



CIBC ASSET MANAGEMENT

US dollar outlook: **Self-inflicted wounds**

Expect more hedging, more weakness

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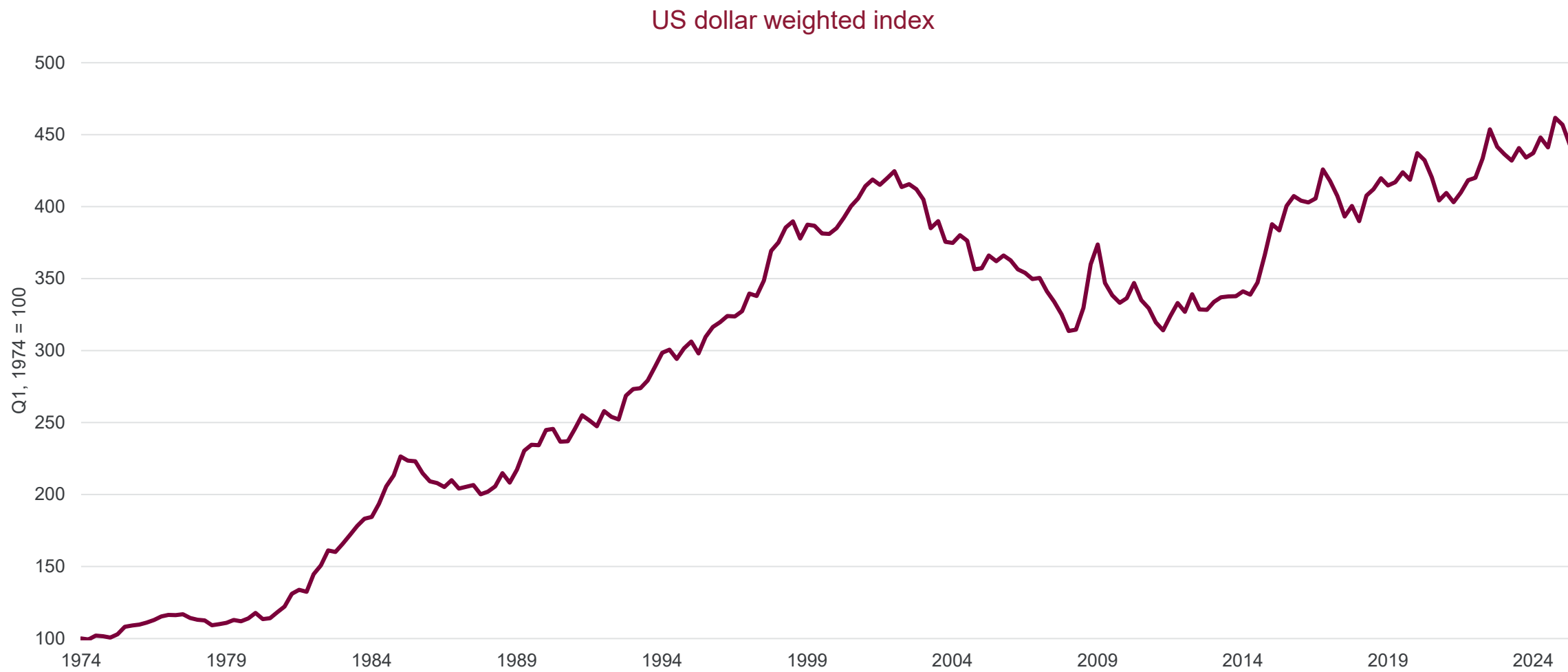
US dollar outlook: Trend weakness expected

Key takeaways

1. Following an extended period of strength, the US dollar (USD) began 2025 significantly overvalued against a range of currencies, including the Canadian dollar (CAD) (Chart 1).
2. USD has depreciated since mid-January as investor concerns over the outlook for US growth have increased, with the market's perception of US fiscal credibility and the quality of policy making institutions worsening. Notably, in 2025, **USD has not behaved as it typically does in high-stress environments, raising questions about its future role as a reliable safe-haven currency** (Chart 2).
3. **We think USD is likely to continue trending lower in coming quarters.** USD liquidity is plentiful. The US Federal Reserve will resume policy easing. Policy uncertainty is set to remain high in the US (Chart 3). And headwinds posed by investor-unfriendly policy choices will likely dominate recent relatively resilient cyclical data.
4. **There are myriad negative policy headwinds:** trade tariffs (Charts 4 & 5); uncertainty regarding Federal Reserve independence; a ballooning government debt (Chart 6); antagonism towards international students, academic institutions and scientific research; and an apparent greater willingness to threaten asset expropriation and punitive taxation of foreign assets as leverage to achieve desired policy outcomes.
5. Allied to a more restrictive immigration stance, these policies are unfavorable to long-term US GDP growth (Chart 7) and are negative for USD's long-term valuation. A likely push to deliver more deregulation represents partial mitigation.
6. There has been no change in broad USD usage in international transactions (Chart 8). But policy headwinds and less favourable investor views appear behind a change in US asset class correlations (Charts 9, 10, 11). If this change persists, it has important hedging implications for international investors exposed to US equity. The high starting valuation of USD also suggests an opportunity to hedge (Chart 12).
7. **Shifting correlations and an expected USD trend weakening have led us to increase hedge ratios on Imperial US equity mandates and to position USD as a preferred funder in active currency mandates. We expect CAD to strengthen over the next year against USD.**

Chart 1: USD experienced a multi-decade trend appreciation

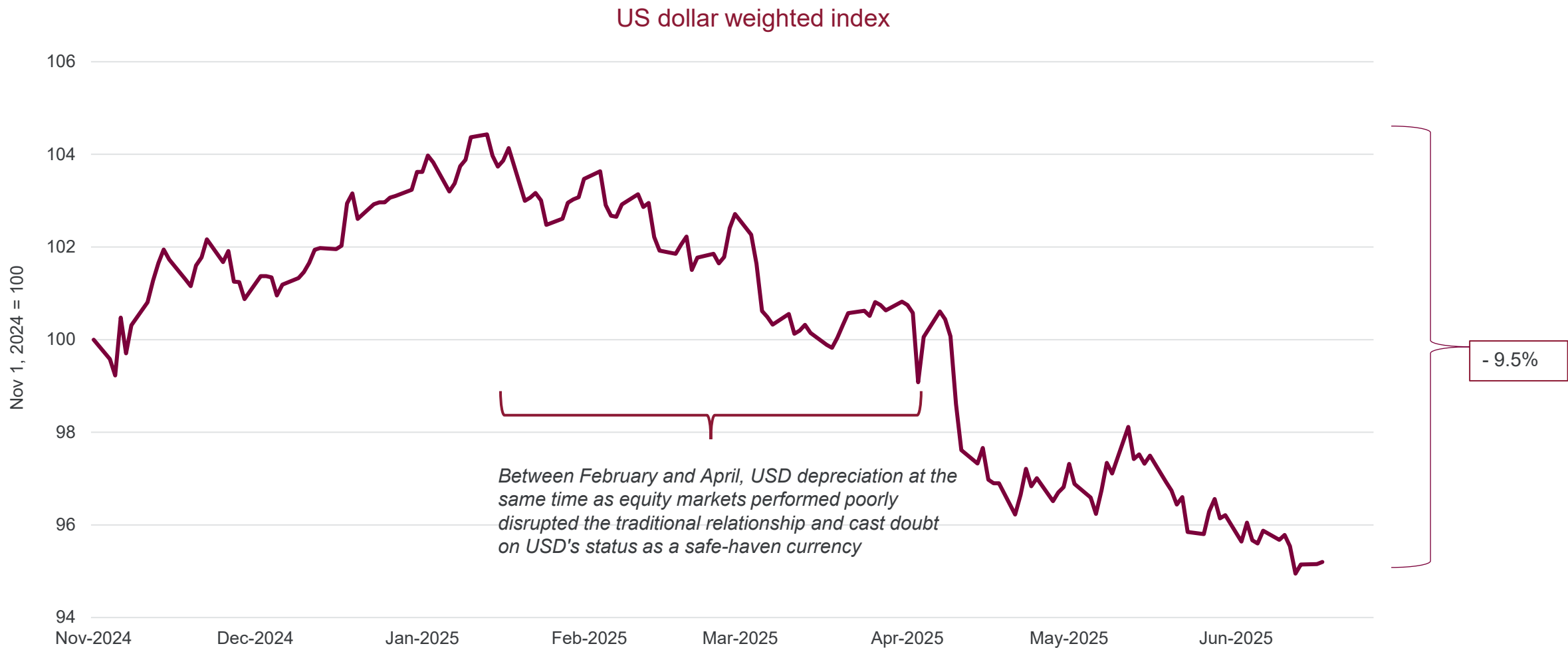
Consistent with its role as dominant global reserve currency, and US equity outperformance



Sources: Bloomberg, CIBC Asset Management Inc. Sample is January 1974 to May 2025 using quarterly data. Data as at June 17, 2025

Chart 2: USD has weakened since mid-January

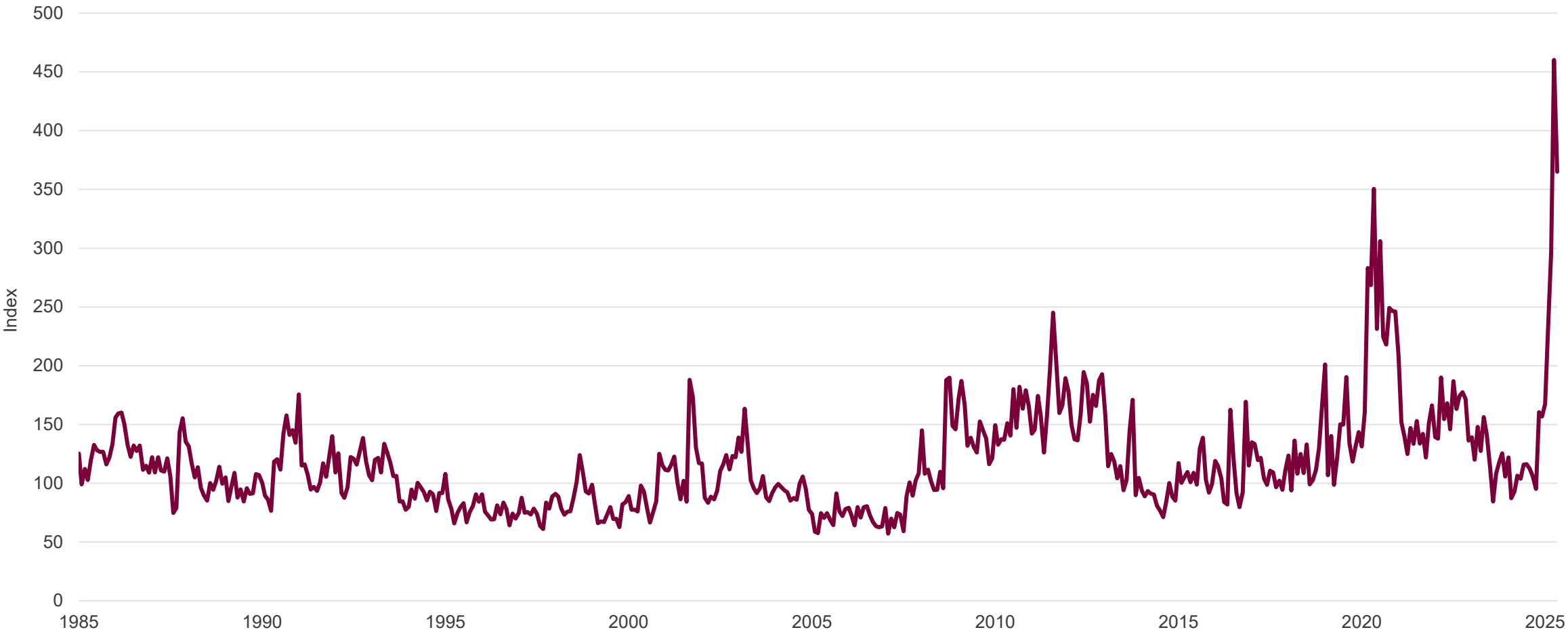
Investor sentiment has soured on US growth, fiscal credibility and the quality of policy making institutions



Sources: Bloomberg, CIBC Asset Management Inc. Bloomberg mnemonic is BBDY Index. Sample is November 1, 2024 to June 17, 2025 using daily data.

Chart 3: US policy uncertainty has reached unprecedented levels

US policy uncertainty index



Sources: Goldman Sachs, Bloomberg, Baker, Bloom, & Davis, CIBC Asset Management Inc. Sample is January 1985 to May 2025 using monthly data. Data as at June 20, 2025.

Chart 4: US tariffs on imported goods

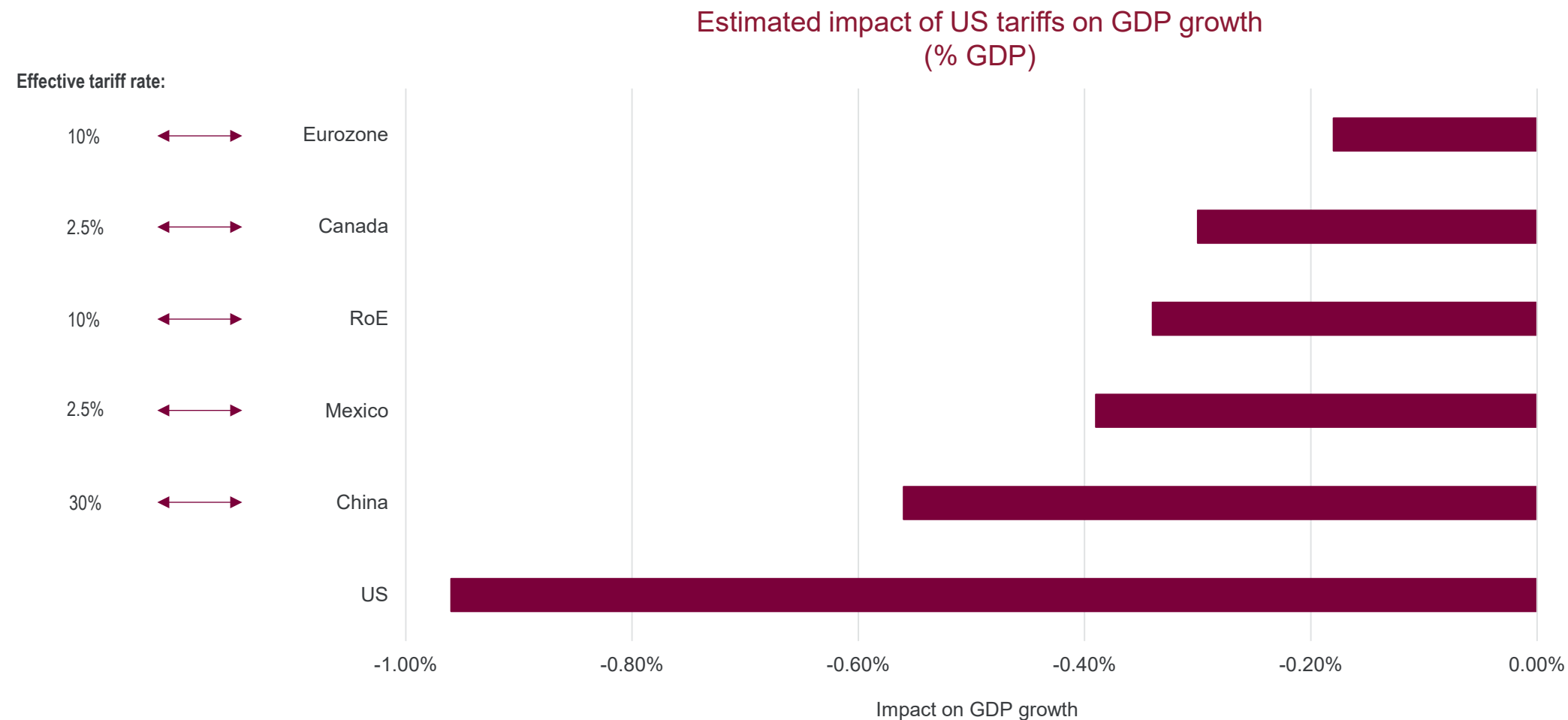
Better than threatened, far worse than before



Sources: The Budget Lab at Yale, CIBC Asset Management Inc. Sample is 1900 to 2025 using annual data (except 2025, as at June 1).

Chart 5: Reap what you sow

US is expected to bear the biggest burden of higher trade tariffs

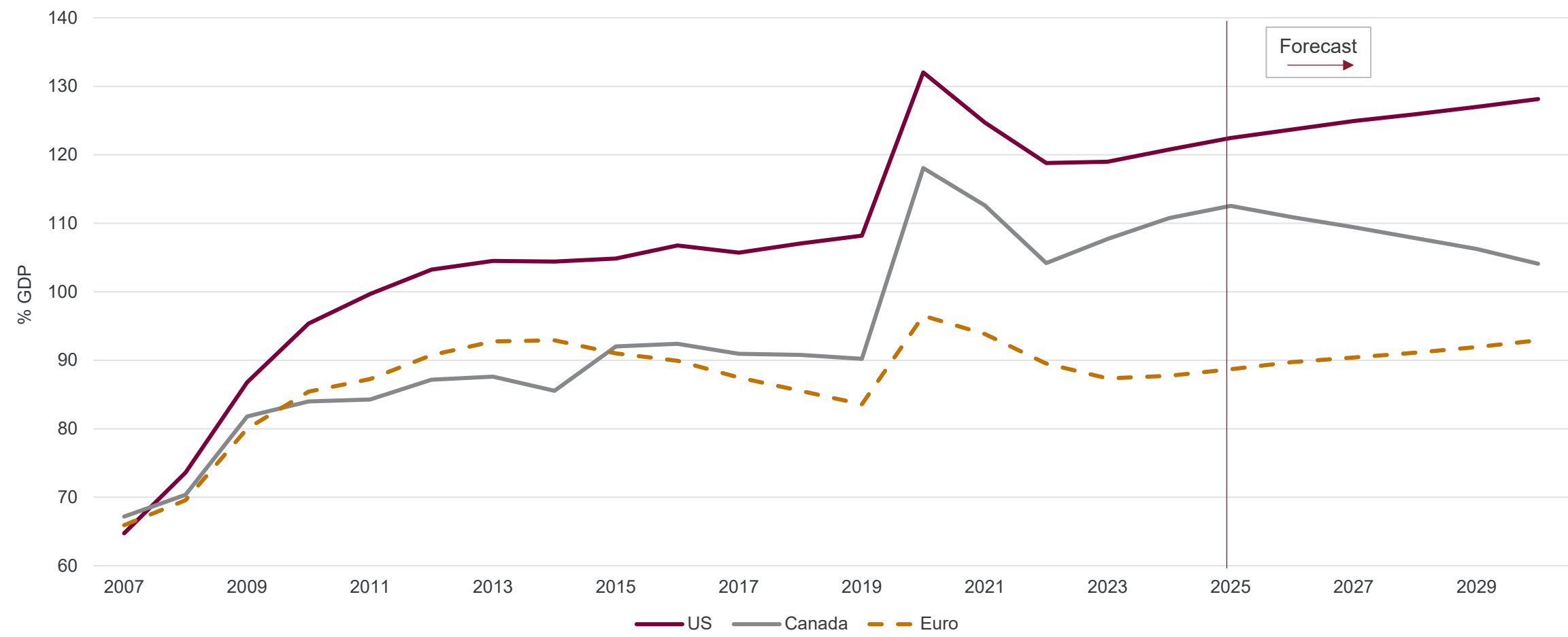


Sources: CIBC Asset Management Inc. Date as at June 20, 2025. Effective tariff rates are CIBC GAM assumptions on final outcome of trade negotiations. RoE = Rest of Europe. For illustrative purpose only.

Chart 6: Cracks are forming in investor perceptions of the US dollar

US government debt is set to balloon

Government debt % GDP

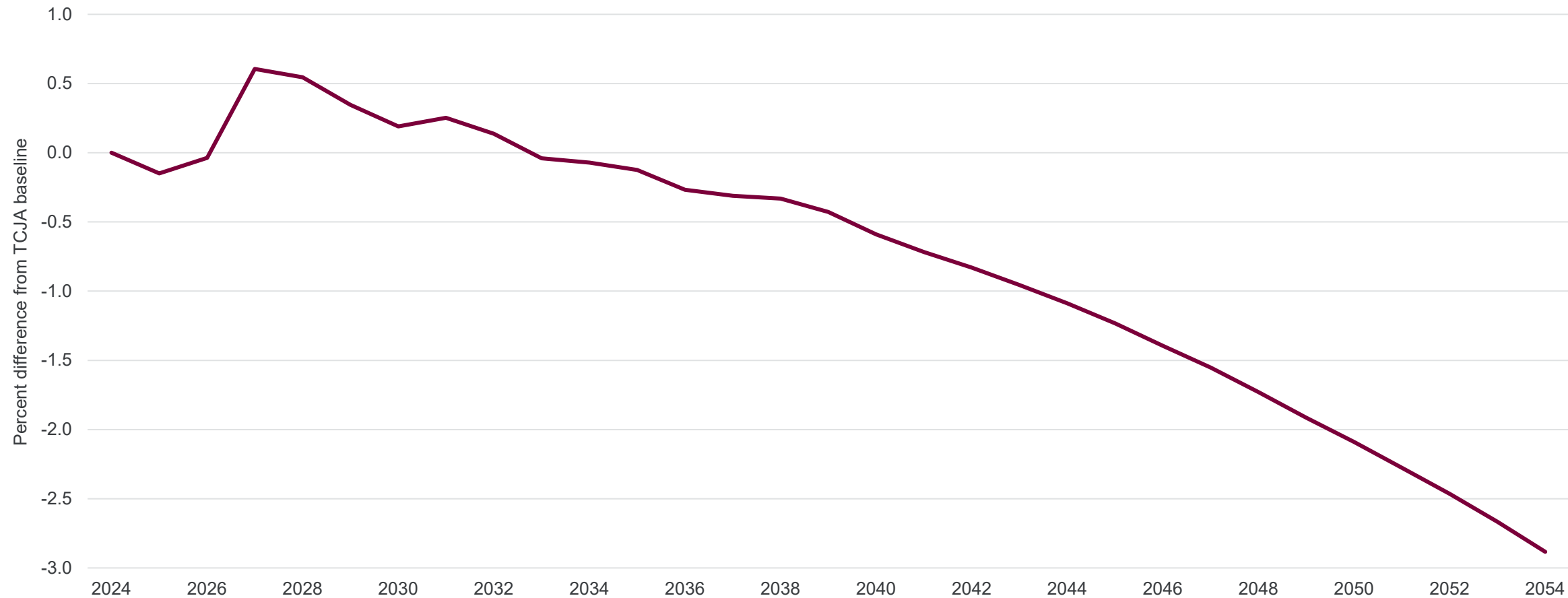


Sources: Bloomberg, IMF, CIBC Asset Management Inc. Sample is 2007 to 2030 using annual data.

Chart 7: Not so beautiful - fiscal proposals appear negative for long-term US growth

More stimulus leads to higher interest rates than would otherwise prevail, adversely impacting private investment spending

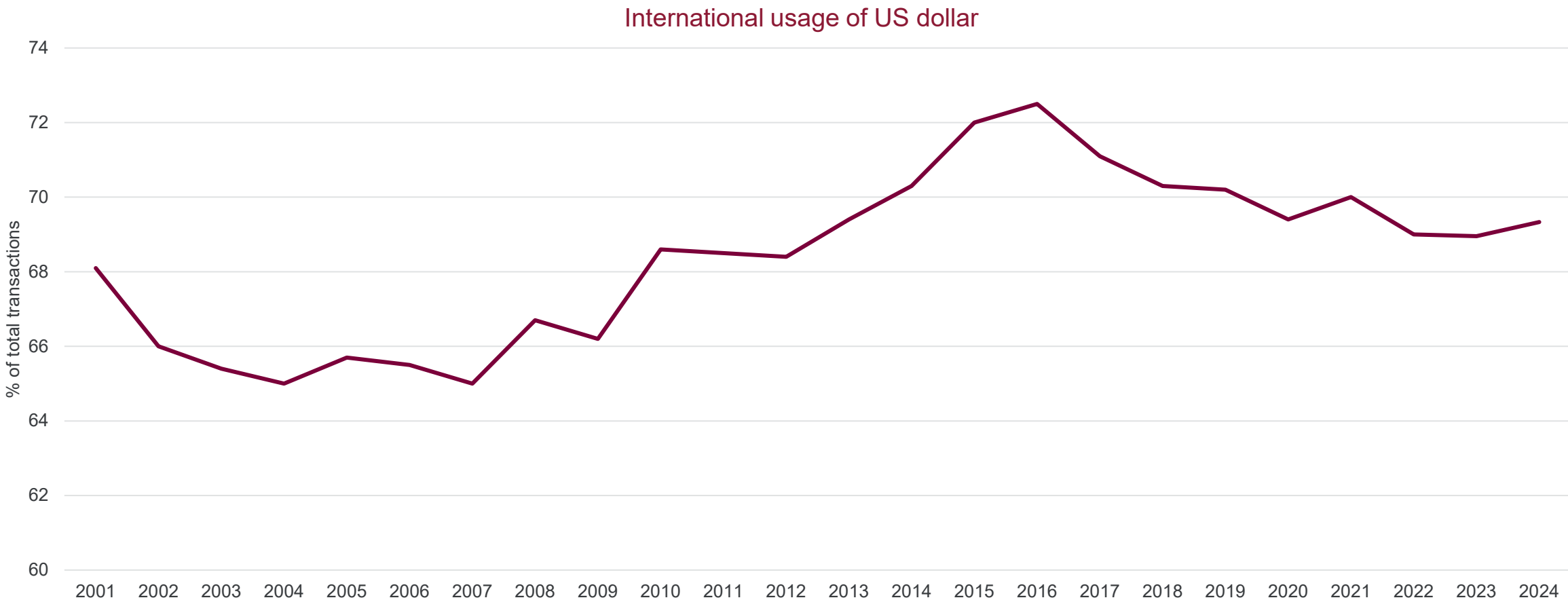
Long-term GDP impact of US fiscal policy
(Estimated change in real GDP from OBBBA)



Sources: Budget Lab at Yale, CIBC Asset Management Inc.. OBBBA = One Big Beautiful Bill of 2025. TCJA = Tax Cuts and Jobs Act of 2017. As at June 1, 2025. For illustrative purpose only.

Chart 8: USD remains the dominant global currency

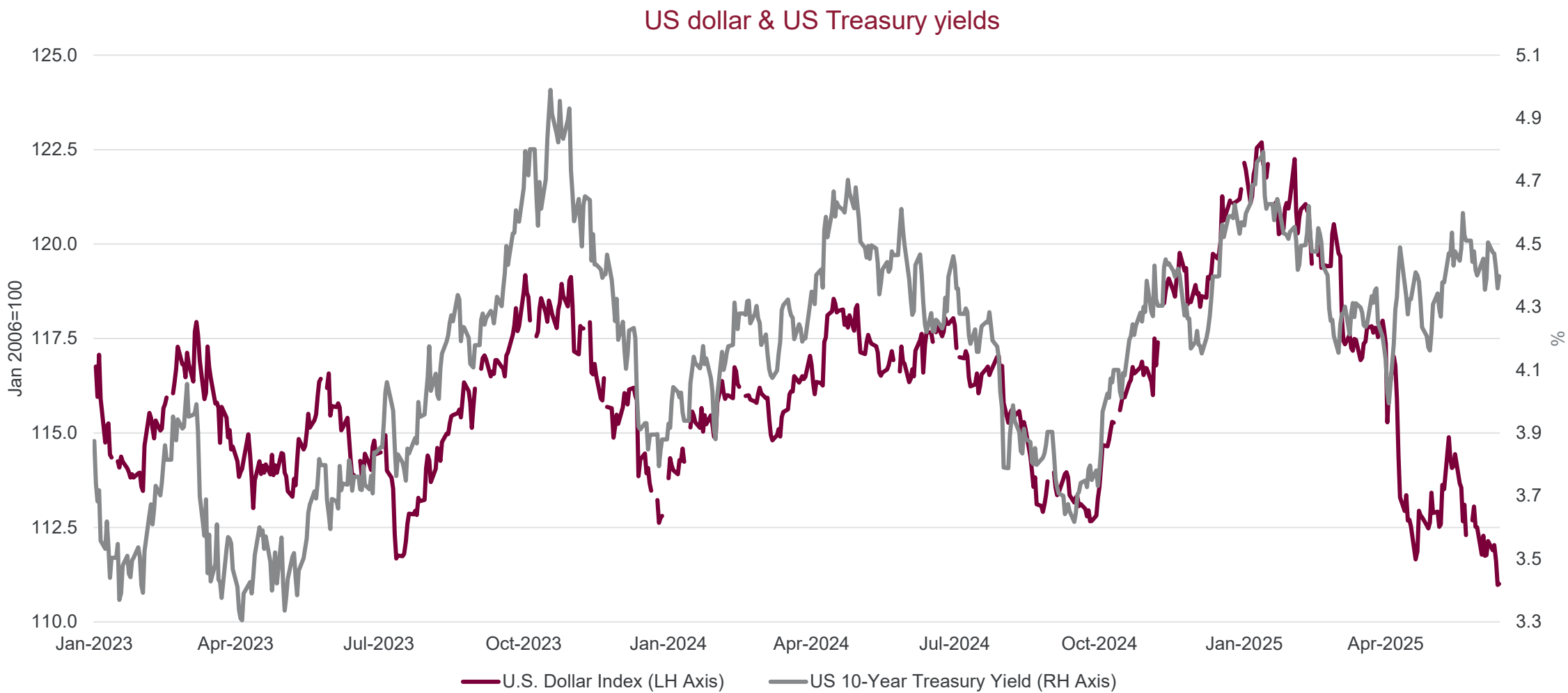
No significant change in broad USD usage during the past two decades



Sources: JP Morgan, FEDS Notes: “The International Role of the US Dollar” Post-COVID Edition, FEDS Note (2023), Carol Bertaut, Bastian von Beschwitz, Stephanie Curcuru up to 2022, JP Morgan estimates using this methodology for 2023 and 2024 using BIS, Fed, IMF COFER. Weighted average of USD’s share of FX reserves (25%), FX volume (25%), foreign currency debt issuance (25%), cross-border claims (12.5%), and cross-border liabilities (12.5%). <https://www.federalreserve.gov/econres/notes/feds-notes/the-international-role-of-the-us-dollar-post-covid-edition-20230623.html> .As at June 1, 2025.

Chart 9: Cracks are forming in investor perceptions of the US dollar

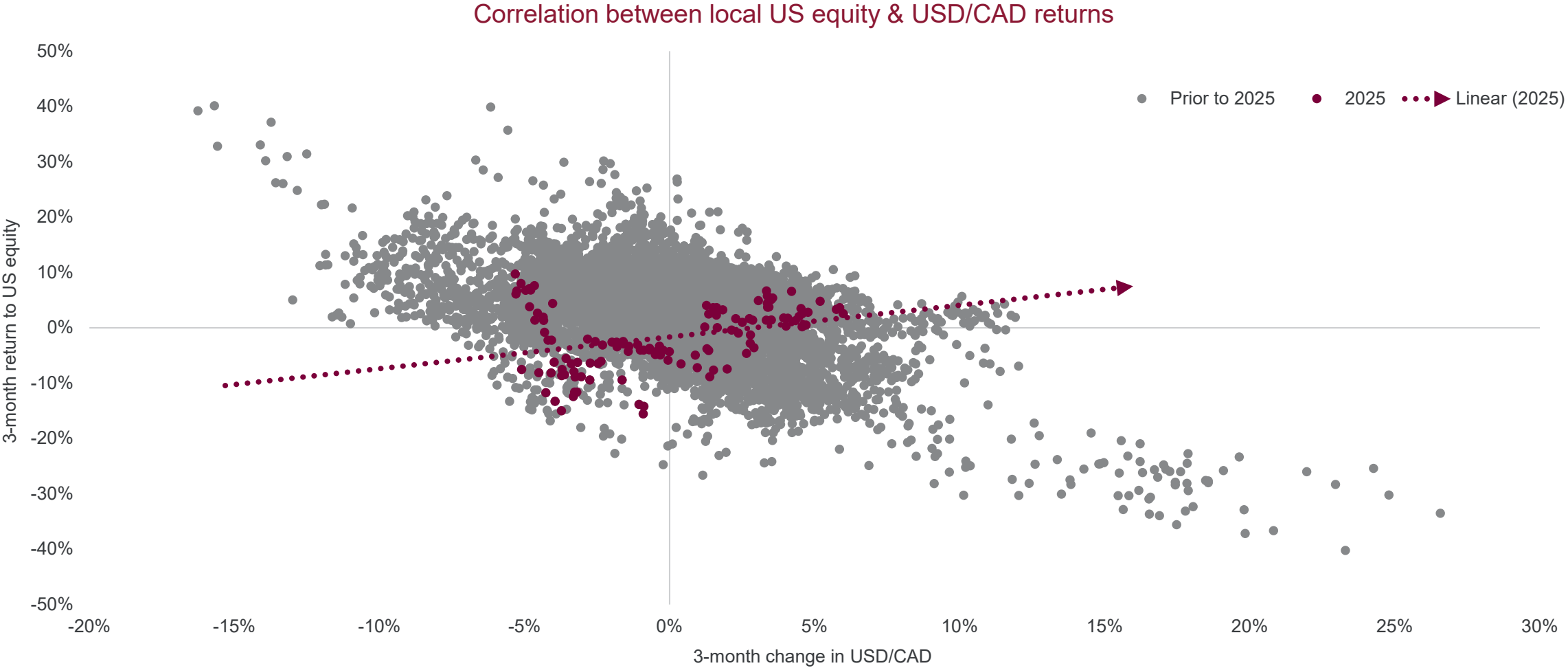
Traditional positive correlation between Treasuries and USD recently disappeared



Sources: Paul Krugman, Federal Reserve Bank of San Francisco, Bloomberg, CIBC Asset Management Inc. Sample is January 1, 2023 to June 13, 2025 using daily data.

Chart 10: Cracks are forming in investor perceptions of the US dollar

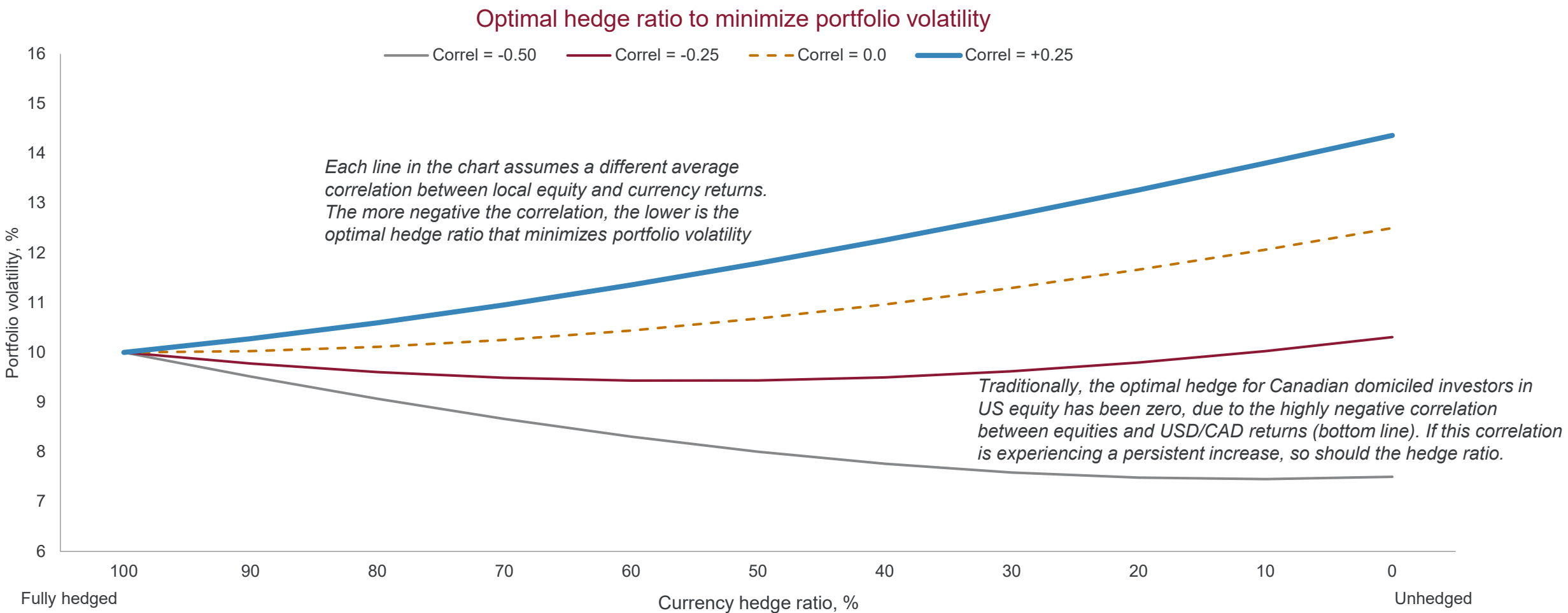
Recent data display a higher correlation between local US equity & USD/CAD returns



Sources: Bloomberg, CIBC Asset Management Inc. Sample is January 1, 1993 to June 16, 2025 using daily data.

Chart 11: Shifting asset correlations suggest important changes to hedge ratios

Minimum variance hedge ratio rises with correlations



Sources: Bloomberg, CIBC Asset Management Inc.. Illustrative example that assumes a Canadian domiciled investor with 100% of capital allocated to US equity, with a primary objective to minimize the standard deviation ('volatility') of portfolio returns in Canadian dollar terms. For illustrative purposes only. June 1, 2025.

Chart 12: USD screens expensive against a broad set of currencies, including CAD

A high probability of CAD strength adds to the case for more hedging

Deviation of CAD/USD from estimated fair value



This information was prepared by CIBC Asset Management Inc. using the following third-party service providers' data: Bloomberg Finance L.P., Refinitiv Datastream. For illustration only. The chart reports the estimated Value misalignment of currencies in the CIBC Asset Management currency universe versus the US dollar, in percent. Data as at May 31, 2025.

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