GLOBAL
Insight
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Wealth Management

Perspectives from the Global Portfolio Advisory Committee April 9. 2026

An evolving role for the dollar and the Fed

Atul Bhatia, CFA – Minneapolis

With war and geopolitics dominating headlines, it's easy to overlook slower-moving changes in the investment background. We think it is important for investors to re-examine some long-held assumptions on policy impacts and investor behavior.

It's easy to let preconceived notions slip into portfolio construction and investment analysis. Background ideas on policymaking and the relative importance of different indicators can become baked into thinking, without being directly reviewed.

This is generally a no-harm, no-foul situation: these conditions change slowly and infrequently, although when they do change, the impact can be great. Prior to Silicon Valley Bank's failure in March 2023, for instance, we think few investors considered the impact of unrecognized marked-to-market bond losses on depositor behavior. It was a reasonable assumption, until it wasn't. The result was a sharp disruption across regional banks.

Looking ahead, we see two areas where prior assumptions, we believe, may no longer hold true. One is on the dollar's ubiquity in trade and savings, and the second is the primacy of monetary policy in creating investment conditions.

Dollars, dollars everywhere

When it comes to currency allocation, the dollar usually wins by default. Eurozone sovereign debt was issued by individual countries, many of which came with high perceived credit risk. This left investors with too few investment vehicles for euro holdings. Ditto Japan, where extremely large government debt was combined with anemic interest rates, a double whammy for yen holders. Other currency options were just too small or too regional to rival the greenback. The result was no acceptable alternative for the U.S. dollar.

But it's important to remember what's deemed acceptable changes with circumstances. A rowboat is not a viable means of transport in the North Atlantic, but for passengers on the Titanic, that calculus quickly changed. While the U.S. is by no means a sinking ship, there are two factors that we believe weigh against the dollar continuing to be viewed as the only game in town for savers:

- **Broader global investment opportunities:** We believe European military spending is likely to increase, and eurozone-wide debt would be a reasonable funding mechanism, giving investors the type of saving vehicle they have been seeking. At the same time, rising yields in Japan have put the yen back on the table.
- **Higher perceived cost to holding U.S. dollars:** Owning dollars and Treasuries makes someone subject to U.S. law and policy. When that power was wielded for largely political goals, traditional allies likely felt there was little risk created by entering that ecosystem. But if the power is wielded—by the current administration or a future one—for strictly commercial ends, then every nation is potentially subject to pressure.

For perspectives on the week from our regional analysts, please see pages 3–4.

For important disclosures, required non-U.S. analyst disclosures, and authors' contact information, see page 6.

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Our argument is not that the dollar is doomed to free fall. The Americas are leaders in energy and food production and protected by two oceans—a nice place on the planet during times of rising tension.

Instead, our contention is that changing conditions make it increasingly difficult to consider a fully dollarized portfolio as sufficiently diversified, and that investors need to build exposure to a broader set of developed market currencies.

Fiscal over Fed

For almost 30 years leading up to the global financial crisis (GFC), it was the age of monetary policy in the United States. There were exceptions, such as the savings and loan crisis, but in general, monetary policy drove the bus when responding to the business cycle.

This was less by economic design than political reality. Outside of the automatic stabilizers of tax receipts and unemployment benefits, fiscal policy moves meant legislation, and it was tough and slow to shepherd a bill through the various subcommittees and votes required to make law. Monetary policy was fast and effective, so it was the response mechanism of choice.

Since the GFC, and even more since the COVID-19 pandemic, we see both sides of that framework coming under pressure.

On the fiscal side, we've seen the unleashing of the federal balance sheet. The scale of the GFC response was massive, and, we believe, it taught Washington that pushing the deficit higher had few costs and brought immediate gratification: higher growth, rising asset prices, and happy constituents. The fact that this painless deficit expansion was only possible because of a massive private sector contraction was conveniently forgotten. Since then, the federal budget deficit has shifted from its prior baseline of about two percent of GDP to approximately six percent of GDP, an unsustainable pace of debt accumulation, in our view.

We've also seen a weakening of the procedural hurdles that often kept fiscal policy on the sidelines. As the current administration has shown, significant actions can be taken via executive order or through broad interpretation of existing legal authority. While not all of the moves pass court muster, we think non-legislative activity is likely to continue and increase.

Monetary policymaking has not undergone the same degree of evolution, but the link between the Federal Reserve's action and the broader economy has weakened, in our view. The disconnect comes because the Fed operates by manipulating overnight interest rates, but the economic heavy lifting comes from changes in longer-term borrowing rates, particularly the 10-year rate. That maturity has significant influence on mortgage rates, corporate borrowing costs, and the valuation of long-dated investments.

Historically, Fed moves on the overnight rate were transmitted with varying degrees of success to longer-term interest rates. The current cycle, however, stands out for the significant disconnect. While the Fed has cut rates by 1.75 percent since September 2024, 10-year Treasury yields are roughly 0.6 percent higher in that period.

This type of deviation is not unprecedented. In the early 2000s, for instance, the 10-year was essentially unchanged despite rising Fed policy rates, but the current episode is the most notable example of 10-year yields rising despite a Fed cutting cycle.

While it's possible that the current episode is an outlier, we think there are reasons to believe that rate-cut cycles may not be able to stimulate as well as they have in the past. To begin with, the recent bout of inflation has weakened the Fed's credibility in terms of price stability, and that's likely to create a lingering risk premium in longer yields.

More importantly, we believe the trend in fiscal policy is working against the monetary lever. Significant federal budget deficits on top of extremely large debt burdens make it more difficult for markets to digest new Treasury issuance, and policy uncertainty tends to raise the cost of borrowing.

Shifting sands

Our view is that the evolving role for the dollar and the challenges facing monetary policymakers make this a good moment for investors to re-evaluate the unstated assumptions that many of us bring to portfolio building. In particular, we think investors need to appreciate how federal government actions can influence Treasury demand, and how currency diversification can play a risk-mitigating role in constructing a portfolio.

UNITED STATES

Phil d'Entremont, CFA – Minneapolis

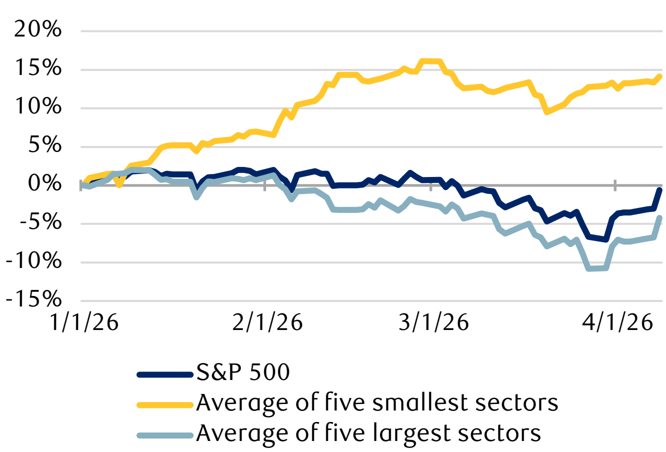
- **U.S. stock indexes saw some relief.** News of a potential U.S.-Iran ceasefire sent the S&P 500 up 2.5% on Wednesday as West Texas Intermediate and Brent crude oil prices dropped over 10% on the day. Despite the continued missile and drone launches in the Middle East, equity and commodity market participants appear eager for a recovery trade and a return to business as usual.

- **The S&P 500 remains just shy of its all-time high.** Wednesday's close of 6,782 puts the S&P 500 down just under 3% from its Jan. 27 peak. This figure leaves the index down only 0.6% year to date—but don't tell active managers that, as the path to outperforming an S&P 500 benchmark would have required large, non-consensus positioning to start the year. The five highest-weighted sectors in the S&P 500 are negative to start the year while the lowest-weighted five are positive, led by Energy (+30.6%). The chart shows the average of the five largest (Information Technology, Financials, Communication Services, Consumer Discretionary, and Health Care) versus the average of the five smallest sectors (Consumer Staples, Energy, Utilities, Materials, and Real Estate). There is a difference of over 18%, providing what we view as a wide opportunity set for active investors willing to search for opportunities.

- **Focus shifts to Islamabad heading into the weekend.** Vice President J.D. Vance is expected to head the U.S. negotiating team for peace talks with Iran on Saturday morning local time in Pakistan's capital, where discussions will likely focus on reopening the Strait of Hormuz to shipping and the future of uranium enrichment in Iran. RBC Capital Markets, LLC's Head of Global Commodity Strategy and Middle East & North Africa (MENA) Research Helima Croft notes that "Regardless of the outcome of the talks, unblocking the Strait of Hormuz will prove protracted, as a number of countries and companies will resist coordination of passage and payment with Iran."

Smaller S&P 500 sectors outperforming in 2026

Year-to-date returns



Smallest sectors: Consumer Staples, Energy, Utilities, Materials, Real Estate. Largest sectors: Information Technology, Financials, Communication Services, Consumer Discretionary, Health Care.

Source - RBC Wealth Management, FactSet, Standard & Poor's

CANADA

Elizabeth Grant & Zachariah Muhn – Toronto

- **Canadian Prime Minister Mark Carney's Liberal administration is nearing a majority.** Since it came into power in the 2025 early election, five opposition lawmakers have defected, or "crossed the floor," to join the Liberal caucus. Carney's government now sits one seat away from controlling a majority of parliamentary votes, which would renew the imperative to pursue legislative goals with less reliance on opposition party support and reduce the likelihood of a near-term federal election, in our opinion. With a majority, Carney could more easily drive initiatives to increase Canada's natural resource exports to global markets, reduce trade reliance on the U.S., increase defence spending with an emphasis on domestic production, and ease major infrastructure approval processes. Three special elections to fill vacant seats are scheduled for the coming weeks, two of which are in ridings where the Liberals are projected to win according to polling data.

- **Canada's trade deficit widened to CA$5.7 billion in February, reflecting a divergence between export and import growth.** Exports grew at 6.4% but were offset by larger import growth of 8.4%, driven by firmer imports of equipment and consumer goods and a surge of gold imports from the United States. Exports to non-U.S. destinations increased by 10.5% this month and 50.8% from a year ago, with gold shipments to the UK and Australia driving much of this growth. However, import growth was also driven by Canadian gold purchases, which accounted for a third of the nominal increase in imports and almost half of the total volume increase, controlling for price changes. RBC Economics notes that stronger imports of equipment and consumer goods are positive indicators for Canadian business investment and consumer spending. Looking at tariffs, the U.S. average effective import tariff rate on Canada was 3.2% in February, and 88% of Canadian exports to the U.S. continued to cross the border duty-free. According to RBC Economics, the overall U.S. effective tariff rate decreased to 8.4% from 9.8% in January, coinciding with the U.S. Supreme Court ruling against the broad-based International Emergency Economic Powers Act (IEEPA) tariffs and their replacement with a 10% blanket rate on non-USMCA-compliant imports. While this change had a limited impact on Canada's tariff rate due to IEEPA tariff exemptions, we believe it will likely lower the average U.S. tariff rate on imports to Canada from other regions, suggesting modest relief in the broader trade environment.

UK & EUROPE

Guy Foster, CFA – London

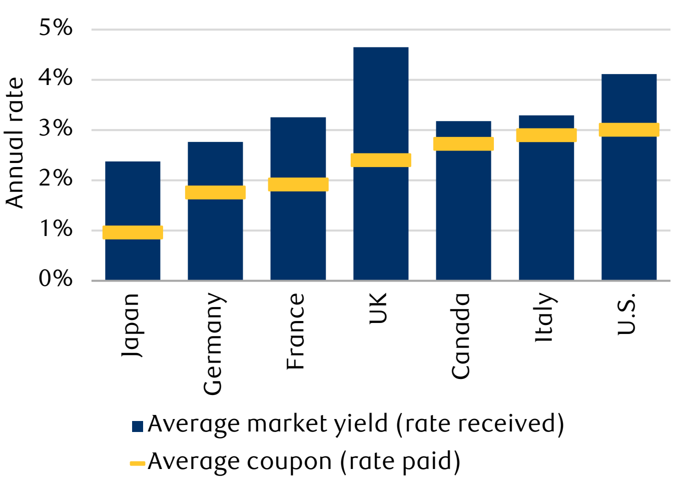
- In recent weeks, we discussed how Europe is vulnerable to continued energy disruption. **As such, we think Europe's markets (equity, fixed income, and currencies) would be major beneficiaries if the U.S.-Iran ceasefire arrangement holds, particularly if it were to evolve into a lasting resolution.** We're conscious of the challenges that lie between the eleventh-hour agreement earlier this week and the resumption of free passage of tankers through the Strait of Hormuz.

- **Many European states have responded to the energy shock with measures to protect households from the economic impact, but that comes at a cost to public finances.** Any relief from this would be helpful to European states that have seen substantial increases in borrowing costs.

- **European currencies and bonds would all likely benefit from any easing of hostilities, in our opinion.** UK bonds, in particular, offer the highest yields in the G7 because of the tendency to have higher interest rates. Policy is slightly restrictive already, so we believe there is a weaker case for interest rate increases. Despite such high yields, the specifically long-dated nature of UK funding means that it has been protected to some extent from the sharp increases of bond yields in recent years. Therefore, despite its bond yields being the highest in the G7, the rate it pays (the coupon on its bonds) remains close to average.

- As we have pointed out before, the UK bond market and sterling closely reflect the economic reality of the UK economy; however, the UK equity market is more international and very diversified across sectors. **We assess that the relatively high weightings in defensives and energy mean that it benefits less than other major European equity markets from an easing of hostilities.**

UK government yields are the highest in the G7 despite more moderate financing costs



Source - RBC Wealth Management, Bloomberg

ASIA-PACIFIC

Belmen Woo – Singapore

- **Asian risk assets remained sensitive to developments in the Middle East this week, after U.S. President Donald Trump announced a two-week ceasefire with Iran on Tuesday.** However, the rally on the initial news lost momentum as markets remained cautious amid limited clarity on the ceasefire's durability and lingering risks of further energy supply disruptions.

- In Japan, longer-dated government bond (JGB) yields continued to trade near the upper bound of their recent range ahead of the Bank of Japan (BoJ) policy meeting later this month. Commentary from former BoJ officials suggested that further rate hikes may be needed to avoid falling behind on inflation amid higher energy costs. **The Japanese parliament's passage of approximately ¥122 trillion for the fiscal-year 2026 budget—a record level—further highlighted potential price pressures stemming from high spending.** We continue to expect the evolving fiscal-monetary policy mix to remain a key driver that should keep JGB yields elevated in the medium term.

- In China, this week's lighter data calendar saw the Qingming Festival travel & spending indicators—key metrics released by China's tourism ministry and retailers—pointing to more encouraging signs of resilient consumer activity and services demand recovery. Following last week's stronger-than-expected official manufacturing purchasing manager's index data, markets will now look toward the upcoming consumer price and producer price indexes as well as trade balance data for further confirmation of lingering price pressures. **We continue to believe any prolonged energy disruption could increase imported inflation risks and weigh modestly on China's export-led economic recovery.**

- In fixed income, **Asia Investment Grade credit has remained resilient since the Middle East crisis began** with spreads only widening by nearly 3 basis points (bps), while High Yield spreads underperformed more visibly (approximately 77 bps) amid weaker risk sentiment and ongoing private credit market concerns. Notably, Asia ex Japan primary issuance has slowed meaningfully, with only US$57 billion issued year to date versus US$70.5 billion last year (-19.3% y/y). We therefore believe negative net supply dynamics likely supported regional resilience. Although bond prices have declined since the conflict began, markets have continued to function well without any major disruptions. Given what we see as strong demand for high-quality corporate bonds, we expect more bond issuance once geopolitical volatility subsides.

MARKET
Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	6,782.81	3.9%	-0.9%	36.1%	30.4%
Dow Industrials (DJIA)	47,909.92	3.4%	-0.3%	27.3%	23.2%
Nasdaq	22,634.99	4.8%	-2.6%	48.3%	39.3%
Russell 2000	2,620.46	5.0%	5.6%	48.8%	26.4%
S&P/TSX Comp	33,620.57	2.6%	6.0%	49.4%	51.0%
FTSE All-Share	5,670.25	4.4%	6.0%	32.7%	30.9%
STOXX Europe 600	613.50	5.2%	3.6%	26.0%	20.5%
EURO STOXX 50	5,913.37	6.2%	2.1%	23.9%	17.2%
Hang Seng	25,893.02	4.5%	1.0%	28.6%	54.7%
Shanghai Comp	3,995.00	2.7%	0.7%	27.0%	31.1%
Nikkei 225	56,308.42	10.3%	11.9%	70.6%	43.1%
India Sensex	77,562.90	7.8%	-9.0%	4.5%	3.8%
Singapore Straits Times	4,996.05	2.3%	7.5%	44.0%	55.4%
Brazil Ibovespa	192,201.16	2.5%	19.3%	55.1%	49.2%
Mexican Bolsa IPC	70,229.72	2.4%	9.2%	39.6%	21.1%
Gov't bonds (bps change)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. 10-Yr Treasury	4.293%	-2.4	12.6	0.0	-12.7
Canada 10-Yr	3.462%	-1.1	2.9	33.2	-16.3
UK 10-Yr	4.711%	-20.5	23.2	10.6	62.6
Germany 10-Yr	2.944%	-6.0	8.9	31.3	50.9
Fixed income (returns)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Aggregate	4.56%	0.2%	0.2%	5.5%	10.9%
U.S. Investment-Grade Corp	5.10%	0.4%	-0.1%	7.3%	11.6%
U.S. High-Yield Corp	7.20%	0.6%	0.1%	10.7%	16.5%
Commodities (USD)	**Price**	**MTD**	**YTD**	**1 yr**	**2 yr**
Gold (spot $/oz)	4,722.03	1.2%	9.3%	58.3%	101.9%
Silver (spot $/oz)	74.20	-1.3%	3.5%	149.0%	166.4%
Copper ($/metric ton)	12,228.36	-0.2%	-1.8%	41.8%	31.7%
Oil (WTI spot $/bbl)	96.33	-5.0%	67.8%	61.7%	11.5%
Oil (Brent spot $/bbl)	96.27	-18.7%	58.2%	53.2%	6.5%
Natural Gas ($/mmBtu)	2.73	-5.2%	-25.9%	-21.1%	48.2%
Currencies	**Rate**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Dollar Index	99.0390	-0.9%	0.7%	-3.8%	-4.9%
CAD/USD	0.7226	0.6%	-0.8%	3.1%	-1.9%
USD/CAD	1.3840	-0.5%	0.8%	-3.0%	2.0%
EUR/USD	1.1664	1.0%	-0.7%	6.4%	7.4%
GBP/USD	1.3400	1.3%	-0.6%	5.0%	5.9%
AUD/USD	0.7047	2.1%	5.6%	18.2%	6.7%
USD/JPY	158.5600	-0.1%	1.2%	8.4%	4.4%
EUR/JPY	184.9400	0.9%	0.5%	15.4%	12.2%
EUR/GBP	0.8704	-0.4%	-0.2%	1.4%	1.4%
EUR/CHF	0.9229	-0.1%	-0.8%	-0.7%	-6.1%
USD/SGD	1.2742	-1.0%	-0.9%	-5.9%	-5.4%
USD/CNY	6.8327	-0.9%	-2.2%	-6.9%	-5.5%
USD/MXN	17.4382	-2.8%	-3.2%	-16.4%	6.9%
USD/BRL	5.0967	-1.6%	-6.9%	-15.2%	1.3%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.72 means 1 Canadian dollar will buy 0.72 U.S. dollar. CAD/USD -0.8% return means the Canadian dollar has fallen 0.8% vs. the U.S. dollar year to date. USD/JPY 158.56 means 1 U.S. dollar will buy 158.56 yen. USD/JPY 1.2% return means the U.S. dollar has risen 1.2% vs. the yen year to date.

Source - Bloomberg; data as of 4/8/26

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As of March 31, 2026

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