

Greenback In The Red

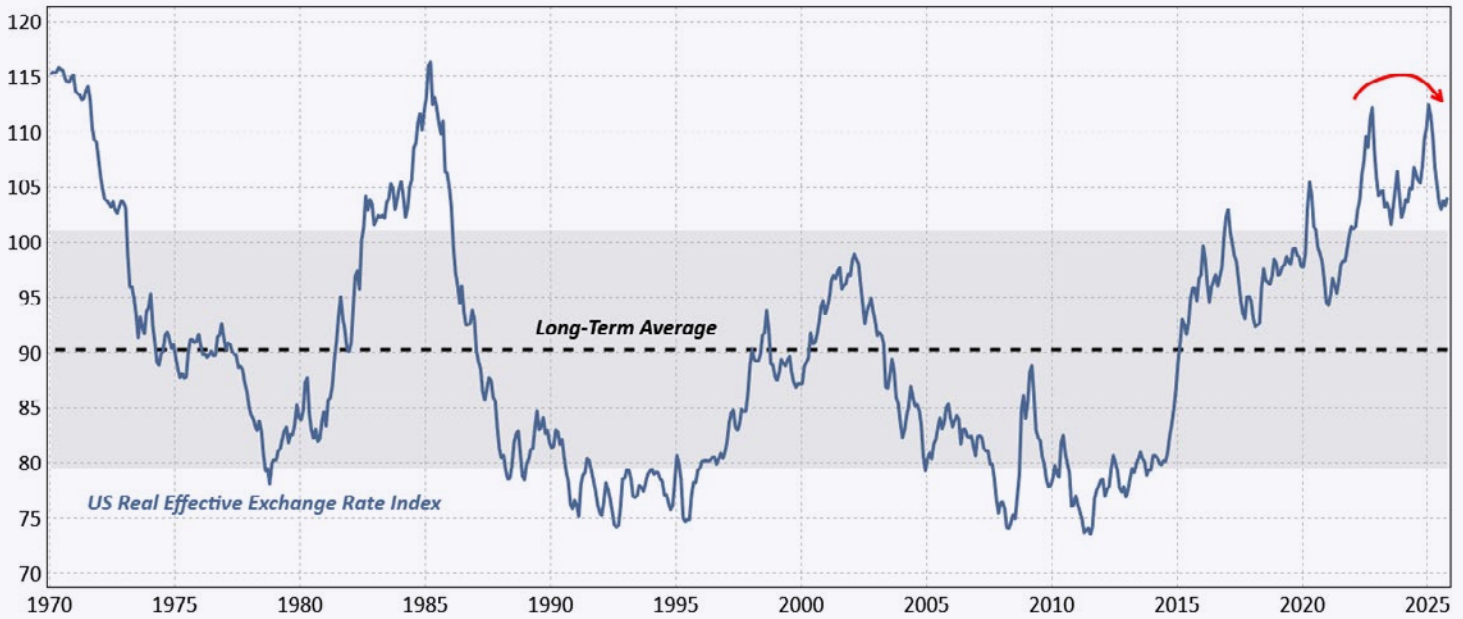
US dollar weakness has caught many investors off guard this year, as the imposition of widespread tariffs was expected to lead to devaluations for US trading partners' currencies. While the greenback has clawed back some of its year-to-date losses in recent weeks, trade-weighted dollar indices are still down over 9% at the time of writing. With its dominant role in central bank reserves, global finance and trade, getting the trajectory of the dollar right is critical. Accordingly, are we witnessing an inflection point for the US dollar, or will this year's weakness prove to be fleeting?

The long-term de-dollarization theme has received heightened attention in recent years due to the “weaponization” of the US dollar, which began with the Patriot Act in 2001 and expanded with Iranian sanctions in 2012 and Russian sanctions in 2014 and 2022. Central banks have been diversifying currency composition and increasing allocations to other currencies and commodities like gold in their reserves. Non-aligned nations have increasingly sought to trade and finance themselves in their own currencies. However, the speed of de-dollarization should not be overstated. It remains a glacial affair, as there is a severe lack of viable alternatives that have the scale to displace the dollar. The move away from the dollar should thus be viewed as a structural headwind, but will not outweigh shorter-term cyclical factors.

On that front, several shorter-term forces argue for a softer dollar. Elevated US policy risk has increased uncertainty about the dollar's safe haven premium, the country's fiscal trajectory and the credibility of its institutions. The Federal Reserve began an interest rate cutting cycle in September, and while elevated inflation

will act as a limiting factor, interest rate differentials with the Euro Area and Japan are set to contract. In addition, US growth momentum is slowing relative to other developed and emerging economies (see our recent [Ask Forstrong - What's So Special About The K-Shaped Economy?](#) for more insights on the US economy). When growth leadership shifts abroad, capital flows and FX positioning tend to follow. Lastly, starting points matter. Per the chart below, the trade-weighted US dollar remains overvalued on an inflation-adjusted basis versus its international peers. That leaves ample room for further downwards mean reversion and currencies have a tendency to overshoot their fundamentals (both on the upside and the downside).

For investors, the practical question is how to position portfolios in a regime of dollar weakness. Maintaining a hedge on US dollar exposure is an obvious way to manage risk, but the investment implications go far beyond this “first order” effect. From a high level, a falling US dollar tends to boost global liquidity, as debt burdens and dollar funding costs decline for global borrowers. Rising liquidity is a key component of global risk appetite. From an asset class perspective, commodities historically benefit because most raw materials are priced in US dollars. If a falling dollar spurs global credit growth, industrial commodities also receive a tailwind from an improving demand outlook. Emerging markets typically benefit from improved solvency, inbound capital flows and currency appreciation. Finally, cyclical sectors such as industrials benefit through stronger demand and wider margins when commodity and export-sensitive dynamics improve.



Sources: Macrobond, BIS, Forstrong Global Asset Management

Global Strategy Overview

Cash

The US dollar has depreciated against most major currencies this year, defying expectations that US-initiated tariffs on major trading partners would have the opposite effect. If an inflection point has been reached, the US dollar has considerable downside risk as it remains overvalued according to conventional metrics such as real effective exchange rates. A partial Canadian dollar hedge on US assets has been increased in client portfolios.

Bonds

US bond yields remain attractive on an absolute basis versus most other developed markets. The outlook for longer-term US bond yields is mixed, as positive factors including ebbing growth momentum and Fed rate cuts must be weighed against fiscal profligacy concerns and imported inflation risks. US bond exposure has been increased to a near-neutral level this quarter.

Equities

Smaller US companies tend to be more exposed to slowing domestic growth conditions and have less pricing power to combat the impact of tariffs. A weakening US dollar trend may further exacerbate input price pressures, while a higher proportion of domestic sales is a disadvantage relative to large-cap peers. We have liquidated US mid-cap equity exposure in client portfolios, awaiting a better entry point.

Opportunities

Gold prices have been supported by rising central bank purchases, a weak US dollar and heightened geopolitical risk. Gold remains a critical portfolio diversifier and tail risk hedge, but has become overheated in the short-term relative to most other commodities. We have elected to take some profits and trim exposure to gold in growth-oriented strategies this quarter, however remain structurally positive on the metal.

| Forstrong Strategies | Inception Date | 1 Month | YTD | 1 Year | 3 Year | 5 Year | 10 Years | Since Inception |
|--------------------------------|----------------|---------|--------|--------|--------|--------|----------|-----------------|
| Balanced | | | | | | | | |
| Global Income | 30/06/08 | 0.48% | 9.37% | 11.14% | 10.50% | 5.80% | 5.33% | 7.39% |
| Global Balanced | 30/06/03 | 1.08% | 14.05% | 15.26% | 13.51% | 8.29% | 7.02% | 7.37% |
| Global Growth | 30/06/03 | 1.50% | 18.31% | 19.51% | 16.52% | 11.47% | 8.99% | 8.74% |
| Canadian Income | 30/06/08 | 0.65% | 9.57% | 11.27% | 9.89% | 6.01% | 5.17% | 6.47% |
| Canadian Balanced | 30/06/03 | 0.98% | 14.78% | 15.97% | 12.99% | 9.17% | 7.18% | 7.46% |
| Canadian Growth | 30/06/03 | 1.24% | 20.17% | 21.30% | 16.02% | 12.45% | 9.02% | 8.67% |
| Global Equity | | | | | | | | |
| Emerging Markets Equity | 31/01/19 | 2.85% | 23.97% | 22.37% | 15.89% | 7.59% | NA | 5.77% |
| Global Ex-North America Equity | 31/12/19 | 2.17% | 26.13% | 25.70% | 19.58% | 11.22% | NA | 8.47% |
| Alternative Income | | | | | | | | |
| High Income Opportunities | 30/06/22 | 1.39% | 18.45% | 19.75% | 14.56% | NA | NA | 13.40% |

* Performance as of October 31st, 2025
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