

The Buck Doesn't Stop Here Anymore

Washington wants a weaker dollar. Global investors smell the shift.



For decades, the U.S. Dollar (USD) has been the bedrock of global finance, powering trade, anchoring central bank reserves, and serving as the world's default store of value. But today, that foundation is starting to shift. America is no longer just tolerating its currency strength; it's actively preparing to reverse it. Driven by massive trade deficits, swelling debt, and a push to restore domestic manufacturing, the U.S. is signaling a deliberate move toward a weaker dollar. This is not a footnote in macroeconomic policy - it's a structural pivot with global consequences.

Why investors can't ignore America's currency reset

For Canadian investors who are heavily exposed to USD-denominated assets and often under-hedged, this evolving strategy represents a critical inflection point. The USD trajectory will shape returns, risk, and regional opportunities in the years ahead. Ignoring it is no longer an option.

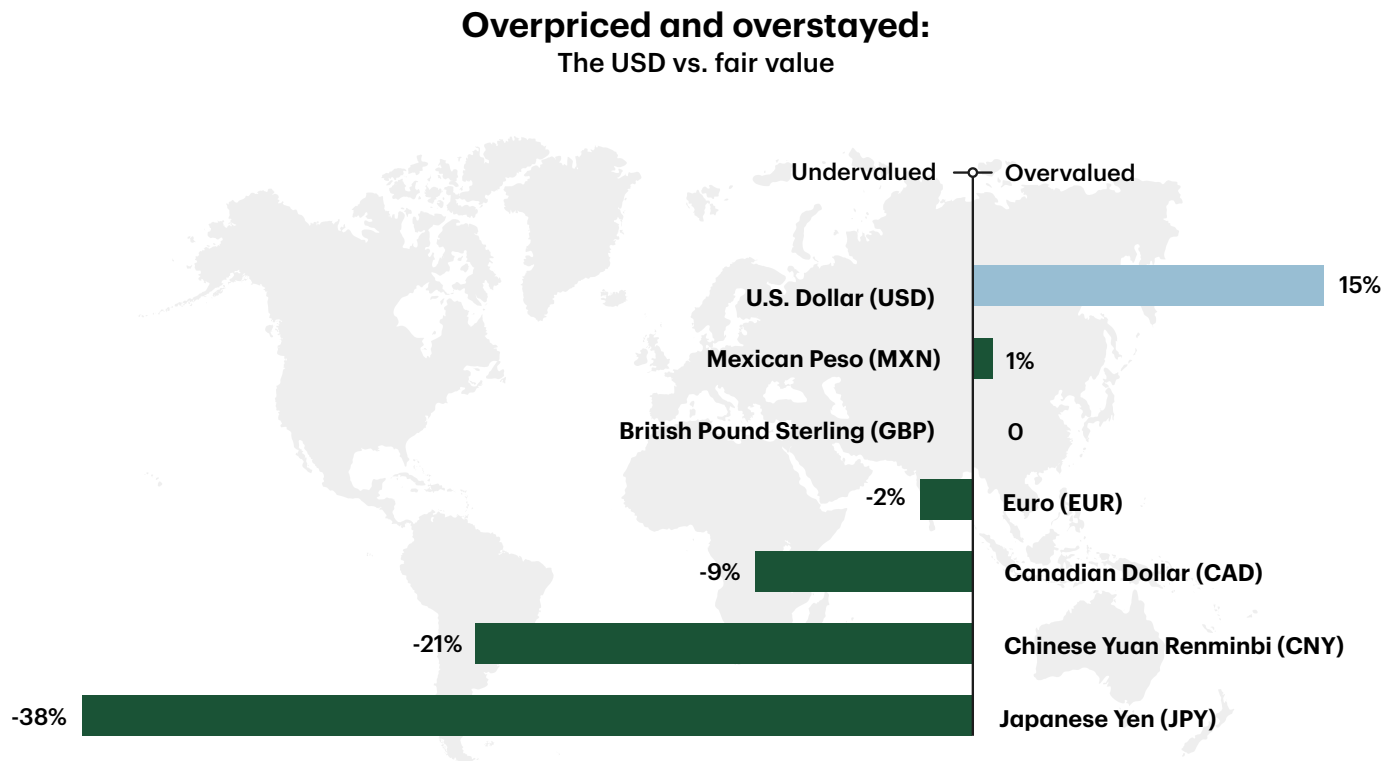
This article explains why the USD may decline, what policy shifts could accelerate the trend, and most importantly, how Canadian investors can prepare. The USD trajectory is also not just a U.S. story, it's a global one with deep implications for cross-border portfolios, risk management, and sector allocations.

Four reasons the USD may weaken

Overvaluation by almost every metric

The USD is widely viewed as overvalued. Multiple models, from purchasing power parity to real effective exchange rates, suggest that the greenback is 10–20% more expensive than fundamentals justify. Japan’s Yen and China’s Yuan are undervalued by as much as 38% and 21%, respectively¹. President Trump has often claimed that foreign governments

manipulate their currencies to gain unfair trade advantages. While politically charged, there’s truth in the data. Currency misalignments can persist, and the challenge is that currencies, just like equities, can remain misvalued for years. However, once there is a shift in policy direction or market fundamentals, valuations can swiftly adjust.



Source: International Monetary Fund, World Bank, Bloomberg Finance L.P. The data presents an average of five different valuation measures, including REER (real effective exchange rate) and PPP (purchasing power parity).

The world Is overloaded with U.S. assets

Foreign ownership of U.S. assets has surged. Non-U.S. investors now own over 20% of U.S. equities (up from 5% in the 1990s), 30% of U.S. Treasuries, and 30% of U.S. corporate bonds. The USD also dominates global trade finance (79%), FX transactions (88%), and central bank reserves (58%) ². But this may represent the peak of USD dominance. With the rise of alternative assets, such as digital

currencies and stablecoins, and geopolitical shifts toward de-dollarization, demand may plateau or even decline. The recently passed GENIUS Act, which regulates stablecoins backed by U.S. Treasuries, could modestly extend demand, but won’t reverse the bigger picture.

America's Triple Deficit Dilemma

The U.S. faces three deeply entrenched imbalances:

- 1 A \$1 trillion trade deficit, largely due to heavy reliance on imports and deindustrialization³
- 2 A net international investment position (NIIP) of -\$26 trillion (80% of GDP), making the U.S. the world's largest debtor³
- 3 A federal budget deficit of nearly \$2 trillion, with projections showing no improvement for at least the next decade³



These deficits are unsustainable. Yet foreign central banks, particularly China, have kept buying U.S. debt, suppressing interest rates and propping up the USD. This loop may break as the U.S. pushes back against 'mercantilist' currency policies, especially those used by China to maintain a cheap Yuan.

Moving toward a 'Mar-a-Lago Accord'

Just as the Plaza Accord of 1985 coordinated a weaker USD to reduce trade imbalances, today's U.S. Administration is exploring a 'Mar-a-Lago Accord', an informal agreement or policy framework aimed at resetting global trade and currency flows. This may include capital flow restrictions, debt restructuring, and FX intervention.

The White House has already made progress using tariffs and trade deals to press foreign partners for market access and increased U.S. manufacturing. Phase two will focus more on monetary tools. The U.S. may coordinate with the U.S Federal Reserve to encourage gradual USD weakness without alarming markets.



What this means for investors

More currency volatility

For investors, particularly those outside the U.S., more foreign exchange volatility is likely. Canadian investors, who often hold large U.S. allocations but rarely hedge their currency risk, could face unanticipated portfolio drag if the USD declines. Two-way foreign exchange risks are rising, and currency management may become more critical than in the past.

Sector implications

A weaker USD typically benefits cyclical sectors: materials, industrials, and energy. These sectors tend to outperform in a looser monetary environment, especially when commodity prices rise alongside global growth. Defensive sectors like healthcare and consumer staples, by contrast, may lag. Emerging Markets historically show strong inverse correlation with the USD. A falling greenback boosts capital inflows, local currencies, and equity valuations in countries like Brazil, India, and Indonesia.

U.S. Treasury Yields: Limited upside

Some worry that a weaker USD could drive U.S. bond yields much higher, undermining global portfolios. Yet, past USD depreciation episodes (1971, 1985) actually saw yields fall. If the shift is gradual and well-managed, financial conditions may ease rather than tighten.

What do to about it



Revisit Foreign exchange exposure

Most Canadian portfolios are heavily tilted toward U.S. equities and bonds. Historically, this has been a winning strategy. But with the USD possibly entering a multi-year downtrend, that unhedged exposure becomes a significant risk. It's time to review portfolios for foreign exchange sensitivity.



Understand the costs of hedging

Hedging USD exposure isn't free. The interest rate differential between Canada and the U.S. means hedging currently costs around 2% annually. However, if the USD depreciates faster than that, hedging pays off. It's important to weigh this cost against potential currency losses.



Adopt a strategic approach to hedging

Hedging doesn't have to be all-or-nothing. Investors can adopt partial or dynamic hedging strategies, adjusting based on market signals, volatility, and macro conditions. For example, a rule-based strategy might hedge more when CAD is undervalued, or foreign exchange volatility is high.

Preparing for a new dollar era

The USD may have peaked. With mounting pressure from deficits, trade tensions, and deliberate White House policy, a long-term decline could be underway. While this shift may be orderly and gradual, its implications will be widespread. Portfolios need to evolve. That means tilting toward sectors and regions that benefit from a softer USD, reconsidering currency hedging strategies, and integrating global macro awareness into investment decisions. A new global economic order may be forming and investors who prepare early will be better positioned to thrive. ■

Strategy

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¹ Source: International Monetary Fund, World Bank, Bloomberg Finance L.P. The data presents an average of five different valuation measures, including REER (real effective exchange rate) and PPP (purchasing power parity).

² Source: U.S. Treasury, Federal Reserve Board. Data as of June 30, 2025.

³ Source: Bloomberg Finance L.P. Data as of June 30, 2025.

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