

Dollar Downshift: Implications for Commodities and EM in 2026

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The U.S. dollar is entering a downshift phase as policy divergence narrows, inflation moderates, and global growth differentials improve. A softer dollar has broad implications across commodities, emerging markets, and global equities, while reshaping hedging and allocation decisions.

Executive Summary

A gradual dollar downshift is underway, driven by peaking real yields and a narrowing of policy gaps across major economies. This backdrop supports commodities and selected emerging markets, while easing financial conditions for dollar-sensitive borrowers. Investors should balance the opportunity in risk assets with careful FX and policy risk management.

Key Takeaways:

- Narrowing policy divergence reduces the dollar's yield advantage, supporting a softer USD trend.
- A weaker dollar tends to lift commodities and EM assets, improving global risk appetite.
- Portfolio positioning should pair selective risk exposure with FX risk controls.

Drivers of the Dollar Downshift

The dollar's peak advantage is fading as U.S. inflation moderates and real yields stabilize. As other central banks approach neutral stances and growth differentials improve, the dollar's relative carry premium narrows. This favors a gradual, not abrupt, USD decline.

Commodities and Inflation Pass-Through

Commodities often respond positively to a weaker dollar. Energy, industrial metals, and agriculture benefit from improved purchasing power abroad and stronger demand elasticity. The pass-through to inflation is modest but worth monitoring in energy-sensitive economies.

Emerging Markets Transmission

A softer dollar eases external financing pressures and supports capital inflows to EM equities and local currency debt. Countries with improving policy credibility and current account stability are positioned to benefit most. However, idiosyncratic risks remain elevated in high-debt or politically fragile markets.

Investment Implications

Global equities benefit from improved liquidity conditions, while commodities and EM assets gain support from USD softness. U.S. multinationals with foreign revenue exposure may see a tailwind. Investors should maintain a diversified mix, favoring quality balance sheets and currencies with strong fundamentals.

Portfolio Allocation Considerations

Investors should pair selective EM exposure with commodities and diversified global equities. FX hedging should be dynamic, reflecting volatility regimes and policy inflection points. Maintain liquidity buffers for sudden dollar reversals tied to risk-off shocks.

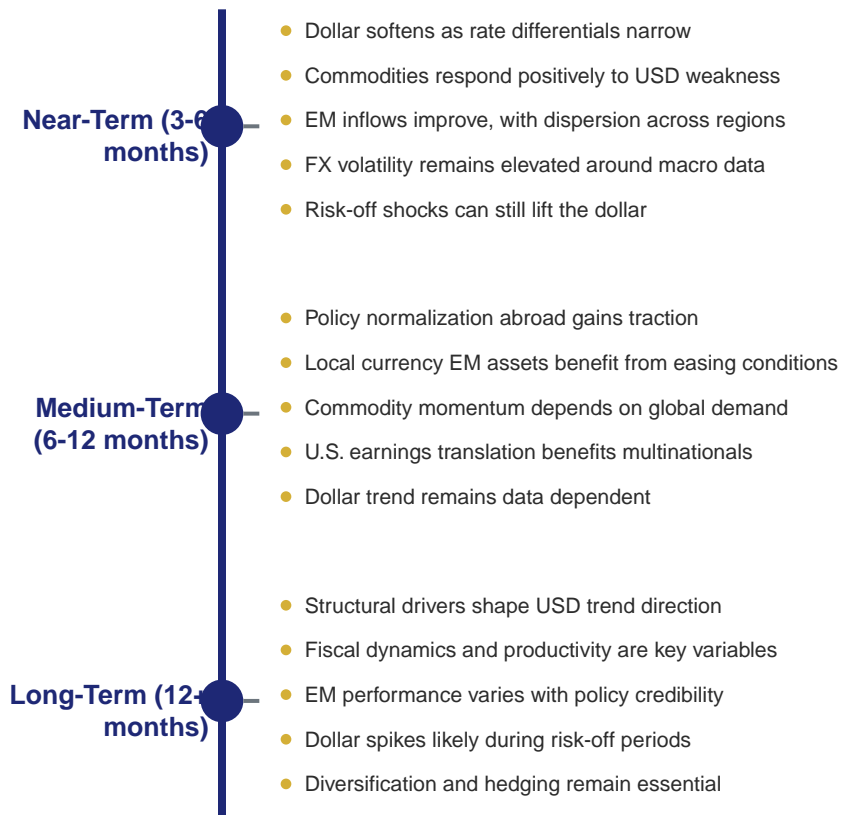
Timeline and Outlook

Near-Term Outlook (3-6 months): Dollar softness continues if U.S. data cools and global growth stabilizes. Commodities and EM assets remain supported, with higher beta in risk-on regimes.

Medium-Term Outlook (6-12 months): Policy normalization abroad narrows rate spreads further. EM local currency assets may see stronger inflows, while commodity momentum depends on demand stability.

Long-Term Outlook (12+ months): The dollar trend depends on productivity and fiscal trajectories. A structural downshift is possible, but episodic spikes remain likely during risk-off periods.

Timeline Overview



Source: AVANTAS Research Analysis

Risk Factors

Policy Risk: A renewed inflation surge could re-widen rate differentials and strengthen the dollar.

Geopolitical Risk: Geopolitical shocks often drive dollar demand and risk aversion.

Liquidity Risk: Rapid tightening in global funding markets could reverse USD weakness.



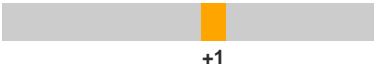
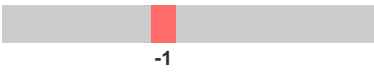
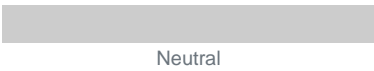
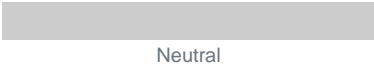
Conclusion

A gradual dollar downshift supports commodities and selective EM exposure, but the path is uneven. Investors should combine strategic positioning with disciplined risk management and FX awareness.

Asset Class Impact

Commodities and EM assets are primary beneficiaries of a softer dollar. Global equities benefit from improved liquidity, while U.S. assets face mixed effects depending on sector exposure. FX positioning remains a key driver of outcomes.

Asset Class Impact

■ Underweight	■ Neutral	■ Overweight	
Asset	View		Commentary
Commodities	 +1		Overweight. USD softness supports commodity pricing and demand elasticity.
EM Equities	 +1		Overweight. Improving flows and easing FX headwinds benefit select markets.
EM Local Currency Bonds	 +1		Overweight. Yield advantage plus FX tailwinds support returns.
U.S. Dollar	 -1		Underweight. Narrowing rate differentials reduce USD carry appeal.
Developed Market Equities	 Neutral		Neutral. Global equities benefit from liquidity, but USD weakness is uneven across sectors.
Global Credit	 Neutral		Neutral. Improved liquidity helps, but spread compression is selective.

Source: AVANTAS Research Analysis