



Investment
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Investing for a
world of change

The unstoppable dollar meets the resolute President Trump

History tells us there's now a
sufficient accumulation of jolts to
end the 2011-2025 dollar upcycle



An Investment Institute series

The end of the one-way trade: revisiting US exceptionalism for a new cycle

Since the global financial crisis, allocating to US assets has been the easy trade, justified by technology dominance, deep capital markets, structural economic advantages, and institutional stability. Yet as 2025 unfolds, that consensus is being severely tested. The administration's initiation of tariffs is triggering structural shifts across the US economy and rewriting the rules of global trade. Meanwhile, persistent deficits, rising debt service costs, and policy unpredictability have begun to weigh on sentiment and capital flows. The turn to a more transactional style of politics has reconfigured US foreign policy priorities and shaken the traditional alliance system. All this comes at a time when the dollar is overvalued relative to its history, while US equities remain expensive by global standards.

This series explores what happens when allocators start looking elsewhere – not because the US is collapsing, but because right tail risks are increasing in the rest of the world, while left tail risks are rising in the US. Europe is offering a more coordinated fiscal impulse, Japan is emerging from decades of stagnation with newfound corporate momentum, and emerging markets, including China, are demonstrating newfound technology leadership and macro resilience. Understanding the contours of the next cycle, and its implication for portfolios, is now a top priority for investors around the world – and the focus of this series from Ninety One's Investment Institute throughout 2025-2026. If the period of the US's total preeminence in attracting asset allocations is ending, the implications may be transformative.



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What follows at the end of this document is the full analysis of the dollar's six historical turning points. Originally part of the main narrative, we moved it to the back to keep things focused, but it remains a key piece of the research. Each episode offers lessons that speak to today's conditions. If you're interested in what breaks dollar inertia, it's a helpful read.

Fast

The fast view

- Full dollar cycles typically last 18 years – much longer than business, credit or equity cycles.
- Their longevity stems from four reinforcing forces: trade and geopolitical shifts, interest rate and growth differentials, cross-border investment flows, and FX intervention.
- Across three full cycles since 1970, dollar inertia has only reversed when all four forces flipped in unison – usually within a tight two–three year window.
- A second Trump presidency could trigger such a convergence. Tariffs and fiscal expansion may widen twin deficits and drag on growth, while recoveries in China, Europe and Japan may narrow rate differentials.
- With investment flows starting to shift and coordinated FX action being discussed, conditions are aligning for the first durable dollar downcycle since 2002.
- The difficulty with a dollar down cycle is not what investors need to do, usually increasing exposure to non-US assets, but rather about recognizing a prolonged down cycle is underway.



Sahil Mahtani
Director
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view

Introduction

Are we in a dollar bear market? There are good reasons to think so. Yet turning points in dollar cycles are rarely obvious. They defy easy prediction, often emerging only after macro, financial and geopolitical forces have already begun to shift.

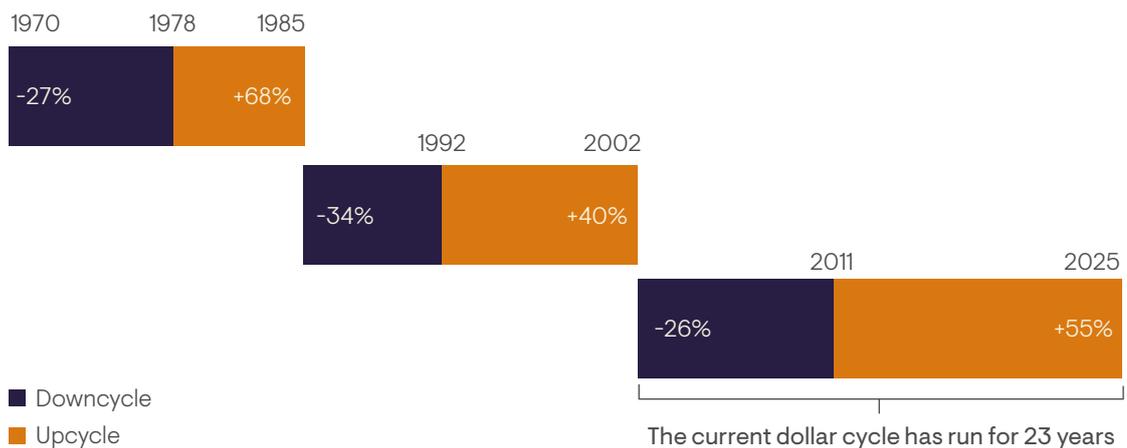
That said, the convergence of those forces may be underway. Structural overvaluation, fading yield advantages, and tentative signs of capital reallocation all point to a possible turning point. Add to that a renewed Trump impact – tariffs, fiscal largesse, Fed pressure – and the ingredients for reversal become clearer.

We explore how and why those forces may be shifting, and what it would take to confirm a genuine turning point. The paper outlines the structural foundations of dollar inertia, the historical triggers that have broken it, and the emerging parallels that suggest this cycle may be nearing its end.

Understanding dollar cycles

Dollar cycles are unusually long-lived, averaging around 18 years from peak to trough to peak. We have had three upcycles and three downcycles since 1970. The chart below illustrates the duration and magnitude of each dollar cycle since 1970, highlighting just how extended the current cycle has become.¹

Figure 1: The three full dollar cycles since 1970



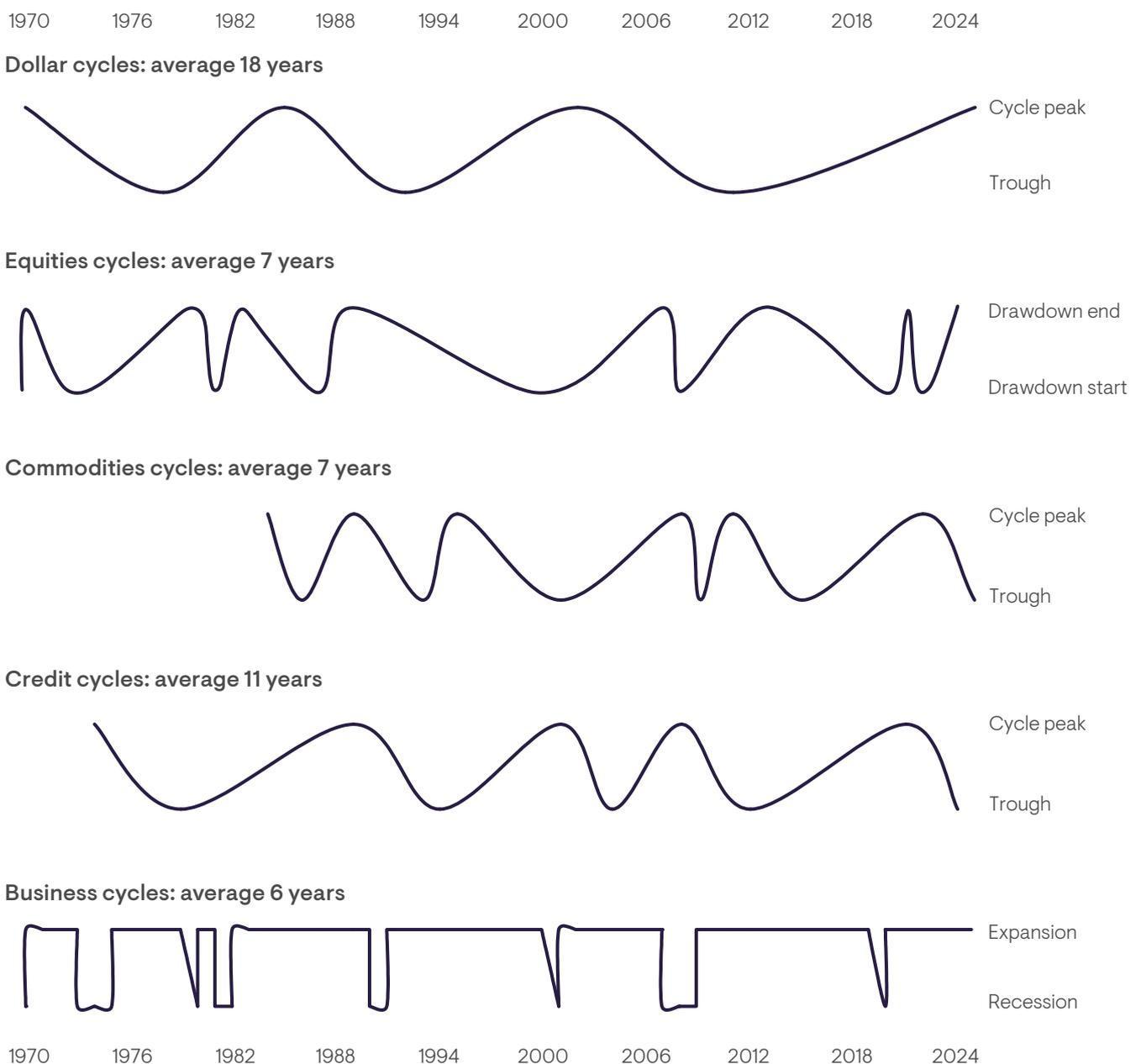
Source: Ninety One, June 2025.

1. We use a real dollar trade-weighted index instead of DXY because the latter is heavily skewed to a few developed economies, while the former, weighted to actual trade volumes with the US, better reflects changing global economic patterns. Moreover, DXY is a nominal index that doesn't adjust for inflation differences between countries, whereas a real index adjusts for inflation differentials over time, showing the evolution of the real purchasing power of the US dollar.

The three downcycles happened in 1970–1978, 1985–1992, 2002–2011, and the three upcycles took place from 1978–1985, 1992–2002, and 2011 to the present. In other words, the downcycles lasted 8, 8, and 9 years, while the upcycles lasted 4, 10 and 14 years, with a combined average of 18 years.

This longevity stands in stark contrast to other macroeconomic and financial cycles: business cycles average around seven years, domestic credit cycles roughly eleven, and equity and commodity cycles closer to seven. Dollar cycles are simply different. They tend to be slower to form, harder to break and longer to unwind.

Figure 2: Dollar cycles are longer than other cycles



Source: Ninety One, June 2025.
 Indices used: Dollar = GS US real TW; Equities = SPX; Commodities = CRB Rind; Credit = BIS credit to non-financial corporates;
 Business = inverse of the NBER definition.

Why dollar cycles are so persistent

Dollar cycles endure because they are supported by four mutually reinforcing forces. Each has its own weight, but together they give the dollar a kind of momentum rarely seen in other financial assets.

Four reinforcing forces

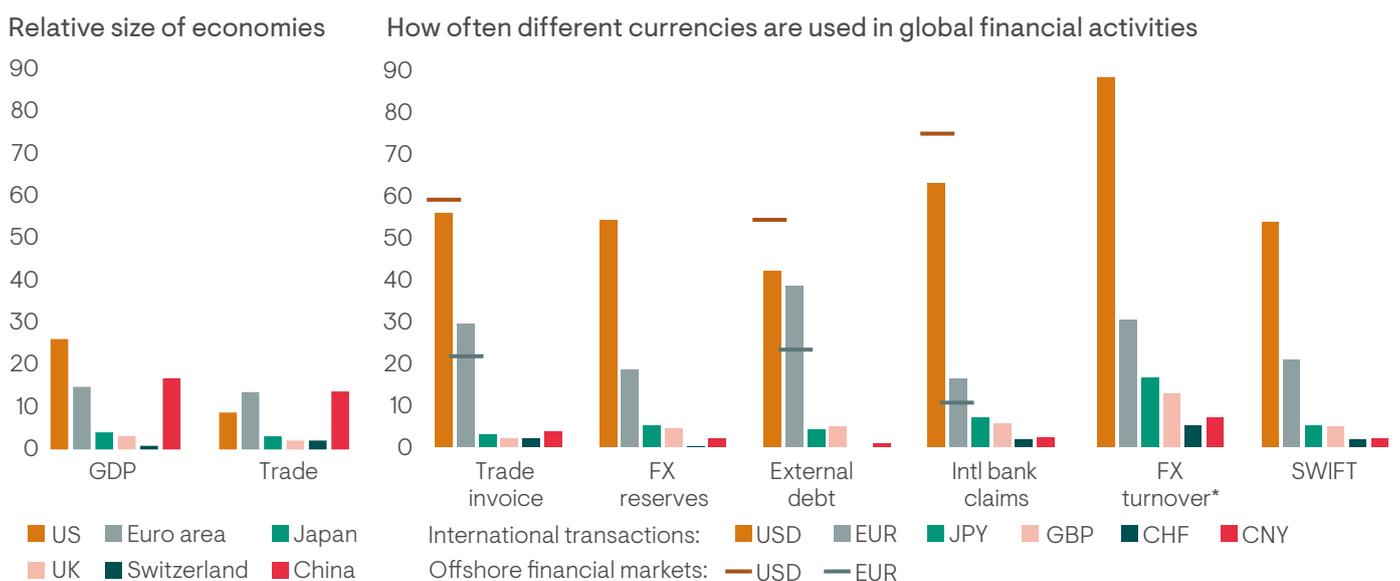
- Geopolitics and geoeconomics
- Rate differentials
- Investment flows
- FX adjustment

First, structural inertia from the dollar’s dominant role in trade, geopolitics and geoeconomics.

● Geopolitics and geoeconomics

The dollar is entrenched across trade, finance and global reserves. It accounts for nearly 90% of FX transactions, around 80% of global oil trade, over half of global reserves, and a majority of cross-border banking and bond issuance. The dollar is the dominant currency vehicle even for trades involving countries that border the eurozone (e.g. a trade from Turkish lira to Bulgarian lev). In global trade, the dollar is over 50% of trade invoicing, and that is an understatement because it counts trade between eurozone members as international trade. Excluding the eurozone, the dollar’s share would be far higher. For instance, over 85% of India’s trade is in dollars. This embedded dominance creates a persistent, diversified demand for dollars largely insulated from short-term fluctuations in US fundamentals.

Figure 3: The dollar dominates international finance



Source: Bank for International Settlements, June 2024.

Trade invoice = weighted average of export and import currency invoicing shares; Intl bank claims = international bank claims (cross-border and local claims) in foreign currencies; FX = all FX instruments; SWIFT = global payments delivered via SWIFT.

Bars in both panels show shares in international transactions, including those that involve residents of the currency area on one side. Positions within a currency area are excluded where possible. Lines in panel B indicate shares after excluding (to the extent possible) amounts that involve residents of the currency area, leaving only the offshore segment.

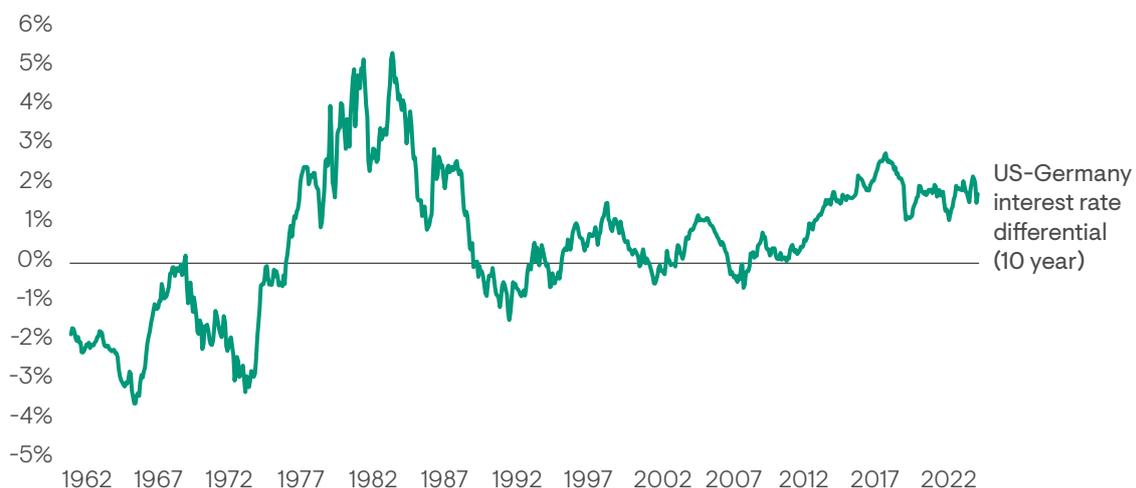
*Spot and FX derivatives. Shares add up to 200% for FX turnover because transactions involve two currencies.

Second, the world rarely moves in sync; policy divergence can last for years

● Rate differentials

While the US may be expanding and tightening policy, other major economies, like Europe, Japan or China, may be stagnating, easing or undergoing structural adjustments. These divergences, shaped by deeper trends like demographics, productivity differentials or investment cycles, sustain interest rate and growth gaps over time. For example, as illustrated in the chart below, US 10-year yields have exceeded German equivalents by up to two-three percentage points for much of the past decade. These persistent differentials continue to attract capital flows, reinforcing the dollar's strength and lengthening the dollar cycle.

Figure 4: Intra-country interest rate differentials can last for years



Source: FRED, April 2025.

Third, capital flows take time to turn.

● Investment flows

Large cross-border reallocations of capital are slow to build and slower to reverse. International investors typically wait for policy clarity or confirmation of economic trends before making strategic moves. But once they do, inflows generate a feedback loop: stronger asset prices boost returns and attract more capital, supporting the dollar. These loops can last for years. For instance, cross-border capital flows that participated in the US tech boom of the late 1990s or the EM tech boom of the early 2000s took time to ramp up and were bolstered by the feedback loop above.

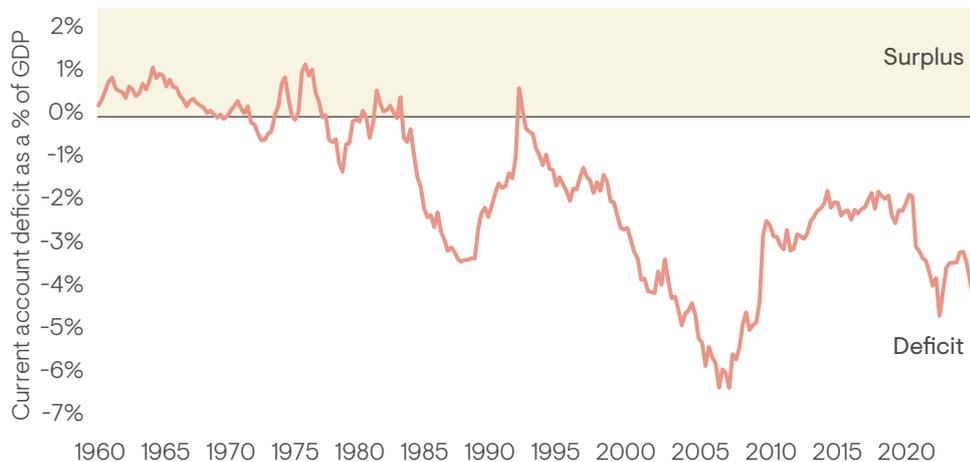
Fourth, no one is in charge.

● FX adjustment

Unlike domestic cycles, where monetary and fiscal authorities intervene to correct imbalances, there is no global authority that manages currency misalignments. The dollar can become significantly overvalued or undervalued without triggering intervention. The 1985 Plaza Accord, where the G5 coordinated to weaken the dollar, was a rare exception. Without such mechanisms, cycles extend until the underlying imbalances become too large to ignore. In recent times these have only gone into reverse after financial crises. Even then, the underlying institutional dynamics behind global savings and investment imbalances have tended to reassert themselves once the dust settles, allowing dollar inertia to resume.

Soros's famous 'imperial circle' is one way of understanding dollar inertia. In his framing, persistent US budget deficits push up interest rates, attracting capital into the dollar and reinforcing its strength. That strength, in turn, makes it easier for the US to finance further deficits, creating a self-reinforcing cycle that persists until something breaks it.

Figure 5: US imbalances have grown substantially over the last two decades



Source: Organisation for Economic Co-operation and Development via FRED, June 2025.

Ultimately, these four forces – network dominance, asynchronous macro conditions, slow-moving capital and lack of corrective oversight – explain why dollar cycles are unusually long and surprisingly hard to time.

From here, we examine what it takes to break dollar inertia turning to history and the common patterns that have accompanied every major inflection point since 1970.

What breaks dollar inertia? Lessons from history

History shows that dollar cycles don't simply fade, they break. And when they do, it's usually because all four structural forces shift in close succession: trade and geopolitical dynamics, growth and interest rate differentials, cross-border investment flows and some form of FX adjustment, whether coordinated or market-driven.

Since 1970, three full dollar cycles have unfolded. While the trigger points differ, the pattern is strikingly consistent: when the underlying macro, market and policy forces turn, usually within a two–three year window, the dollar trend reverses decisively. The transition is often amplified by feedback loops and repositioning. What follows is typically a self-sustaining cycle in the other direction.

Figure 6: Dollar cycles are long and persistent

Three full cycles and six turning points

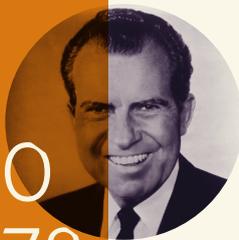


Source: Bloomberg, US\$ real trade weighted index, as at May 2025.

In the following timeline we analyze each turning point and the drivers that broke dollar inertia. A more detailed analysis of each turning point is on [page 13](#). There are several lessons in these turning points applicable to where dollar inertia is today.

The six turning points

1970
–1978



Nixon shock

Pivot 1968–1971

Inertia breakers

Suspension of gold convertibility and 10% import surcharge (Aug 1971). Smithsonian devaluation then free-float decision (Dec 1971–Mar 1973) removed the last back-stop.

Drivers

Negative real US yields; great-inflation gap vs. Germany/Japan; oil-shock twin-deficit spiral; 1970s productivity slowdown; early reserve-diversification into DM/JPY/CHF.



↑ Volcker shock

Pivot 1978–1980

Inertia breakers

Carter-bond rescue & G5 support (1978); Volcker shock – Fed funds >15%; second oil spike forced regime shift to hard-money policies.

Drivers

Double-digit real yields drew foreign capital into Treasuries; Reagan stimulus and deregulation lifted growth; Latin-American debt crisis cemented the dollar's safe-haven role.



1978
–1985



1985
–1992

Plaza Accord

Pivot 1984–1986

Inertia breakers

Plaza Accord (Sep 1985) coordinated dollar-selling after a near-100% rise; rising twin deficits and protectionism signaled peak; Fed easing closed much of the rate premium.

Drivers

Loss of US carry advantage encouraged outflows; strong Japan/Europe cycles absorbed global capital; early-1990s EM-commodity up-swing kept investors abroad.



↑ Dot.com boom

Pivot 1994–1997

Inertia breakers

1994–95 Fed tightening restored positive yield gap; productivity/tech narrative revived foreign appetite; Tequila, Asian and Russia crises channelled safe-haven flows into dollars.

Drivers

Dot.com equity inflows and record IPO pipeline; Treasury's strong-dollar doctrine plus fiscal consolidation maintained confidence; rolling EM turmoil reinforced demand.



1992
–2002



2002
-2011

Dot.com bust

Pivot 2001-2002

Inertia breakers

NASDAQ collapse slashed growth premium; Fed cut rates 11 times (2001-03) flipping carry; record current-account deficit; China-led commodity super-cycle began drawing capital to EMs.

Drivers

BRIC-driven EM/commodity boom kept 'risk-on' flows out of USD; massive Asian FX-reserve accumulation recycled dollars but suppressed DXY.



Euro crisis, EM tantrum

Pivot 2011-2014

Inertia breakers

Euro-area debt crisis triggered safe-haven bid; Fed ended QE and signaled taper while ECB/BoJ launched or expanded QE, creating policy divergence; 2014 commodity collapse undercut EM terms-of-trade.

Drivers

Sustained US yield premium as Fed hiked 2015-19 and 2022-24; recurring global shocks (China 2015, trade war 2018, COVID 2020) reinforced safe-haven flows; reserve-currency demand and scarcity of AAA paper kept foreign buying strong.



2011
-present

Late
-2022

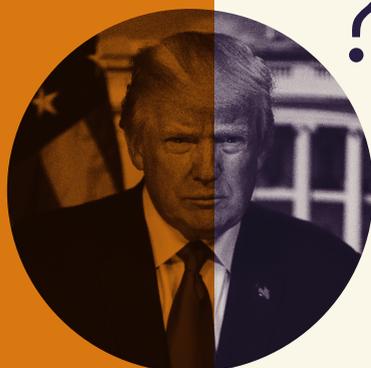
Trump shock

Inertia breakers

Dollar reaches lofty valuation; first BoJ intervention since 1998 plus calls for coordinated dollar-selling reminiscent of the Plaza Accord; US inflation and recession risk.

Drivers

Convergence of G10 policy rates erodes carry; large US fiscal and current-account deficits raise sustainability concerns; early signs of EM growth and commodity rebound enticing capital out of dollars.



Is the impact of Trump's policies enough to break dollar inertia?

The shift in US policies may well be enough to break dollar cycle inertia. Across the three full historical cycles we've examined, one pattern holds: the dollar doesn't turn until all four structural forces – geoeconomics and geopolitics, cross-border investment flows, rate differentials and geopolitical positioning – shift. In each case, the alignment has triggered a multi-year trend reversal. That alignment may now be forming again.

Here is an examination of how the impact of Trump might be enough to break dollar inertia, along the lines of the four points we laid out earlier.

Twin deficit blowouts mark every major dollar peak, accelerating the need for a devaluation of the US currency. Trump is on course to achieve this.

In 1985, the Plaza Accord came after Reaganomics pushed the combined twin deficit towards 15% of GDP. The 2002-dollar peak was also preceded by a sharp rise in twin deficits, which persisted to 2005. Even the 1970 downcycle was preceded by a jump to 2% on the twin-deficit metric, which was unusual given the US typically ran a current account surplus in this period. (Twin deficits typically peak two–three years after the dollar downcycle has commenced, so the timing is not always exact).

Today, Trump's second-term policies – tax cuts, tariffs and higher defense spending – are projected to keep fiscal deficits elevated into the later part of this decade. Even if onshoring narrows the current account over time, the scale of borrowing will remain significant. Once global capital decides it can no longer fund the imbalance, as it did in 1985 (coordinated FX intervention) and 2002 (post-dot-com bust and EM boom), the cycle breaks.

Cross-border investment flows drive every dollar downcycle, and allocators are already overexposed to the US.

Every major dollar downswing has featured a decisive pivot in capital flows. In the 1970s, central banks shifted reserves into deutschmarks, yen and francs. In 1985–92, flows rotated toward Japan, Europe and commodities. The 2002–11 bear repeated the pattern: EM equities outperformed, the euro rallied 25% and a China-led commodity supercycle channelled capital into BRIC markets, draining demand for dollars and Treasuries.

These episodes confirm a structural rule: when investment flows pivot offshore, they create or amplify a feedback loop that prolongs every dollar down-cycle.

Today, concerns are mounting over the weight of US assets in global portfolios. The US share of ACWI peaked near 70% in 2024. Hedge ratios on dollar assets have fallen, and US-centric private assets are increasingly dominant in institutional books. It wouldn't take much to trigger a meaningful reallocation.

Rate differentials are likely to favor ex-US than the US.

After 1985, the dollar slid for years as US rates fell relative to those in Germany and Japan. A similar compression followed the Fed's post-dot-com rate cuts in 2001-03. History shows that when the carry flips – whether from Volcker-era highs to negative spreads with Germany in the early 1990s, or from tech-boom peaks to post-crisis easing in the early 2000s – capital reallocates, and dollar downcycles become self-reinforcing.

Trump's tariffs could slow growth even as they raise inflation. At the same time, he's pressuring the Fed to cut. Abroad, China is stimulating, Germany is spending and Japan is seeing signs of inflation normalization. The policy divergence that defined the 2010s could now narrow materially.

Policy influencing trade imbalances accelerates reserve diversification for geo-economic and geopolitical reasons.

The Nixon shock (Connally's "our dollar, your problem") marked the first stirrings of reserve diversification, as central banks began quietly reallocating into deutschmarks, yen and Swiss francs. A similar unease surfaced after 9/11 and the Iraq War, when US foreign policy again diverged from its allies.

More recently, that discomfort has sharpened. The response to certain targeted US sanctions and asset freezes has added momentum to efforts on diversifying beyond the dollar.

These shifts are already visible. Major EMs and some US allies are settling energy and commodity trade in non-dollar currencies, developing digital settlement infrastructure and broadening reserve holdings. Given the dollar's network effects, even marginal shifts in official demand can trigger outsized moves when private flows are already faltering

Conclusion

Dollar cycles are longer than other financial or economic cycles. History shows they tend to last a decade or more because four reinforcing forces sustain and eventually break them. Those forces are: trade and geopolitical trends, relative growth and interest-rate gaps, multi-year cross-border investment flows and explicit or tacit currency intervention.

Crucially, these factors don't operate in isolation. They tend to shift together in concentrated two–three year windows, locking in a self-reinforcing loop. We've examined three full dollar cycles since 1970. In every case, the trend only broke when all four levers shifted in unison. Trade frictions alone weren't enough in 2017. Nor were yield differentials in 2020. Inertia persisted because the other gears kept turning in the same direction.

What makes the prospect of a second Trump term different is that it pushes every lever at once: wider twin deficits and tariffs disturb trade patterns, policy pressure on the Fed and economic recoveries in China, Europe and Japan (not to mention genuine technological innovation outside the US) narrow interest rate differentials, while allies openly discuss coordinated responses.

These policy, market, and economic alignments present the conditions that reflect previous cyclical declines in the dollar.

The difficulty with a dollar down cycle is not what investors need to do, usually increasing exposure to non-US assets, but rather about recognizing a prolonged down cycle is underway.

Lessons from historical turning points: for those who want to go deeper

What follows is the full analysis of the dollar's six historical turning points. Originally part of the main narrative, we moved it to the back to keep things focused, but it remains a key piece of the research. Each episode offers lessons that speak to today's conditions. If you're interested in what breaks dollar inertia, it's a very helpful read.



The historical turning points that broke dollar inertia

This section examines in detail each major turning point since Bretton Woods:

1968–1971

The Nixon shock and the collapse of Bretton Woods

By the end of the 1960s, the US current account surplus had vanished, while Vietnam war spending had pushed far more dollars into global circulation than could be backed by gold. Confidence in the US\$35 peg began to erode. In 1968, the London Gold Pool – a multilateral effort to stabilise the gold price – collapsed under the weight of persistent European withdrawals, especially by France. The US imposed capital controls soon after, and the eurodollar market expanded rapidly, driven by offshore holdings and a loosening of financial restrictions.

Although this wasn't yet a period of large-scale private sector investment flows, the eurodollar system made the dollar more vulnerable to confidence shifts. Nixon's suspension of convertibility to gold in August 1971, backed by a 10% import surcharge, formalised the collapse of the Bretton Woods System. The December 1971 Smithsonian Agreement devalued the dollar and introduced a narrow trading band, but the regime didn't hold. By 1973, floating exchange rates had arrived.

Classic rate and growth differentials also played a role. As the US entered a stagflationary recession in 1969–71, growth in Germany and Japan held up and they maintained tighter monetary policy. The Fed, under Arthur Burns, focused on recession risks rather than inflation.

Past the initial break, the dollar downcycle persisted, fuelled by negative real yields, rising inflation and geopolitical shocks. The Yom Kippur war in 1973 quadrupled oil prices and widened the US twin deficit. Productivity collapsed, and confidence in the dollar weakened further. Central banks quietly diversified reserves, while US investors turned to commodities as an inflation hedge.

1978–1980

Volcker and the return to hard money policy

By the late 1970s, inflation had become politically intolerable. In response, the Carter administration took steps to defend the dollar, including budget restraint, wage and price guidelines, and the issuance of FX-denominated ‘Carter bonds’. This, together with gold sales and massive coordinated intervention by Germany, Japan and Switzerland sent a signal that the US and partners were committed to defending the dollar.

But the real shift came with Paul Volcker. The US was unprepared for the stagflationary shock triggered by the Iranian revolution in early 1979, which drove oil from US\$13 to US\$34 per barrel by mid-1980. That spike helped create the political conditions for a more aggressive policy response. Appointed Fed Chair in August 1979, Volcker abandoned interest-rate targeting in favor of controlling money supply. The federal funds rate surged above 15%, making US real short rates the highest in the world. The economy entered recession in early 1980, but inflation expectations finally began to break. Capital flowed into the US, drawn by both policy credibility and real yield.

Cross-border investment flows also shifted. US equities surged 28% in 1980, marking the beginning of a rotation from bonds to stocks. Foreign direct investment picked up as global capital responded to the policy pivot.

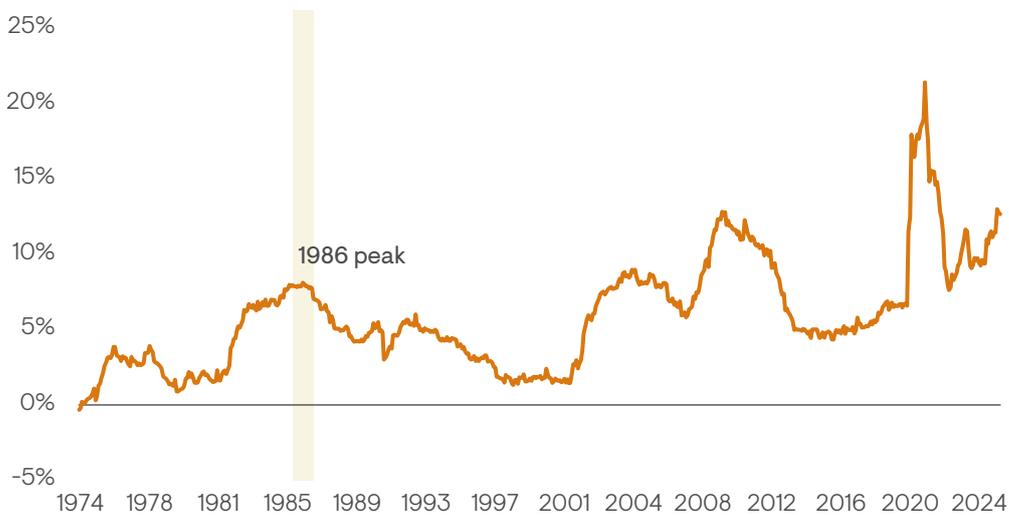
Past the initial break, the new cycle was reinforced by Reagan’s pro-growth agenda: sweeping tax cuts, financial deregulation and a clear political mandate. The Latin American debt crisis helped divert capital into the US, while the spread of personal computing bolstered investor optimism about productivity. All four levers – policy, capital, macro differentials and trade positioning – had shifted.

1984–1986

Plaza Accord and downcycle turning point

But by the mid-1980s, the dollar's surge had become a problem. Reagan's fiscal expansion and the strong-dollar policy of the early 1980s had pushed the currency sharply higher, just as the US economy emerged from recession. Twin deficits soared, peaking at 8% of GDP by late 1986. US exporters lost competitiveness and trade protectionism gained traction.

Figure 7: US twin fiscal and current account deficits (% of GDP)

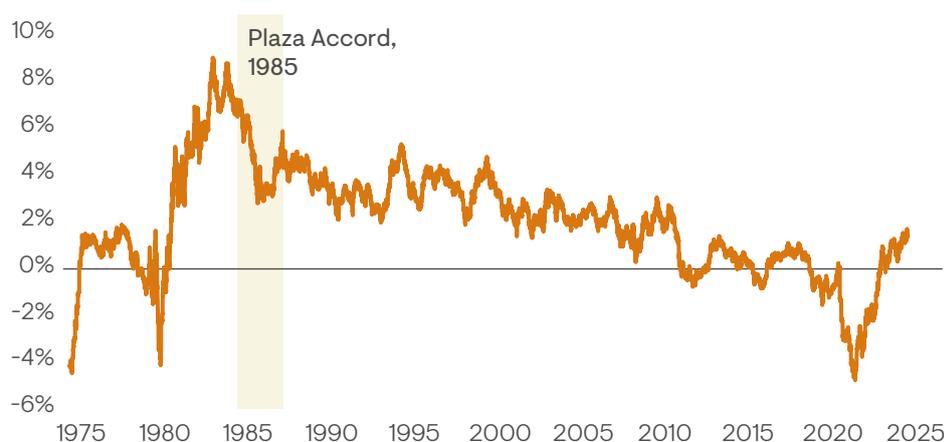


Source: Bloomberg, as at June 2025.

In September 1985, the G5 signed the Plaza Accord to reverse the dollar's rise and address competitiveness. The Trade and Tariff Act of 1984 had already given the administration new tools to manage trade imbalances, building on earlier voluntary export restraints with Japan introduced in 1981. The policy worked: the dollar fell by 35% over the following year.

A major reallocation of global capital reinforced the adjustment. Japanese and European equities dramatically outperformed - Japan by 160% and Europe, Australasia and the Far East (EAFE) by 100% over the two years following the Accord. Commodities also began a multi-year rally. Meanwhile, US real interest rates fell, and inflation expectations broke down, lowering the dollar's yield advantage.

Figure 8: US real 10-year yield fell by more than 60% after the Accord



Source: Bloomberg, as at June 2025.

After the initial move, the downcycle persisted. US rates normalized post-Volcker, while capital flowed into booming foreign markets. Europe and Japan soaked up global flows, even as many emerging markets struggled with debt restructuring. All four forces – policy, growth differentials, investment flows and currency action – moved together.

1994–1997 The dot.com boom

The mid-1990s dollar upcycle emerged from a distinct blend of structural and cyclical forces. Geopolitically, the dissolution of the Soviet Union removed a major challenge to US leadership. Domestically, fiscal discipline gained traction through spending caps and the 1993 Deficit Reduction Agreement. Meanwhile, a tech-driven productivity boom lifted potential growth estimates – labor productivity averaged 2.8% annually from 1996 to 2000.

Against this backdrop, the Fed raised rates by 300 basis points between February 1994 and February 1995, re-establishing a yield advantage over Germany and Japan. The Deutsche Bundesbank, by contrast, was entering a rate-cutting cycle. When the Mexican peso crisis erupted in April 1994, the Fed led a concerted effort to stabilise markets. The Nasdaq responded with a 132% rally between Q1 1994 and the end of 1995, fuelled by a wave of IPOs and venture capital.

Subsequent EM crises, in Thailand, Indonesia, Korea and Russia, drove investors toward the dollar's safety and liquidity. Reserve managers increased Treasury allocations. Treasury Secretary Robert Rubin's 'strong dollar' messaging removed doubts about policy intent.

What followed was a self-sustaining cycle driven by higher productivity, positive carry and rolling bouts of global risk aversion that kept capital flowing into dollar assets through the early 2000s.

2001–2002

EM forever, downcycle turning point

The next turning point came as the US lost its growth and yield advantage. The dot-com bust sent the Nasdaq down 50% between January and April 2001, eroding wealth and cutting capital spending. In response, the Fed cut rates 11 times between January 2001 and June 2003, eventually reaching 1%. At the same time, the Economic Growth and Tax Relief Reconciliation Act of June 2001 (known as the ‘Bush tax cuts’) and increased post-9/11 security spending marked the end of the Clinton surpluses and the return of widening fiscal deficits, while the current account deficit hovered near 4%.

The War on Terror and the run-up to the Iraq War marked a more assertive US foreign policy, straining relationships with allies. Meanwhile, structural shifts abroad began to take hold. China’s WTO accession in December 2001 triggered a powerful EM export cycle. The euro became a credible reserve currency with the introduction of physical notes and coins in 2002.

Capital began to reallocate. EM equities outperformed the US by 22 percentage points in 2001–02. Commodity-linked currencies gained ground, and the euro rose 25% from mid-2001. Private-sector demand for Treasuries softened even as official reserve buying persisted. The current account deficit began to weigh.

Figure 9: EM outperforms US by 22% from January 2001 to December 2002



Source: Bloomberg, as at June 2025.

What followed was a near decade-long dollar downcycle. US twin deficits climbed from 10% in 1999 to 25% by 2005. A China-led EM and commodity boom, fuelled by oil prices above US\$100, drew capital away from the US. Asian FX reserve accumulation recycled dollars into Treasuries, but risk appetite for US assets took time to recover. The dollar rallied during the GFC but resumed its decline until 2011.

2011–2014

US exceptionalism, upcycle turning point

The most recent dollar bull phase took shape between 2011 and 2014. It was built on multiple reinforcing shifts: the euro-area sovereign debt crisis, the EM taper tantrum, the US shale revolution and the rise of technology megacaps.

The euro crisis reminded investors of the fragility of non-optimal currency areas and re-established the dollar as the safe-asset of choice. From mid-2011 through mid-2012, yields on Greek, Portuguese and Spanish bonds surged, triggering a systemic flight to US Treasuries. That safety bid soon converged with policy divergence. After completing QE2, the Fed began discussing tapering in December 2013 and ended asset purchases in October 2014. Rate hikes followed in 2015. In contrast, the ECB launched outright QE in January 2015, and the BoJ expanded its program in late 2014, widening the short-rate spread in favor of the dollar.

The divergence channelled flows into the US just as large-cap tech earnings began to re-rate. Microsoft and Google's trailing P/E ratios rose sharply. At the same time, the collapse in oil prices from 2014–15 undermined the terms of trade for many emerging markets, further boosting the relative appeal of the dollar. The taper tantrum of 2013 highlighted how exposed EM assets were to a stronger dollar and tighter US monetary policy.

Each of the four forces – trade and geopolitical stress, yield differentials, investment flows and policy asymmetry – aligned in favor of the dollar. The result was a powerful upswing that carried through 2016 and again during the 2022–24 rate-hiking cycle.

Is the impact of Trump's policies enough to break dollar inertia?

Important information

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