CIO Allocation

Neutralising US Dollar Exposure

The US Treasury has stepped up its efforts to control the financial plumbing, and we believe the currency will bear the cost.

On 19 August, US Treasury Secretary Scott Bessent had his own little Mario Draghi moment. With thirty-year yields at their highest since 2007, the Treasury announced it would at least double the maximum size of its long-end buyback operations, from USD2 billion to at least USD4 billion per operation, in the 10–30 year sector. A day later, Bessent indicated the figure could go higher still.

Officially, this is liquidity support. In practice, buying back long-dated bonds while funding those purchases at the front end shortens the duration profile of the country's debt and seeks to contain long-end yields around current levels. This is a first form of yield curve control, whatever the naysayers may insist upon. A first, and perhaps unintended, consequence is that Federal Reserve Chairman Kevin Warsh now has his hands rather more tied on raising rates this year: a hike would run directly against the increasingly explicit desire of the Treasury to keep overall borrowing costs contained, at considerable political cost.

It is always difficult to read the full implications of such a move. But we think one outcome is that the US Dollar resumes its secular downtrend after a one-year hiatus. If the long end of the bond market is no longer permitted to clear freely, the adjustment has to happen somewhere and we believe the Greenback becomes the pressure valve.

We have therefore decided to neutralise our US Dollar exposure in portfolios with a non-USD reference currency, via currency forward hedges.

André Huwiler
Chief Investment Officer

Zurich, 25th August 2026

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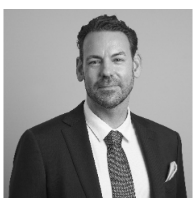

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