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What's the right weight for US assets in a portfolio?

Investment strategy insights

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- Recent uncertainty around US tariffs, Fed independence, America's global role, and US equities' premium valuation to peers has led non-US investors to question "US exceptionalism" and reconsider their US asset exposure. The right allocation requires careful balance.
- For equities, simple frameworks like market cap, GDP, or earnings weighting suggest US allocations from 25% to 60%. Diversification, home bias, and risk-return expectations complicate the true strategic weight. We outline some of the reasons why investors might adjust their long-term holdings.
- In fixed income, non-US investors can blend home currency, EUR, and USD bonds, using hedging to manage currency risk. Selective currency hedging can enhance returns and reduce volatility but comes with costs and requires ongoing review.

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Uncertainty around US tariff policy, the independence of the Federal Reserve, and the US's international role have led investors to question the idea of "US exceptionalism."

Determining the right allocation to US stocks, bonds, and the US dollar is a central portfolio question for self-directed investors who do not delegate portfolio building and management to professional investors.

The US remains the world's largest economy and financial market, but recent volatility and shifting global dynamics have prompted many to reconsider their exposure.

While the right answer is rarely "all in" or "all out," finding the right balance requires understanding the role US assets play in a diversified portfolio, the frameworks for allocation, and the evolving risks and opportunities.

This report provides a practical guide to help non-US investors make informed decisions about US asset weights, without prescribing a one-size-fits-all number.

How to approach US equities

Like with all asset classes, investors need to consider how much they wish to hold over many business cycles (also known as a strategic asset allocation) and whether they want to hold more or less of an asset to exploit current opportunities and risks (also known as a tactical asset allocation).

At the time of writing, CIO holds an Attractive view on US equities in our tactical asset allocation. We expect the broad S&P 500 index to rise to 5,800 by the end of 2025 as tariff uncertainty eases, the Fed cuts interest rates, and investors' focus shifts toward the prospect of a rebound in US earnings growth in 2026. We believe that phasing in or capital-preservation approaches can allow investors to benefit from medium-term growth while managing near-term timing risks.

Historically, US exceptionalism has been a significant theme in financial markets borne out by performance.

According to the Global Investment Returns Yearbook 2025, an investment of one dollar in US equities in 1900 would have grown to USD 2,911 in real (after inflation) terms by the end of 2024, compared to USD 194 for ex-US equities over the same period. From 2020 to 2024, US equities (MSCI USA) outperformed ex-US equities (MSCI AC World ex-US) by 72 percentage points, driven by a post-pandemic boom that saw nominal US GDP rise roughly 35% alongside strong corporate earnings growth and rapid technological advances.

But recently US exceptionalism has been tested as investor uncertainty over US tariffs, Fed independence, America's global role, and US equities' premium valuation to peers have led to US asset underperformance or turbulence. At the time of writing, US equities have underperformed ex-US equities by around 15 percentage points year to date. The US dollar and US Treasuries have deviated from historical patterns and declined amid recent volatility. The relative steepening of the US Treasury yield curve indicates that investors are demanding an additional risk premium on longer-term US government debt.

So, for those trying to find the right strategic allocation to US equities today, self-directed investors may want to consider the consequences of how challenges to US exceptionalism might impact methods for deciding on equity allocations.

Market capitalization weighting allocates based on the size of each country's stock market. The US currently accounts for about 60% of global equity market capitalization. This method is widely used by global benchmarks and passive funds, reflecting the dominance of US companies like Apple, Microsoft, and Amazon. However, it can lead to concentration risk, as the largest markets and sectors receive the most weight. In the event of the US's pre-eminence being challenged, US equities may underperform non-US equities, meaning a declining share of market-cap-weighted indexes and a natural fall in US equity exposure.

If stock allocations are based on **GDP weighting**, the US representing roughly 25% of global GDP would account for 25% of a strategic allocation to stocks. While seemingly resulting in a more diversified portfolio than market cap methods, few investors allocate to stocks in this way given it fails to account for many large companies operating globally. Statistical evidence also shows a weak relationship between a country's GDP and its stock market performance. For instance, China's GDP is nearly as large as the US, but its stock market is much smaller and less accessible to foreign investors.

Another seldom used methodology, **earnings weighting,** would invest based on company profits (earnings). Such an approach would treat every dollar of profit equally, leading to a more balanced allocation than market-cap weighting. However, it tends to overweight "value" companies and underweight high-growth firms, which often trade at higher valuations. In much of the post-financial crisis period, favoring value over growth would have foregone performance.

Practically, many investors naturally allocate more to their home market—sometimes by 10–20 percentage points—due to tax incentives, lower costs, liability considerations, or greater familiarity. While this can increase comfort and "staying power," it may reduce diversification.

Self-directed investors can borrow ideas from professional portfolio builders to decide on their strategic weight to US equities. Money managers, in simple terms, use historical and expected data on economic, corporate, and valuation trends to produce risk and return assumptions for different capital market assets. They then look at how closely or divergently different asset returns have typically moved to understand how holding assets together in a portfolio may affect how much it swings (volatility). Finally, a variety of "optimizations" are applied to produce a model portfolio, depending on what an investor wants their portfolio to achieve. These range from equally weighted approaches to matching major stock indexes closely, through to boosting risk-adjusted returns and minimizing the likelihood of experiencing outsized market falls.

Each standalone approach has its merits and pitfalls. While it's beyond the scope of this paper to expand on this technical subject, we can show that CIO analysis of these different methods suggests a wide range of potential US equity exposures (MSCI USA) for a balanced investor. Using an approach biased toward historical returns and minimizing outsized losses would allocate nearly 40% of a balanced portfolio to US stocks. A simple "mean-variance" approach suggests an impractical zero allocation to US stocks because today's elevated valuations compared to history are expected to weigh on future returns.

For practical purposes, we believe that 50% of the equity allocation in a balanced portfolio to US stocks (25% of the entire overall portfolio) is the right long-term allocation. But we acknowledge that self-directed investors may seek a lower allocation if they expect lower US stock returns over the next 10-15 years compared to other stock markets; if they expect US stock returns to be more choppy than other equity markets; or if they expect US equities to behave in a consistently different way to other equity markets (i.e., US equity returns become more sensitive to global growth or risk, also known as being a "higher beta market").

How to approach US dollar bonds

Fixed income allocation is more nuanced, especially for non-US investors. The most relevant factor for bond returns is the currency of denomination, not the domicile of the issuer, and most larger companies issue bonds in various currencies.

Most investors apply a **home currency focus** in bonds. While there typically is a liquid government bond market even in smaller currencies, diversifying within corporate bonds is often difficult, and secondary market liquidity can be low.

Therefore, a blended approach with a **home currency core** and **currency-hedged exposure to more diversified and liquid bond markets**, such as the USD and EUR markets, can offer better risk-adjusted returns. In particular riskier segments of the bond market, like high yield and emerging markets bonds offer a broader diversification in USD than in EUR.

For example, a Eurozone investor may keep their high grade and investment grade allocation in EUR-denominated bonds (which includes US companies issuing in the currency), but may use currency-hedged USD bonds for segments where the EUR market is small.

For many non-US investors, especially those in Europe or Switzerland, holding a mix of currency-hedged USD and EUR bonds can enhance diversification and return potential.

Yet unhedged USD bonds can introduce significant volatility for EUR- or CHF-based investors, as currency volatility materially exceeds bond volatility. In recent times, investor concerns over US policy have led to the US dollar losing ground against both the euro and Swiss franc. These movements would likely have dominated returns and risk for non-USD-based holders of USD bonds.

Currency hedging can help align returns with domestic liabilities and reduce volatility. The cost of hedging depends on the short-term interest rate differential between currencies. When US rates are higher than EUR or CHF rates, hedging USD exposure reduces the carry yield advantage, but different monetary policy settings and changes in the shape of the yield curve can still result in different return outcomes compared to home currency bonds.

Swiss franc investors face unique challenges. The Swiss bond market is relatively small and offers very low yields—Swiss government bonds have often yielded less than 1%, and sometimes even negative yields. As a result, CHF investors seeking higher returns often look to EUR or USD bonds.

For CHF-based investors, a core allocation to high-quality Swiss bonds can provide stability and liquidity. Allocating a significant portion of the fixed income portfolio to foreign bonds in EUR or USD to achieve higher yields can cause outsized currency losses during episodes of Swiss franc strength. Hedging this risk removes the yield advantage. While being better diversified, such allocations typically contribute only moderate returns to the overall portfolio.

For CHF investors, the optimal mix might be a core allocation to Swiss and EUR bonds (fully hedged), with a satellite allocation to USD bonds (fully hedged). This approach balances yield, diversification, and risk management.

We also note a few important considerations when it comes to building strategic bond exposures:

- For high-grade and investment-grade bonds, most returns come from the yield curve, which is determined by the currency of denomination and the prevailing interest rate and future monetary policy environment.
- For high yield and emerging market bonds, credit spreads, issuer, and regional risk play a larger role in determining future returns.
- If an investor's home bond market is small, less liquid, or has less developed credit markets, consider a core allocation to USD or EUR bonds, hedging the currency risk.
- Allocating to bonds by regional weights may fail to account for the fact that many investment-grade issuers are global companies and could result in a high allocation to more indebted countries in a portfolio.

How to approach the US dollar

Again acknowledging that this report talks about the long-term outlook rather than the short-run outlook (and repeating that CIO holds a tactical, six- to twelve-month Neutral view on the US dollar), it is important to consider different strategic approaches to holding the US dollar.

Hedging all foreign currency exposure eliminates currency risk, aligning portfolio returns with domestic expenses. Historical studies (such as the Global Investment Returns Yearbook) show that fully hedged portfolios often have better risk-adjusted returns in domestic currency. However, hedging can be costly or complex, especially for less liquid currencies.

Leaving currency exposure unhedged reduces costs and complexity but increases portfolio volatility that is not normally well compensated from a return perspective. For non-US investors, this can mean a USD weight of 30-70%, depending on the equity and bond allocation. Unhedged exposure may suit globally mobile investors or those benchmarking against global indices.

A pragmatic approach is to hedge selectively—hedging major exposures but leaving some currencies unhedged if costs are high or if the foreign currency is undervalued. For example, some investors may choose to hedge US dollar exposure but leave Japanese yen exposure unhedged if the yen appears cheap.

In recent times, the US dollar has not behaved as a traditional "safe haven" as some investor fears that US exceptionalism is fading and recession and fiscal risks rising have led the dollar to weaken even as US equities fell.

So, for some non-US investors, currency hedging some or all of their exposure to US equities may now offer both return enhancement and reduced volatility, a marked departure from recent years when hedging the USD was less favorable. By locking in exchange rates, foreign investors can potentially preserve gains that might otherwise be eroded by persistent currency depreciation or enduringly higher USD volatility, while mitigating abrupt market swings.

Conversely, US investors may find that holding international equities without a hedge may be more beneficial if they believe that US policy uncertainties and fiscal vulnerabilities look set to continue.

In many cases, currency hedging can stabilize portfolio performance by locking in exchange rates. For foreign investors in US equities, hedged positions can protect against USD weakness and avoid abrupt currency-driven losses. Meanwhile, hedging international equities can shield US investors from rapid swings in non-dollar currencies, potentially lowering overall volatility. Over time, effective hedging may raise risk-adjusted returns by minimizing exchange rate noise, allowing the underlying equity fundamentals to drive performance. However, hedging strategies typically come with costs, such as forward premiums or option expenses, which can significantly reduce net returns compared to the foreign market's local currency return.

Appendix

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