Go with the FLOW

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on the US DOLLAR

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Looking at the forces driving money flows can help explain the dollar's value

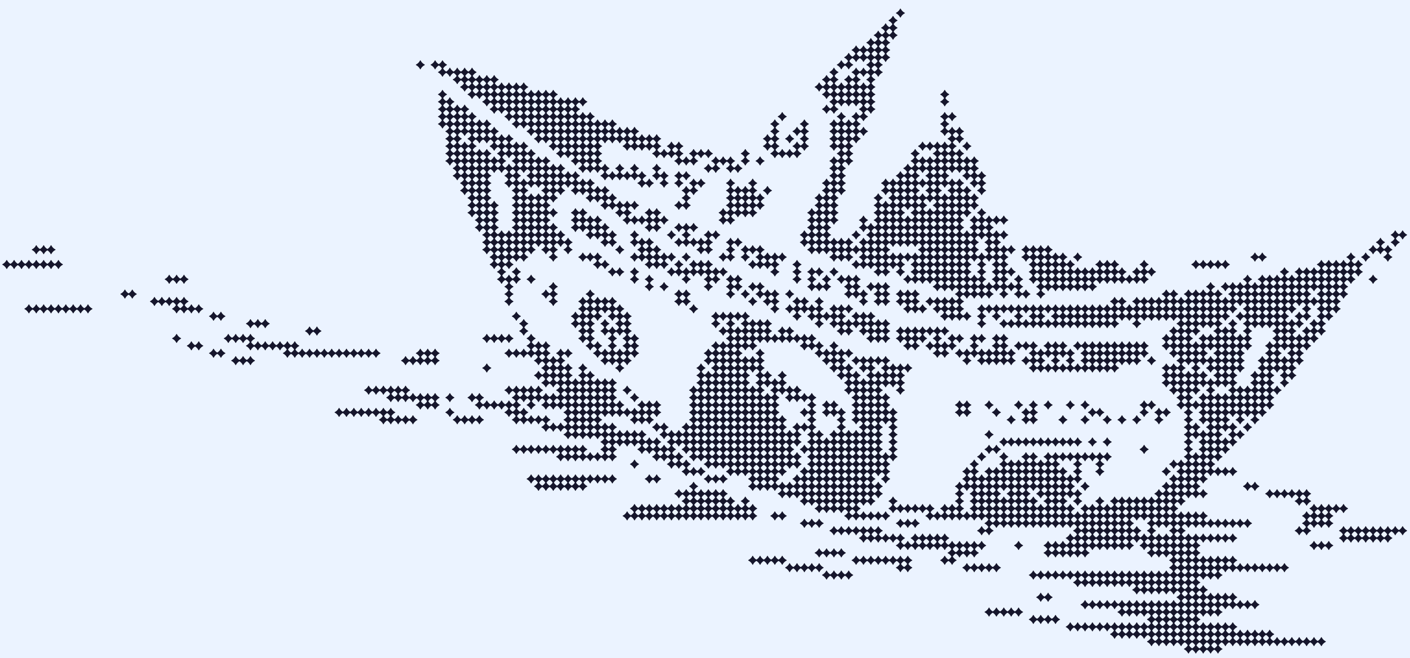
The value of investments can fall as well as rise, and investors may get back less than they invested. Currency movements may increase or decrease returns for sterling-based investors.

Money is constantly moving around the world. Pension funds in Europe buy US bonds, Asian investors purchase American shares and US consumers buy imported goods. Most of these transactions barely make the headlines, yet together they help determine the direction of the world's most important currency, the US dollar. To understand whether the US dollar may rise or fall against other currencies, one of the simplest approaches is to follow the flow of money.

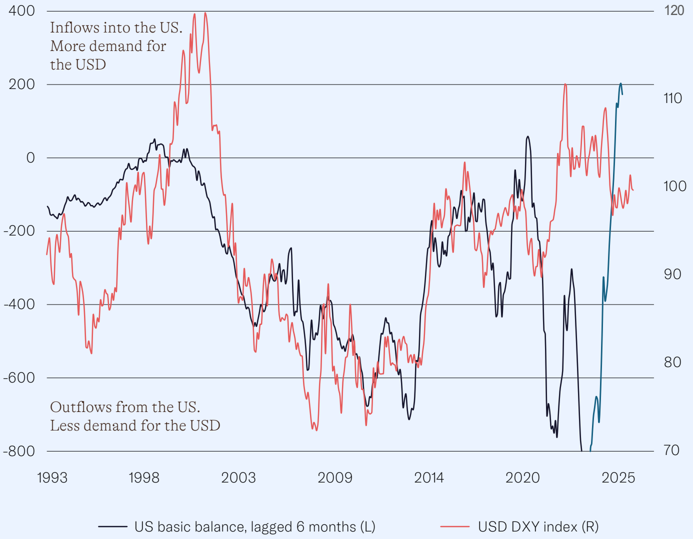
One useful measure is the basic balance (BB), which is derived from Balance of Payments data and tracks the net flow of dollars into and out of the US. It combines the trade balance in goods and services with cross-border portfolio investment flows. When the US imports more than it exports, or when US investors buy more foreign securities than they sell, dollars flow out of the US and into the rest of the world. Conversely, when foreign investors buy more US equities and corporate bonds than they sell, dollars flow back into the US.

The interaction of these flows provides a useful indication of underlying demand for the US dollar. Indeed, over the past three decades, movements in the BB have generally done a good job of explaining long-term trends in the dollar. However, the relationship has weakened in recent years due to distortions caused by Covid-19 lockdowns, trade tariffs and the war in Ukraine, but as these effects fade, capital flows may once again become a more reliable guide.

At present, the BB is strongly positive. Over the 12 months up to July, there were a record net $173 billion of inflows into the US, pointing to solid demand for the dollar.[1] Foreign investors continue to purchase substantial amounts of US financial assets, while the US trade deficit has narrowed. Strong exports of natural gas and petroleum products, aided by disruptions to Middle Eastern oil supplies following the conflict with Iran, have helped narrow the US trade deficit.



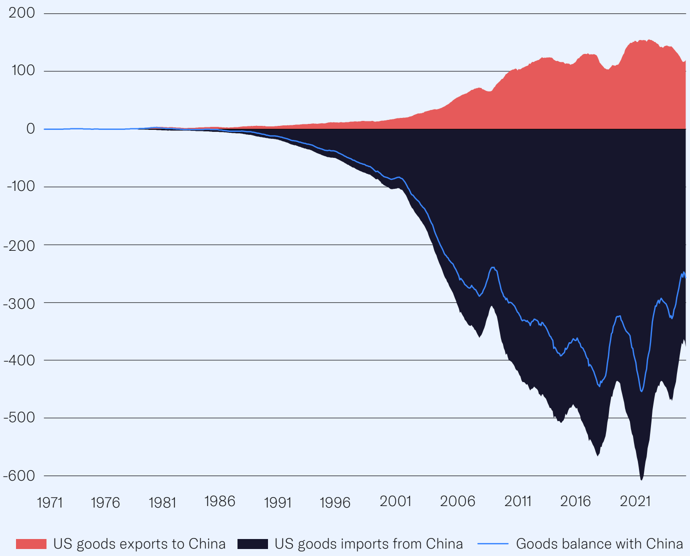
US basic balance* on a rolling 12-month sum (USD bn) and USD DXY



Source: LSEG Datastream / Evelyn Partners. Data as at 24 September 2026. *The sum of the goods/services trade balance and net foreign purchases of US corporate bonds and stocks less US net purchases of foreign securities

At the same time, the tariff war has reduced US demand for foreign goods, lowering imports from China. Together, these developments have helped shrink the trade gap and lessen dollar outflows.

US exports and imports to and from China



Source: LSEG Datastream / Evelyn Partners. Data as at 24 September 2026.
Data in USD, $ billions, 12-month rolling sum

The AI attraction

One reason why money continues to flow into the US is investment in artificial intelligence (AI). The US remains home to many of the world's largest technology companies and has by far the largest concentration of data centres globally.

According to Cloudscene, an independent directory of datacentres, the US hosts more than 5,400 data centres, compared with around 530 in Germany, 520 in the UK and 449 in China, the next largest markets.[2] Investors increasingly view the US as the source of the AI boom, from semiconductor chip demand, cloud-computing providers and software developers.

This matters because, in aggregate, purchases of US financial assets create demand for dollars, although investors may hedge some of their currency exposure. Every purchase of US shares, corporate bonds or private technology investments creates additional demand for dollars.

The concentration of US technology companies and data-centre investment is one factor that may be supporting demand for US assets. No one knows how long this enthusiasm will last, but for now it continues to provide strong support for the dollar.

The "Bessent Put" probably supports downward pressure on the US dollar

While capital flows have dominated the dollar story in recent years, government policy is becoming increasingly important.

Treasury Secretary Scott Bessent recently signalled a greater willingness for the US Treasury to buy back longer-dated government bonds, funded in part by increased issuance at the short end. Investors have dubbed this the "Bessent Put", reflecting the Treasury's apparent desire to limit further rises in long-term yields. Although the amounts involved so far are relatively small compared with the size of the Treasury market, the message is significant.

Essentially, the US government may be increasingly uncomfortable with rising long-term borrowing costs. Higher Treasury yields increase the government's financing costs and can feed through into mortgage rates and other borrowing costs, potentially weighing on growth. These considerations may influence policy discussions ahead of the November midterm elections.

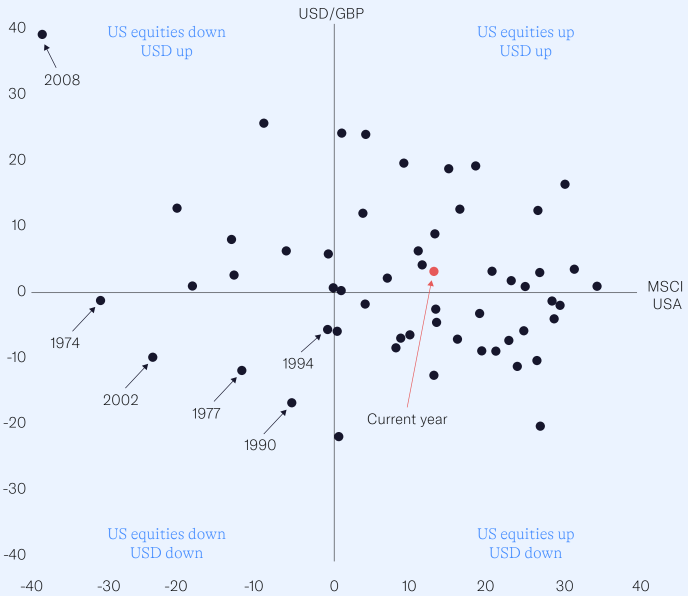
If the US government is seen as actively trying to keep long-term yields in check, some foreign investors may find US government bonds less attractive. Lower yields, combined with a weaker dollar, would reduce potential returns once investments are converted back into investors' home currencies. That could discourage new money from flowing into Treasury bonds and other US assets, offsetting some of the support for the dollar from capital inflows captured by the BB. Recent dollar weakness suggests that some investors may already be growing cautious about committing additional capital to US assets.

Why a weaker dollar may not be bad news for equities

For many investors, a falling dollar could sound alarming. Yet history suggests it may not necessarily be bad news.

For sterling-based investors, a weaker dollar may create a currency headwind for returns on overseas holdings. However, a softer dollar often reflects an increase in dollar supply relative to demand, which can be supportive for risk assets such as equities. Indeed, since 1970, there have been only five years in which both the US dollar and US equities suffered significant declines simultaneously.

Annual change in US equities and the value of USD against GBP, %*



Source: LSEG Refinitiv / Evelyn Partners. Data as at 24 September 2026.
*US equities is MSCI USA in USD, data from 1970-2026

Conclusion

Money is constantly moving around the world, and these international flows remain a powerful driver of the dollar. Following those flows may be one of the clearest guides to the currency's future direction. Whether intentional or not, Treasury buybacks could help reduce capital inflows into the US, placing downward pressure on the dollar over time. However, a weaker dollar does not automatically imply weaker US equities, although the effect can vary by sector, earnings exposure and market conditions.

Sources:

[1] LSEG/Evelyn Partners

[2] Which countries have the most data centers? Statista, 27 May 2026

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