

Global Bonds: Navigating a Weaker U.S. Dollar

A Weaker U.S. Dollar Is Prompting a Reevaluation of Allocations

In an environment of heightened policy- and tariff-related uncertainty, wide fiscal deficits, and declining U.S. exceptionalism, the U.S. dollar has recorded one of its weakest performances in decades, sliding approximately 7% on a trade-weighted basis year to date through 30 September 2025.

With elevated interest rates globally and a weaker dollar, many advisors and clients are revisiting their overall fixed income allocations and adding global exposure to increase diversification and expected returns. In our opinion, it is an opportune time to do so, as we believe the U.S. dollar remains expensive vs. history and is likely to weaken against some, though not all, currencies in the coming years.

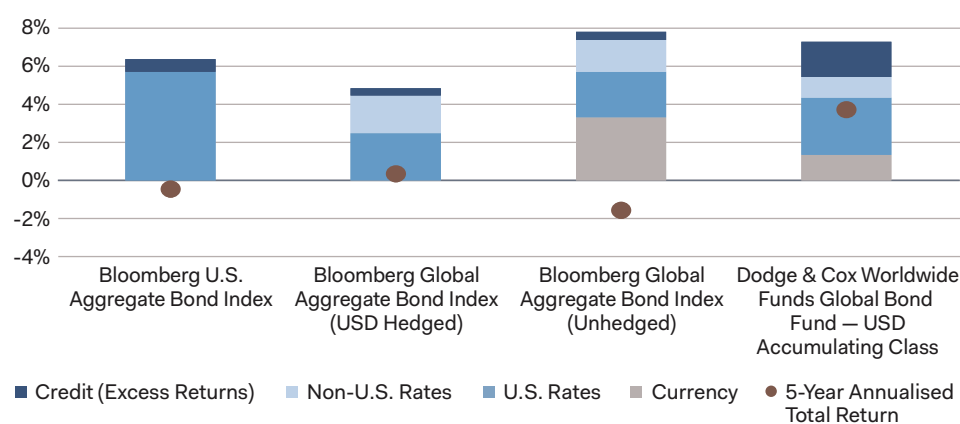
To Hedge (Currency Risk) or Not to Hedge: That Is the Question

A key decision when investing in global fixed income is whether to hedge currency risk, which has implications for both risk and return.

Currency-hedged global bonds have historically outperformed and exhibited less volatility than U.S. core and currency-unhedged global fixed income, at the index level (see Figure 1). However, hedged global bond portfolios lack the diversification benefits and potential performance tailwind from currency exposure.

In contrast, portfolios with substantial non-U.S. currency exposure can be highly sensitive to swings in the U.S. dollar. While currency exposure adds an additional source of diversification, large currency allocations, such as those comprising the Unhedged Bloomberg Global Aggregate Bond Index (Global Agg), have historically come at the cost of higher volatility and, in recent years, generally lower returns.

Figure 1. 5-Year Volatility Decomposition and Total Return (Ending 30 September 2025)



Source: Bloomberg Index Services. Performance of core, USD-hedged global bonds, and unhedged global bonds proxied by the Bloomberg U.S. Aggregate Bond Index, Bloomberg Global Aggregate Bond Index (USD Hedged), and Bloomberg Global Aggregate Bond Index respectively. The volatility decomposition is computed using five years of monthly performance attribution data, taking into account the volatility of each source of return as well as its correlation to the overall Index/Fund return.

This year's sharp sell-off in the U.S. dollar has reinvigorated interest in global fixed income. A common question we hear from clients is whether—and how—to incorporate non-U.S. currency exposures into fixed income portfolios. A highly selective approach to currency positioning, implemented within a diversified global fixed income strategy, has the potential to deliver attractive long-term outcomes for investors.

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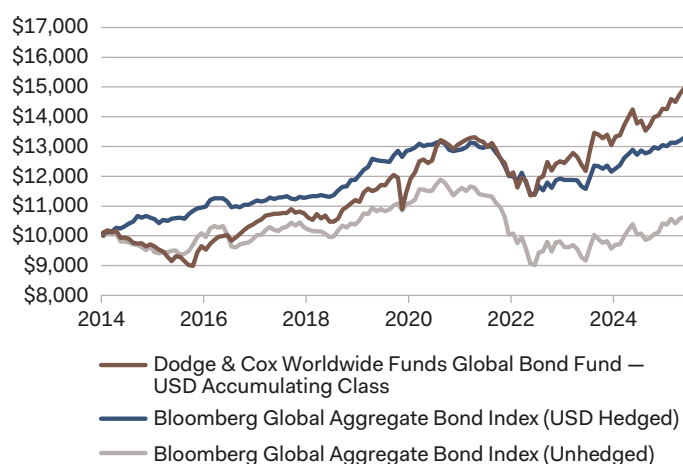
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A Calibrated Approach to Currency and Risk

We believe in adding currency exposure deliberately, focusing on environments and currencies where we see the risk/return trade-off as most compelling. In managing our Global Bond strategy, we pursue opportunities across three main areas—credit, currency, and interest rates—and manage the portfolio with a total-return mindset. In recent years, we have generally maintained 20–25% of non-U.S. currency exposure, which we believe is large enough to benefit from our carefully selected non-U.S. dollar holdings, but not so large as to overwhelm the portfolio's other sources of return.

The Dodge & Cox Worldwide Funds — Global Bond Fund has exhibited a more diverse set of risk drivers than either the Hedged or Unhedged Global Agg over the past five years. The Fund has also generated strong long-term returns across a range of macro environments, as shown in Figure 2.

Figure 2. Hypothetical Growth of \$10,000 Invested at the Fund's Inception on 1 May 2014 Through 30 September 2025



Source: Bloomberg Index Services, Dodge & Cox.

In Closing

Today's weaker dollar environment presents an opportunity for U.S. investors to look globally when allocating to fixed income, and reinforces the case for an active, dynamic approach to currency management. By choosing an investment manager known for depth of research and valuation discipline, clients and advisors can confidently delegate global security selection, interest rate positioning, and currency management. We invite you to take a closer look at our Global Bond Fund and to continue the conversation about how our research-driven global fixed income expertise could support your or your clients' long-term goals.

Returns represent past performance and do not guarantee future results. Investment return, costs, and share price will fluctuate with market conditions and may be affected by currency fluctuations. Investors may have a gain or loss when shares are sold. Fund performance changes over time and currently may be significantly lower than stated above. Visit the Fund's [website](https://www.dodgeandcox.com) at [dodgeandcox.com](https://www.dodgeandcox.com) for current month-end performance figures.

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