

Economic Situation and Strategy

11 July 2025

Is the US dollar stuck in a crisis?

While many investors focus on equity and interest rate markets, one crucial factor is often underestimated: exchange rate developments. Especially for internationally invested portfolios, exchange rates can have a significant impact on performance. The euro/US dollar currency pair is particularly relevant for European investors.

Over the past five years, the EUR/USD exchange rate has shown remarkable vitality. Until the end of 2022, the US dollar experienced a phase of extreme strength, and the euro even temporarily fell below parity (Phase I in the chart below). The crucial factors were the aggressive interest rate policy of the US Federal Reserve and geopolitical uncertainties in Europe (the war in Ukraine). Subsequently, the European common currency began to recover, with the EUR/USD exchange rate fluctuating within a range of 1.05 to 1.12 (Phase II).

EUR/USD exchange rate development

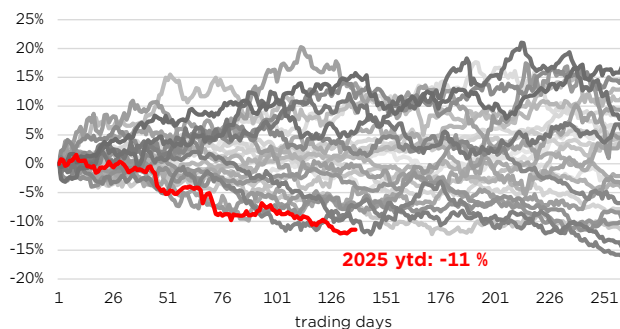


source: LSEG Datastream

In the second half of 2024, the US dollar benefited from expectations that Donald Trump would pursue growth-oriented tax and deregulation policies. This led to higher capital inflows into the dollar area and strengthened the greenback (III). However, these hopes were tempered by

concerns about the negative impact of new US tariffs on the domestic economy, the continued rise in national debt, and attacks on the independence of the US Federal Reserve. As a result, the dollar declined sharply (IV).

Performance: US Dollar versus Euro



source: LSEG Datastream and own calculations

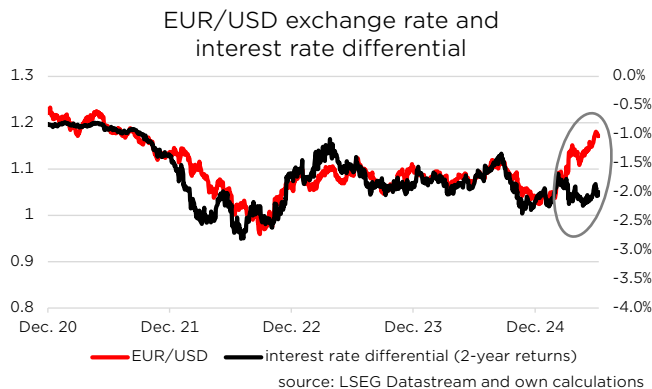
Since the beginning of the year, the US dollar has lost more than 11 percent of its value against the euro. This sharp depreciation of the US dollar has had unfortunate consequences for investors in the Eurozone: when the dollar weakens, US investments lose value as soon as the returns are converted into euros. This is clearly demonstrated by the performance of the S&P 500 Index: while the US stock index has achieved a gain of 7.2 percent since the beginning of the year in US dollar terms, euro investors have suffered a loss of 5.2 percent. Despite the positive share price momentum of many US stocks, this increase in value is not being reflected in euro investors.

Excessive weakness of the US dollar

Looking ahead, the question arises as to whether the recent depreciation of the US dollar will continue or whether the greenback will appreciate again. In our view, the current weakness of the US dollar is primarily due to emotional factors and a loss of confidence in the US

Economic Situation and Strategy

dollar. There is little fundamental justification for this development. An important indicator for describing the EUR/USD exchange rate is the interest rate differential between the US and the Eurozone, measured, for example, by the yield spread on two-year government bonds. Historically, there has been a close correlation between the exchange rate and the interest rate differential: If interest rates in the Eurozone become more attractive, demand for the euro increases and the common currency appreciates.



However, this fundamental correlation is currently not holding, which suggests an exaggeration. Although the interest rate differential fundamentally implies a stronger US dollar, the euro has recently appreciated. We expect this divergence to recede over the course of the year and the US dollar to recover some of its lost confidence. As uncertainties subside – for example, regarding US tariffs – fundamental factors such as the interest rate differential are likely to come back into focus for investors.

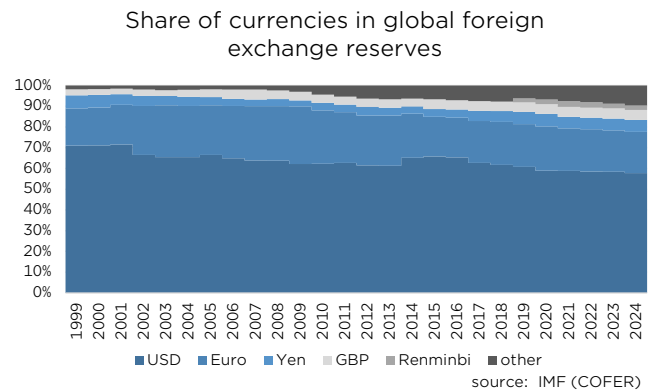
In addition, the economic outlook for the US is relatively more attractive and the inflation risk in the US remains. Both of these factors argue against a significant decline in US interest rates and support the US dollar. At the same time, we expect that a more optimistic mood in the markets will lead to a return of capital flows to the US market. Against this backdrop, we anticipate a moderate appreciation of the US dollar by the end of the year.

Dominance of the US dollar is crumbling

In the long term, however, there are increasing signs that the US dollar is gradually losing its previous dominance in the international monetary system. A key factor is its role as a reserve currency: central banks worldwide still hold around 58 percent of their currency reserves in US dollars. Yet this share has declined significantly over the past two decades – in 2000, it was still around 70 percent.

Increasingly, central banks are diversifying their reserves and relying on alternative currencies and gold.

Particularly, central banks in countries with a critical stance toward the US, such as China, have deliberately expanded their gold holdings to become less dependent on US sanctions. In 2022 and 2023, global gold purchases by central banks reached their highest level since the 1960s.



The US dollar is also declining in importance as a trading currency. While the greenback remains the most important trading currency, and around 40 percent of global trade continues to be conducted in US dollars, there are increasing efforts to use alternative currencies for international transactions. For example, Russian energy deliveries to China are paid for in renminbi, and trade between Brazil and China is also increasingly being settled in local currencies.

Furthermore, technological innovations such as digital central bank currencies and new payment systems are challenging the US dollar as a transaction currency. China is already testing cross-border payments with the digital renminbi, and the ECB is also working on a digital euro (see Economic Situation and Strategy of June 26, 2025). Such developments diversify international payments and reduce dependence on the US dollar.

An additional burden on the long-term dominance of the US dollar is the steadily rising US national debt, which is largely financed by foreign funds: at the end of 2024, the US national debt exceeded US\$35 trillion – equivalent to more than 120 percent of US gross domestic product. A persistently high deficit and further rising debt – for example, due to the planned tax cuts under the new "Big Beautiful Bill" – undermine confidence in the dollar as a safe haven and increase demand for alternatives.

What is our conclusion?

Investors often underestimate the importance of exchange rates. Since the beginning of 2025, the US dollar has lost value against the euro on a historic scale, causing euro investors' gains on the US equity market to

Economic Situation and Strategy

be wiped out by exchange rate losses. The recent weakness of the US dollar is primarily due to emotional factors. We expect that fundamental factors such as the interest rate differential will become more of a focus for investors as the year progresses and that the US dollar will regain strength. In the long term, however, it is conceivable that the greenback will lose global importance: The US dollar's share of global currency

reserves is declining, central banks are investing in gold and alternative currencies, and the greenback is also coming under pressure as a trading currency. Technological innovations and rising US national debt are accelerating this trend.

Simon Landt

Market data

| | As of 11.07.2025 10:45 | 04.07.2025 -1 week | 10.06.2025 -1 month | Change versus 10.04.2025 -3 months | 10.07.2024 -1 year | 31.12.2024 YTD |
|--------------------------------|------------------------------|-----------------------|------------------------|--|-----------------------|-------------------|
| Stock markets | | | | | | |
| Dow Jones | 44651 | -0,4% | 4,2% | 12,8% | 12,4% | 5,0% |
| S&P 500 | 6288 | 0,1% | 4,1% | 19,4% | 11,6% | 6,9% |
| Nasdaq | 20631 | 0,1% | 4,6% | 25,9% | 10,6% | 6,8% |
| DAX | 24249 | 1,9% | 1,1% | 17,9% | 31,7% | 21,8% |
| MDAX | 31310 | 3,4% | 2,5% | 21,8% | 22,2% | 22,4% |
| TecDAX | 3928 | 1,4% | 0,1% | 18,6% | 16,8% | 15,0% |
| EuroStoxx 50 | 5389 | 1,9% | -0,5% | 11,8% | 8,7% | 10,1% |
| Stoxx 50 | 4537 | 1,6% | -1,1% | 10,5% | 0,4% | 5,3% |
| SMI (Swiss Market Index) | 12002 | 0,3% | -2,8% | 6,7% | -1,2% | 3,5% |
| Nikkei 225 | 39570 | -0,6% | 3,6% | 14,3% | -5,4% | -0,8% |
| Brasilien BOVESPA | 136743 | -3,2% | 0,2% | 8,2% | 7,5% | 13,7% |
| Indien BSE 30 | 82566 | -1,0% | 0,2% | 11,8% | 3,3% | 5,7% |
| China CSI 300 | 4010 | 0,7% | 3,7% | 7,4% | 16,9% | 1,9% |
| MSCI Welt | 4056 | -0,1% | 3,1% | 18,5% | 12,2% | 9,4% |
| MSCI Emerging Markets | 1228 | -0,3% | 2,2% | 19,3% | 10,5% | 14,2% |
| Bond markets | | | | | | |
| Bund-Future | 129,45 | -106 | -138 | -91 | -185 | -399 |
| Bobl-Future | 117,28 | -59 | -56 | -156 | 117 | -58 |
| Schatz-Future | 107,15 | -18 | -11 | -21 | 162 | 17 |
| 3 Monats Euribor | 1,97 | -1 | 2 | -30 | -174 | -75 |
| 3M Euribor Future, Dec 2025 | 1,83 | 5 | 4 | 4 | -85 | -7 |
| 3 Monats \$ Libor | 4,42 | 0 | -3 | 8 | -104 | 5 |
| Fed Funds Future, Dec 2025 | 3,89 | 1 | -5 | 40 | 1 | -2 |
| 10 year US Treasuries | 4,38 | 4 | -8 | -2 | 10 | -19 |
| 10 year Bunds | 2,68 | 11 | 15 | 13 | 19 | 32 |
| 10 year JGB | 1,53 | 11 | 5 | 18 | 47 | 45 |
| 10 year Swiss Government | 0,43 | 2 | 15 | -4 | -17 | 16 |
| US Treas 10Y Performance | 616,69 | 0,0% | 1,3% | 1,6% | 3,8% | 4,2% |
| Bund 10Y Performance | 558,12 | -0,8% | -0,9% | -0,1% | 1,3% | -1,1% |
| REX Performance Index | 458,49 | -0,3% | -0,1% | 0,7% | 3,7% | 1,3% |
| IBOXX AA, € | 3,10 | 7 | 3 | -7 | -32 | 6 |
| IBOXX BBB, € | 3,41 | 5 | -2 | -30 | -52 | -5 |
| Commodities | | | | | | |
| MG Base Metal Index | 429,38 | -0,5% | 1,8% | 8,0% | -1,2% | 5,9% |
| Crude oil Brent | 68,88 | 0,5% | 3,0% | 7,7% | -19,4% | -7,8% |
| Gold | 3337,79 | 0,2% | 0,4% | 5,7% | 40,4% | 27,1% |
| Silver | 32,54 | 0,0% | 0,0% | 5,5% | 5,3% | 9,6% |
| Aluminium | 2607,90 | 0,8% | 4,3% | 11,8% | 7,7% | 3,2% |
| Copper | 9699,55 | -2,6% | -1,4% | 7,7% | -0,5% | 12,1% |
| Iron ore | 96,76 | 0,5% | 1,4% | -3,1% | -11,0% | -6,6% |
| Freight rates Baltic Dry Index | 1423 | -0,9% | -15,3% | 12,1% | -26,6% | 42,7% |
| Currencies | | | | | | |
| EUR/ USD | 1,1684 | -0,7% | 2,2% | 5,4% | 7,9% | 12,5% |
| EUR/ GBP | 0,8633 | 0,0% | 2,1% | 0,1% | 2,3% | 4,4% |
| EUR/ JPY | 171,61 | 1,0% | 3,9% | 6,4% | -1,8% | 5,2% |
| EUR/ CHF | 0,9312 | -0,4% | -0,8% | 0,1% | -4,2% | -1,1% |
| USD/ CNY | 7,1708 | 0,0% | -0,3% | -2,0% | -1,5% | -1,9% |
| USD/ JPY | 146,26 | 1,2% | 1,0% | 1,2% | -9,5% | -7,0% |
| USD/ GBP | 0,74 | 0,8% | -0,1% | -4,2% | -5,2% | -7,4% |

Source: LSEG Datastream

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