Cougar Global Viewpoints

From dominance to doubt: The U.S. dollar's future

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The U.S. Dollar Index, which measures the dollar against a basket of major currencies, peaked close to mid-January 2025. By April 21, it had declined almost 11% from its January high. The dollar's weakening was triggered by fears about U.S. President Donald Trump's aggressive policies and the damage they could do to the United States and global economies.

Concerns about rapidly growing debt and the cost for the U.S. federal government to service it also have weighed on the dollar. The government's interest payments have risen significantly because of the massive increase in debt levels over the past decade and higher interest rates. Interest costs are projected to reach a record 3.2% of U.S. gross domestic product (GDP) this year – exceeding the cost of defense and Medicare – and to grow to an estimated 5.4% of GDP by 2055, according to a U.S. Congressional Budget Office (CBO) analysis as of March 2025. This picture is not expected to improve as government debt issuance in the coming years will remain elevated. The CBO projects that federal debt held by the public will rise from 100% of GDP in Fiscal Year 2025 to 156% of GDP by 2055. This is bearish for U.S. Treasuries and the dollar.

Dollar weakening also has been accompanied by speculation that other currencies will dislodge the U.S. dollar from its place as a global reserve currency. More recently, Beijing has sought to elevate the renminbi's global status. We don't believe that the U.S. dollar will be undermined to a significant extent as a global reserve currency, but we do see central banks diversifying their banks' reserves. The freeze of Russia's reserve assets following the outbreak of war in Ukraine in 2022 has led to a decline in international U.S. dollar reserve assets, and this decline was matched by a rise in demand for gold reserves from central banks.

There is also evidence that foreign investors have been reducing their net inflows into the United States or even rotating from U.S. asset markets and the dollar into alternatives elsewhere, with euro-area assets and the euro currency being the greatest beneficiaries. Nevertheless, we believe a massive exodus from American assets remains unlikely.

A key aspect that's often overlooked is U.S. dollar dominance in cross-border transactions. U.S. adversaries are increasingly working to establish alternative payment infrastructures, including China's Cross-border Interbank Payment System, that are not based on the U.S. dollar. Nonetheless, these efforts are likely to be gradual and to face significant structural, technological and geopolitical hurdles before they meaningfully rival the dominance of the U.S. dollar. Capital Economics reported that about 90% of cross-border transactions are denominated in U.S. dollars – much higher than what the U.S.'s share of global trade or output would suggest.[1] Companies rely on the dollar, and switching to a different currency would involve considerable costs and transition challenges. Financial institutions and payment systems already are tailored to work efficiently with the dollar, making it more convenient for users. Moreover, a wide range of financial instruments – such as bonds, credit, and derivatives – are denominated in U.S. dollars. This reduces transaction costs and strengthens the dollar's widespread use, making it difficult to dislodge.

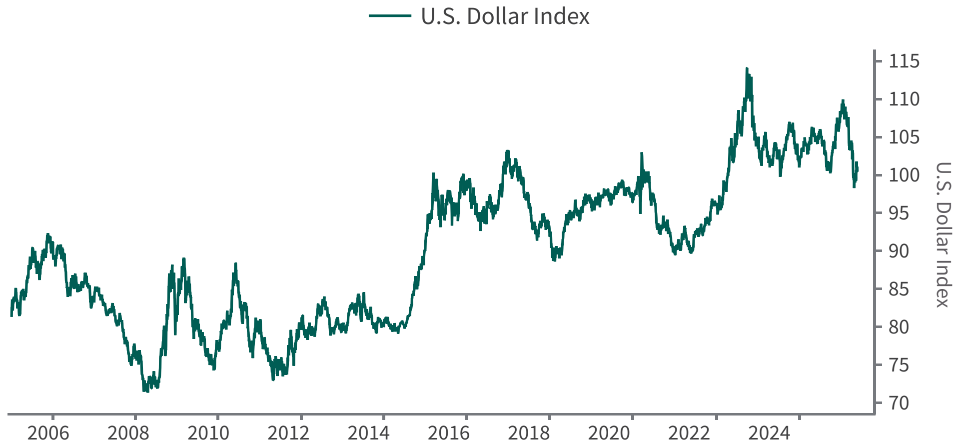
A great risk for the U.S. dollar is what is happening inside the United States. We believe there is a good chance the current president will increase the White House's influence over the U.S. Federal Reserve (Fed) when Jerome Powell's

[1] Capital Economics, April 28, 2025, accessible at: Dollar dominance will persist in a world without alternatives

term as Fed chair ends in May 2026, weakening its independence. This could undermine the U.S. dollar's standing.

We would not be surprised to see more U.S. dollar weakening down the road. The U.S. dollar remains expensive relative to its historical trend, including over the last 10 years (see chart to the right).

Even with recent weakening, the dollar is not cheap



Source: Bloomberg, Macrobond and Cougar Global Investments as of May 20, 2025

In summary: The trade war started by the U.S. administration and the subsequent fallout in financial markets have raised concerns about the role of the U.S. dollar within the global economy and international financial system. Although the financial markets have somewhat stabilized, we anticipate that concerns about growing U.S. debt, domestic policy uncertainty, and protectionism policies will continue to exert downward pressure on the U.S. dollar. We believe, however, that it's unlikely that the U.S. dollar will lose its dominance. Rather, we expect that the dollar will continue to provide the financial plumbing for the global economy.

substantial risks and generally should be part of the diversified portfolio of sophisticated investors. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Mortgage-Backed Securities are subject to credit, default risk, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extensions risk, the opposite of prepayment risk, and interest rate risk. Investing in IAU involves additional risks. The market price of the Shares will be as unpredictable as the price of gold has historically been and the price received upon the sale of Shares may be less than the value of the gold represented by them. Government bonds and Treasury bills are guaranteed by the U.S. Government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. The fund's concentrated holding will subject it to greater volatility than a fund that invests more broadly. The fast price swings of commodities will result in significant volatility in an investor's holdings. Precious metal investing is subject to substantial fluctuation and potential for loss. All indexes mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results. The indexes don't reflect charges, expenses, fees and is not indicative of any particular investment. Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, disease, and regulatory developments.

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Credit is a generic term for fixed income securities such as corporate bonds, mortgage- or asset-backed securities, municipal bonds, or emerging market bonds.

Derivatives are financial contracts with values that depend on a specific underlying asset, groups of assets, commodity, or an indicator such as a benchmark, and through which specific financial risks can be traded in financial markets in their own right.

Fund flow is the net of all cash inflows and outflows into and out of a particular financial asset, sector, or index. It typically is measured on a quarterly or monthly basis. Investors and others look at the direction of fund flows for indications about the health of specific securities and sectors or the overall market.

Gross domestic product (GDP) is the total value of goods and services provided in an economy during a specified period, often one quarter or one year.

Rotation describes the movement of investments in securities from one industry, sector, factor, or asset class to another as market participants react to or try to anticipate the next stage of the economic cycle.

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The U.S. Dollar Index is a measure of the value of the U.S. dollar relative to the value of a basket of currencies from most of the U.S.'s most significant trading partners.

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Cougar Global Investments is a global macroeconomic asset allocation manager that believes the goal of investing is to achieve compound annualized returns for clients. We use a disciplined portfolio construction methodology combining post-modern portfolio theory and risk management to pursue our clients' objectives.

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