Mesirow

Insights

The US hedging advantage

Potential to increase return while reducing risk by simply hedging currencies

For US investors, the management of currency risk in their portfolios has historically been an afterthought for a variety of reasons and assumptions, chief among them: zero expected return, portfolio diversification, and low materiality in the portfolio. We will touch upon each of these views, discussing their validity, evolution, and relevancy within the current market environment.

Zero expected return

Historically, developed market currencies have not added or detracted meaningful return in multi-decade time horizons. Since the introduction of the Euro in 1999, EAFE currencies have gone full cycle with close to zero realized return.

FIGURE 1: EAFE CURRENCY RETURN

Source: Bloomberg, MSCI, Mesirow. Performance from January 1999 – December 2021. Past performance is not necessarily indicative of future results. Actual results may materially differ.

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