WEEKLY STRATEGY
Perspectives

BMO Private Wealth

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Guest Feature: Dissing the Dollar

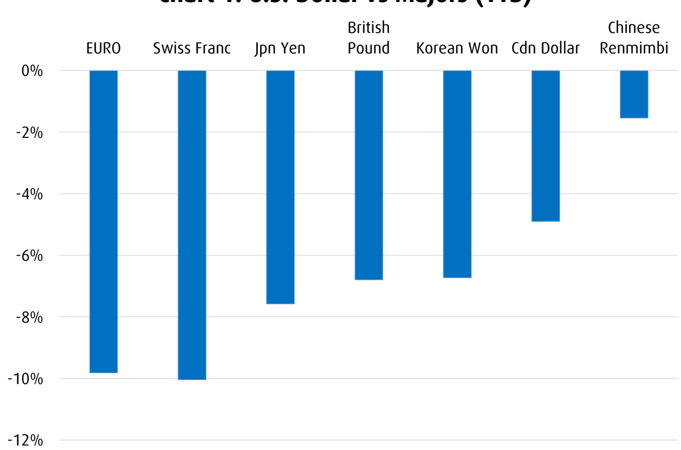
"Money often costs too much."
– Ralph Waldo Emerson

The Through Line: The U.S. dollar has underperformed many of its currency peers this year – most visibly during times of interim market stress. This unusual occurrence has led some to question the greenback's traditional role as a safe-haven port in stormy seas, or even its continued viability as a reserve currency. Our guest writer helps put these quandaries into context.

Recent trends in the U.S. dollar: it's easier to weaken when overvalued

Measured against the currency of its major trading partners, the value of the U.S. dollar (USD) has been broadly declining in 2025 (chart 1).

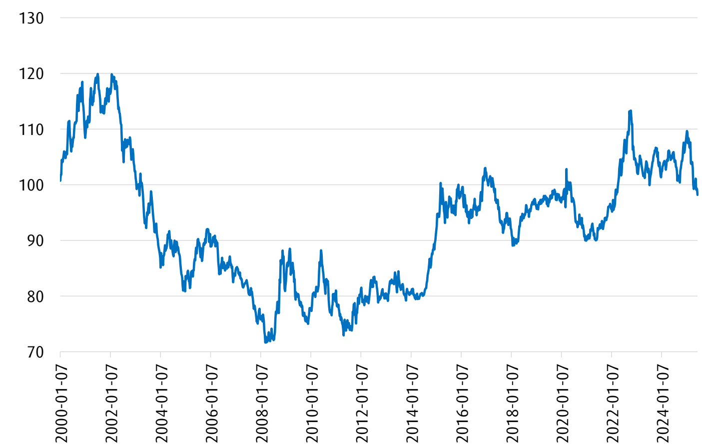
Chart 1: U.S. Dollar vs Majors (YTD)



Source: Bloomberg L.P. (2025), as of June 17, 2025

While several reasons can help explain this recent depreciation, it's important to note that the USD had actually been trending up since the Global Financial Crisis of 2008-09 and peaked during the inflation scare of 2022. During this time, the greenback gained about 60% (chart 2).

Chart 2: U.S. Dollar Index



Source: Bloomberg L.P. (2025), as of June 13, 2025

Globalizing a Big Mac

Over the long run, the intrinsic value of a currency is tied to the purchasing power it provides to facilitate the acquisition of goods and services. Economists often use valuation metrics such as Purchasing Power Parity (PPP) to get a sense of a currency's fair value. The most basic of these metrics is the Big Mac index from The Economist, which uses the price of a Big Mac to standardize purchasing power between two countries. Although overly simplistic, it nevertheless helps provide a sense of the relative purchasing power that a given currency brings to a country.

Short-term fluctuations in both absolute currency prices and in their prices relative to other currencies are often influenced by investor expectations for economic growth and inflation. These, in turn, can both influence and be influenced by the monetary policy deployed by central banks.

At the start of 2025, PPP metrics were suggesting the greenback was overvalued by as much as 10 to 20%, depending on the country currencies it was compared against. The most extended overvaluation was observed versus the Japanese yen, which lost about 35% of its value against the USD between 2021 and 2024. The second-most undervalued currency was the euro-area common currency; it depreciated nearly 15% during the same period. **Thus, even before contemplating the USD's weakening this year, longer-term valuation metrics were suggesting the bar was low to trigger some USD depreciation in 2025.**

What triggered recent U.S. dollar depreciation?

President Donald Trump's tariff agenda is probably the single most important catalyst behind the weaker USD this year. The severity of the tariff shock – even after all the exemptions and adjustments that were part of recent trade negotiations – is such that consensus expectations for U.S. economic growth for 2025-26 have been marked down by economists. Even though we don't expect a recession, the U.S. economy is clearly experiencing a soft patch while firms and consumers navigate a highly uncertain backdrop that complicates the management of supply chains and purchases of imported goods.

A slower pace of economic growth suggests the U.S. would be unlikely to outperform other economies to the degree it did in recent years. For investors, this means the U.S. economy could be less "exceptional" relative to other economies, leaving the longer-term outlook for the USD less attractive. Granted that the economic outlooks for Canada, Europe or Japan are far from stellar (all below 2%), but international investors have warmed up to the possibility that these economies will seek to strengthen and diversify their financial systems away from the U.S. by implementing structural reforms that could boost their domestic economies and expand international trade ties. **Such dynamics could continue supporting these currencies vis à vis the USD over multiple years as global trade flows slowly rebalance away from the U.S.**

Finally, we would note that one of the reasons behind the U.S. trade deficit is the strength of the USD, making it cheaper to import and more expensive to export. If the Trump administration seeks to rebalance trade flows, a weaker USD is part of the recipe and would help boost export revenues.

Is the U.S. dollar still a (reliable) safe haven for investors given how it has reacted this year?

Absence of appetite for the USD was seen during the equity turmoil of early April, and many questioned the muted safe-haven response of the USD when geopolitical tensions re-escalated between Israel and Iran last Friday. This contrasts to recent decades when global investors generally embraced the USD as a safe-haven currency when fear spiked. Even when risk aversion came alongside rising fear of a U.S. recession, investors flocked to U.S. assets and bid the USD, motivated by the principle of preserving capital and seeking safety.

Looking beyond the negativity of trade wars, international investors are also increasingly concerned about the sustainability of U.S. public finances, considering the magnitude of the deficit. It sits between 6% and 7% of GDP and shows no signs of moderation over the foreseeable future. With fiscal policy set to remain excessively stimulative, investors are also worried that inflation might prove sticky. This might not only delay future Fed rate cuts but also cause long-term yields to rise and thereby hurt the value of U.S. Treasury bonds, a key asset for foreign investors.

Although investors may momentarily snub the USD at times of minor market hiccups, we doubt they would turn their back on it in the event of more serious concerns such as a global recession or a more significant escalation of geopolitical conflicts. In such more extreme scenarios, global investors would likely find few places to hide and would ultimately seek to increase their exposure to U.S. assets as the ultimate safety-first destination. Early signs that the U.S. could *enter* the Israel-Iran conflict, thus ratcheting tensions higher, are hinting that the USD is still a safe-haven play.

Can the U.S. dollar remain the world's reserve currency?

Being the world's reserve currency is a rare, exceptional privilege for a country. This is a benefit the U.S. has enjoyed since 1944 when 44 nations agreed at the Bretton Woods conference to make the greenback the official international reserve currency. At the time, the U.S. economy accounted for roughly 50% of the world's economic output. Even though the Bretton Woods system ended in 1971, the supremacy of the USD remains even though the U.S. now accounts for roughly a quarter of the world's output.

The last serious attempt to dethrone the USD was probably in 1999 when the euro-area common currency was created. A common currency has helped Europeans enjoy a smoother economic experience across the economically unified continent, yet the euro failed to overthrow the USD. Looking at global central bank holdings of their reserves, we see that gold recently surpassed the euro. Although an increasing number of firms and countries are reportedly seeking to transact in currencies other than the USD, the next best currency is still far from threatening the status of the USD.

Ongoing echoes of deglobalization will likely continue to raise concerns about the USD as the world's reserve currency. **However, we think de-globalization is slowly moving more toward a bi-polar world where the USD will remain central to one part of the world while the other part will be more fragmented until a strong contender arises.**

For investors, it's important to note that despite some fevered headlines regarding the potential demise of the USD, the reality is more balanced. Even though the USD could depreciate over the next few years because of overvaluation alone, the bar is much higher for the USD to stop being the world's reserve. Currency trends tend to be measured in years, sometimes decades; only time will tell how much the USD might depreciate in coming years.

Currency exchange rates are an important mechanism to help imbalances in the economy to reset, often working as shock absorbers. Free-floating exchange rates adjust quickly, affording flexibility for other stickier/slower-moving factors (e.g., labor, plant, equipment, financial flows, policy changes) within the economy to adjust. In the end, we believe longer-term trends in currency movements will be orderly and measured, allowing economies and investors to take them in stride.

In focus in North America

Jon Borchardt, Sr. Analyst
George Trapkov, CFA, VP and Portfolio Manager

This week

Israel, Iran and the outlook for energy – News that Israel launched a large-scale strike on Iran sent oil prices higher last Friday as markets priced in heightened risk of supply disruption. The move fueled inflation concerns and pushed equities lower; the S&P 500 fell more than 1%. Yields on 30-year Treasuries declined, and gold climbed in response to investors shifting into safe-haven assets. By Monday, reports that Iran was seeking an off-ramp to reduce tensions helped reverse the market reaction. Oil prices pulled back, and equities rebounded. President Trump left the G7 early, citing an emergency National Security Council meeting in Washington. Markets are now focused on a range of potential outcomes bookended on one end by Iran re-entering nuclear negotiations and, on the other, a joint U.S.-Israeli campaign to dismantle Iran's nuclear program.

Although the outcome remains uncertain, extreme scenarios (e.g., per barrel oil prices climbing past $100) appear low probability. Iran exports around 1.7 million barrels per day, mostly to China, and OPEC has enough spare capacity to cover potential disruptions. **Prior to the strike, oversupply was the primary concern in energy markets.** Regional escalation risks also appear contained. Iran's ties with neighbors have improved in recent years; Saudi Arabia was the first to condemn Israel's attack. Any attempt by Iran to close the Strait of Hormuz would likely provoke strong responses from both China and the U.S. Navy. Notably, Israel has avoided hitting Iran's oil infrastructure. **Barring a significant expansion of hostilities, the economic fallout may be limited, allowing investors to refocus on U.S. trade and tax policy.**

Canada hosts key G7 meetings – Canada hosted the G7 Summit this week in Alberta. Before leaving early to address the Middle East conflict, President Trump and Prime Minister Mark Carney discussed tariffs. "We agreed to pursue negotiations toward a deal within the coming 30 days," Mr. Carney said in a social media post. "I'm looking forward to continuing this work at this summit and in the weeks ahead." At the press conference, President Trump commented that he is looking for a simpler trade deal and sees it as achievable soon (he even wore a Canada-U.S. flag lapel pin). Prime Minister Carney later commented, "We focused on global challenges as well as immediate trade pressures, including priorities for building new economic and security relationship between Canada and the U.S."

The leaders of **Canada and India also held productive talks** at the summit and took steps to improve the relationship between the two nations. The PMO released a statement that the two men "discussed strong and historic ties between our peoples, partnerships in the Indo-Pacific and significant commercial links between Canada and India – including partnerships in economic growth, supply chains and the energy transformation. Prime Minister Carney raised priorities on the G7 agenda, including transnational crime and repression, security, and the rules-based order."

Canadian debt levels – Canada's household debt-to-income ratio ticked up to a seasonally adjusted 173.9% in Q1 from an upwardly revised 173.5% in Q4. This is the second straight increase following six quarters of declines, though the ratio is still more than four percentage points below its year-ago level. The household debt service ratio (interest and principal as a share of disposable income) remained at 14.4%. Canadian households' balance sheets were in a relatively stable position coming into the trade war, following a constructive 2024. However, economic uncertainty is pressuring labour markets; this will restrain income growth and put upward pressure on debt ratios. Further rate cuts from the Bank of Canada would help limit the impact, but the path of inflation will determine the pace and amount of easing.

Canadian housing update – Existing home sales rose 3.6% in seasonally adjusted terms in May but were still down 4.3% from a year ago. The bulk of the sales decline is concentrated in Toronto (-11% year over year), Vancouver (-17.5%) and Calgary (-15.2%). Many remaining markets are posting modest declines or solid gains – especially across Quebec and Atlantic Canada. Although consumer confidence appears to be off the lows of recent months, caution remains over the economic outlook and the job market has softened. Prices continued to fade lower at the national level in May, but the weakness is moderating. The MLS benchmark price fell a seasonally adjusted 0.2% (-2.5% annual rate), which left the year-on-year rate at -3.5%. The national benchmark is now holding 17.5% below peak early-2022 levels.

U.S. soft data starts to firm – Preliminary results from the University of Michigan's June Consumer Sentiment survey were released. The headline index came in at 60.4, beating the Bloomberg consensus forecast of 53.6 and rising 15.9% month over month – the first increase in six months. This result was certainly encouraging, but significant noise remains in the data, particularly due to deep partisan polarization. Improvement in the composite index was driven in large part by easing long-run inflation fears. One-year inflation expectations fell to 5.1%, down from 6.6% in May, as concerns about tariff impacts subsided. Signs of improving sentiment also extended into the business community. The Empire State Manufacturing Survey's headline index for general business conditions fell seven points to −16, missing the Bloomberg consensus of minus six. However, the forward-looking index rose 23 points to +21.2, marking its first positive reading since March. **Looking six months ahead, survey respondents expect orders and shipments to improve when tariff-related uncertainty fades and inflation pressures begin to stabilize.** Together, the results from these two surveys offer further hope that perceived economic headwinds may continue to ease.

Next week

Another data-heavy week, with reads on both hard and soft data in both countries, including consumer sentiment, GDP and on Friday the Fed's preferred inflation measure, the PCE. Chair Jerome Powell's testimony to the House Financial Services Committee on Wednesday will be watched. The Russell 2000 annual rebalance occurs Friday.

- **Monday 6/23 –** U.S. Flash PMI | Canada housing prices, retail sales, PPI
- **Tuesday 6/24 –** U.S. Consumer confidence, Fed Chair Powell testifies to House Financial Services Committee | Canada inflation, CPI, Manufacturing sales
- **Thursday 6/26 –** U.S. Initial jobless claims, trade balances, retail and wholesale inventories, durable goods orders, GDP | Canada Wholesale sales
- **Friday 6/27 –** U.S. Russell rebalance occurs after the market close, Consumer confidence, PCE | Canada GDP

Data scorecard as of June 18, 2025

Equity Market Total Returns						
	6/18/2025 Level	WTD	YTD	2024	2023	2022
S&P 500	5,981	0.1%	2.3%	25.0%	26.3%	-18.1%
NASDAQ	19,546	0.7%	1.6%	29.6%	44.7%	-32.5%
DOW	42,172	0.0%	0.0%	15.0%	16.2%	-6.9%
Russell 2000	2,113	0.6%	-4.7%	11.5%	16.9%	-20.5%
S&P/TSX	26,560	0.3%	8.8%	21.7%	11.8%	-5.8%
MSCI EAFE	9,457	-0.4%	17.0%	3.8%	18.2%	-14.5%
MSCI EM	645	0.3%	12.3%	7.5%	9.8%	-20.1%
Bond Market Total Returns						
		WTD	YTD	2024	2023	2022
Bloomberg U.S. Aggregate		0.2%	2.9%	1.3%	5.5%	-13.0%
Bloomberg U.S. Treasury		0.2%	2.8%	0.6%	4.1%	-12.5%
Bloomberg U.S. Corporate		0.2%	2.9%	2.1%	8.5%	-15.8%
Bloomberg U.S. High Yield		0.1%	3.3%	8.2%	13.4%	-11.2%
Bloomberg 1-10 Year Munis		0.1%	1.4%	0.9%	4.5%	-4.7%
Bloomberg Canada Aggregate		0.3%	0.5%	4.0%	6.5%	-11.3%
Bloomberg Canada Treasury		0.3%	0.3%	2.9%	5.0%	-9.9%
Bloomberg Canada Corporate		0.2%	1.6%	6.9%	8.2%	-9.5%
Government Bond Yields						
	6/18/2025	Last Month End	Last Quarter End	2024	2023	2022
U.S. 10-Year Treasury	4.39%	4.40%	4.21%	4.57%	3.88%	3.88%
Canada 10-Year Government	3.33%	3.20%	2.97%	3.23%	3.11%	3.30%
U.K. 10-Year Gilt	4.49%	4.65%	4.67%	4.56%	3.53%	3.66%
German 10-Year Bund	2.50%	2.50%	2.74%	2.36%	2.02%	2.57%
Japan 10-Year Government	1.45%	1.49%	1.49%	1.09%	0.61%	0.41%
Currencies & Real Assets						
	6/18/2025 Level	WTD	YTD	2024	2023	2022
USD Index	98.91	0.7%	-8.8%	7.1%	-2.1%	8.2%
CAD:USD	$0.73	-0.8%	5.0%	-7.9%	2.3%	-6.7%
Bitcoin	$104,836.11	-0.6%	11.9%	120.5%	157.0%	-64.3%
Gold	$3,369.38	-1.8%	28.4%	27.2%	13.1%	-0.3%
Oil (WTI)	$75.14	3.0%	4.8%	0.1%	-10.7%	6.7%

Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.

Index Definitions

Equity indices

S&P 500® Index is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

NASDAQ Composite Index is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

Dow Jones Industrial Average ("DOW") is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Russell 2000® Index (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

S&P/TSX Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada's primary stock exchange, the Toronto Stock Exchange (TSX).

MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

Fixed income indices

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

Bloomberg U.S. Treasury Index is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Index is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+ or below.

Bloomberg 1-10 Year Blend Municipal Bond Index is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

Bloomberg Canada Aggregate Bond Index measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

Bloomberg Canada Aggregate Bond Index - Treasury is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

Bloomberg Canada Aggregate Bond Index - Corporate is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

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Disclosure