
Currency Hedging? Consider the Asset Class

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Anyone who travels abroad frequently has felt the impact of currency fluctuations. The price of your favorite hotel or restaurant can change from one trip to the next simply because of exchange rates. Currency shifts also affect investments outside your home market. Investing in a foreign stock, for example, means being exposed to the underlying currency as well as the stock itself. In the first half of 2025, the US dollar depreciated by as much as 12% against other major currencies, reducing the returns on US investments. In periods of dollar appreciation, the reverse has been true.

A common question is whether to hedge this currency exposure. The answer may depend on the asset class and the investor's goals. In the case of equities, volatility tends to be driven more by stock price swings than currency movements, so hedged and unhedged global equity portfolios have shown similar volatility over time.

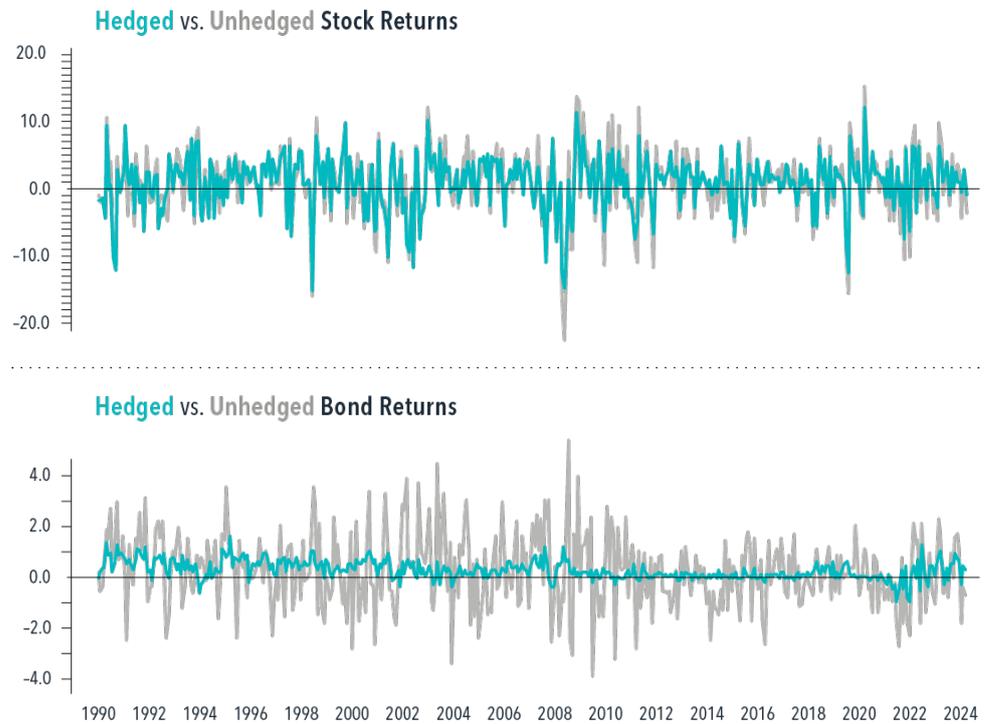
Global bonds are different. The less volatile nature of bonds means that currency moves can have a bigger impact. Hedging currencies can thus meaningfully reduce volatility, which may be particularly valuable for investors who look to their bond allocations for stability.

International stocks and bonds can offer investors powerful tools for diversification. Whether or not to hedge the currency component should be considered in the context of the role they play in an investor's asset allocation.

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Exhibit 1
Impact of Currency
Hedging on Return
Volatility
 1990–2024



Past performance is not a guarantee of future results.

In USD. Stock returns measured as an equal-weighted portfolio of nine MSCI country indices. Sample includes Australia, Canada, Germany, Japan, Norway, Sweden, Switzerland, the United Kingdom, and the United States. Source: Dimensional calculations using MSCI index data. MSCI data © MSCI 2025, all rights reserved. Unhedged bond returns are measured using the FTSE World Government Bond Index 1–3 Years Index (unhedged). Hedged bond returns are measured using the FTSE World Government Bond Index 1–3 Years Index (hedged to USD). FTSE fixed income indices © 2025 FTSE Fixed Income LLC. All rights reserved. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

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