# Dethroning the Dollar: Revolution will take time

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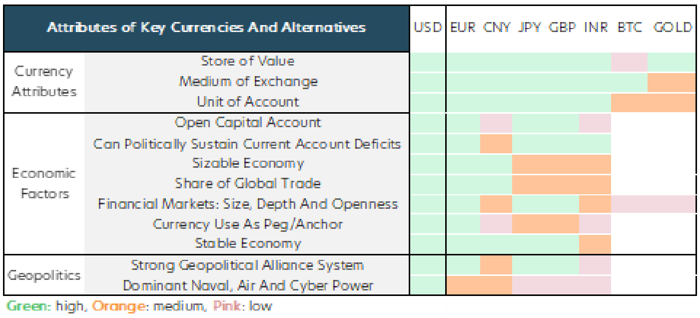
## Overview

- The US dollar (USD) faces increasing pressures under Trump 2.0, potentially signaling a slow decay in its dominance.
- The USD weaponisation has led to backlash as countries diversify reserves away from USD-denominated assets.
- There are concerns around breaking traditional guardrails like the Fed independence and educational institutes.
- Yet, the USD remains deeply entrenched in the global financial system, with no true alternative available.
- The USD remains an anchor currency, but fiscal imbalances and geopolitical instability could raise risk premiums.
- The gradual USD decay has profound implications for US risk assets like equities, bonds and private assets.

## CIO Insights: Dollar decay started but takes time

The US dollar (USD), long regarded as the bedrock of global finance, faces mounting pressures that could signal a slow decay in its unrivalled dominance as the global reserve currency. Under Trump 2.0, a confluence of geopolitical strategies, domestic policy shifts, and structural challenges threatens to erode the USD status, even as it remains a “superpower currency” with few viable alternatives (**Fig. 1**).

### Figure 1: Geopolitical underpinnings of the USD as the world’s dominant currency




Source: Atlantic Council's Dollar Dominance Monitor, Alpine Macro

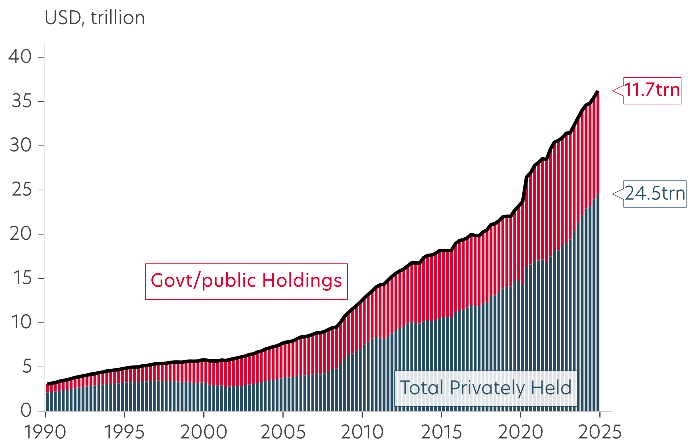
We explore key dimensions of this potential decay — weaponisation of the dollar, degradation of traditional guardrails, and impacts on risk assets — while contextualising the dollar's enduring role in the global financial system and evaluating alternative currencies. Potential beneficiaries of a structural de-dollarisation trend include European and emerging market risk assets, gold, digital assets, non-dollar denominated real estate/real assets.

## Weaponisation of the US Dollar

The weaponisation of the USD as a tool of geopolitical influence has accelerated under Trump 2.0, building on precedents set during the Russia-Ukraine conflict. The use of financial sanctions, such as freezing Russian assets and excluding Russian banks from the SWIFT system, has demonstrated the dollar's power as a coercive instrument.

However, this approach has sparked backlash, with countries like China and India seeking to diversify reserves away from USD-denominated assets (e.g., US treasuries) (**Fig. 2**), as evidenced by global central banks accumulating over 3,000 tons of gold since 2022.

### Figure 2: Debt held by public and private sectors

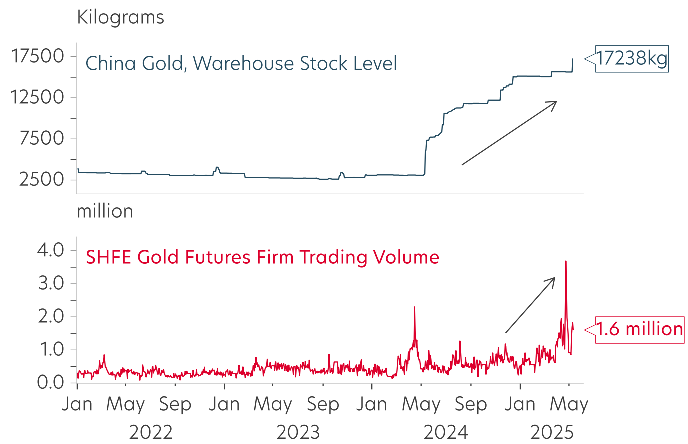



Source: Bloomberg, UOB Private Bank, US Department of Treasury

Trump's policies, including threats of excessively high tariffs on Brazil, Russia, India, China (BRICs) nations, exacerbate perceptions of the USD as a weapon rather than a neutral store of value. This perceived weaponisation risks alienating allies and adversaries alike, prompting a gradual shift toward alternative reserve baskets like the EUR or CNY, though they lack the depth to fully replace the USD.

This trend is not merely rhetorical. Foreign central banks and commodity exporters are diversifying holdings, with China's gold trading accelerating significantly in early 2025 (**Fig. 3**). This reflects a strategic pivot toward tangible assets over dollar reliance. While the dollar's network effects in global trade and finance remain robust, sustained weaponisation could erode trust, a critical pillar of the USD's reserve status, over the long term.

**Figure 3: China's gold buying hits all time high**




Source: Bloomberg, UOB Private Bank, SHFE

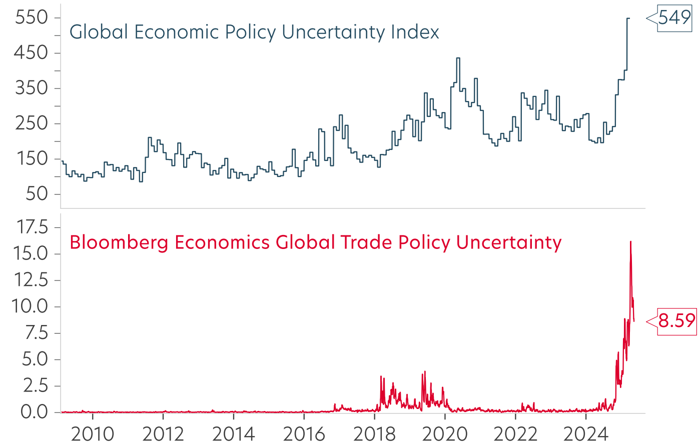
## Breaking the traditional guardrails

Trump 2.0 has ushered in a sharp break from institutional norms that have historically underpinned the USD's credibility. Challenges to the independence of the Federal Reserve (Fed), a cornerstone of investor confidence, have rattled markets, with public comments from the administration raising the spectre of political interference in monetary policy. Fed Chair Powell noted in 2025 that persistent uncertainty and perceived risks could make the US a less attractive jurisdiction for investment if structural guardrails are undermined. Similarly, rhetoric around selectively defaulting on debt and debt ceiling brinkmanship has shaken confidence in US treasuries as the global benchmark for safety.

Beyond the Fed, the erosion of trust extends to other institutions, including the Treasury and institutes of higher learning which have shaped economic policies through expert consensus with a long-term mindset. Trump's rejection of multilateralism and continuity in favour of transactional diplomacy further disrupts the rules-based order that has supported the USD's hegemony.

This degradation of guardrails introduces systemic uncertainty, with trade policy uncertainty reaching historic highs in 2025 (**Fig. 4**), surpassing levels seen during the 2018-2019 US-China trade war. Such actions risk a structural shift where the USD's safe-haven status is no longer taken for granted, even if immediate displacement remains unlikely.

**Figure 4: Policy uncertainty remains elevated**

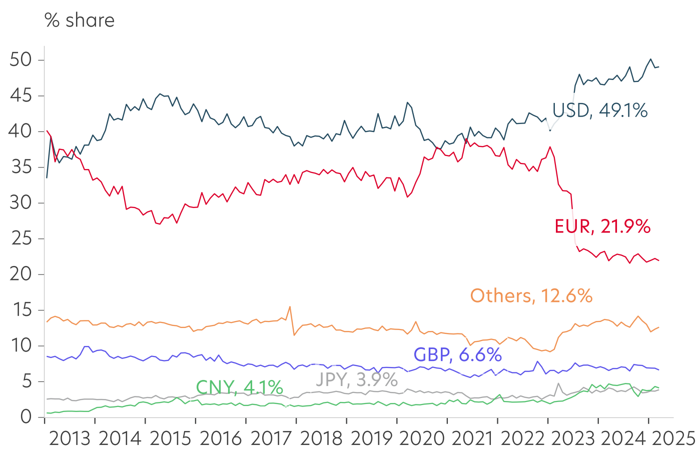



Source: Bloomberg, UOB Private Bank

## King Dollar has limited alternatives

Despite these pressures, the USD remains the world's "superpower currency", deeply entrenched in the global financial system. It accounts for over 50% of international trade settlements, 49% of SWIFT payments (**Fig. 5**) and ~60% of global foreign exchange reserves, with no true alternative matching its liquidity, depth, or network effects.

**Figure 5: Percent of SWIFT payments**




Source: Bloomberg, UOB Private Bank, SWIFT

The US financial markets, including the depth of capital availability and the dominance of tech giants like Microsoft and Amazon, reinforce the dollar's structural advantages. This is because the products by these US tech giants are truly ubiquitous. Think about the difficulty in replacing products like MS office, Instagram, Google search, YouTube, iPhones, Android OS… and the list goes on.

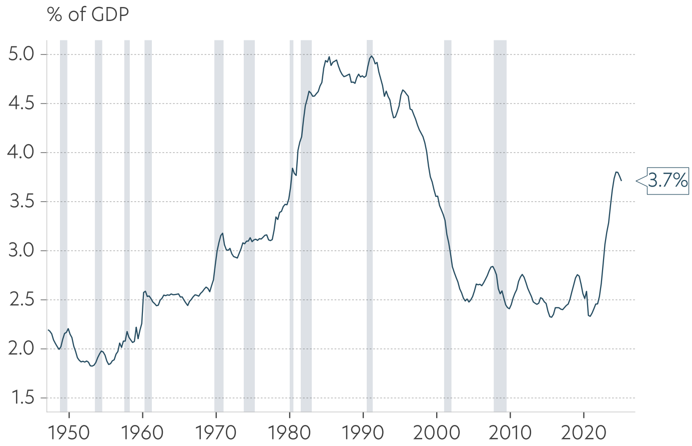
Alternative currencies, such as the EUR, CNY, or BRICS-backed mechanisms, face substantial hurdles. The EUR benefits from improving fiscal dynamics but still lacks the geopolitical cohesion to rival the USD. The CNY is constrained by capital controls and limited convertibility despite the push for internationalisation. BRICS currencies, while gaining traction as a hedge against the USD's decline, cannot replicate the USD's role due to inefficiencies in global trade and higher friction in capital flows. Thus, while diversification into other currencies is growing at the margin, the USD's leadership position remains secure, barring an extreme systemic shock in the foreseeable future.

## USD's role in global financial system is still relevant

The global financial system revolves around the USD, with its status as the primary medium of exchange and store of value anchoring international markets. Most cross-border transactions, commodity pricing (e.g., oil in petrodollars), and debt issuances are denominated in USD, creating a self-reinforcing cycle of demand. The SWIFT system, dominated by USD transactions, and the vast US Treasury market, historically seen as the ultimate haven, further cement this centrality. Even as trust wanes, as seen in 2025 with simultaneous weakness in US stocks, bonds, and the dollar, the systemic reliance on USD infrastructure limits immediate alternatives.

This reliance, however, is a double-edged sword. Persistent fiscal imbalances, with US debt-to-GDP ratios at 130%, and political volatility under Trump 2.0 could demand higher risk premiums for holding USD-denominated assets **(Fig. 6)**. This is fundamentally altering their role in global portfolios if credibility continues to be eroded. Against this backdrop, the inertia of the current system suggests that any decay will be gradual rather than sudden.

**Figure 6: Interest payments as % of US GDP**




Source: Bloomberg, UOB Private Bank, BEA

## Impact on risk assets

The potential decay of the USD has profound implications for risk assets across the board. In the US stock market, policy uncertainties and tariff escalations under Trump 2.0 have already triggered volatility, with the S&P 500 suffering significant losses post-April 2025 tariff announcements. While 1Q 2025 earnings have been able to keep up with Street expectations, the real impact starts in 2Q when the impact of the 2 April Liberation Day is felt. If the USD depreciation persists, US equities could face sustained downward pressure.

The US bond and treasury markets, traditionally safe havens, are also at risk. In 2025, investors drove up bond yields despite equity selloffs, reflecting eroded trust rather than flight-to-safety behaviour, with 10-year yields spiking to 4.6%. Foreign investors, including potential retaliatory selloffs by China, could further elevate funding costs across credit markets if confidence in fiscal policy continues to wane **(Fig. 7)**. This shift challenges the treasury market's role as a global benchmark, potentially increasing term premia as debt levels rise.

**Figure 7: Foreign holdings of US assets (in USD bn)**

| Year | 1990 | 2000 | 2010 | 2020 | 2024 |
|---|---|---|---|---|---|
| **Total** | **2,186** | **8,266** | **18,785** | **41,631** | **56,625** |
| Equities | 243 | 1,483 | 3,213 | 10,673 | 16,494 |
| Debt securitie | 709 | 2,335 | 8,252 | 13,254 | 14,461 |
| FDI | 540 | 2,783 | 3,422 | 10,761 | 16,546 |
| Other | 695 | 1,666 | 3,898 | 6,943 | 9,124 |

Source: Bloomberg, UOB Private Bank, Fed, JPM

This shift challenges the treasury market's role as a global benchmark, potentially increasing term premia as debt levels rise.

In the world of private assets, including private equity and real estate, the impact is similarly pronounced. Uncertainty and higher financing costs due to rising risk premiums would dampen investment and capex projects, while a weaker dollar could deter foreign capital inflows into the US private markets. Portfolios may need to become more outward-looking, with increased currency risk hedging, as traditional correlations between asset classes break down in times of sustained uncertainty.

## Conclusion

The US dollar faces a complex future under Trump 2.0, with weaponisation and the degradation of institutional guardrails threatening its long-standing credibility. While pressures from geopolitical strategies and domestic policy shifts could accelerate a gradual decay, the USD remains a "superpower currency" due to its entrenched role in the global financial system and a lack of viable alternatives (e.g., the EUR or CNY).

Having said that, this decay could significantly impact risk assets, with US equities vulnerable to earnings downgrades, US treasuries losing safe-haven status, and private assets facing higher financing costs and uncertainty. Investors must navigate this landscape by prioritising resilience, diversification, and strategic hedging, recognising that while the dollar's dominance persists, its unassailable position is no longer guaranteed.

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