



Cetera® Investment Management LLC

# King Dollar Still Reigns: Why the U.S. Dollar's Global Dominance Is Built to Last



This July, fireworks will once again light up the sky across the country, marking a milestone moment as America celebrates its 250th birthday. But there's another American milestone worth noting; one that speaks to the extraordinary growth since our nation's humble beginnings in 1776: the U.S. dollar's rise to the center of the global financial system. What began as 13 colonies and roughly 2.5 million people has grown into a nation of more than 340 million and the world's largest economy, with the U.S. dollar emerging as the dominant global reserve currency\*.

As this exciting milestone approaches, the U.S. dollar's central role in the global financial system is drawing renewed attention and scrutiny. Given the greenback's outsized influence on global finance, questions about its future can understandably create uncertainty for investors. However, history suggests that moments of scrutiny are not new and that the dollar's rise has been shaped by enduring structural strengths rather than short-term trends.

In this commentary, we will examine those structural advantages and explain why a sudden dethroning of the 'King Dollar' is unlikely. Even today, the dollar continues to serve as the world's safety valve, providing relief for global markets when pressure builds.



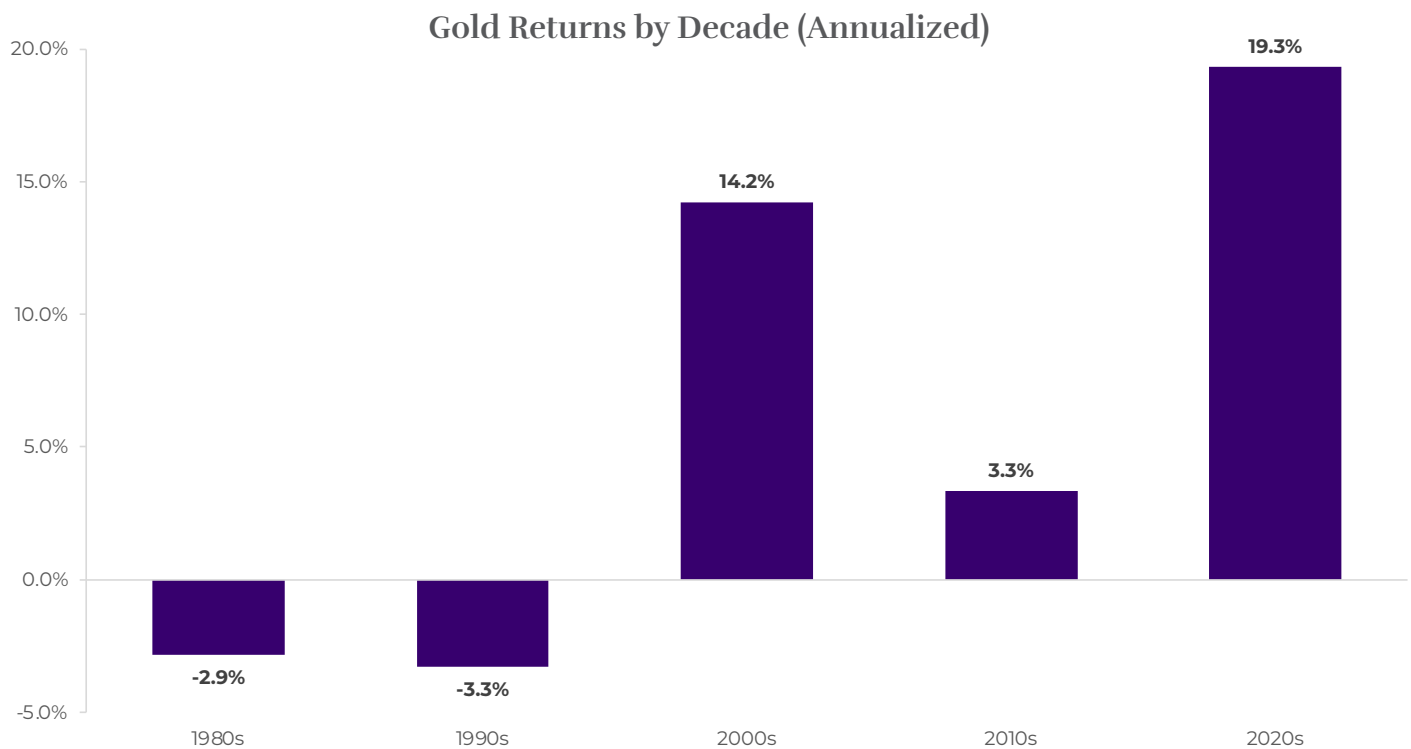
\*A reserve currency is the primary currency used globally for trade, finance, and central bank reserves.

# What's Fueling Dollar Skepticism

Before outlining the factors that support the U.S. dollar, it's important to acknowledge the concerns driving skepticism. The dollar's safe-haven status depends on credibility. If confidence in the Federal Reserve's ability to control inflation or in the federal government's capacity to service its debt were to weaken, trust in dollar-denominated assets could deteriorate, potentially leading to a shift in global central bank reserves. A sustained decline in foreign demand for U.S. Treasuries would further erode the dollar's liquidity advantage and could disrupt capital markets.

At the same time, several longer-term trends have added to uncertainty around the dollar's future. The rise of crypto assets and strong gains in gold prices this decade (**Figure 1**) have amplified speculation about long-term alternatives to the greenback. Periods of dollar weakness against major currencies in recent years have reinforced concerns, raising questions about the dollar's standing in global markets.

**Figure 1:** Gold Is Shining Bright this Decade



Source: Cetera Investment Management, FactSet, S&P Global. S&P GSCI Gold Index used for return calculations. Returns for the 2020s are calculated from 1/1/2020 through 3/25/2026.

Geopolitics has also emerged as a growing headwind. While globalization has been the dominant trend in the post-Cold War era, the world is becoming more fragmented. Some countries, such as China and Russia, are reducing exposure to U.S. dollar-denominated assets, a theme that has been exacerbated by trade tensions and the expanded use of sanctions against non-aligned countries. These factors have contributed to slow and incremental “de-dollarization,” even as the dollar remains the dominant reserve and transactional currency globally.

Finally, the U.S. fiscal trajectory remains a concern for dollar skeptics. Rising debt levels and persistently high deficit spending continue to raise concerns about long-term fiscal sustainability.

The dollar is not immune to these challenges, and fear-driven headlines can cast a shadow over reality, particularly those predicting a “collapse” of the dollar. This isn’t the first time. Dollar skepticism was prevalent during previous periods of dollar weakness, including the stagflationary 1970s, the mid-1980s, and the early 2000s leading into the Great Financial Crisis.

In the next section, we explain why the dollar’s powerful advantages continue to support its role as the primary global reserve currency.



# Why King Dollar's Reign Endures

## Unmatched Scale and Liquidity

The U.S. dollar is backed by far more than an engraved portrait of George Washington; it's supported by the largest and most liquid financial system in the world. With roughly \$30 trillion in Treasuries outstanding, the U.S. Treasury market is the largest securities market on Earth,<sup>1</sup> providing unmatched liquidity, perceived safety, and funding for U.S. government operations.

Demand also remains strong. Net foreign purchases of U.S. Treasuries exceeded \$550 billion in 2025, while net foreign purchases of all long-term U.S. securities climbed above \$1.2 trillion.<sup>2</sup> Those purchases require foreign buyers to acquire dollars, reinforcing global demand. This is why the dollar shines when crises hit: it can absorb global pressure when stress rises. The U.S. Treasury market has the size, liquidity, and safety to meet demand from central banks globally. No country comes close to matching that combination.

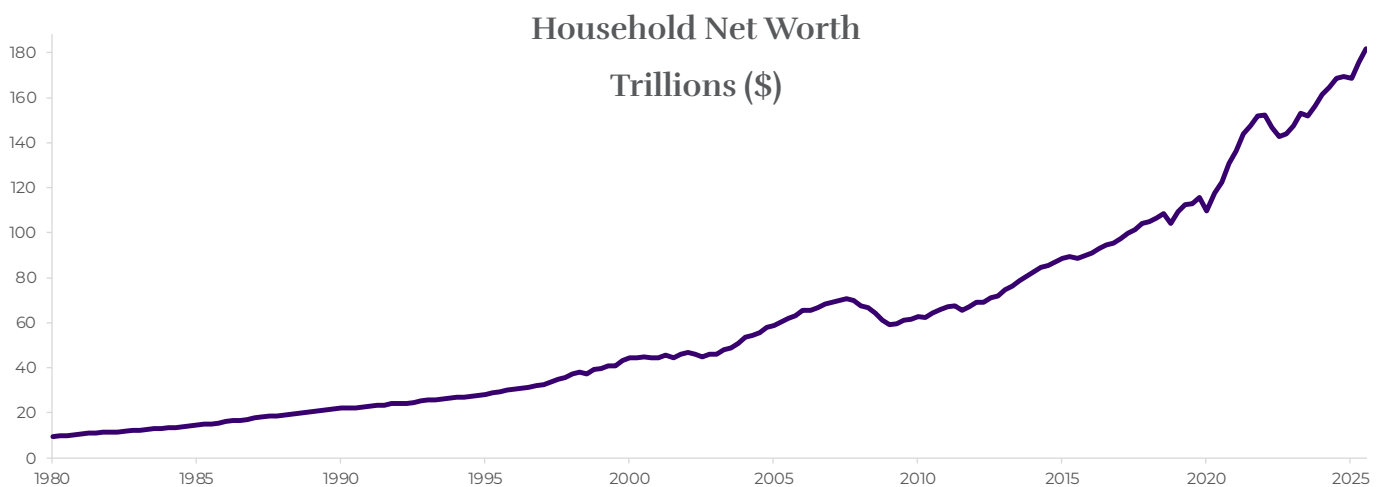
## Private Sector Strength

The U.S. is home to many of the largest and most innovative companies on the planet, fueling massive capital flows into U.S. equity markets, which represent nearly two-thirds of global market capitalization according to MSCI World Index—far more than any other country.

The U.S. is also the world's largest economy, accounting for roughly a quarter of global GDP,<sup>3</sup> a staggering figure considering the U.S. has only 4% of the world's population. China's economy is the second largest, but the gap remains wide, particularly when adjusted for population.

U.S. households hold more than \$200 trillion in total assets and roughly \$180 trillion in net wealth **(Figure 2)** after subtracting debt,<sup>4</sup> while corporate profits total more than \$4 trillion annually,<sup>5</sup> providing a deep and resilient tax base. Private sector strength supports the government's ability to service its debt and reinforces confidence in the dollar's long-term sustainability.

**Figure 2:** Growth in U.S. Household Net Worth



Source: Cetera Investment Management, FactSet, Board of Governors of the Federal Reserve System. Data as of 9/30/2025.

### The Dollar's Network Effect

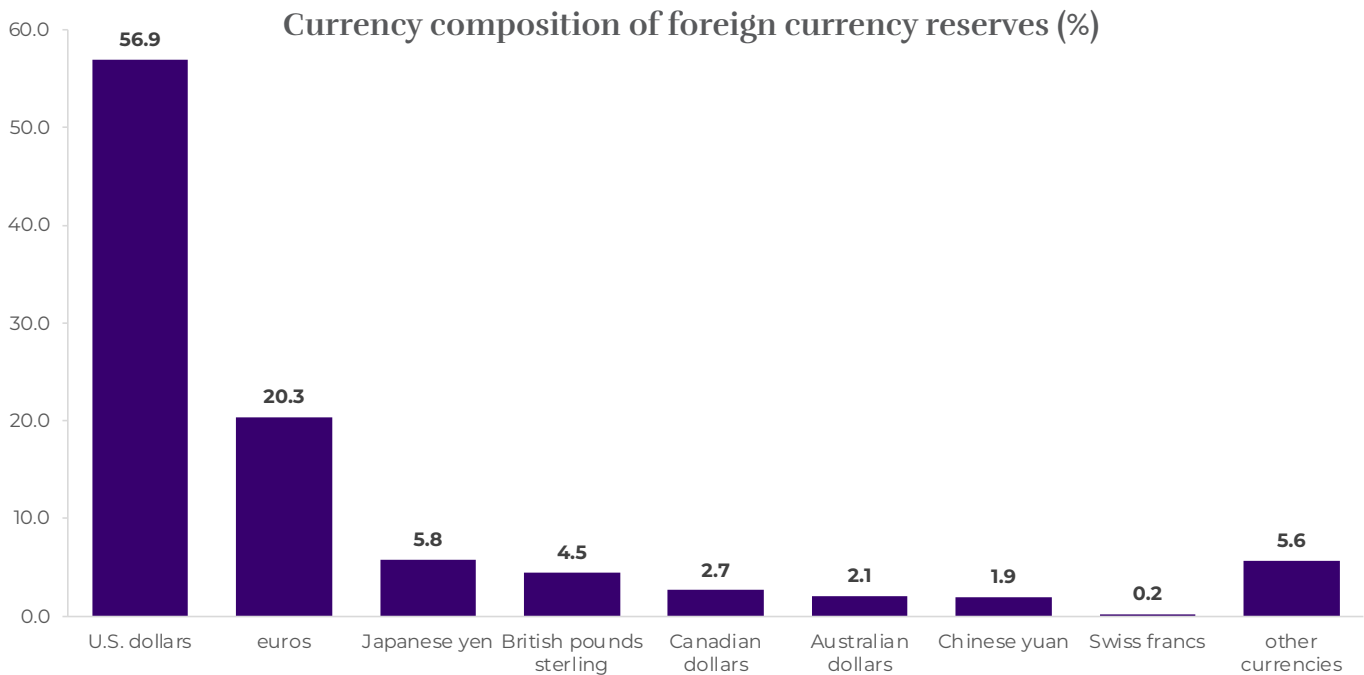
The dollar also acts as the plumbing system for global trade and finance. The global commodities market is predominantly priced and settled in U.S. dollars, and the U.S. is the world's largest producer of oil and natural gas. According to the International Monetary Fund (IMF), the dollar remains the dominant trade-invoicing currency globally,<sup>6</sup> and it is involved in roughly 90% of global foreign-exchange transactions.<sup>7</sup>

This network effect provides stability, predictability, and global liquidity. The U.S. dollar is firmly established as the epicenter of global trade and finance, and it can't be replaced overnight.

### Dollar Dominates Central Bank Reserves

The U.S. dollar is the dominant reserve currency on central bank balance sheets, accounting for 57% of global reserves, far ahead of all other currencies.<sup>8</sup> After the dollar, the euro (20%) and Japanese yen (6%) are the next largest reserve holdings. The Chinese yuan accounts for less than 2% of global reserves.

**Figure 3:** Foreign Exchange Reserves



Source: Cetera Investment Management, International Monetary Fund. Currency Composition of Official Foreign Exchange Reserves (COFER). Data as of Q3 2025.

While the dollar's share of global reserves has gradually declined, most of the shift reflects central banks diversifying into smaller emerging-market currencies. Even with further diversification, the dollar would likely remain the dominant currency given the magnitude of its current share relative to the rest of the world.

## **Key Alternatives Have Major Flaws**

The euro and yuan are most often cited as challengers to the dollar. However, the euro remains fragmented across multiple countries and lacks unified fiscal authority and a deep supply of safe bonds. China's capital controls, the yuan's limited convertibility, and weak legal protections prevent the yuan from functioning as a credible reserve currency.

Additionally, most European nations, Japan, and China face more severe demographic and fiscal challenges than the U.S., alongside weaker long-term growth prospects. Demand for U.S. Treasuries remains strong despite ongoing fiscal concerns.

## **Why Gold and Crypto Aren't Viable Replacements**

Central banks continue to value the structural advantages backing the dollar, including institutional transparency, a strong legal framework, and highly liquid capital markets and banking systems. Alternatives like crypto lack the stability, liquidity, and market depth required to challenge the dollar's role as the dominant reserve currency. Crypto assets are highly volatile, while central banks prioritize stable prices. Notably, no major central bank currently holds crypto.

Gold has seen increased central bank demand as a hedge against geopolitical uncertainty and sanctions exposure. However, the metal cannot function as a reserve currency because it lacks the transactional infrastructure, liquidity, and integration into global payment systems, all of which highlight the key strengths of the U.S. dollar.

In the next section, we outline what this means for investors and why recent dollar weakness appears cyclical rather than structural.



# The Dollars and “Sense” of It All

Money matters. Currency fluctuations can have an outsized influence on the global economy, affecting everything from foreign trade and investment returns to the cost of global travel. The U.S. Dollar Index has experienced a 12% drawdown since the start of 2025, but currencies follow normal cyclical patterns, much like the economy and stock market.

While the dollar has shown cyclical weakness in recent years, its structural advantages remain intact. As shown in **Figure 4**, the U.S. Dollar Index—which measures the dollar against a weighted basket of major currencies including the euro, yen, pound and Canadian dollar—has fluctuated in a broad range for decades. Even after the recent pullback, the dollar sits comfortably above its long-term average.

**Figure 4:** Long-Term Look at U.S. Dollar



Source: Cetera Investment Management, FactSet, Intercontinental Exchange (ICE). Data as of 3/16/2026.

Periods of dollar weakness have often coincided with international equity outperformance, underscoring the importance of global diversification. When foreign currencies strengthen, U.S. investors can see improved dollar-denominated returns on international holdings—and this cycle has been no different. International indices have outperformed U.S. stocks since the beginning of 2025 during the latest stretch of dollar weakness.

Dollar weakness isn't necessarily a bad thing. In addition to supporting international equity returns, a softer dollar can benefit U.S. manufacturers and exporters. More than 40% of revenues from companies in the S&P 500 are generated overseas, and U.S. firms may gain a relative advantage over products priced in more expensive foreign currencies, providing a potential tailwind for corporate earnings growth. Conversely, international travel becomes more expensive for Americans when the dollar weakens, while travel to the U.S. becomes more affordable for foreign tourists—helping boost the U.S. economy.

Exchange rates naturally fluctuate over time based on differences in interest rates, economic strength, and market sentiment across countries. The dollar has recently stabilized as investors seek safety following the onset of the Iran conflict, but past cycles suggest that periods of weakness can persist. For long-term investors, this reinforces the importance of diversification and patience across market cycles.



# Standing Strong

After a quarter of a millennium, the U.S. dollar remains firmly entrenched as the world's dominant reserve currency, with no credible challenger positioned to take its place. While the greenback's influence may ebb and flow at the margins, the foundation supporting the dollar remains intact. It didn't form overnight—institutions have been reinforcing that foundation for 250 years.

The U.S. continues to offer the world's largest and most liquid capital markets, a robust banking system, strong institutions, and a stable regulatory environment. While the global system may gradually evolve toward a more multi-currency framework, the dollar would likely remain the anchor of global finance.

**Although the dollar has weakened compared to other major currencies in recent years, short-term fluctuations in exchange rates are not the same as the dollar losing its reserve status.**

If you are feeling the pressure from currency and market volatility, your Cetera financial professional is here to act as your relief valve, helping navigate uncertainty and keep your long-term financial plan on a steady path.



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## Glossary

The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average is a price-weighted average of 30 U.S. blue-chip stocks traded on the New York Stock Exchange and NASDAQ. The index covers all industries except transportation, real estate and utilities.

The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index includes over 2,500 companies, spanning all 11 sector groups.

The Russell 2000 index is comprised of 2000 small-capitalization companies. It is made up of the bottom two-thirds in company size of the Russell 3000 index.

The MSCI All-Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The SMCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes.

The developed country indexes include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.

The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates

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