

FX Viewpoint Flash

Currencies
Global

USD: The “Triple Threat” reminder

- ◆ The “Triple Threat” occurred on 20 January, marking the first simultaneous move in months across USD, equities, and yields
- ◆ This rare combination may indicate reduced confidence in the US and present challenges to traditional portfolio diversification
- ◆ If it persists for consecutive days, it could signal deeper structural concerns, which warrant close monitoring

On 20 January, we observed a rare market event: the USD weakened, US equities (S&P 500 Index) declined, and US Treasury yields rose – a combination we refer to as the “Triple Threat”. This was the first instance of such a pattern since the aftermath of “Liberation Day” in April last year.

Under typical market conditions, rising Treasury yields are associated with stronger growth expectations or higher inflation, which generally support equity markets. Conversely, when both equities and bond yields fall, it usually signals a deterioration in risk appetite, with the USD often strengthening as investors seek safety.

The distinguishing feature of the recent “Triple Threat” is the simultaneous weakness in the USD. A declining US Dollar Index (DXY) alongside rising Treasury yields suggests that nominal yields are not sufficiently attractive to draw in capital. This may reflect concerns about real returns, policy uncertainty, or doubts regarding the sustainability of US fiscal and monetary frameworks. Rather than indicating healthy global risk appetite, USD weakness in this context points to reduced confidence in the US.

From a portfolio perspective, this scenario challenges traditional diversification strategies, as both risk assets and defensive holdings like the USD can experience drawdowns at the same time. This shift in correlations raises important considerations for portfolio construction and risk management.

Historically, “Triple Threat” has been relatively infrequent. Since 2000, it has occurred on 455 out of 6,797 trading days (around 6.7%), with a maximum run of three consecutive days. Looking further back to the early 1970s, the longest stretch was four days.

In summary, the “Triple Threat” serves as a signal of underlying structural concerns in the market, rather than typical cyclical fluctuations. If this pattern persists for consecutive days or over the coming days, it may warrant closer attention and a reassessment of market positioning.

The “Triple Threat” occurred on 20 January

Normally, rising US Treasury yields support US equities and strengthen the USD

USD weakness in this context may suggest reduced confidence in the US...

...and could introduce challenges to traditional portfolio diversification strategies

The “Triple Threat” is historically rare and short-lived...

...but if it persists for consecutive days, it signals deeper structural market concerns

Disclosure appendix

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