

CIO Academy

Navigating beyond the US dollar: a G10 diversification framework

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Highlights: Global portfolios have become increasingly concentrated in US assets over the past decade, creating significant exposure to a single currency and market. At the same time, clients are asking valid questions about America's fiscal position, current account dynamics, and equity valuations. So, many investors are looking at FX diversification, either to deal with that concentration or they worry about gradual de-dollarisation. This report sets out a structured, two-stage analytical framework to identify the most compelling non-USD opportunities within the G10 universe for investors considering diversification, with a horizon of over six months. We conclude that CHF, AUD, EUR and CAD can be interesting and practical diversifiers, where strong macro settings and investable depth can make local assets attractive, and where local currency appreciation potential may further enhance total returns for foreign investors.

- **Stage 1: The Macro Mix.** We map all G10 economies across three primary dimensions, with the objective of identifying where the structural macro environment is genuinely supportive, before adding fiscal indicators to the mix.
 - o **Pure macro winners:** Switzerland, Sweden, Norway, and Australia. Our G10 Macro Matrix identifies these four as structural frontrunners across inflation, growth, policy rates, fiscal balance, debt and current account. Canada, New Zealand, and the Eurozone represent a strong second tier.
- **Stage 2: The Practical Filter.** Macro quality is a necessary but insufficient condition for an appropriate allocation. As a second step, we apply a practical liquidity and market-depth filter to the Stage 1 results.
 - o **Final investable allocations:** Switzerland, Australia, the Eurozone and Canada. After filtering the macro leaders for capital market depth, liquidity, and execution practicality, these four regions emerge as the optimal tactical destinations for investment flows.

Introduction: confronting US market dominance

For much of the past decade, the gravitational pull of US capital markets has proved irresistible to global investors. The extraordinary performance of American equities, the world's deepest bond markets, and the reserve-currency status of the US dollar have combined to make a structural overweight to US assets the path of least resistance for global portfolios. Even investors who have made 'natural' allocations in line with global benchmarks are now very heavy on USD exposure.

Increasingly, many of them are re-assessing that concentration, for several reasons. The US enters the second half of 2026 carrying a budget deficit of -6.20% of GDP, the largest fiscal imbalance in the developed world, alongside a debt-to-GDP ratio of 137% and a current account deficit of -3.00% of GDP. These are not cyclical anomalies; they are structural conditions that constrain the Federal Reserve's room for manoeuvrability and expose the US Dollar to repricing risk should global capital flows begin to rotate.

For investors whose portfolios carry material USD exposure – through equities, fixed income, or direct currency holdings – the risk is that a single macro shock can simultaneously impair equities, compress bond prices, and weaken the US dollar, negating the diversification benefit that international exposure is designed to provide.

The imperative, therefore, is deliberate and analytically grounded reallocation away from concentrated USD exposure. Importantly, this is not a speculative bet against the US; rather it is disciplined portfolio construction. Many investors, like us, continue to maintain a positive view on US assets, including US equities, thanks to the strong innovation and capex cycle taking place in the US.

The question is not whether to diversify, but where, and how to do so with the rigour investors deserve. Crucially, the opportunity extends beyond simply reducing USD risk: we identify regions with supportive macro fundamentals and also seek exposure to currencies that have the potential to appreciate over time, adding a currency return alongside local asset performance. The two-stage framework presented in this note is designed to answer that question with both macro conviction and a practical conclusion.

The methodology: constructing the G10 Macro Matrix

Stage 1: The Macro Matrix

The first stage of the analytical process maps all G10 economies across three primary dimensions, with the objective of identifying where the structural macro

environment is supportive for investment over a 6-month horizon.

The framework maps all G10 economies across three primary dimensions simultaneously:

- 1. First**, the CPI delta to the central bank's 2% target: where 2026 inflation is forecasted to undershoot, central banks have flexibility to maintain or ease policy, a structural tailwind for both equities and bonds. Although additional easing may weigh on the local currency, headroom for inflation to increase to the central bank's target may ultimately prove supportive for the local currency.
- 2. Second**, the policy rate delta to the upper bound of the neutral range: negative values indicate rates already in accommodative territory, a direct tailwind for domestic equities and bonds, where investment flows would theoretically boost the local currency. Meanwhile, headroom for the local central bank to hike may ultimately benefit currency expectations.
- 3. Third**, 2026 GDP growth forecasts, which capture cyclical momentum, earnings support and more generally domestic support and potential for currency appreciation.

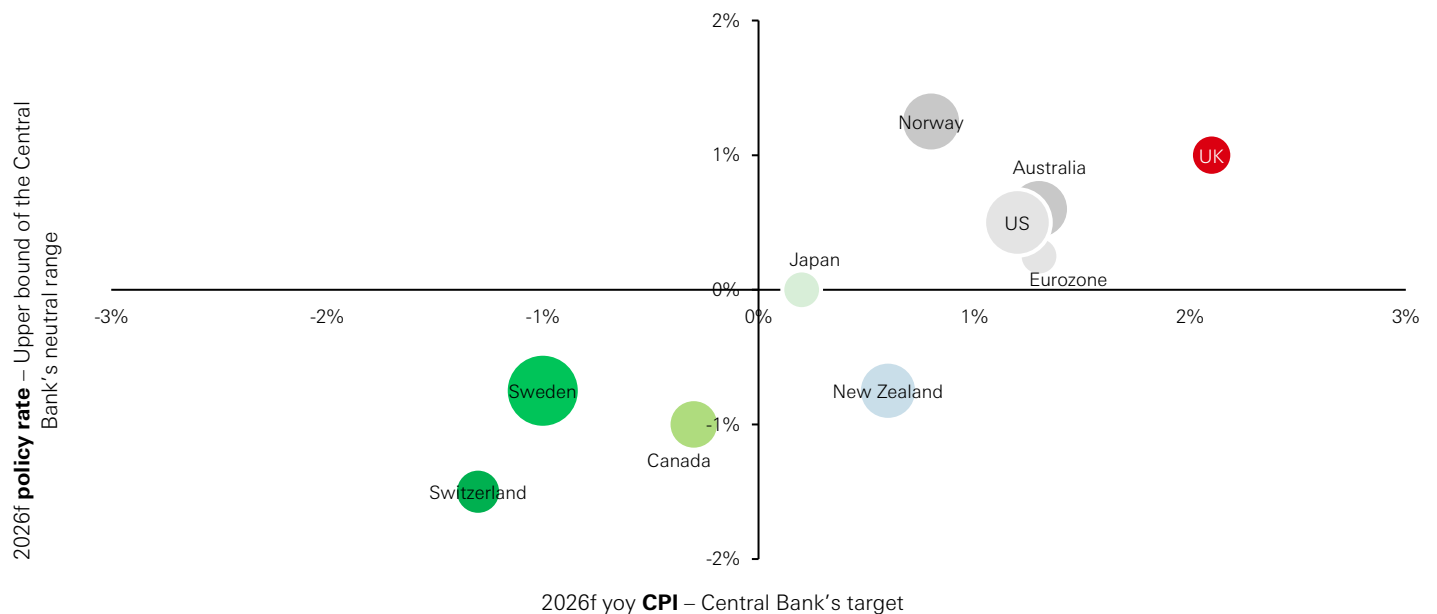
The combination of below-target inflation, below-neutral rates, and solid growth, which is reflected on the lower-left quadrant of the macro matrix thereafter (Chart 1 in the following page), can indicate the preferred currency through this macro matrix analysis.

The Six Structural Pillars of Macro Health

Beyond these three headline dimensions, we also look at three other indicators, giving us an appreciation of the fiscal and external stability. This composite scoring ensures that a favourable inflation/growth snapshot is not undermined by deeper structural fragilities:

- **Budget balance (as % of GDP):** The fiscal runway available to absorb shocks or provide stimulus without crowding out private investment.
- **Debt-to-GDP ratio:** The structural constraint on fiscal flexibility and sovereign creditworthiness over the medium term.
- **Current account (as % of GDP):** The external financing requirement with a persistent deficit signals vulnerability to capital flow reversals and currency depreciation.

Chart 1: Mapping of G10 economies across the three primary dimensions



Source: Bloomberg, HSBC Private Bank as at 12 June 2026. Forecasts are subject to change.

Stage 1 results: the favourable environment, pure macro leaders

Four G10 economies emerge as clear front-runners, all clustering in the favourable lower-left quadrant:

Switzerland (CHF): The policy rate is already 1.50% below its neutral range ceiling, with inflation running 1.30 percentage points below the 2% target. A debt-to-GDP of 39.50%, the lowest in the G10, and a current account surplus of 7.00% reflect structural excellence. The Swiss National Bank's safe-haven credibility and ample fiscal headroom provide additional conviction.

Sweden (SEK): Policy rates are 0.75% below the neutral range, inflation 1.00% below target, and the strongest GDP growth forecast among the frontrunners at 2.60%. Robust fiscal metrics and a current account surplus of 5.50% confirm a compelling macro profile. Sweden's additional positives include strong growth expectations and a supportive current account.

Norway (NOK): A budget surplus of 9.80% of GDP, the highest in the G10 by a substantial margin, and a current account surplus of 12.40% provide extraordinary external resilience. Large energy trade surpluses and meaningful energy independence are significant structural positives, even as the policy rate remains slightly above neutral at +1.25%.

Australia (AUD): Strong growth expectations, significant LNG trade surpluses, and robust fiscal metrics offset an above-neutral policy rate and an above-target inflation print. Australia's commodity-driven external position and

resilient domestic demand underpin its Stage 1 ranking.

A credible second tier comprises currencies of Canada, New Zealand and the Eurozone, each offering broadly supportive macro conditions with specific qualifications. Canada benefits from rates 1% below neutral but carries elevated debt-to-GDP ratio at 121%. New Zealand offers strong growth and fiscal room but a current account deficit of -3.7%. The Eurozone's inflation overshoot is tempered by a positive current account and the deepest non-US bond market in the world.

Stage 2: The Practical Filter: from macro theory to investable reality

Macro quality is a necessary but insufficient condition for an appropriate allocation. An economy can score well on every fundamental indicator and yet fail to provide the capital market infrastructure required for meaningful addition to a portfolio. Stage 2 applies a practical liquidity and market-depth filter to the Stage 1 results.

For an allocation to be investable for over more than six months, equity and bond markets must exceed a meaningful threshold of depth, derivative markets must support efficient currency hedging, and the range of available instruments must allow for diversified exposure. Applying this filter to the Stage 1 leaders reveals practical constraints: Norway's markets (USD 500bn equities, USD 550bn bonds) and the NOK's limited liquidity fall short for large institutional flows, and Sweden's universe, whilst viable at smaller scale, is narrow in breadth relative to the major blocs.

Stage 2 results: the preferred practical allocations: Switzerland, Australia, the Eurozone, and Canada

After Stage 2 filtering, four regions offer the most compelling combination of macro quality and investable depth:

Switzerland (CHF): Despite being a smaller market than Canada or the Eurozone in absolute terms, with a USD 2,700bn equity market and USD 951bn bond market, Switzerland passes the practicality filter on the strength of its exceptional macro credentials and deep and liquid Swiss franc markets. However, investors should note that Switzerland's structurally low interest rates mean bond yields are among the lowest in the G10 space, which may limit the income appeal of Swiss fixed income relative to other preferred regions.

Australia (AUD): Equity markets of USD 2,100bn and bond markets of USD 2,600bn provide meaningful investable depth, complemented by strong growth expectations and significant commodity trade surpluses. Unlike Switzerland, Australia's relatively high interest rates translate into attractive bond yields, which may appeal to income-oriented investors and represents an additional positive consideration for fixed income allocations. The positive yield differential versus USD may also attract capital inflows supportive of AUD, making currency exposure a potential further contributor to total return alongside the underlying asset performance.

Eurozone (EUR): Equity markets of USD 12,400bn and bond markets of an exceptional USD 27,900bn make the Eurozone the single largest non-US investable bond universe in the G10. EUR is underpinned by a structural

current account surplus and an improving macro backdrop, providing fundamental conditions for currency stability and potential appreciation, a meaningful additional return dimension for foreign investors. The breadth of available instruments provides unmatched diversification depth.

Canada (CAD): With equity markets of USD 4,500bn and bond markets of USD 4,540bn, among the deepest outside the US and Eurozone, Canada offers genuine institutional-grade depth. Policy rates already 1.00% below neutral, inflation marginally above target, and a macro backdrop supportive of CAD stability create a compelling risk-adjusted proposition, tempered by elevated debt-to-GDP at 121.00% and modest GDP growth of 1.20%.

From a currency perspective, the four regions present two distinct dynamics. Australia stands apart in offering a positive yield differential versus USD, providing a potential carry advantage for investors holding unhedged AUD exposure on top of the underlying asset returns. Switzerland, the Eurozone and Canada, by contrast, carry negative interest rate differentials relative to USD; so their currency case rests on structural macro foundations, persistent current account surpluses, low debt, and favourable policy trajectories, which may support appreciation over the investment horizon.

The global health check: full G10 macro scorecard

The table below (Chart 2) consolidates all ten G10 economies across the full set of macro, fiscal, and market indicators used in our two-stage filtering process. This is the definitive reference dataset underpinning the tactical recommendations in this report.

Chart 2: Global health check ranking

All indicators		Macro settings			Fiscal metrics		International attractiveness	Equity market size (bn USD)	Bond market size (bn USD)
		Policy rate delta	CPI delta	GDP growth	Budget balance (% GDP)	Current Debt-to-GDP ratio	Current Account (% GDP)		
1	Norway	1.25%	0.80%	1.70%	9.80%	51.30%	12.40%	500	550
2	Switzerland	-1.50%	-1.30%	1.00%	-0.10%	39.50%	7.00%	2,700	951
3	Sweden	-0.75%	-1.00%	2.60%	-2.40%	56.80%	5.50%	1,350	651
4	Australia	0.60%	1.30%	1.70%	-1.60%	78.00%	-1.90%	2,100	2,600
5	Canada	-1.00%	-0.30%	1.20%	-0.40%	121.00%	-0.20%	4,500	4,540
6	New Zealand	-1.25%	0.60%	1.60%	-2.80%	56.00%	-3.70%	96	8
7	Eurozone	0.25%	1.30%	0.70%	-3.30%	87.50%	1.50%	12,400	27,900
8	Japan	0.00%	0.20%	0.70%	-5.60%	206.00%	5.30%	8,700	11,400
9	US	0.50%	1.20%	2.10%	-6.20%	137.00%	-3.00%	79,000	60,300
10	UK	1.00%	2.10%	0.80%	-4.20%	150.70%	-4.10%	3,960	6,800

Source: Bloomberg, BIS, HSBC Private Bank as at 12 June 2026.

Conclusion

The analysis presented in this report illustrates that the current G10 macro landscape offers a differentiated set of opportunity for investors considering a concentration reduction in USD exposure. The two-stage filtering process, first identifying structural macro quality, then testing for practical investability, narrows a broad universe of candidates to four regions that may warrant closer attention: Switzerland, Australia, the Eurozone, and Canada.

Key considerations for investors

Assessing US concentration: Investors with high exposure to US equities and fixed income may wish to consider whether current allocations appropriately reflect the risks associated with the US fiscal position, current account dynamics, and dollar valuation. A measured reassessment of portfolio weights could be a prudent starting point.

Switzerland as a potential core non-US positioning: The combination of structural macro strength, low debt, below-target inflation, accommodative policy rates, and deep, liquid markets could make Swiss equities and government bonds worth evaluating for investors seeking quality non-US exposure. CHF's structural strength, underpinned by a persistent current account surplus and safe-haven status, may further provide a currency appreciation tailwind for foreign investors taking Swiss franc exposure.

Australia for yield and carry: Australia's attractive bond yields, a direct result of relatively high domestic interest rates, combined with strong commodity trade surpluses and resilient growth, make it a compelling option for income-oriented investors. The positive yield differential versus USD may attract capital inflows supportive of AUD, with currency exposure potentially adding a further return dimension alongside the underlying asset.

Eurozone for breadth and scale: Investors looking to deploy meaningful capital outside the US may find the Eurozone's market depth, particularly in fixed income, difficult to replicate elsewhere. European government bonds and diversified equity exposure could be considered as part of a broader reallocation, with the euro's structural current account surplus supporting the currency.

Canada for liquidity and rate dynamics: Canada's deep equity and bond markets, combined with a below-neutral policy rate path and a currency underpinned by solid macro fundamentals, may make it a suitable candidate for foreign investors.

Markets excluded by the Stage 2 filter, notably Norway and Sweden, are not without macro merit, and investors with existing exposure or appetite for smaller-scale allocations may find value in considering them with appropriate attention to liquidity.

Ultimately, the degree to which any of these considerations translates into portfolio action will depend on each investor's specific circumstances, risk tolerance, and investment objectives. The framework presented here is intended as a structured analytical foundation for those conversations, rather than a prescribed course of action.

Risk Disclosures

Risks of investment in fixed income

There are several key issues that one should consider before making an investment into fixed income. The risk specific to this type of investment may include, but are not limited to:

Credit risk

Investor is subject to the credit risk of the issuer. Investor is also subject to the credit risk of the government and/or the appointed trustee for debts that are guaranteed by the government.

Risks associated with high yield fixed income instruments

High yield fixed income instruments are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default. The net asset value of a high-yield bond fund may decline or be negatively affected if there is a default of any of the high yield bonds that it invests in or if interest rates change. The special features and risks of high-yield bond funds may also include the following:

- Capital growth risk - some high-yield bond funds may have fees and/ or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; and
- Dividend distributions - some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/ or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment.
- Vulnerability to economic cycles - during economic downturns such instruments may typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

Risks associated with subordinated debentures, perpetual debentures, and contingent convertible or bail-in debentures

- Subordinated debentures - subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- Perpetual debentures - perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- Contingent convertible or bail-in debentures - Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. contractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts

debentures under specified conditions to common stock. Bail-in debentures generally absorb losses at the point of non viability. These features can introduce notable risks to investors who may lose all their invested principal.

Contingent convertible securities (CoCos) or bail-in debentures are highly complex, high risk hybrid capital instruments with unusual loss-absorbency features written into their contractual terms.

Investors should note that their capital is at risk and they may lose some or all of their capital.

Changes in legislation and/or regulation

Changes in legislation and/or regulation could affect the performance, prices and mark-to-market valuation on the investment.

Nationalisation risk

The uncertainty as to the coupons and principal will be paid on schedule and/or that the risk on the ranking of the bond seniority would be compromised following nationalisation.

Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate. Changes in interest rate, volatility, credit spread, rating agencies actions, liquidity and market conditions may have a negative effect on the prices, mark-to-market valuations and your overall investment.

Risk disclosure on Dim Sum Bonds

Although sovereign bonds may be guaranteed by the China Central Government, investors should note that unless otherwise specified, other renminbi bonds will not be guaranteed by the China Central Government.

Renminbi bonds are settled in renminbi, changes in exchange rates may have an adverse effect on the value of that investment. You may not get back the same amount of Hong Kong Dollars upon maturity of the bond.

There may not be active secondary market available even if a renminbi bond is listed. Therefore, you need to face a certain degree of liquidity risk.

Renminbi is subject to foreign exchange control. Renminbi is not freely convertible in Hong Kong. Should the China Central Government tighten the control, the liquidity of renminbi or even renminbi bonds in Hong Kong will be affected and you may be exposed to higher liquidity risks. Investors should be prepared that you may need to hold a renminbi bond until maturity.

Alternative Investments

Hedge Fund - Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.

Private Equity - Please note Private Equity is generally illiquid, involving long term investments that do not display the liquid or transparency characteristics often found in other investments (e.g. Listed securities). It can take time for money to be invested (cash drag) and for investments to produce returns after initial losses.

Risks of investing in private markets

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Past performance information presented is not indicative of future performance. The return and costs may increase or decrease as a result of currency fluctuations.

- **Liquidity Risk** - Investors may be unable to dispose of an investment quickly and at a price that's closely related to recent similar transactions. There is no guarantee of distributions and no established secondary market.
- **Event Risk** - A significant event may cause a substantial decline in the market value of all securities.
- **Long-term Horizon** - Investors should expect to be locked-in for the full term of the investment, which is subject to extensions.
- **No Capital Protection** - Investors may lose the entirety of invested capital.
- **Unpredictable Cashflows** - Capital may be called and distributed at short notice.
- **Economic Conditions** - Ability to realise/divest from existing investments depends on market conditions and the regulatory environment.
- **Risk of Forfeiture** - Failure to make call payments could result in forfeiture of commitment, including invested capital, without compensation.
- **Default Risk** - in the event of default investors risk losing their entire remaining interest in the vehicle and may be subject to legal proceedings to recover unfunded commitments.
- **Reliance on Third-party Management Teams** - Underlying investments will be managed by various third-party management teams that will in aggregate determine the eventual returns for the investor.

The risk factors listed above are not exhaustive, always refer to product specific documentation for full details and risk disclosures.

Risk disclosure on Emerging Markets

Investment in emerging markets may involve certain, additional risks which may not be typically associated with investing in more established economies and/or securities markets. Such risks include (a) the risk of nationalisation or expropriation of assets; (b) economic and political uncertainty; (c) less liquidity in so far of securities markets; (d) fluctuations in currency exchange rate; (e) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties of company officers and protection of Investors.

Risk disclosure on FX Margin

The price fluctuation of FX could be substantial under certain market conditions and/or occurrence of certain events, news or developments and this could pose significant risk to the Customer.

Leveraged FX trading carry a high degree of risk and the Customer may suffer losses exceeding their initial margin funds. Market conditions may make it impossible to square/close-out FX contracts/options. Customers could face substantial margin calls and therefore liquidity problems if the relevant price of the currency goes against them.

The leverage of a product can work against you and losses can exceed those of a direct investment. If the market value of a portfolio falls by a certain amount, this could result in a situation where the

value of collateral no longer covers all outstanding loan amounts. This means that investors might have to respond promptly to margin calls. If a portfolio's return is lower than its financing cost then leverage would reduce a portfolio's overall performance and even generate a negative return.

Currency risk – where product relates to other currencies

When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have a negative effect on your investment.

Chinese Yuan (“CNY”) risks

There is a liquidity risk associated with CNY products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

CNY is currently not freely convertible and conversion of CNY through banks in Hong Kong and Singapore is subject to certain restrictions. CNY products are denominated and settled in CNY deliverable in Hong Kong and Singapore, which represents a market which is different from that of CNY deliverable in Mainland China.

There is a possibility of not receiving the full amount in CNY upon settlement, if the Bank is not able to obtain sufficient amount of CNY in a timely manner due to the exchange controls and restrictions applicable to the currency.

Illiquid markets/products

In the case of investments for which there is no recognised market,

it may be difficult for investors to sell their investments or to obtain reliable information about their value or the extent of the risk to which they are exposed.

Environmental, Social and Governance (“ESG”) Customer Disclosure

In broad terms “ESG and sustainable investing” products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as ESG or sustainable investing products may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't have any ESG or sustainable characteristics. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the effect of ESG and Sustainable investing products. ESG and Sustainable investing and related measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

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