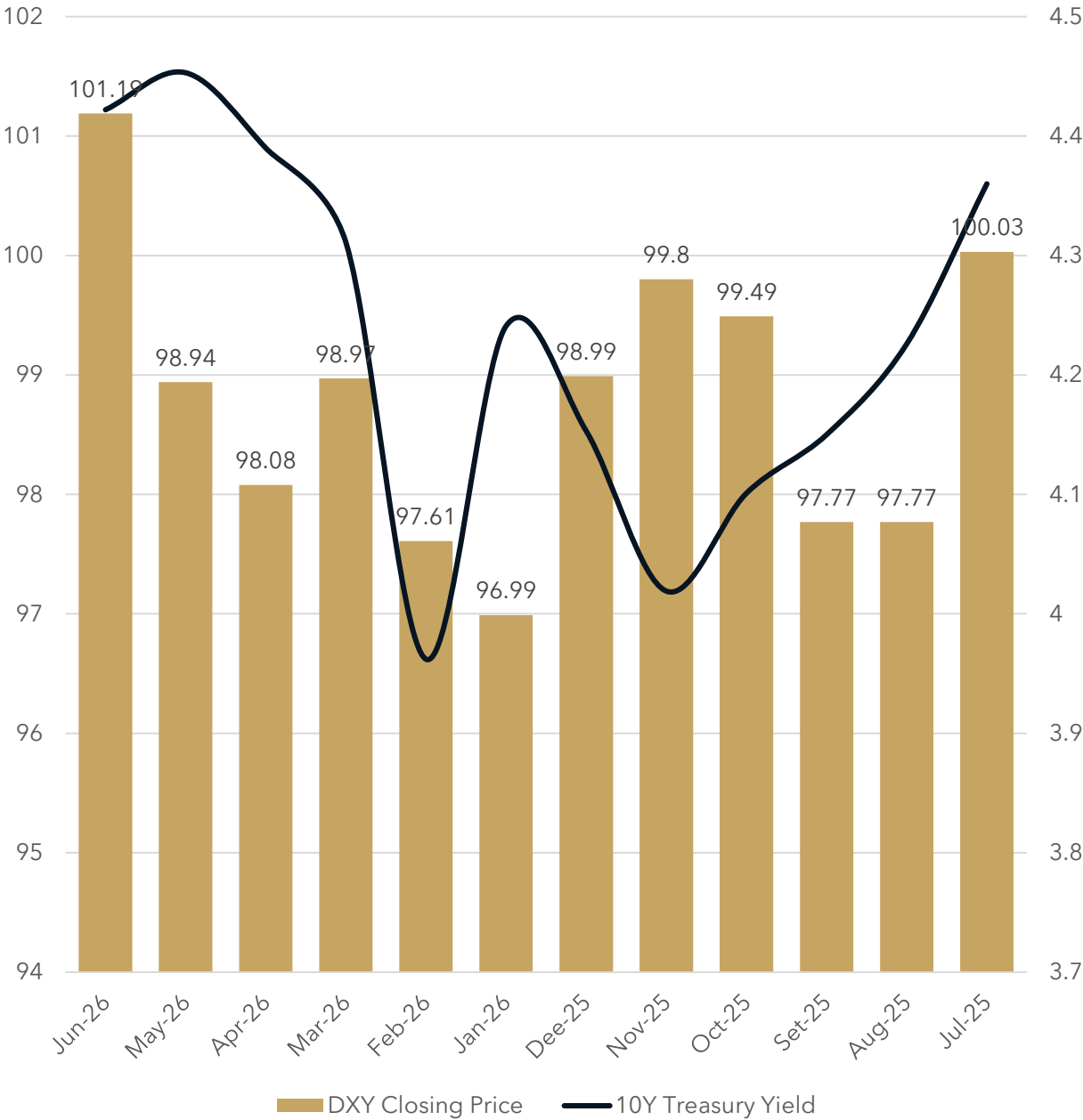




How is the U.S. Dollar Faring?

The US Dollar has displayed a notable recovery over the past month, with the U.S. Dollar Index (DXY) hovering around the 100 to 101 mark. Much of the rally has come as markets reassessed the outlook for the U.S. Federal Reserve’s interest rate policy. The markets had factored in expectations for a U.S. interest rate hike this year, widening interest rate differentials in favour of the U.S. Dollar.



Source: LSEG



The U.S. Dollar had been falling since the Trump administration announced tariffs in April 2025. Geopolitical tensions and interest rate uncertainty added to its weakness. The U.S. Consumer Price Inflation (CPI) was at ~4.2% (May 2026) mainly due to the oil supply shock.

In June 2026 though, the U.S. dollar index (DXY) had recovered much of that decline, challenging the narrative that the era of U.S. exceptionalism and Dollar dominance is behind us. Meanwhile, U.S. equities were in the midst of a great run, adding to the charm of the U.S. Dollar.

Having said that, in the first week of July 2026, the dollar index held below 101 after tumbling slightly following weaker-than-expected U.S. labour market data. Traders were forced to dial back expectations for Federal Reserve rate hikes this year. The US economy added just 57,000 jobs in June, the fewest in four months and well below forecasts of 110,000, while the unemployment rate stood at 4.2%. This followed a report on July 1st 2026, showing private-sector job growth also fell short of expectations.



The futures market now implies roughly a **50% chance of a September rate hike**, down from 67% before the latest employment report. The markets continue to factor in a rate hike in December.

The **new Fed Chair Kevin Warsh** also said in the first week of July that inflation expectations are moderating while reaffirming the Federal Reserve's commitment to maintaining price stability.

With all these news flows, how do we see the U.S. Dollar faring?



Our Take on the USD:

Medium Term
(6 months)

Long Term
(12 months)

The USD is expected to be firm due to Fed's dilemma of sticky inflation, weak labor data and tariff uncertainty

The USD does face structural weakness as global central banks are diversifying reserves away from US Dollar. Further, the ballooning fiscal deficit on the U.S. balance sheet could reduce the USD's global dominance.



Major factors influencing global FX positioning

- Focus shifting from geopolitics to fundamentals
- Structural multi-year erosion of U.S. Dollar dominance
- Sharp divergence in central bank policy paths

Upside Catalysts for USD: Resilient US growth and productivity and further term premium for US debt.

Downside Risks for USD: Fed easing cycle returns, narrowing rate differentials, central banks globally intensify diversification in their reserves.

In summary, current USD levels are broadly in line with underlying fundamentals, making a sustained appreciation cycle less likely. Having said that, the USD could remain firm over the next 6 months.



What does this mean for portfolios?

- Speak to your advisor on **FX ideas** around this medium-term firmness & long-term weakness of the U.S. Dollar.
- Long bonds carry higher rate sensitivity, speak to your advisor regarding quality **medium-term bonds** for stable income flows.
- **Diversifying** your portfolio's currency exposure beyond the U.S. Dollar would be prudent. Speak to your financial advisor regarding non-USD ideas.
- **"Real assets"** continue to be a good protection against currency depreciation in the long run. Speak to your financial advisor about private market opportunities.

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