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Outlook for the dollar after Section 899: The US is still exceptional

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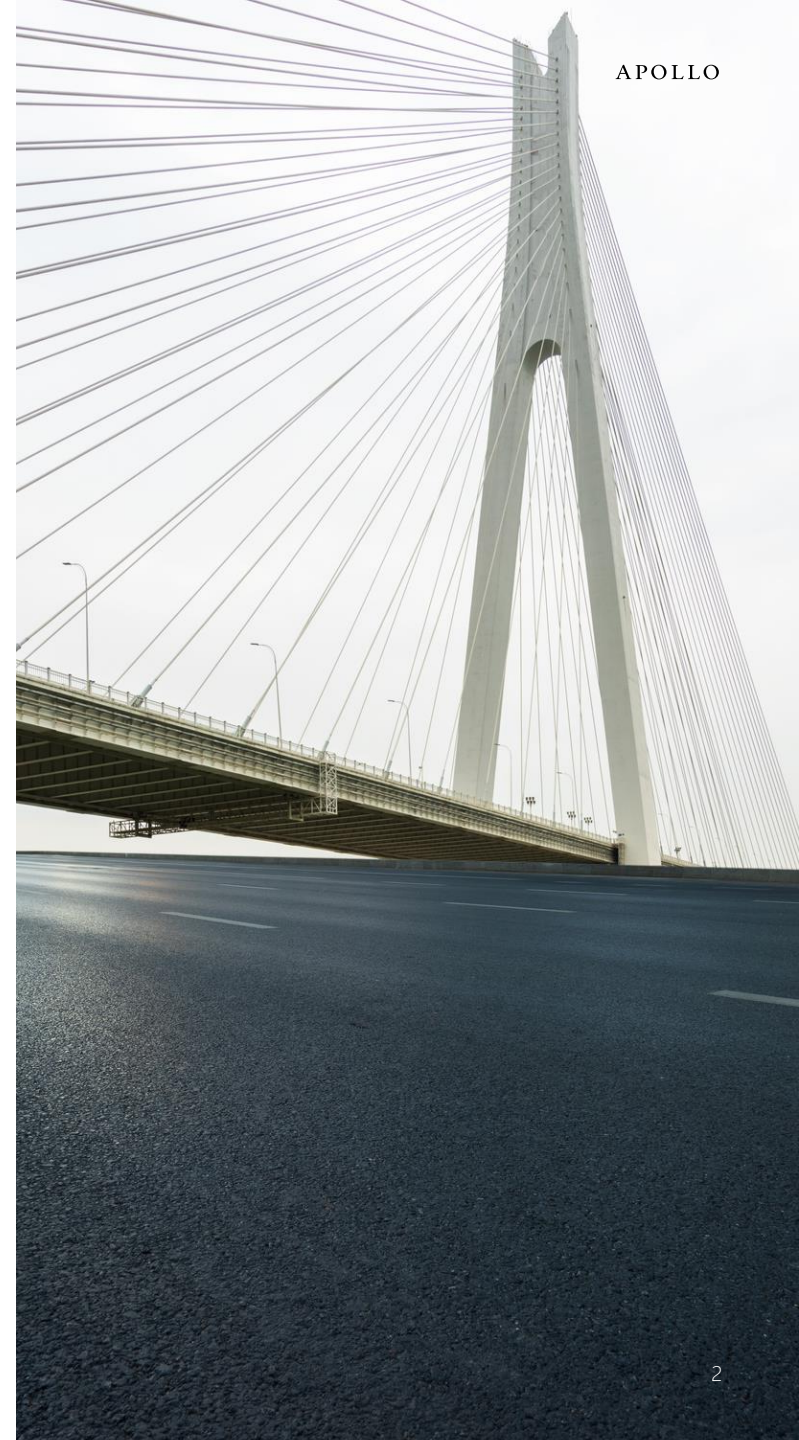
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Why did the dollar fall 10% during the first half of 2025?

Likely reason: Hedging activity

Why did the dollar go down 10% in the first half of 2025?

1. TIC data, combined with the strength of the US equity market and tight credit spreads in IG and HY, indicate that the dollar decline in the first half of 2025 was not driven by foreign selling of US assets.
2. Instead, the decline in the dollar was likely driven by hedging activity, as foreign investors, after decades of not hedging their US investments, began hedging some of their dollar exposures.
3. With Section 899 behind us, and the Fed keeping interest rates higher for longer, dollar hedging activity is likely to slow down.

Forces pushing the dollar up and down

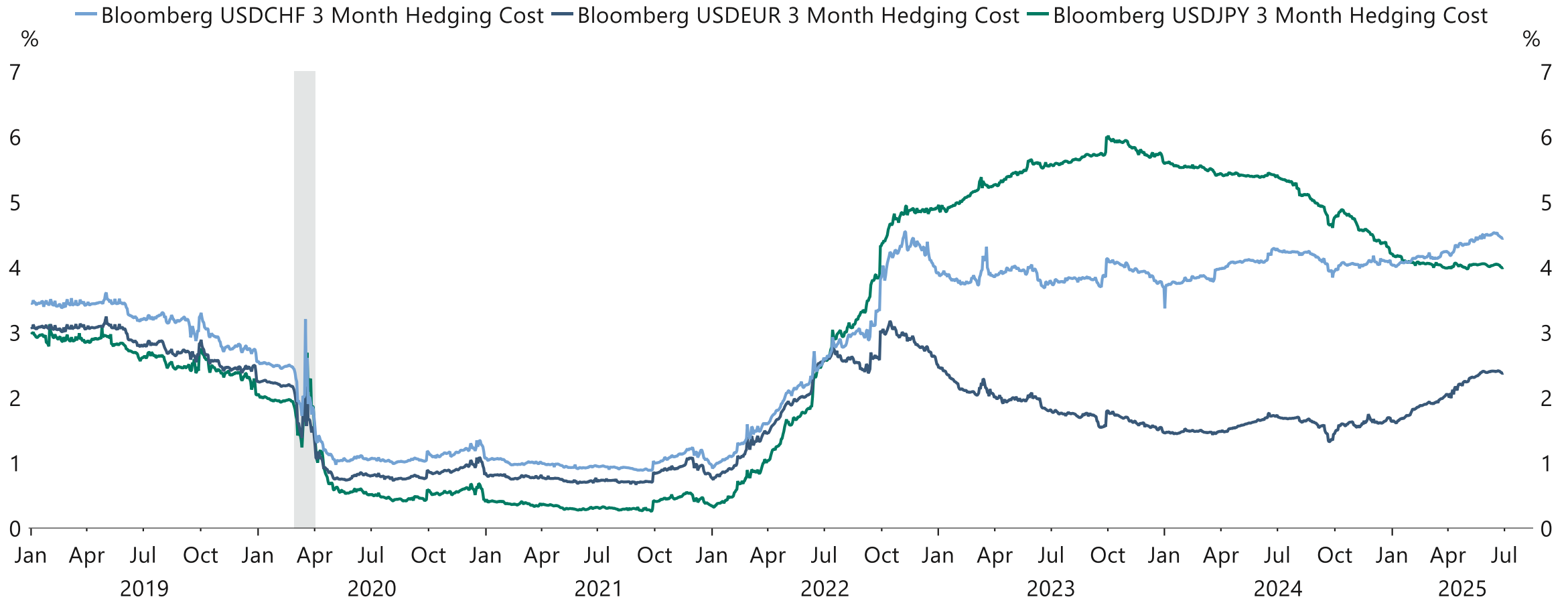
Forces pushing the US dollar higher

1. Rates higher for longer
2. Higher returns for investors on US assets
3. The world's reserve currency

Forces pushing the US dollar lower

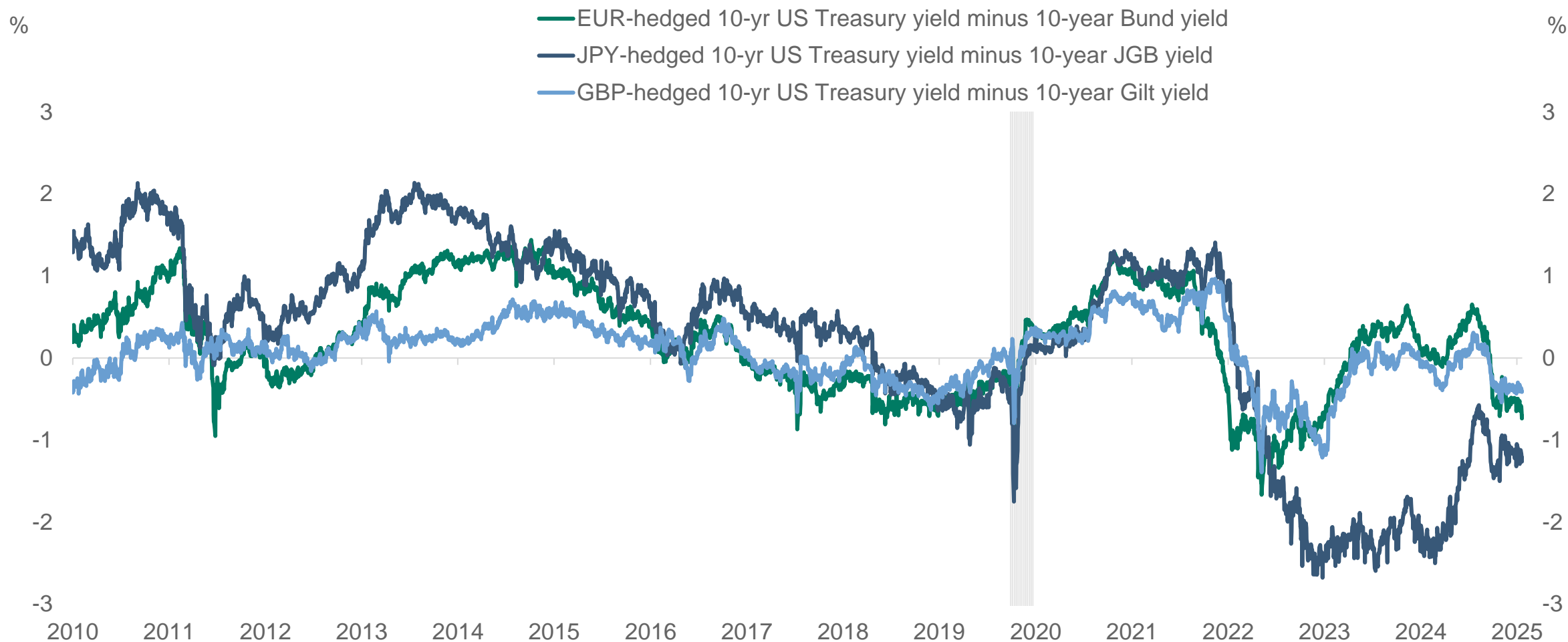
1. Policy uncertainty and fiscal concerns
2. Slowing economy and Fed cuts
3. Hedging activity

Hedging costs elevated for foreign investors



Source: Bloomberg, Macrobond, Apollo Chief Economist

Hedged yields still negative for foreigners



Disconnect between dollar and yield differential after the trade war started



Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: 1-year yield differential = 1-year German government bill minus 1-year US T-bill. pp = percentage points

The trade-weighted dollar has depreciated 10% since the beginning of the year



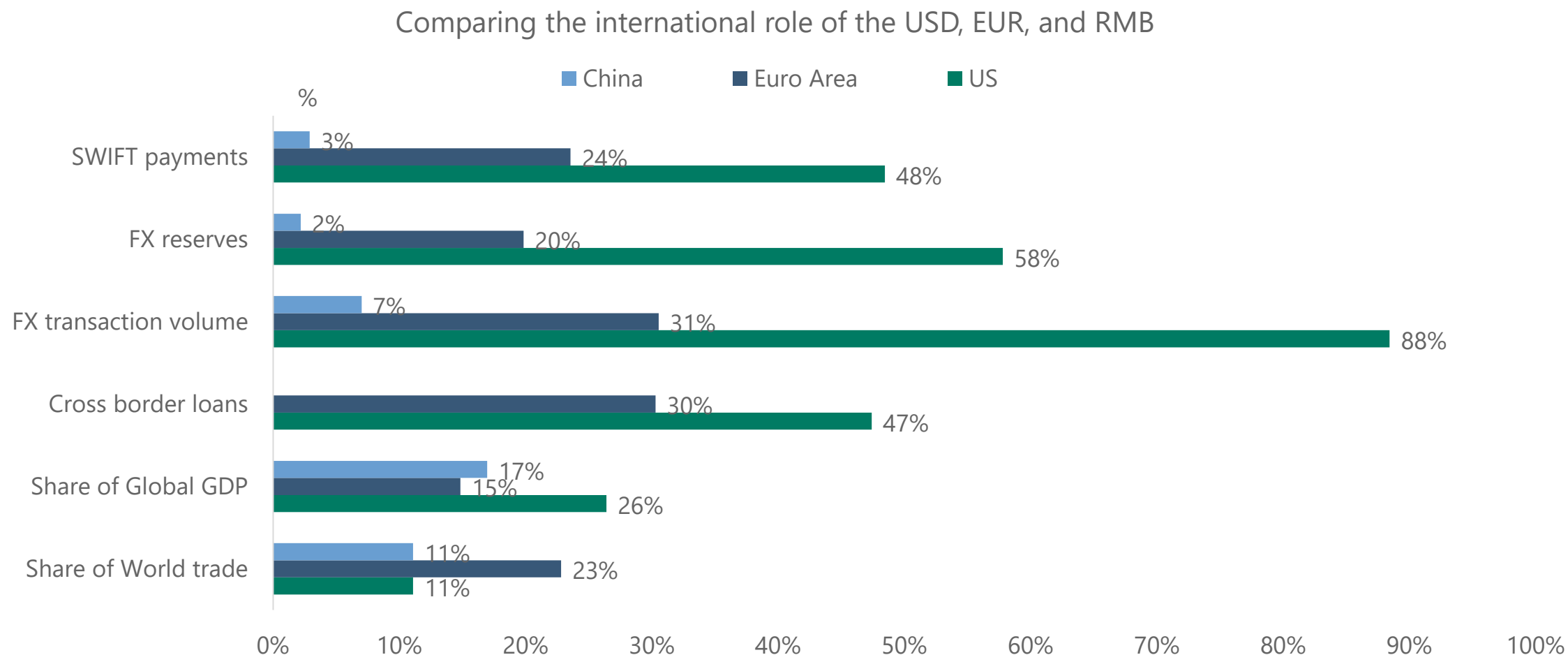
Source: Federal Reserve, Macrobond, Apollo Chief Economist

The United States is still exceptional

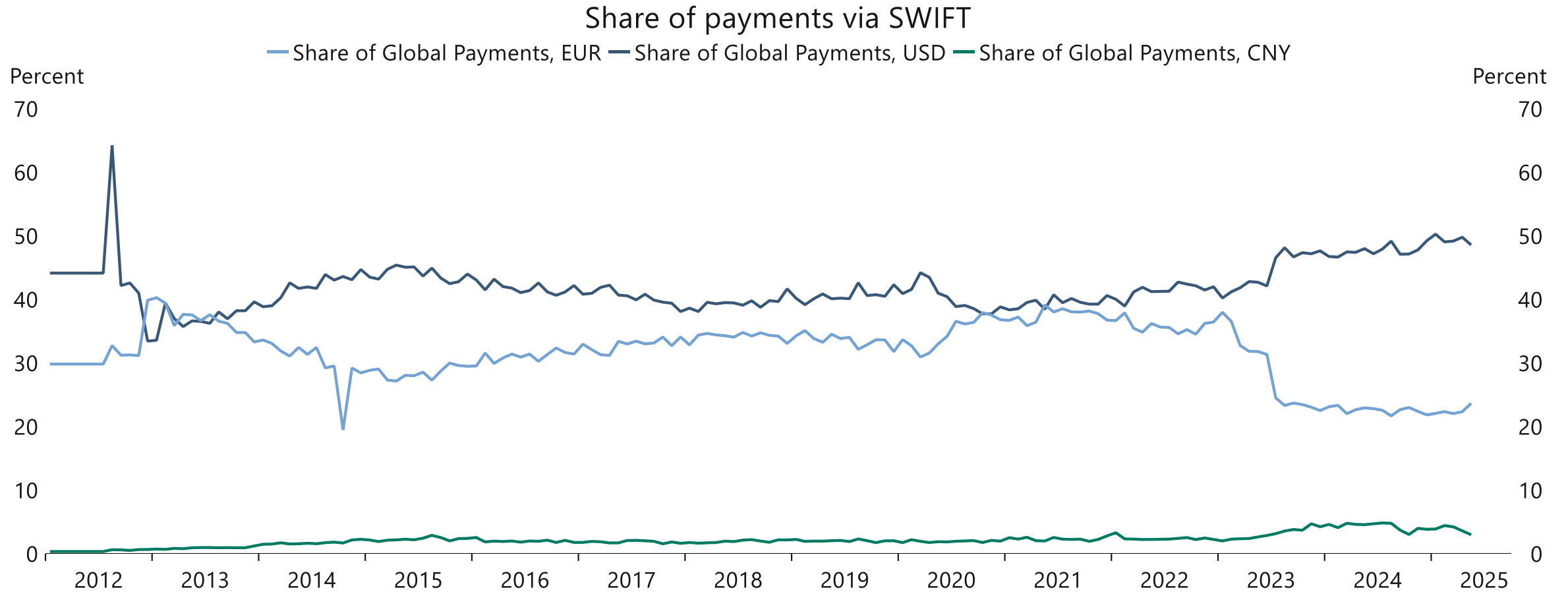
Characteristics of a reserve currency:

- Widespread use in global trade and finance
- Large and liquid financial markets
- Rule of law, economic, and political stability
- Ease of access and convertibility
- Confidence in the currency's long-term value

The US dollar is the world's reserve currency

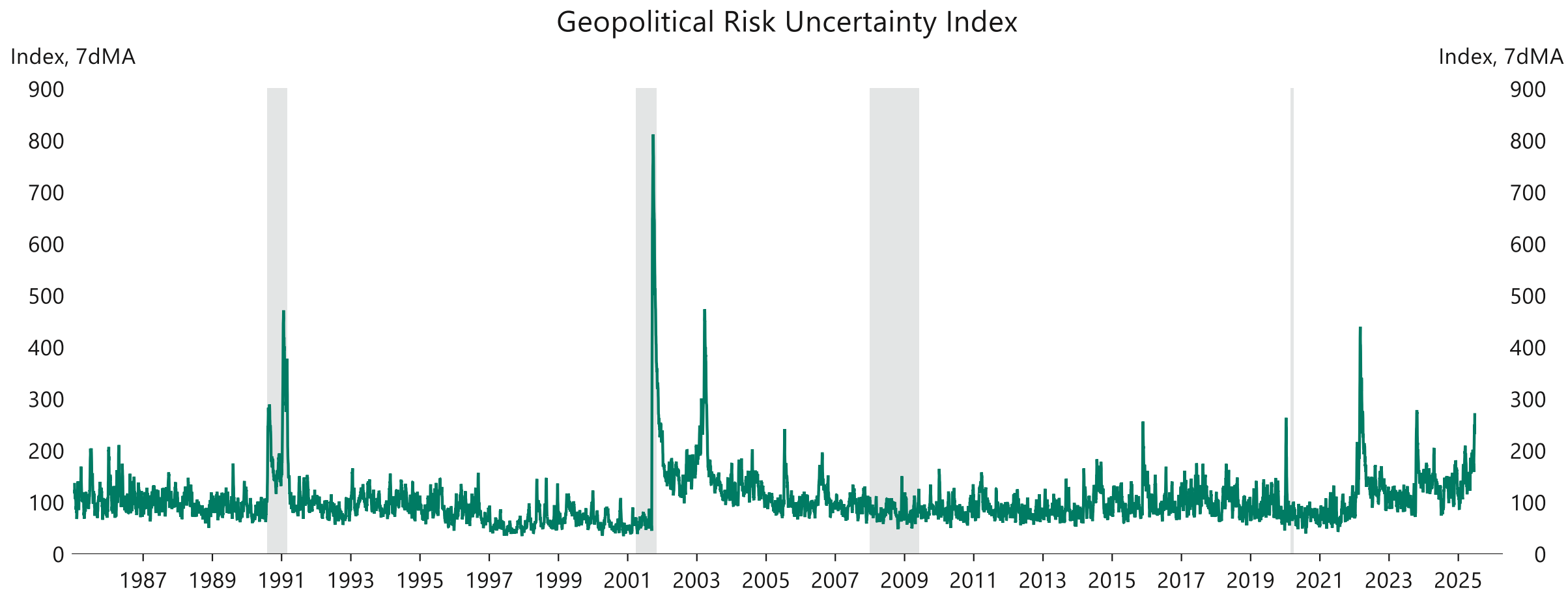


The US dollar is by far the most dominant currency in SWIFT payments



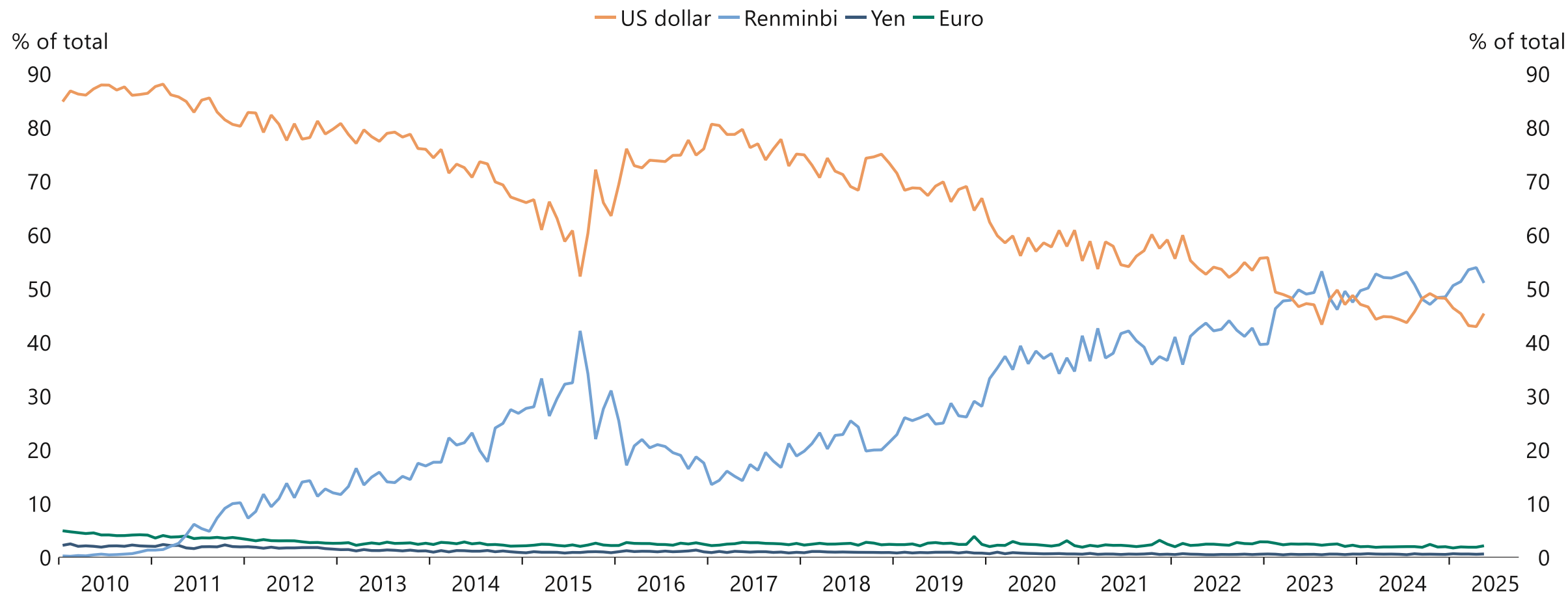
Source: SWIFT, Macrobond, Apollo Chief Economist

Geopolitical uncertainty lower today than historical peaks



Source: Bloomberg, Macrobond, Apollo Chief Economist

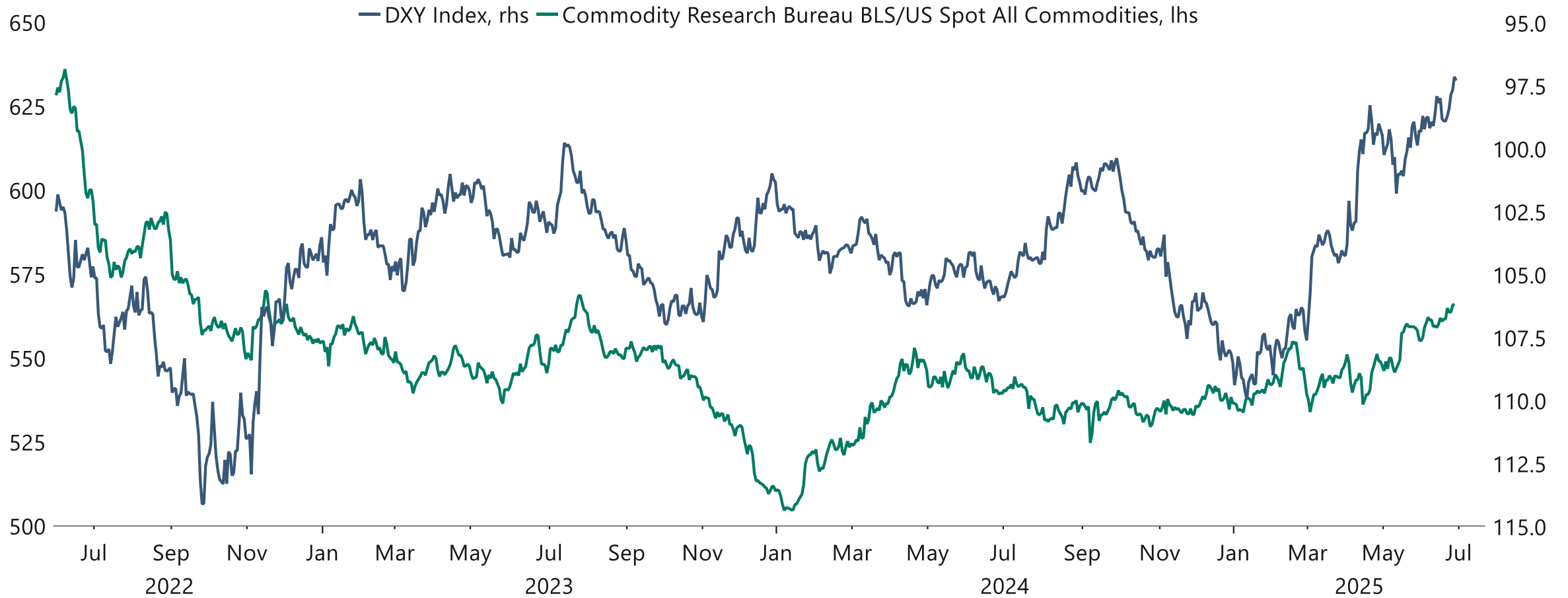
China: Outbound payments, by currency



Source: State Administration of Foreign Exchange (SAFE) of China, Macrobond, Apollo Chief Economist

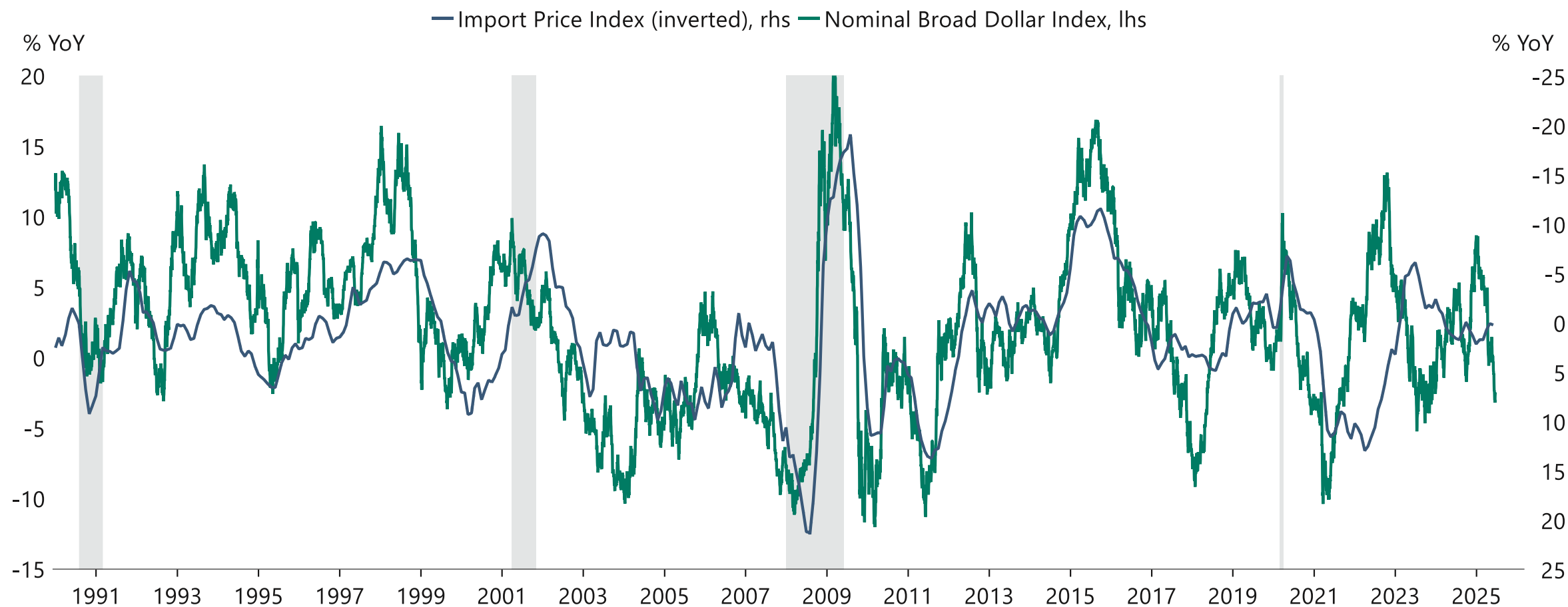
The impact of dollar depreciation on US inflation

Lower dollar normally puts upward pressure on commodity prices



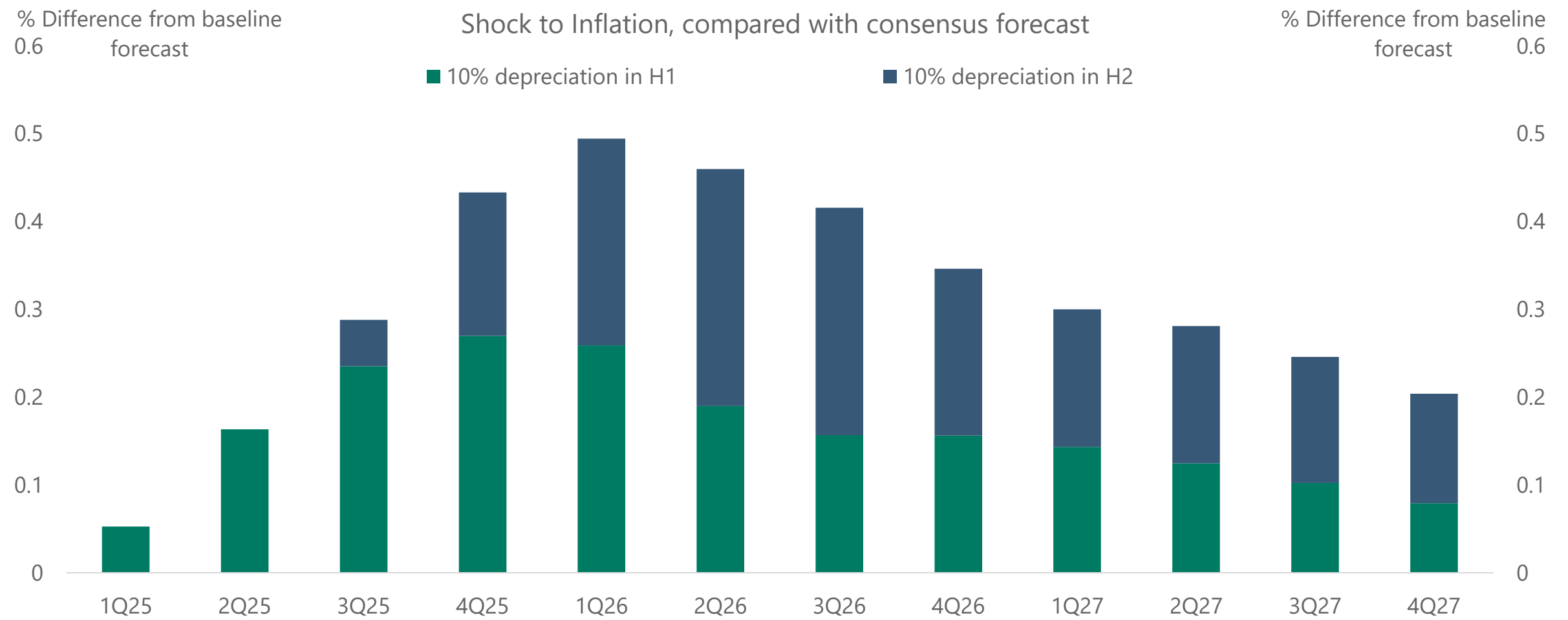
Source: Bloomberg, Macrobond, Apollo Chief Economist

Lower dollar implies higher import prices



Source: Federal Reserve, U.S. Bureau of Labor Statistics (BLS), Macrobond, Apollo Chief Economist

Impact on US CPI of a 10% and a 20% depreciation in the US dollar

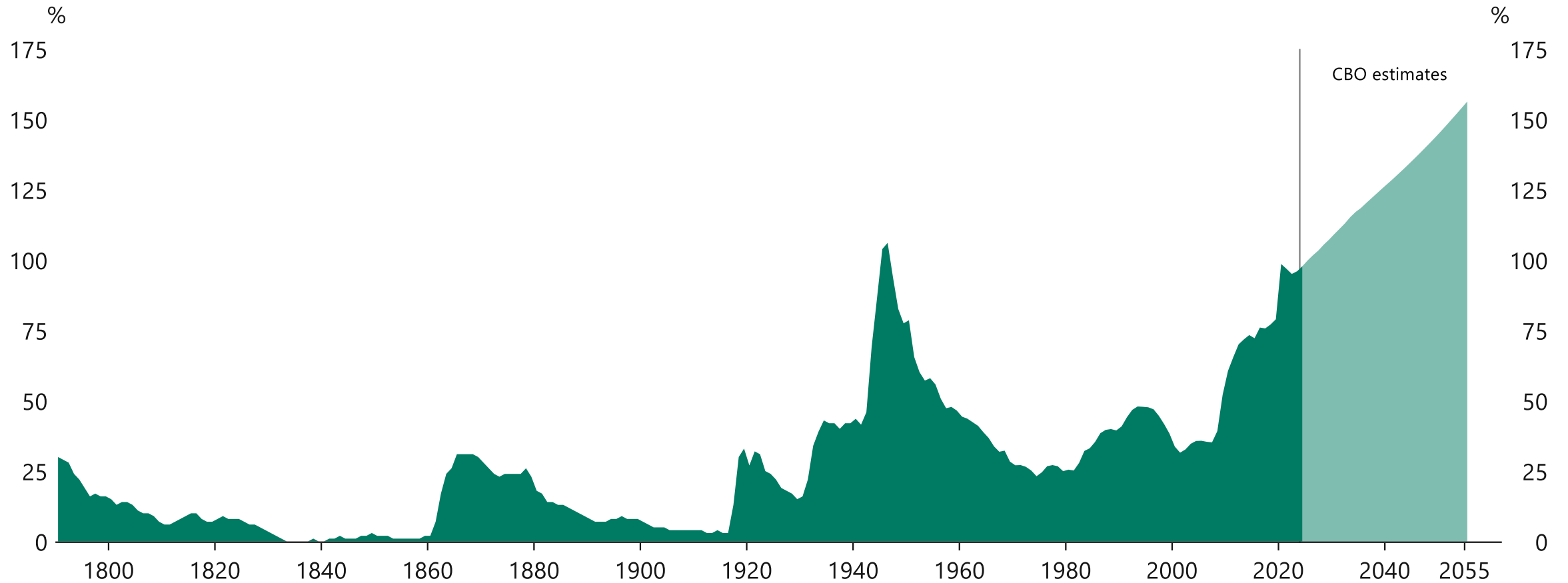


Source: Bloomberg SHOK model, Apollo Chief Economist. Note: 5% depreciation shock applied to Q1, Q2, Q3 and Q4.

The fiscal outlook

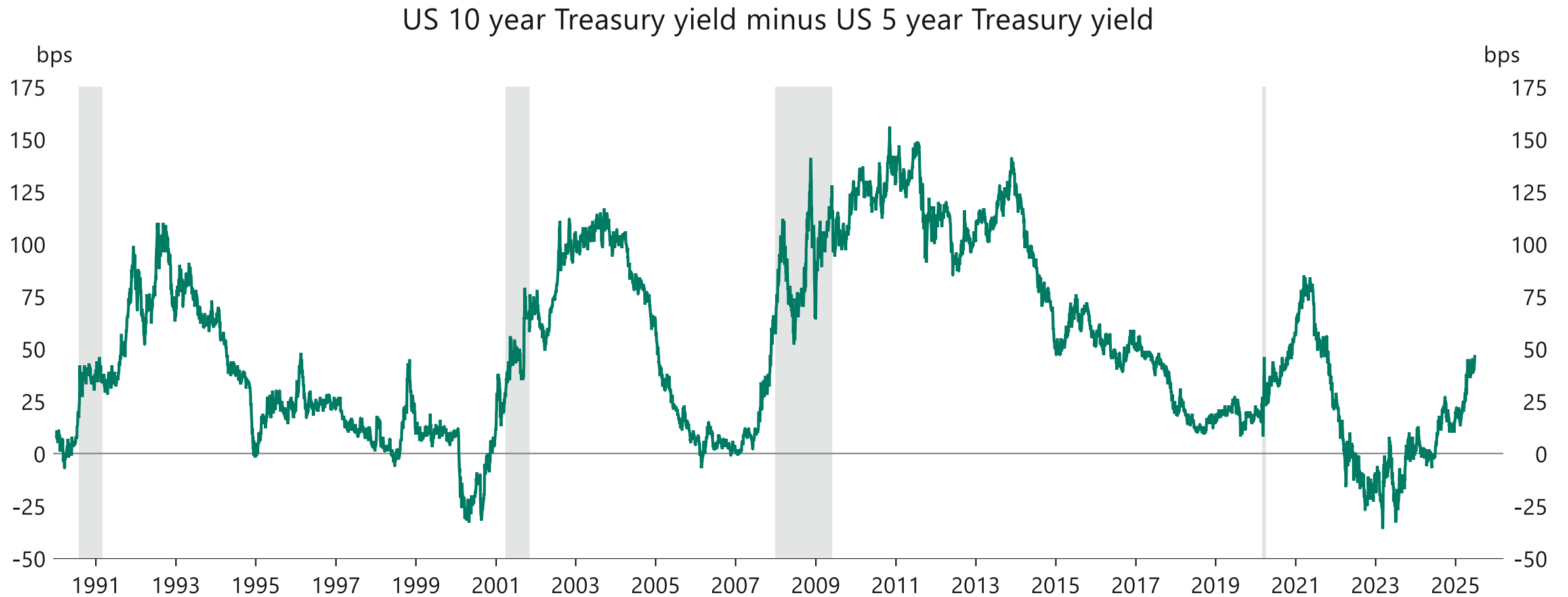
CBO: Under current policies, government debt outstanding will grow from 100% to 160% of GDP

Federal debt held by public (% GDP)



Source: U.S. Congressional Budget Office (CBO), Macrobond, Apollo Chief Economist

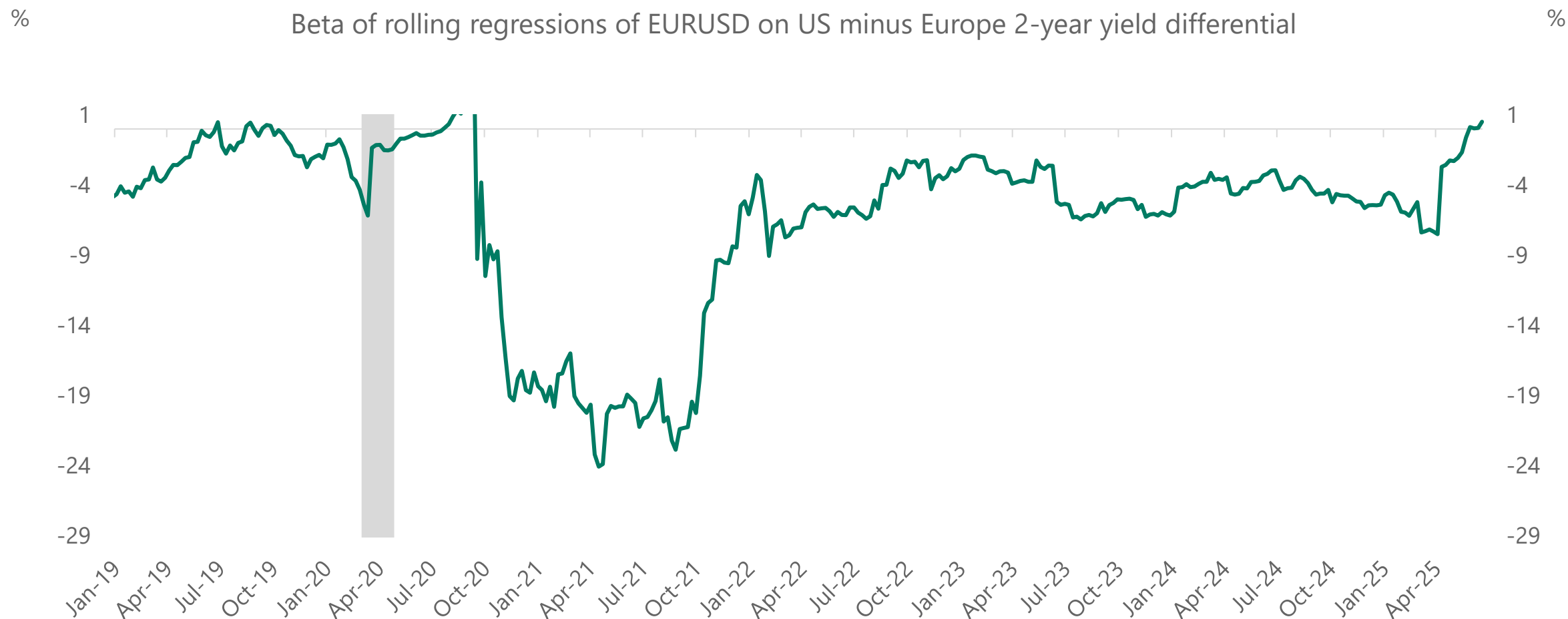
Gap between 10-year and 5-year yield widening



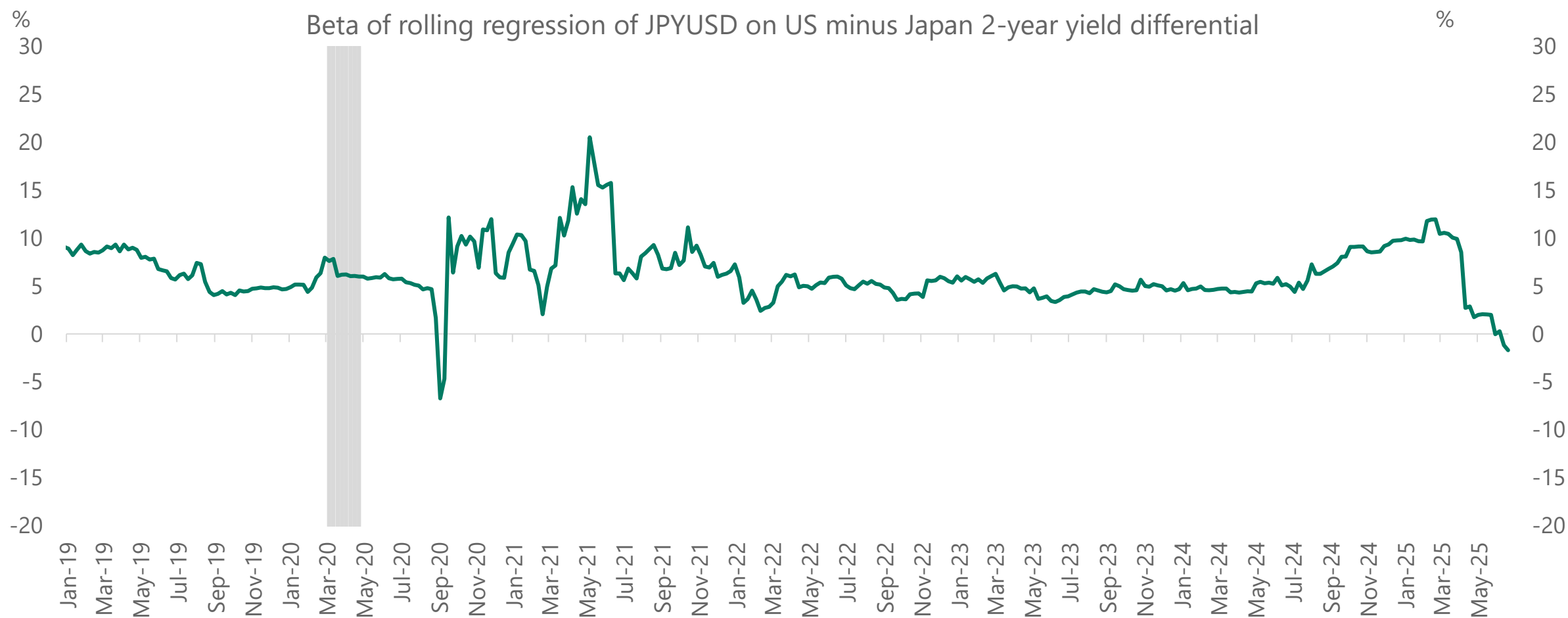
Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Dollar sensitivity to yield differentials

EUR: Dollar less sensitive to yield differentials

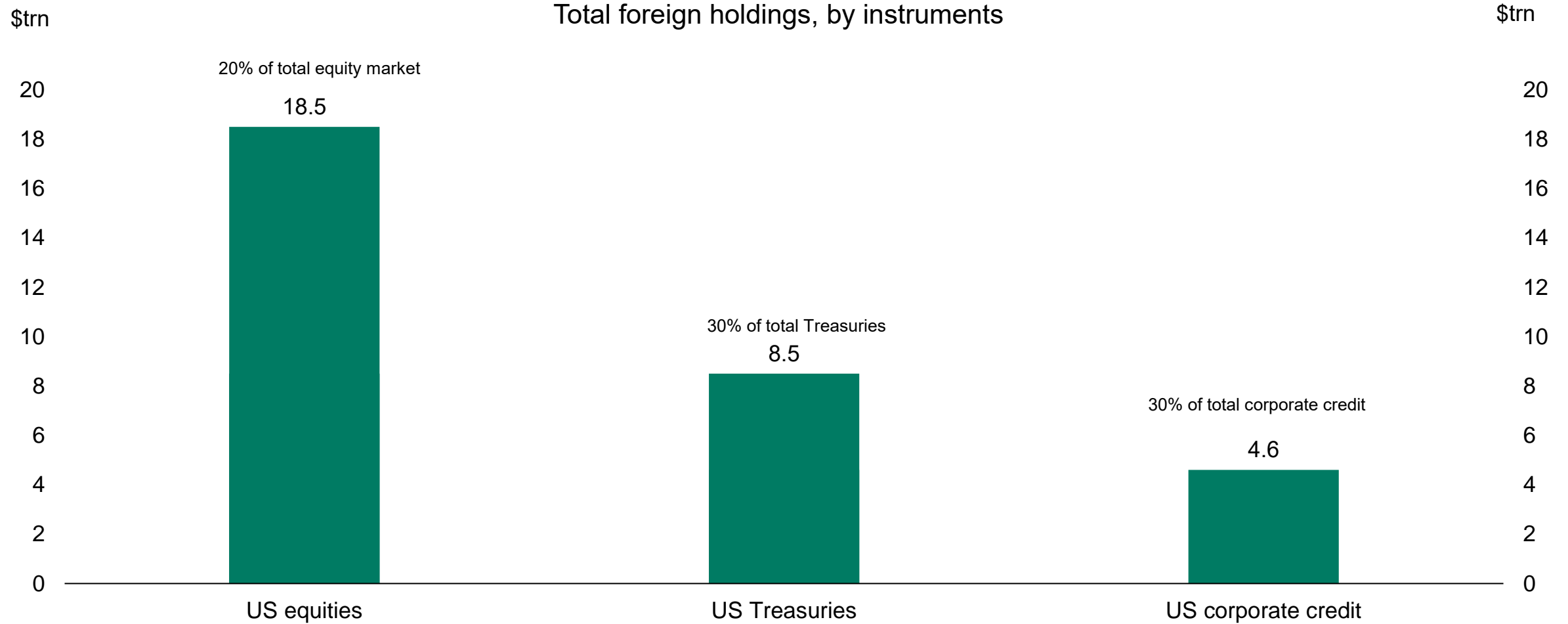


JPY: Dollar less sensitive to yield differentials



Total foreign holdings of US assets

Total foreign holdings of US equities, Treasuries, and US public credit





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Torsten Slok joined Apollo in August 2020 as Chief Economist and he leads Apollo's macroeconomic and market analysis across the platform.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist at Deutsche Bank where his team was top ranked in the annual Institutional Investor survey for a decade. Prior to joining Deutsche Bank Mr. Slok worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a Ph.D in Economics and has studied at the University of Copenhagen and Princeton University.