# DoubleLine Views on the U.S. Dollar

July 2025 | **Bill Campbell**, Portfolio Manager, Global Sovereign Debt
**Chris Stegemann**, Client Portfolio Manager

## Key Takeaways

- **U.S. Dollar Has Peaked**
  DoubleLine believes the U.S. dollar has peaked in September 2022. Notably, as of mid-2025 the dollar remains below that peak and has been trending weaker. *(Figure 1)*

- **Near Term**
  DoubleLine would view any near-term strength in the dollar as an entry point to add to a short dollar position via emerging markets (EM) hard currency, EM local currency, non-dollar developed market bonds or foreign exchange (FX) forwards.

- **Medium Term**
  DoubleLine maintains the view that the dollar will decline over the medium term. Greenback's momentum has already turned negative. The U.S. Dollar Index (DXY) slid over 10% in the first half of 2025 – its steepest first-half drop since 1973.

  Factors that could lead to DoubleLine's base case of dollar weakness include: Large current account & trade deficit, high hedging costs for international investors, net international investment position, potential easing from the Federal Reserve ("The Fed"), fiscal deficit, and cheaper international valuations.

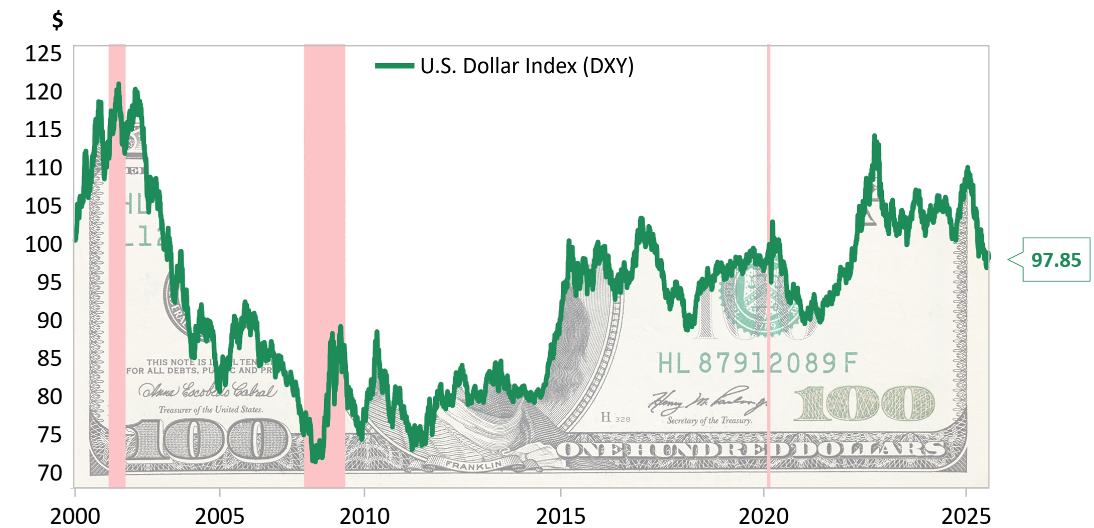


*Figure 1*
Source: DoubleLine, Bloomberg. U.S. dollar spot price as of July 18, 2025. Red-shaded areas indicate recessionary periods.

## Near Term

DoubleLine believes the U.S. dollar has peaked and entered a multi-year weakening trend. This view has gained traction in 2025: as of early July, the U.S. Dollar Index (DXY) is down over 10% year-to-date, its steepest first half drop since the index's creation in 1973. This decline has come even as U.S. short-term interest rates remain high, suggesting the dollar's fall is not merely a rates story, but also driven by structural changes in investor behavior.

One key dynamic that DoubleLine believes is accelerating the dollar's weakening is a sharp increase in FX hedging by foreign investors — particularly from Europe and Japan — who have historically left their USD exposures underhedged. For much of the past decade, global investors were content to hold U.S. assets unhedged, benefiting from both strong U.S. growth and positive currency returns. However, that calculus has shifted.

European asset managers have increased their USD hedge ratios from roughly 50% pre-2022 to over 75% today, according to Reuters.

## Medium Term

In the medium term, we see multiple headwinds that are likely to pressure the dollar lower. Many of these relate to imbalances or shifts that have built up over the last few years.

- **Large Current Account/Trade Deficit:** The U.S. continues to run a sizable current account deficit, which remains a structural drag on the dollar. By importing far more than it exports, the U.S. must attract substantial foreign capital inflows each year to finance this gap and prevent dollar depreciation. Recent data shows the current account deficit widening again: the 1Q25 deficit was 6.0% of current dollar GDP, up from 4.2% in 4Q2024. *(Figure 2)* This deterioration was driven by an expanded trade deficit in goods and a deficit in primary and secondary income as rising interest rates meant the U.S. paid more income to foreign investors.

  The reliance on foreign financing is evident – the U.S. has been attracting significant portfolio and direct investment inflows to fund its external deficit, helped in recent years by relatively strong U.S. growth and asset returns. However, this leaves the dollar vulnerable: if these inflows were to falter, downward pressure on the dollar would increase. *(Figure 3)*

**Quarterly U.S. Current Account and Component Balances**

As of March 31, 2025

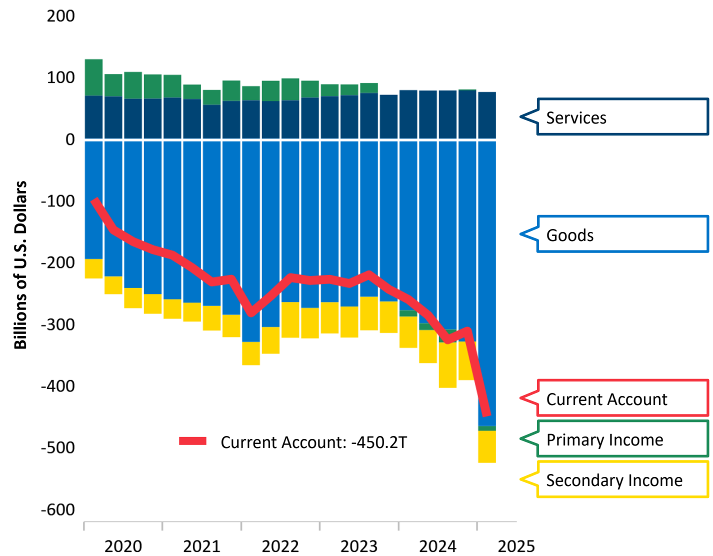


*Figure 2*

Source: U.S. Bureau of Economic Analysis

**Foreign Capital Flows into U.S. Markets**

As of March 31, 2025

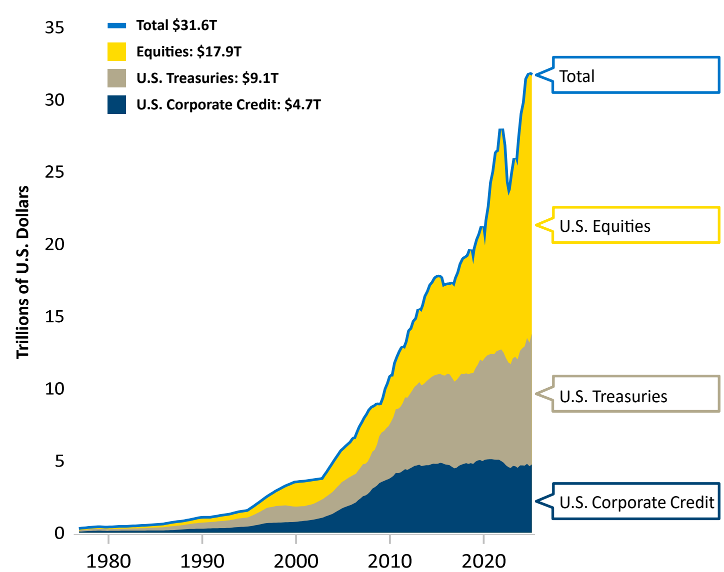


*Figure 3*

Source: U.S. Bureau of Economic Analysis

- **High Hedging Costs for International Investors:** International investors increased their holdings of U.S. securities over the past few decades, during a period in which low-interest-rate policy led to lower currency hedging costs. With the rise in central bank policy rates since 2022 to combat high inflation, hedging costs have increased substantially for many international investors, especially in Japan and Europe. While higher interest-rate differentials have tended to correlate with a stronger dollar, this correlation has broken down in 2025. *(Figure 4)* This is due to foreign investors increasing hedge ratios, which is costly. This cost creates a significant headwind to U.S. portfolio investment from international investors, which can be bearish for the dollar.
- **Net International Investment Position (NIIP):** While the current account shows recent flows, which could loosely be considered the country's income statement, the NIIP shows the stock of net foreign savings invested in U.S. markets, which could loosely be seen as a country's balance sheet. As of 1Q2025 the NIIP shows, via the liabilities position, \$61.5 trillion of foreign savings is invested in the U.S. *(Figure 5)* In the first half of 2025 we have seen the dollar weaken, however there is no clear evidence of large-scale selling by the foreign investor community at this time. Instead the drop in the dollar looks to be due to the foreign investor community increasing their currency hedges to the U.S. dollar. If foreign investors choose to reallocate out of the U.S. dollar investments and/or U.S. investors choose to increase international investments, this may leave the dollar vulnerable over the coming months and years ahead.

**U.S. Investment Position** (End of Quarter, Not Seasonally Adjusted)
As of March 31, 2025

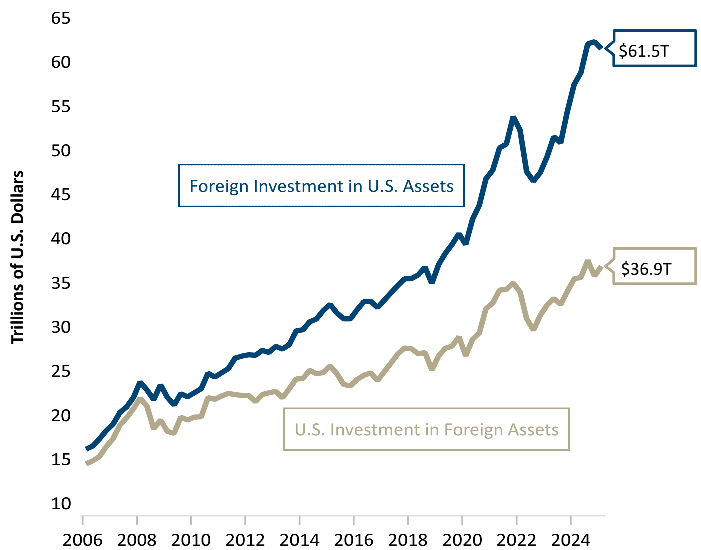


*Figure 5*
Source: U.S. Bureau of Economic Analysis

- **Potential Fed Easing:** Current market expectations are for roughly two Federal Funds rate cuts by year-end 2025, per WIRP. In addition, Federal Reserve Chairman Jerome Powell's term ends May 15, 2026. Currently, there are several candidates in contention to succeed Powell, with current front-running candidates having a more dovish position than the current stance of the Federal Open Market Committee (FOMC).

**U.S. Dollar Sensitivity to Interest Rates Has Broken Down in 2025**
As of July 18, 2025


*Figure 4*
Source: DoubleLine, Bloomberg, Macrobond

If the Federal Reserve ends up easing monetary policy more aggressively or sooner than currently priced in, it will likely weaken the dollar. Any Fed rate cuts beyond what investors anticipate, in magnitude or timing, would reduce the dollar's yield advantage. While not DoubleLine's base case, should the Fed need to cut rates more-than-expected, the dollar would face medium-term downside.

- **Fiscal Deficit**: DoubleLine expects continued fiscal pressure with the passage of the One Big Beautiful Bill Act in July 2025. The Congressional Budget Office estimated that the Bill could increase the federal deficit by approximately $3.4 trillion over the 2025–2034 period. If the economy were to enter a recession, the budget deficit would materially widen further due to lower tax receipts and increased automatic unemployment insurance payments. Increased deficit spending is historically dollar negative, as it is essentially printing dollars, which in turn should debase the currency.

- **Cheaper International Valuations**: International equity market valuations are lower compared to U.S. market valuation. An example of this is the difference in the cyclically adjusted price-to-earnings (CAPE®) ratios between the U.S. and Europe. *(Figure 6)* Cheaper valuations and more-attractive yield levels in many areas outside of the U.S. could cause investor appetite for U.S. investments to fade relative to the past decade. ■

**United States vs. Europe CAPE® Ratio**
As of June 30, 2025

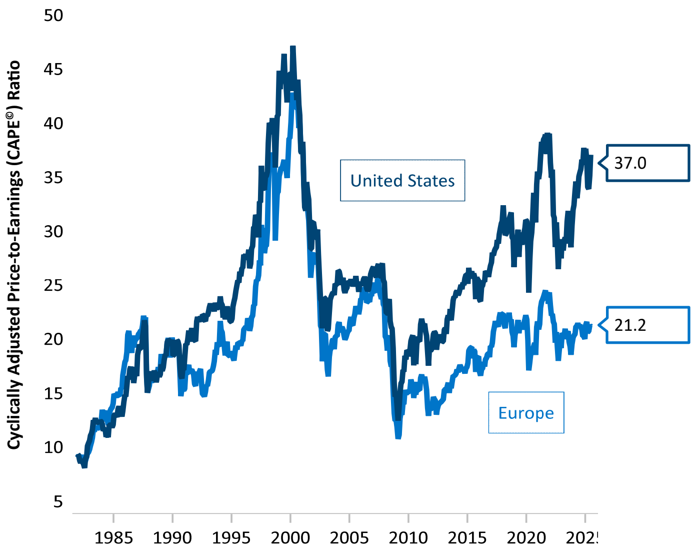


*Figure 6*
Source: DoubleLine, Barclays

**Bill Campbell**
Portfolio Manager, Global Sovereign Debt

Mr. Campbell joined DoubleLine in 2013. He is a Portfolio Manager for the DoubleLine Global Bond and Emerging Markets Local Currency strategies and is a permanent member of the Fixed Income Asset Allocation Committee. He covers Developed Markets, Central & Eastern Europe, Middle East and Africa (CEEMEA), and China. Prior to DoubleLine, Mr. Campbell worked for Peridiem Global Investors as a Global Fixed Income Research Analyst and Portfolio Manager. Previous to that, he was with Nuveen Investment Management Company, first as a Quantitative Analyst in their Risk Management and Portfolio Construction Group, then as a Vice President in their Taxable Fixed Income Group. Mr. Campbell also worked at John Hancock Financial as an Investment Analyst. He holds a B.S. in Business Economics and International Business, as well as a B.A. in English, from Pennsylvania State University. Mr. Campbell holds an M.A. in Mathematics, with a focus on Mathematical Finance, from Boston University.

**Chris Stegemann**
Manager, Client Portfolio Management

Mr. Stegemann joined DoubleLine in 2017. He is a Client Portfolio Manager and Manager of the Client Portfolio Management team. In this capacity, Mr. Stegemann is responsible for communicating DoubleLine's macroeconomic views and portfolio positioning via client engagement, published market commentary and dedicated strategy content, with a focus on DoubleLine's Fixed Income Asset Allocation strategies. Prior to DoubleLine, Mr. Stegemann was in mutual fund distribution for Putnam Investments. He holds a B.S. in Finance and minors in Accounting and Economics from Elon University's Martha & Spencer Love School of Business. Mr. Stegemann holds the FINRA Series 3, 6, 7 and 63 licenses.

**Bloomberg World Interest Rate Probability (WIRP) Function** – Statistical function developed by Bloomberg that uses fed funds futures and options to assess the probability of future Federal Open Market Committee (FOMC) decisions.

**Cyclically Adjusted Price-to-Earnings (CAPE®) Ratio** – This ratio measures valuation by using real earnings per share (EPS) over a 10-year period to smooth out fluctuations in corporate profits that occur during different periods of a business cycle.

**Federal Funds Rate** – Target interest rate, set by the Federal Reserve at its Federal Open Market Committee (FOMC) meetings, at which commercial banks borrow and lend their excess reserves to each other overnight.

**Federal Open Market Committee (FOMC)** – Branch of the Federal Reserve System that determines the direction of monetary policy specifically by directing open market operations. The FOMC comprises the seven board governors and five (out of 12) Federal Reserve Bank presidents.

**Gross Domestic Product (GDP)** – Market value of all final goods and services produced within a country in a given period.

**Net International Investment Position (NIIP)** – includes overseas assets and liabilities held by a nation's government, private sector and citizens. The NIIP is analogous to net foreign assets (NFA), which determine whether a country is a creditor or debtor nation by measuring the difference in its external assets and liabilities.

**U.S. Dollar Index (DXY)** – A weighted geometric mean of the U.S. dollar's value relative to a basket of six major foreign currencies: the euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc.

You cannot invest directly in an index.

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