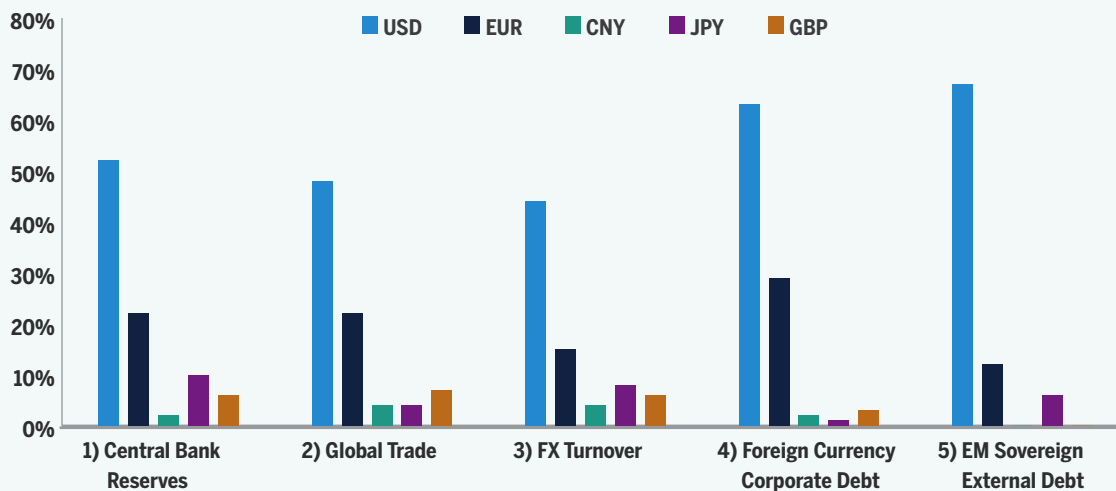


## King Dollar?

Rising policy uncertainty has shaken confidence in the U.S. dollar recently, prompting some investors to worry it may lose its status as the world's reserve currency. Should investors be concerned?

**Currency Usage Within Global Financial System**



Source: Morgan Stanley as of 12/31/2024. The data depicted in the chart is derived from a research note authored by the Global Economics and Strategy Team at Morgan Stanley Research.

USD = U.S. Dollar, EUR = Euro, CNY = Chinese Yuan Renminbi, JPY = Japanese Yen, and GBP = British Pound Sterling.

- While the U.S. has its share of fiscal and trade policy challenges, the dollar remains the global reserve currency and is likely to stay that way, in our view. On five key metrics shown in the chart above, the dollar is the dominant global currency: 1) central banks have more than half of their reserves in dollars, 2) the dollar is the most common currency for global trade, having increased its share over the past decade by about 600 basis points, 3) foreign exchange is predominantly settled in dollars, and 4 & 5) most corporate and sovereign foreign currency debt is issued in dollars and that has actually increased modestly in the past decade.
- We believe there are several reasons why the dollar dominates global trade, savings, credit and exchange, which include economic scale, strong institutions, deep financial markets, political stability and military power.
- However, in our view, the greatest strength of the dollar and the likely driver of its continued dominance is the U.S.'s lead in innovation. The U.S. has pioneered historically significant technologies—from personal computers to the internet—and has expanded its dominance in areas like cloud computing and biotechnology. Furthermore, we believe the U.S. is poised to lead the world in artificial intelligence (AI) given its momentum in hardware and software, which are areas critical to AI development, and could further sustain the status of the dollar as the global reserve currency.

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