

Weekly commentary

October 13, 2025

BlackRock

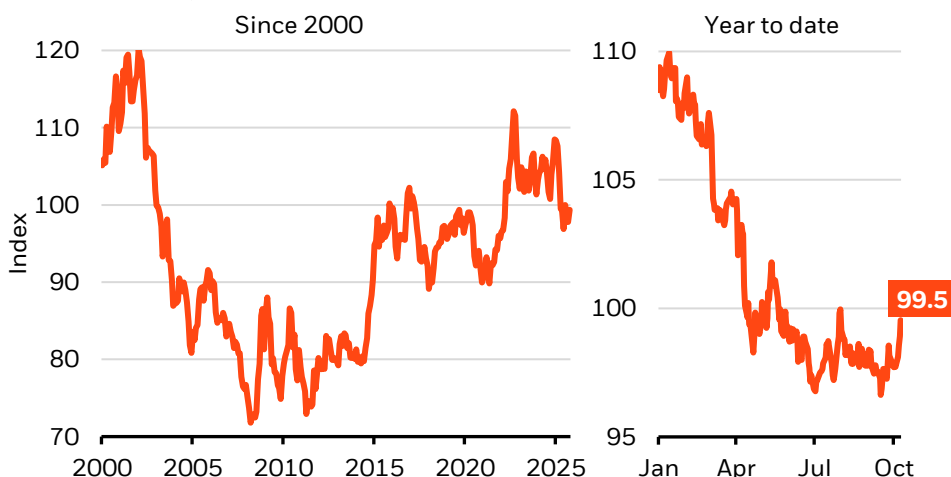
U.S. dollar drop not that unusual – yet

- We don't see this year's weaker U.S. dollar as a statement on U.S. assets. Instead, it reflects market pricing of Fed rate cuts. Yet its drivers could change fast.
- U.S. stocks slid from all-time highs on renewed U.S.-China trade tensions. Treasury yields dipped but stayed in a recent range. Gold hit a fresh record.
- The U.S. government shutdown is still delaying key macro readings. But the U.S. CPI will be released on Oct. 24 to provide a key input for the next Fed meeting.

The U.S. dollar's depreciation this year sparked questions about its haven status and a pullback from U.S. assets. We haven't seen evidence of that so far. We think the dollar has moved in step with historical drivers – not broken with them. The two main drivers of the dollar's slide are Federal Reserve rate cuts, consistent with surging U.S. stocks, and the return of term premium as global debt concerns come to the fore, in our view. We also eye how the drop boosts emerging market assets.

Dollar decline in context

U.S. dollar index, 2000-25



Past performance is not a reliable indicator of future results. Source: BlackRock Investment Institute, with data from Bloomberg, October 2025. Note: The left panel shows the evolution of the U.S. dollar trade-weighted index (DXY) since 2000, monthly data. The right panel shows the year-to-date evolution of DXY, daily data.

The U.S. dollar has weakened this year – mostly in the first half, including after the April 2 tariff announcements that also hit U.S. stocks and Treasuries. See the right chart. That unusual three-way drop raised questions about the U.S. dollar's reserve currency status and if U.S. assets could lose their appeal – a debate stoked by the summer focus on Fed independence. But we don't see evidence yet to support such concerns. Yes, the dollar has weakened, but it still looks historically strong versus other major currencies. See the left chart. And it has been mostly flat since the summer, even as tensions around Fed independence grew – holding steady against the euro and strengthening against the Japanese yen. If a structural shift were underway, the dollar would have broken out of its historical relationships with its usual drivers and also weakened against other developed market currencies.



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That is not what has happened. Instead, our analysis finds that the dollar's decline this year very much tracks with two historical drivers of its value. First, rate cut expectations. We find expected Fed easing accounts for about half of the dollar's drop. Lower rates erode the dollar's yield advantage over other major currencies. But on the flipside, Fed cuts support U.S. stock gains, already powered by the AI theme.

Second, the steepening of the yield curve as global debt concerns come to the fore. For years, investors flocked to long-term bonds based on their perceived stability, depressing term premium – or compensation for the risk of holding these bonds – below historic norms even as government debt mounted. We have long highlighted this as a fragile equilibrium that could not hold indefinitely. Indeed, term premium is now returning to more normal levels as concerns about the cost of servicing that debt mount. These fiscal challenges aren't unique to the U.S.; they are pushing up bond yields and weighing on developed market currencies across the board. That's why the U.S. dollar hasn't weakened relative to these currencies – but why all of them have weakened relative to gold.

We think lower rates and the AI theme will still support U.S. stocks but eye selective opportunities elsewhere. In Europe, we have favored Spanish equities, up nearly 60% this year in U.S. dollar terms, MSCI data show. In emerging markets, we prefer local currency debt, such as 10-year Brazilian government bonds that offer a yield of nearly 14%, according to Bloomberg data. A softer greenback means U.S. dollar-based investors get an added boost when converting back – take the Brazilian real, up nearly 12% this year, per Bloomberg. We also see selective opportunities in emerging market stocks: MSCI data show that South Korean and South African equities are up more than 55% this year in U.S. dollar terms. And as rising yields mean long-term developed market government bonds offer less reliable ballast against equity selloffs, we look to gold and bitcoin as potential diversifiers of risk and return.

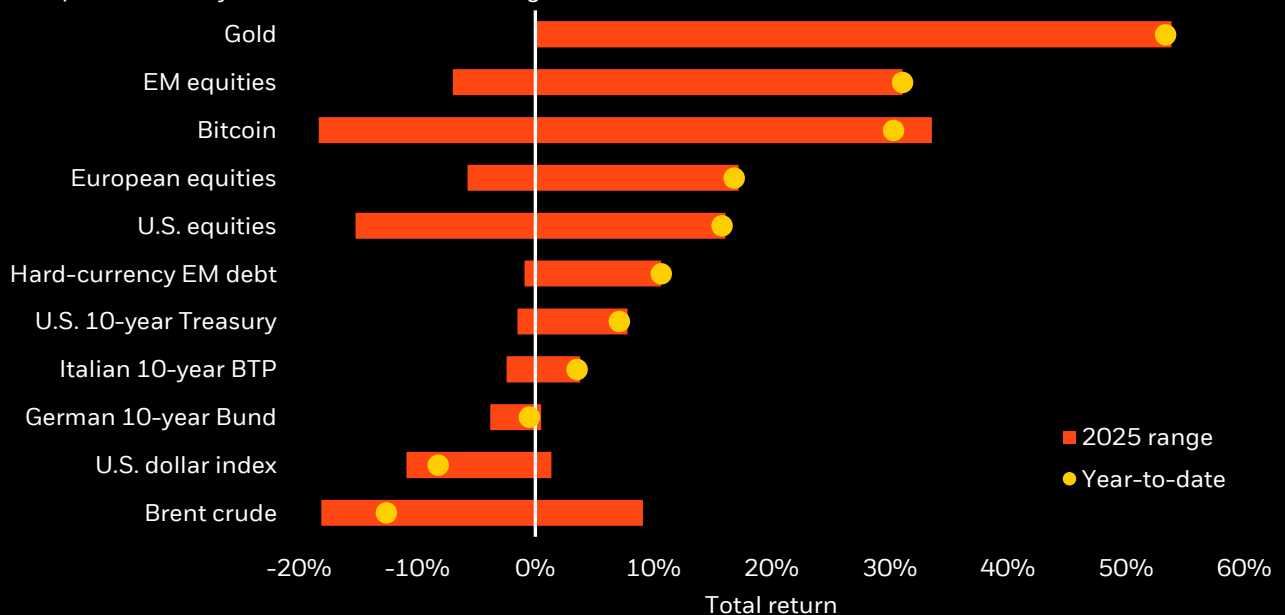
Bottom line: We see the U.S. dollar's slide tied to expected Fed rate cuts and fiscal concerns – not evidence its reserve status is under threat. We stay overweight U.S. stocks, like emerging markets and see gold and bitcoin as potential diversifiers.

Market backdrop

U.S. stocks slid last week after President Donald Trump on Friday threatened fresh tariffs on Beijing over its latest restrictions on rare earth exports and said a planned meeting with Chinese President Xi Jinping was now uncertain. U.S. 10-year Treasury yields dipped but remained in their recent range between 4.00-4.20%. Gold surged past \$4,000 per ounce to a new all-time high. The U.S. dollar index hit a two-month high against major currencies before retreating on the tariff news.

Assets in review

Selected asset performance, year-to-date return and range



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index.

Sources: BlackRock Investment Institute, with data from LSEG Datastream as of October 9, 2025. Notes: The two ends of the bars show the lowest and highest returns at any point year to date, and the dots represent current year-to-date returns. Emerging market (EM), high yield and global corporate investment grade (IG) returns are denominated in U.S. dollars, and the rest in local currencies. Indexes or prices used are: spot Brent crude, ICE U.S. Dollar Index (DXY), spot gold, spot bitcoin, MSCI Emerging Markets Index, MSCI Europe Index, LSEG Datastream 10-year benchmark government bond index (U.S., Germany and Italy), Bloomberg Global High Yield Index, J.P. Morgan EMBI Index, Bloomberg Global Corporate Index and MSCI USA Index.

Week ahead

Oct. 12	China trade balance	Oct. 15	China CPI and PPI
Oct. 16	U.S. PPI (scheduled)		

The ongoing U.S. government shutdown will likely delay the September CPI and PPI reports. The absence of the key data will keep markets focused on private sector or alternative sets of data until there is a resolution of the shutdown, which could then see this backlog of government data released over subsequent days. The Bureau of Labor Statistics said late last week it would release the latest U.S. CPI on Oct. 24.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, October 2025

Tactical		Reasons
U.S. equities		A softening labor market gives the Fed space to cut, helping ease political tensions from higher interest rates. We think rate cuts amid a notable slowing of activity without recession should support U.S. stocks and the AI theme.
Using FX to enhance income		FX hedging is now a source of income, especially when hedging euro area bonds back into U.S. dollars. For example, 10-year government bonds in France or Spain offer more income when currency hedged than U.S. investment grade credit, with yields above 5%.
Seeking alpha sources		We identify sources of risk taking to be more deliberate in earning alpha. These include the potential impact of regulatory changes on corporate earnings, spotting crowded positions where markets could snap back and opportunities to provide liquidity during periods of stress.
Strategic		Reasons
Infrastructure equity and private credit		We see opportunities in infrastructure equity due to attractive relative valuations and mega forces. We think private credit will earn lending share as banks retreat – and at attractive returns.
Fixed income granularity		We are overweight short-term inflation-linked bonds as U.S. tariffs could push up inflation. Within nominal bonds, we favor developed market (DM) government bonds outside the U.S. over global investment grade credit, given tight spreads.
Equity granularity		We favor emerging over developed markets yet get selective in both. Emerging markets (EM) at the cross current of mega forces – like India – offer opportunities. In DM, we like Japan as the return of inflation and corporate reforms brighten the outlook.

Note: Views are from a U.S. dollar perspective, October 2025. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular funds, strategy or security.

Tracking five mega forces

Mega forces are big, structural changes that affect investing now – and far in the future. As key drivers of the new regime of greater macroeconomic and market volatility, they change the long-term growth and inflation outlook and are poised to create big shifts in profitability across economies and sectors. This creates major opportunities – and risks – for investors. See our [web hub](#) for our research and related content on each mega force.

- 1. Demographic divergence:** The world is split between aging advanced economies and younger emerging markets – with different implications.
- 2. Digital disruption and artificial intelligence (AI):** Technologies are transforming how we live and work.
- 3. Geopolitical fragmentation and economic competition:** Globalization is being rewired as the world splits into competing blocs.
- 4. Future of finance:** A fast-evolving financial architecture is changing how households and companies use cash, borrow, transact and seek returns.
- 5. Transition to a low-carbon economy:** The transition is set to spur a massive capital reallocation as energy systems are rewired.

Granular views

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, October 2025

We have lengthened our tactical investment horizon back to six to 12 months. The table below reflects this and, importantly, leaves aside the opportunity for alpha, or the potential to generate above-benchmark returns – especially at a time of heightened volatility.

		Underweight	Neutral	Overweight	Previous view	
Asset		View				Commentary
Equities	Developed markets					
	United States			+1		We are overweight. Policy-driven volatility and supply-side constraints are pressuring growth, but we see AI supporting corporate earnings. U.S. valuations are backed by stronger earnings and profitability relative to other developed markets.
	Europe		Neutral			We are neutral. Greater unity and a pro-growth agenda across Europe could boost activity, yet we are watching how the bloc tackles its structural challenges before turning more optimistic. We note opportunities in financials and industries tied to defense and infrastructure spending.
	UK		Neutral			We are neutral. Political stability could improve investor sentiment. Yet an increase in the corporate tax burden could hurt profit margins near term.
	Japan			+1		We are overweight given the return of inflation and shareholder-friendly corporate reforms. We prefer unhedged exposures as the yen has tended to strengthen during bouts of market stress.
	Emerging markets		Neutral			We are neutral. Valuations and domestic policy are supportive. Yet geopolitical tensions and concerns about global growth keep us sidelined for now.
	China		Neutral			We are neutral. Trade policy uncertainty keeps us cautious, and policy stimulus is still limited. We still see structural challenges to China's growth, including an aging population.
	Short U.S. Treasuries		Neutral			We are neutral. We view short-term Treasuries as akin to cash in our tactical views and we remove this overweight to turn neutral long-term Treasuries.
	Long U.S. Treasuries		Neutral			We are neutral. Yields could fall further as a softening labor market gives the Fed space to cut without its independence being called into question – even if the pressures pushing up yields persist.
	Global inflation-linked bonds		Neutral			We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
Fixed Income	Euro area govt bonds		Neutral			We are neutral. Yields are attractive, and term premium has risen closer to our expectations relative to U.S. Treasuries. Peripheral bond yields have converged closer to core yields.
	UK gilts		Neutral			We are neutral. Gilt yields are off their highs, but we expect more market attention on long-term yields through the government's November budget, given the difficulty it has had implementing spending cuts.
	Japanese govt bonds	-1				We are underweight. We see room for yields to rise further on Bank of Japan rate hikes and a higher global term premium.
	China govt bonds		Neutral			We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.
	U.S. agency MBS			+1		We are overweight. We find income in agency MBS compelling and prefer them to U.S. Treasuries for high-quality fixed income exposure.
	Short-term IG credit			+1		We are overweight. Short-term bonds better compensate for interest rate risk.
	Long-term IG credit		-1			We are underweight. Spreads are tight, so we prefer taking risk in equities. We favor Europe over the U.S.
	Global high yield		Neutral			We are neutral. Spreads are tight, but corporate fundamentals are solid. The total income makes it more attractive than IG.
	Asia credit		Neutral			We are neutral. We don't find valuations compelling enough to turn more positive.
	Emerging hard currency		-1			We are underweight. Spreads to U.S. Treasuries are near historical averages. Trade uncertainty has eased, but we find local currency EM debt more attractive.
	Emerging local currency		Neutral			We are neutral. Debt levels for many EMs have improved, and currencies have held up against trade uncertainty. We prefer countries with higher real interest rates.

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