# Trump-era policies cast doubt on dollar's safe asset supremacy



The Financial Times is reporting on the evolving status of the US dollar as the dominant global reserve currency in light of recent shifts in US foreign policy under the Trump administration. Historically, the dollar has been a stabilising pillar in global finance, underpinning international trade and acting as a safe harbour for investors. However, developments since Donald Trump’s return to the White House in 2025 have introduced significant uncertainties about the currency’s future role.

Adam Posen, president of the Peterson Institute for International Economics, reflects this changing outlook. In 2008, he authored a paper asserting that the euro would not rival the dollar partly because of geopolitical factors that bolstered the dollar’s dominance. At that time, Posen could not have foreseen the dramatic policy shifts that would come with Trump’s re-election. Now, Posen states in a recent online presentation that the current administration's abrupt changes pose direct risks to the foundational security of the dollar’s global status.

The dollar has experienced a decline since Trump announced reciprocal tariffs on 2 April, a move investors interpreted as signalling weaker future US economic growth. More concerning is that this decline coincided with drops in the value of long-term US government bonds (Treasuries), signalling potential damage to the dollar’s reputation as a reliable safe asset. This dual depreciation is unusual; typically, the dollar’s value and Treasury yields respond predictably to economic indicators such as growth and inflation.

A study by Viral Acharya and Toomas Laarits from New York University Stern School of Business highlights that while the prices of short-term Treasuries (maturities of around two years) rose in reaction to expectations of interest rate cuts following Trump’s tariff announcement, long-term Treasuries fell. This divergence suggests a weakening of the “safe-asset hedging property” of long-term government debt, an anomaly that points to underlying distress in market confidence.

The implications of this are significant. The US government typically relies on issuing long-term debt, which benefits from the perception of safety and stability. But the current market behaviour forces a greater dependence on short-term debt issuance, necessitating more frequent refinancing to manage public debt. This shift increases vulnerability, as maintaining investor confidence in repeatedly rolling over short-term debt requires constant attention to managing borrowing costs.

The position of the US as the issuer of the world’s primary safe asset confers a distinct advantage, enabling it to borrow heavily at relatively low cost during times of crisis and recover through fiscal stimulus. This capability has historically allowed America to manage and shorten financial shocks more effectively than other nations, which often face rising borrowing costs in tough times. However, the changes under the Trump administration risk undermining this advantage by eroding confidence in the dollar and US debt markets.

The Financial Times highlights that these developments are part of a broader realignment in global geopolitics and security policy, factors that underpin financial market dynamics beyond the usual economic indicators. The future of the dollar’s primacy now appears more fragile, with potential long-term costs for the US economy if its safe asset status continues to weaken. Other economic powers, particularly in Europe, are closely observing these shifts as potential opportunities to alter the global financial landscape.

In summary, while the dollar remains central to global finance, recent policy decisions and market responses reveal vulnerabilities that challenge its traditional role. The ongoing evolution of US foreign and economic policy is reshaping the foundational dynamics that have supported the dollar’s dominance for decades.

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.ft.com/content/8742b522-eee2-4a04-9409-3e2d41933591> - This article discusses the risks posed to the U.S. dollar’s status as the world’s dominant reserve currency, particularly under the Trump administration’s renewed foreign policy and trade strategies. It highlights the decline in the dollar and long-term U.S. Treasury bond values following President Trump's April 2 announcement of reciprocal tariffs, suggesting a weakening of the dollar’s perception as a safe asset.
2. <https://www.reuters.com/business/finance/global-markets-investors-analysis-2025-04-30/> - This report details how global investors are seeking safer yet profitable niches beyond traditional markets amid escalating U.S. policy uncertainties and a volatile Wall Street. It notes that President Trump's policy moves, particularly the April 2 'Liberation Day' bombshell and budget plans, have impacted investor confidence, resulting in declines in U.S. equities and the dollar.
3. <https://www.reuters.com/world/middle-east/dollar-steady-vulnerable-tariff-worries-take-hold-2025-04-30/> - This article reports that the U.S. dollar held steady but remained vulnerable amid increasing concerns over President Donald Trump's unpredictable trade policies. It mentions that despite a slight uptick, the dollar is set for its worst monthly performance since November 2022, depreciating due to investor uncertainty and flight to safer assets like the euro, yen, and Swiss franc.
4. <https://www.reuters.com/markets/us/investors-could-exit-tariff-purgatory-only-enter-capital-controls-inferno-2025-04-29/> - This piece discusses the potential market turmoil as the 90-day ceasefire in President Donald Trump's trade war nears its July 8 expiration. It highlights that the lack of clarity has already led European investors to shift over €4 billion out of U.S.-focused ETFs and into nearly €6 billion worth of European assets, weakening both the U.S. dollar and equity markets.
5. <https://www.axios.com/2025/04/30/trump-tariffs-recession-dollar-100-days> - This article reports that in the first 100 days of President Trump's second term, the U.S. dollar experienced a significant decline, falling nearly 10%, marking the steepest drop for a new administration this century. It attributes this sharp depreciation to President Trump's unpredictable tariff policies and the erosion of key principles that once underpinned 'American exceptionalism'.
6. <https://www.reuters.com/markets/global-markets-trading-day-corrected-graphic-pix-2025-04-30/> - This report details U.S. economic data revealing a 0.3% GDP contraction in Q1 2025, heightening concerns of a potential recession. It notes that the decline stemmed largely from trade disruptions, with tariffs delivering a historically significant blow, leading to market volatility and a significant drop in Treasury yields.
7. <https://www.ft.com/content/8742b522-eee2-4a04-9409-3e2d41933591> - Please view link - unable to able to access data