CIO View

CIO Special

July 16, 2025

Marketing material

DWS

First cracks in the dollar's dominance

It’s the global reserve currency, a perceived safe haven[1] and a vital unit of account for international trade – a lot is at stake.

Vincenzo Vedda
Chief Investment Officer

IN A NUTSHELL

– The U.S. dollar is currently in the spotlight. Concerns that confidence in the U.S. is waning are weighing on the U.S. currency.
– Though the dollar remains the undisputed number one reserve currency, there are question marks about its perceived function as a safe haven.
– Diversification is key. In addition to the euro, pound and yen, East Asian currencies may also benefit significantly.

Short-term disruption to the dollar's dominance or lasting structural change?

The U.S. dollar is certainly still the cornerstone of the global financial system. But its reputation has been tarnished since the beginning of the year, not least by the actions of the new U.S. administration. Market participants are suddenly asking fresh questions about a currency whose supremacy had previously been undisputed. These questions concern the greenback's role as the world's reserve currency and perceived safe haven, its function as a settlement currency – especially in the commodities market – and, more generally, on whether the market's long-term confidence in the U.S. and the dollar is eroding. While these developments are part of a long-term process, structural fractures are, in our view, now becoming apparent, which we think could lead to significant changes in the coming decades. European politicians and central bankers see this as a historic opportunity to establish Europe, and thus the euro, as a new leading region and currency.

1 / Challenging times for the greenback

1.1 Sharp losses since the beginning of the year, the technical picture clouds over

The dollar is currently experiencing turbulent times. Measured by the U.S. Dollar Index (DXY), the U.S. currency has lost around ten and a half percent since the beginning of the year. Looking at the broader Bloomberg Dollar Spot Index (BBDXY) (which also includes the Chinese renminbi, among others), the decline amounts to just under nine percent.[2] The dollar has recently reached its lowest level in three years, undermined by headlines about the possibility of an early change at the top of the U.S. Federal Reserve (the Fed), instigated by President Donald Trump. Even the flare-up in the conflict between Israel and Iran only gave the dollar a very brief safe-haven boost. The trend seems clear, and there is a growing expectation that the movement towards a weaker greenback will continue in the coming months and perhaps years. U.S. exceptionalism – a

[1] Financial safe havens are investments or assets that are expected to retain or increase in value during times of market turbulence
[2] All financial data – from Bloomberg Finance L.P. as of 6/30/25

belief that the U.S. economy and growth outshine the performance of other regions – seems to be lost, at least temporarily. The U.S.'s reputation has suffered as domestic and foreign policy decisions by the new U.S. administration have raised questions as to whether protectionism, fiscal deficits and the accumulation of more debt are harming the U.S.'s credibility and prospects.

In the past, the situation was different. For decades, U.S. administrations favored a strong dollar and geared their policies accordingly. Currently, however, President Trump is aiming for a weaker currency to make U.S. products cheaper worldwide and therefore boost U.S. exports. Devaluation of the dollar would help reduce the U.S. trade deficit and more expensive imports are intended to protect domestic companies, favoring production in the United States.

Dollar with significant losses since the beginning of 2025

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 7/11/25

Technically, the greenback looks battered. Looking at the broad dollar index, BBDXY, the area around 10 points above and below the 1,200 mark (see chart) is a critical zone that has been tested a few times in recent years but has not been sustainably breached since the first half of 2022. The index now trades below that critical level and shows sustained downward movement. Due to the recent short-term counter-movement triggered by the Iran crisis, the technical indicators have even built up new potential on the downside. We therefore consider it quite conceivable in the short term that the downward movement continues. The next support level still appears to be some way off.

1.2 What happened to the dollar's status as a safe haven?

At present, international investors' growing skepticism about the U.S. dollar is particularly noticeable during market phases in which the dollar would normally have played an important role as a perceived safe haven. At the moment, the U.S. currency seems to have almost entirely lost this function – the move in response to the Iran crisis, for example, was slight.

The U.S. dollar is generally considered a safe currency by market participants due to its high liquidity as the most traded currency in the world and the size of the U.S. economy as well as the depth and high efficiency of the U.S. financial markets. In times of crisis, investors tend to flock to the dollar and other currencies that are seen as safe, such as the Swiss franc, because they are considered a buffer against market volatility.

The U.S. government and the Federal Reserve have consistently taken decisive action in response to global crises in recent decades by implementing measures to stabilize the financial system. In doing so, the U.S. has demonstrated its commitment to financial-market stability, reinforcing the status of the U.S. dollar as a perceived safe-haven currency.

But many investors around the world currently view the U.S. and the new Trump administration as the prime cause of economic and financial concern, rather than the solution to it. Therefore, diversification away from dollar assets is now seen as the favored course of action, even during periods of market volatility which would normally have seen positive performance for the U.S. currency. However, it remains to be seen whether the greenback will cease to be used as a safe haven in future, what the alternatives are, and how they will perform in times of market stress. It is unlikely in our view that the dollar will be easily replaced.

1.3 Concerns about swap lines with the Federal Reserve

However, there are also dependencies on the U.S. dollar that, given recent developments, are at risk of becoming a problem. Swap lines that can be used by central banks are an important pillar of the global financial system in times of crisis. These swap lines allow central banks to exchange currency for another currency at the current exchange rate and then lend it to domestic banks. At the end of the agreed term, the currency is usually exchanged back at the same exchange rate as at the beginning, with interest added.

European banks are highly dependent on the U.S. dollar as a large proportion of their liabilities, investments and trade are dollar-denominated. Normally, these dollars are obtained through the market. But if there is uncertainty and insecurity (as was the case in the days following the September 11, 2001 terror attacks, during the 2007-08 global financial crisis, the euro crisis, and also during the Covid pandemic), serious supply bottlenecks can arise. The European Central Bank (ECB) has had a swap line in place with the Fed more or less since the global financial crisis and can therefore step in during times of crisis to help European banks to obtain dollars.

However, doubts are currently emerging about the reliability of this safety net. In the first place, the Trump administration appears determined to reshape the global financial and economic order and put American interests first. Who might replace Jerome Powell when he steps down as Federal Reserve chair is also a cause of uncertainty. He is due to leave office in May 2026 but President Trump has been suggesting he should leave sooner. The Fed currently has permanent dollar swap facilities with five central banks (in the Eurozone, Switzerland, Japan, the UK and Canada). If the U.S. central bank were to lose some of its independence under a new boss, the consequences could be far-reaching.

Without this security in the form of swap lines, European banks and their regulators would have to thoroughly rethink the risk associated with their USD activities. Other important financial and economic centers such as Japan, the UK and Canada could face similar threats. In an extreme case, de-dollarization would reshuffle the global currency hierarchy. And ending the Fed's swap lines would not only cause problems for banks outside the U.S., but also for the U.S. banks that are closely interlinked with them. The provision of dollar liquidity by the Fed is therefore highly relevant for the stability of domestic banks as well as international ones.

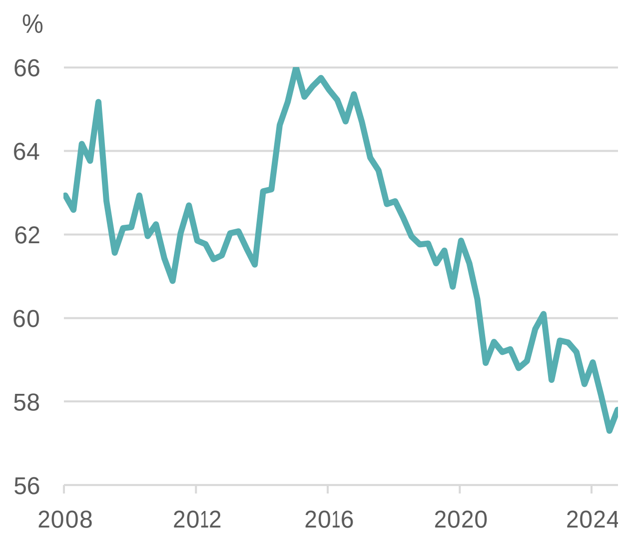
2 / The dollar's dominance as a reserve currency is declining, albeit very slowly so far

2.1 The dollar still plays the leading role in international foreign exchange reserves

The U.S. dollar's status as the world's reserve currency dates back to the post-war Bretton Woods agreement when the U.S. currency was explicitly linked to gold and thus implicitly to stability. Even after the collapse of the gold standard in the 1970s, the dollar retained its dominant position thanks to the strength of the U.S. economy, the size of its capital markets and the predictability of its institutions. According to the latest figures, the dollar currently accounts for around 57% of international foreign-exchange reserves.[3] Even taking into account the fact that this share was around ten percent higher a decade ago, the dominance of the greenback is indisputable. The euro and the Chinese renminbi follow far behind in second and third place.

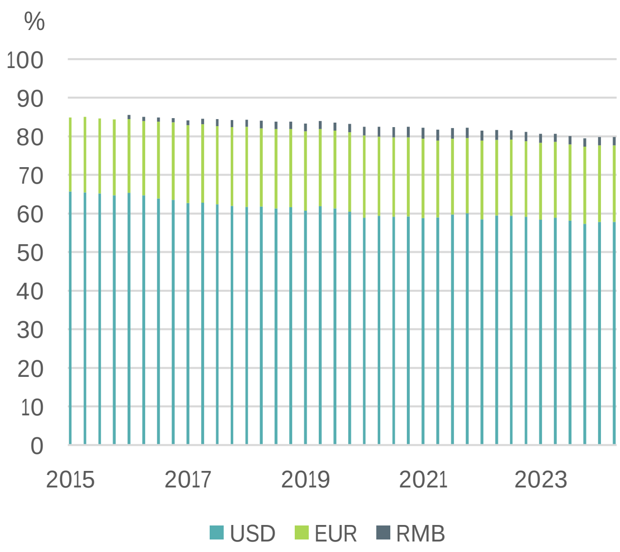
Relevance of the U.S. dollar as global reserve currency declines

Dollar share of global foreign exchange reserves



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 12/31/24

Share of international currency reserves



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 3/31/25

The fact that the dollar remains the dominant global reserve currency still gives the U.S. the privilege of being able to borrow cheaply while running large current-account deficits without facing the currency risks that developing countries, for example, have to contend with.

The Atlantic Council's Dollar Dominance Monitor also shows that the dollar is involved in nine out of ten foreign-exchange transactions.[4] This figure once again highlights the undisputed strength of the greenback's role as a "vehicle" or intermediary on the foreign-exchange markets. We think the dollar will therefore continue to serve as the most important global unit of account, at least for the time being.

2.2 Structural challenges

In the medium term, however, we expect structural change to become increasingly apparent, with growing de-dollarization of global currency reserves. In recent years, more and more central banks have reduced their dollar holdings in favor of gold, the euro, and, increasingly, the Chinese renminbi. According to a recent survey by OMFIF, an independent think tank for central banking, economic policy and public investment, around 70% of the central banks surveyed plan to reduce their dollar exposure for political and economic risk reasons.[5] At the same time, gold purchases are expected to rise by up to 40% in

[3] Source: Bloomberg Finance L.P. as of 12/31/24
[4] Dollar Dominance Monitor, Atlantic Council as of June 2025
[5] Shaking Foundations (Reserve Management in a Volatile World), OMFIF as of June 2025

coming years. This diversification trend is being further accelerated by geopolitical tensions and the increasing use of the dollar as a political lever (e.g., through sanctions).

The so-called Triffin dilemma remains a central problem here:[6] In order to function as a global reserve currency, the U.S. dollar must be available worldwide – which in turn means that the U.S. must run a trade deficit in order to keep the world supplied with dollars. A trade deficit, however, can undermine a country's economic stability. As long as there is confidence in the U.S. fiscal system and political stability, this tension can remain sustainable. However, an erosion of this confidence, for example as a result of growing fiscal deficits or monetization of government debt, would destabilize the system. The competition for the dollar may also be increased by digital central-bank currencies such as the digital renminbi, which China is using deliberately to undermine the international significance of the dollar. In addition, countries such as Russia, Iran and members of the BRICS emerging countries are developing alternative payment systems,[7] which are intended to undermine the global influence of the dollar-based SWIFT network.[8]

Although the dollar remains the leading currency in terms of global foreign-exchange reserves, the OMFIF expects it to decline to around 52% by 2035. It is particularly noteworthy that a majority of around 63% of global asset managers consider it realistic that the dollar could lose its role as the sole global reserve currency in the next 10 to 15 years.[4] Admittedly, there is no realistic single candidate that could replace the dollar, as neither the euro nor the renminbi currently have sufficient depth, liquidity or political credibility. But currency baskets or technology-based reserve vehicles such as stablecoins, in combination with central-bank digital currencies could establish themselves as serious alternatives.

In all these considerations it should not be forgotten that there is an overarching political component. A global reserve currency always has political roots. If the protectionism currently evident in the U.S. were to become isolationism, as was the case after the First World War, the dollar would not be able to remain the global reserve currency. But we are still far from that.

3 / There is a lot at stake

The dollar is currently still holding its own as the dominant currency in the global foreign-exchange universe. It also remains the leading reserve currency, although its role as a perceived safe haven looks endangered.

The cracks in the foundations of its supremacy are impossible to ignore. In our view, diversification by international investors beyond the level already observed, as well as the rise of alternative currencies, could lead to accelerating erosion of the dollar's reputation. If the U.S. recognizes this development the question is the attitude the administration takes and whether it is willing to respond, primarily through fiscal consolidation, reliable foreign policy and the defense of monetary integrity. Therefore, only time will tell whether the current swan song is perhaps a little premature.

Above all, we believe that the U.S.'s privilege of being able to borrow globally in its own currency is at stake. The key to maintaining this advantage lies in the confidence of international investors not only in U.S. institutions, but also in U.S. stability and solvency. A continuing disregard for fiscal discipline or attempts to push political interests by exploiting the dollar-based financial system could destroy this trust in the medium term. U.S. domestic policy, hampered by increasing polarization, a stall in consolidating the budget deficit and populist tendencies, threatens to continue to undermine the confidence of global investors.

[6] Robert Triffin International as of March 2025
[7] Examples for alternative payment systems include: CIPS in China, SPFS in Russia and INSTEX from the EU
[8] The BRICS Rebellion: Local Currencies, Payment Networks, and the Unmaking of Dollar Hegemony, AIJBM as of April 2025

Given the high budget deficit and comparatively low savings rate, the U.S. has an enormous need for international financing. Attractive returns on U.S. investments remain an important incentive for international investors. But rising yields are also fueling the debate about the U.S.'s debt sustainability.

4 / Investment implications

4.1 Diversification away from the U.S. dollar should continue

In a world where international investors are losing confidence in the U.S., diversification is more important than ever. The implications are much broader than just being a currency story; it's not only about the weak dollar. It's about allocating capital away from the U.S. across all asset classes. In Europe in particular, central bankers and politicians sense an opportunity to reduce at least some of the U.S.'s dominance. The European Central Bank, led by Christine Lagarde, is not the only institution trying to exploit the situation and provide massive verbal support for the euro. In a recent speech, Lagarde even talked about Europe's "global euro" moment.[9]

While we do not expect the dollar to lose all its prestige in the short term, we anticipate it will weaken against major currencies in the near future. The euro, the Japanese yen (JPY) and the British pound have already benefited from capital re-allocations out of the U.S. and we expect them to continue doing so.

Currency-specific factors also play a role. For example, the German fiscal package for defence and infrastructure is likely to be a game changer for the euro. We expect this to stimulate Eurozone growth in the medium term. We anticipate a reversal of capital flows into the U.S. to bolster the euro. Our EUR/USD forecast for June next year is 1.18. The fair value for this currency pair is currently seen in the range of 1.25 to 1.30. For USD/JPY, we expect a stronger yen based on relative economic outperformance and inflows from emerging markets with U.S. dollar exposure. Lastly, hope for growth within the Eurozone and a resolution of the tariff conflict could also favour the pound, pushing our forecast up slightly to 1.40.

4.2 Asian currencies may benefit from the weak dollar in the long term

Until now, the dollar has primarily weakened against the euro and other major currencies. However, we expect East Asian currencies to become the driving force in the future, followed by European ones. There are many reasons for this. Firstly, all East Asian countries have high current account surpluses. They also have substantial dollar reserves. However, as trust in the U.S. is fading, we expect these reserves to be shifted into other currencies. The Chinese government has already made the clearest statements in this regard.

Consequently, we anticipate that East Asian currencies will appreciate by at least 10% within the next year, and by a much greater margin in the long term. However, we view China as an exception. We expect the renminbi to remain stable, since China's trade surplus is expected to decline due to decoupling between the U.S. and Chinese economies.

[9] The ECB blog, ECB as of 6/17/25

Glossary

The Bloomberg Dollar Spot Index measures the value of the U.S. dollar against 10 global currencies, both developed market and emerging market.

Bretton Woods in the U.S. State of New Hampshire was the site of an international conference in 1944, which established a system of largely stable currency exchange rates between leading Western nations, an arrangement that lasted until 1973.

BRIC is the abbreviation for the four large emerging economies Brazil, Russia, India and China.

The Chinese yuan (CNY) is legal tender on the Chinese mainland and the unit of account of the currency, Renminbi (RMB).

The current account includes trade in goods and services, a net-factor-income balance (e.g. earnings on foreign investments and cash transfers from individuals working abroad) and transfers (e.g. foreign aid). It is a part of the balance of payments.

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

The term euro crisis refers to the multi-layered crisis of the European Monetary Union starting in 2010.

The European Central Bank (ECB) is the central bank for the Eurozone.

The Eurozone is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

Fiscal policy describes government spending policies that influence macroeconomic conditions. Through fiscal policy, the government attempts to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy.

Greenback is a commonly used expression for the U.S. dollar.

The Japanese yen (JPY) is the official currency of Japan.

The pound sterling (GBP), or simply the pound, is the official currency of the United Kingdom and its territories.

Renminbi (RMB) is the currency of the People's Republic of China.

A stablecoin is a digital token that is pegged to an asset, like a national currency or gold.

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is a vast messaging network used by financial institutions to exchange information securely.

The Trade-Weighted U.S. Dollar Index tracks the performance of the U.S. dollar relative to other world currencies.

The U.S. Federal Reserve, often referred to as "the Fed," is the central bank of the United States.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

Important information – EMEA, APAC, LATAM & MENA

Important information – North America

The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries, such as DWS Distributors, Inc., which offers investment products, or DWS Investment Management Americas Inc. and RREEF America L.L.C., which offer advisory services.

This document has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by DWS, are appropriate, in light of their particular investment needs, objectives and financial circumstances. Furthermore, this document is for information/discussion purposes only and does not and is not intended to constitute an offer, recommendation or solicitation to conclude a transaction or the basis for any contract to purchase or sell any security, or other instrument, or for DWS to enter into or arrange any type of transaction as a consequence of any information contained herein and should not be treated as giving investment advice. DWS, including its subsidiaries and affiliates, does not provide legal, tax or accounting advice. This communication was prepared solely in connection with the promotion or marketing, to the extent permitted by applicable law, of the transaction or matter addressed herein, and was not intended or written to be used, and cannot be relied upon, by any taxpayer for the purposes of avoiding any U.S. federal tax penalties. The recipient of this communication should seek advice from an independent tax advisor regarding any tax matters addressed herein based on its particular circumstances. Investments with DWS are not guaranteed, unless specified. Although information in this document has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness, and it should not be relied upon as such. All opinions and estimates herein, including forecast returns, reflect our judgment on the date of this report, are subject to change without notice and involve a number of assumptions which may not prove valid.

Investments are subject to various risks, including market fluctuations, regulatory change, counterparty risk, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you may not recover the amount originally invested at any point in time. Further-more, substantial fluctuations of the value of the investment are possible even over short periods of time. Further, investment in international markets can be affected by a host of factors, including political or social conditions, diplomatic relations, limitations or removal of funds or assets or imposition of (or change in) exchange control or tax regulations in such markets. Additionally, investments denominated in an alternative currency will be subject to currency risk, changes in exchange rates which may have an adverse effect on the value, price or income of the investment. This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. The terms of an investment may be exclusively subject to the detailed provisions, including risk considerations, contained in the Offering Documents. When making an investment decision, you should rely on the final documentation relating to the investment and not the summary contained in this document.

Diversification neither assures a profit nor guarantees against loss.

This publication contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this mate-rial. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein. We assume no responsibility to advise the recipients of this document with regard to changes in our views.

No assurance can be given that any investment described herein would yield favorable investment results or that the investment objectives will be achieved. Opinions expressed herein may differ from the opinions expressed by departments or other divisions or affiliates of DWS. This document may not be reproduced or circulated without our written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject DWS to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

Past performance is no guarantee of future results; nothing contained herein shall constitute any representation or warranty as to future performance. Further information is available upon investor's request. All third party data (such as MSCI, S&P & Bloomberg) are copyrighted by and proprietary to the provider.

For Investors in Canada: No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence. This document is intended for discussion purposes only and does not create any legally binding obligations on the part of DWS Group. Without limitation, this document does not constitute an offer, an invitation to offer or a recommendation to enter into any transaction. When making an investment decision, you should rely solely on the final documentation relating to the transaction you are considering, and not the information contained herein. DWS Group is not acting as your financial adviser or in any other fiduciary capacity with respect to any transaction presented to you. Any transaction(s) or products(s) mentioned herein may not be appropriate for all investors and before entering into any transaction you should take steps to ensure that you fully understand such transaction(s) and have made an independent assessment of the appropriateness of the transaction(s) in the light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction. You should also consider seeking advice from your own advisers in making this assessment. If you decide to enter into a transaction with DWS Group you do so in reliance on your own judgment. The information contained in this document is based on material we believe to be reliable; however, we do not represent that it is accurate, current, complete, or error free. Assumptions, estimates and opinions contained in this document constitute our judgment as of the date of the document and are subject to change without notice. Any projections are based on a number of assumptions as to market conditions and there can be no guarantee that any projected results will be achieved. Past performance is not a guarantee of future results. The distribution of this document and availability of these products and services in certain jurisdictions may be restricted by law. You may not distribute this document, in whole or in part, without our express written permission.

For investors in Bermuda: This is not an offering of securities or interests in any product. Such securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda which regulates the sale of securities in Bermuda.

Additionally, non-Bermudian persons (including companies) may not carry on or engage in any trade or business in Bermuda unless such persons are permitted to do so under applicable Bermuda legislation.

as of 7/14/25; 106602_1 (07/2025)