Illustration: Glenn Harvey

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The Big Take

Asia's $7.5 Trillion Bet on US Assets Is Suddenly Unraveling

Trump's policies are turning US markets from a haven into a source of volatility and pain.

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For decades, Asia's export powerhouses had a simple financial strategy: Sell goods to the US, then invest the proceeds in American assets.

That model is now facing its biggest threat since the 2008 global financial crisis as Donald Trump tries to remake global trade and the US economy — upending the logic behind $7.5 trillion of investments from Asia. Some of the world's biggest money managers say an unwind is just getting started.

Big Take Asia

The Dollar's Dominance Is Unwinding

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For those caught flat-footed by the shift, the pain has already been severe. A selloff in the dollar after Trump slapped tariffs on most of the world had Taiwanese insurers reporting a $620 million loss in April alone. Then, a surge of as much as 8.5% in the value of the Taiwan dollar over two days in early May raised the prospect of $18 billion in currency losses for their unhedged US investments.

The Taiex Index displayed at the Taiwan Stock Exchange headquarters. A two-day currency surge in May shocked traders and Taiwanese companies.*Photographer: An Rong Xu/Bloomberg*

Even before Trump's second presidency, capital flows from Asia to the US were off their historic peaks. There are now signs the trend will accelerate, with Japan's largest life insurer looking for alternatives to US sovereign bonds, family offices cutting or freezing investments, and a $96 billion Australian pension fund declaring a peak in its allocation. The latest data show China shrank its Treasuries holdings in March.

"We are in a shifting world order and I do not believe that we will go back to the state of things as we had before," says Virginie Maisonneuve, London-based global chief investment officer equity at Allianz Global Investors, which oversees €571 billion ($649 billion) in assets. "It is an evolution from the World War Two order and is partially triggered by China rivaling the US in economic and technology terms."

Strategy Reversal

Asian investors have a long list of reasons to look for alternatives to US-based assets: there's a growing budget deficit, widening political polarization and worries about the country's aging infrastructure. The usage of the dollar — the world's reserve currency — in sanctions against Russia also raises concerns over the safety of currency assets held by Asia. In addition, Trump's push to cut taxes is elevating worries about fiscal profligacy, with the US getting stripped of its last top credit rating on May 16 after Moody's Ratings joined peers in downgrading the nation.

The switch from hoarding dollar assets to doubting US exceptionalism may send $2.5 trillion or more cascading through global markets, according to Eurizon SLJ Capital Chief Executive Officer Stephen Jen. In that scenario, emerging-market currencies will soar against the dollar, equities from Europe to Japan will benefit from inflows, while new capital swells debt markets in countries including Australia and Canada, asset managers and analysts said.

Explainer: Are US Treasuries Really Losing Their Safe-Haven Appeal?

For Asia, a rewiring of its ties will mark a reversal of a strategy conceived in the depths of the 1997 financial crisis. Back then, an excessive reliance on short-term borrowing without the backing of dollar assets triggered a debt crisis, followed by a sharp depreciation of currencies and a collapse in equities.

Stock watchers react at the Hong Kong Stock Exchange in October 1997 as equities crashed.*Photographer: Jonathan Utz/Getty Images*

The lesson led Asian nations to focus on earning dollars from exports to the US, building up surpluses that were redirected back into America. Collectively, the 11 biggest economies have bought $4.7 trillion of US equities and bonds since 1997, taking total investments to $7.5 trillion, according to a Bloomberg News analysis of capital flow data from the US Department of the Treasury.

The annual flows into the US peaked in 2004 at $354 billion as the ascendance of China, after joining the World Trade Organization, started to reshape trade and investments in the region. In the early 2000s, almost every dollar earned by the largest Asian exporters to America was reinvested back into its equity and bond markets given the high returns and growth seen in the world's biggest economy.

Asian Economies Pile Into American Assets

Cumulative net purchases of US bonds and stocks since start of 1997

Sources: Bloomberg, US Department of the Treasury

Note: Others are Thailand, Malaysia, Philippines, Indonesia and India

The Global Financial Crisis of 2008 was a "major wake-up call," exposing the fragility and risks in US markets, says David Gibson-Moore, president and chief executive officer of Gulf Analytica, a Dubai-based wealth advisory firm with Asian clients. Over the last decade, "sovereign wealth funds, family offices and institutional investors across Asia have gradually been rebalancing their portfolios to reduce overexposure to US assets."

By 2024, Asia's capital inflows into the country had dropped to $68 billion, making up just 11% of trade surpluses with the US that had continued to expand. Exports had ballooned in the past few years, aided by a strengthening dollar and a rebound in American consumption after Covid.

Carry Trade Collapse

Despite the slowing capital flows, Asia was still heavily reliant on a strong dollar for its growth and investment model. The risks were exposed last year when the Bank of Japan stepped up its interest-rate hikes after years of an ultra-easy monetary policy, and the nation intervened in the market to support the yen.

From early July to August, the yen surged 14% against the dollar. Suddenly, a global carry trade — in which investors borrowed the cheap Japanese currency to invest in higher-yielding assets in the US and elsewhere — was at risk. Investors rushed to unwind their positions at the fastest pace since 2007, according to Bloomberg Economics.

A vicious spiral ensued, as the unraveling of a strategy that GlobalData TS Lombard estimated involved $1.1 trillion further strengthened the Japanese currency, leading to more liquidation of positions. Global assets from Nvidia Corp.'s stock to emerging-markets bonds and Bitcoin were roiled. Around $85 billion was wiped from the market value of Japan's three biggest banks in two trading days.

Speculators Cut Shorts When Yen Carry Debacle Roils Markets

Net long positions on yen

Sources: Commodity Futures Trading Commission, Bloomberg

The episode led to a reassessment among investors over their long-term strategies, said Udith Sikand, senior emerging-markets analyst at Gavekal Research in Hong Kong. "That trade only really works as long as the FX behaves in the way you expect it to, wherein your local currency depreciates and the dollar keeps rising."

Then Trump started his second term.

The president's pledge to bring manufacturing back to the US, along with his frequent complaints about how other countries weakened their currencies to gain a competitive edge, was directly in opposition to the Asian export-growth model.

US President Donald Trump during a tariff announcement in the Rose Garden of the White House on April 2.*Photographer: Kent Nishimura/Bloomberg*

His announcements of unexpectedly high tariffs, especially on Asian exporters, spurred a rush by Japan and South Korea to the negotiation table. Traders started wondering if foreign exchange would be part of trade talks given that China, Japan, Taiwan, South Korea, Vietnam and Singapore are on a currency monitoring list by the US Treasury. The department makes an assessment twice a year on whether America's major trading partners are manipulating their currencies against the dollar for competitive advantage.

Taiwan Dollar Surge

In early May, speculation built that Taiwan would be asked to strengthen its currency as part of US trade talks. A two-day surge in the Taiwan dollar shocked traders and companies alike. The speed of the advance — unseen since at least the 1980s — threatened to sink the value of the $294 billion of Treasuries held by Taiwan, some of it by the island's life insurers, which hadn't hedged for such a development. After all, the currency had weakened against the dollar in the prior three years. Its government said later that more than 90% of the companies' overseas investments were dollar denominated.

Even before that shock, Taiwanese life insurers — which were in effect recycling the trade surplus earned from the island's semiconductor exports to the US — had posted a $620 million loss in April from the market volatility triggered by Trump's tariffs. Goldman Sachs Group Inc.'s analysts estimated that a 10% appreciation in the Taiwan dollar could lead to $18 billion in unrealized currency loss for insurers, wiping out capital reserves.

Journalists at the Taiwan Stock Exchange after the Taiwan dollar surged.*Photographer: An Rong Xu/Bloomberg*

Then on May 14, the South Korean won jumped around 2% after Bloomberg News reported that foreign-exchange policies were discussed at a May 5 meeting between US and Korean officials in Milan. It surged again a week later on reports of further talks. Meanwhile the yen fell after the US said currency levels weren't discussed during a meeting between Japanese Finance Minister Katsunobu Kato and Treasury Secretary Scott Bessent when they met in Canada on May 21.

"Markets are at an inflection point, witnessing the birth pains of a new regime in finance," says Rajeev De Mello, a Geneva-based portfolio manager at GAMA Asset Management SA, which oversees about $700 million. "The Taiwan dollar episode is not an isolated event — it was a wake-up call for markets. The question now is: who's next?"

There are indicators suggesting that Asian currencies are severely undervalued.

On average, the region's major currencies — including the yen and yuan — are trading at 57% weaker than exchange rates that take into account differences in the costs of living, according to data compiled by Bloomberg News going back to 2007. That's close to an all-time low of 59% set in mid-2024.

Even though Washington has denied it plans to include currency policy pledges in trade agreements, the meetings have prompted strategists to raise the specter of Asian companies racing to unwind dollar positions. Eurizon's Jen, known for his "dollar smile" framework predicting gains for the currency when the US economy is either booming or slumping, suggested that Asian capital outflows could hit like an avalanche, with many missing warning signs.

"They're symptomatic of the structural shift that is ongoing," Gavekal's Sikand says, referring to the strengthening of the yen and Taiwan dollar. "You have to diversify risk and the best way to diversify risk is to bring capital closer home."

Treasuries Threat

China had already been cutting back on its investments given a worsening relationship with the US.

Data from the US Treasury show that the Asian nation sold a net $172 billion worth of American equities and bonds last year, adding to the $64 billion in 2023. The data may be incomplete, with some analysts pointing out that Chinese funds could have masked purchases of those securities through proxies in other countries. Still, the years of reductions and a decline in Treasury holdings in March indicate that the risks of such a historic readjustment aren't one-sided. There's danger for US markets, too.

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Is the Age of American Exceptionalism Over?

China and Japan hold a combined $1.7 trillion of Treasuries. During the April bond rout sparked by the tariffs, speculation was rife over whether either of these two countries were selling or will use their holdings as leverage given how Trump's decision to scale back tariffs later was influenced by soaring yields. Even if they didn't, the possibility that the Asian nations will buy less debt in the future is alarming as proposed US tax cuts are expected to expand the budget deficit.

Nippon Life Insurance's headquarters in Tokyo. Japan's largest life insurer is looking to diversify away from US sovereign bonds.*Photographer: Kiyoshi Ota/Bloomberg*

Many in Asia are now planning for a fundamental shift in the global trading regime, even if Trump reduced tariffs and embarked on talks. The unpredictability of his administration adds to the worry, according to Gulf Analytica's Gibson-Moore, added that the US has gone from a haven to a source of volatility for many family offices in Asia.

Nippon Life Insurance Co., Japan's largest life insurer, is looking for alternatives to Treasuries in Europe, Australia and Canada because the "US makes up a lot of our sovereign bond portfolio," said Chief Investment Officer Keisuke Kawasaki.

UniSuper, one of Australia's biggest pension funds with A$149 billion ($96 billion) of assets, said in early April that its investments in the US have probably peaked and plans to cut exposure as Trump "is turning out to be horrible for business." This marked an about-turn from February when it was part of an industry road show looking for ways to invest more.

Japan Receives Record Scale of Foreign Portfolio Inflow

Sources: Bloomberg, Japan's Ministry of Finance

Note: Data as of April 30

UBS Group AG's rich clients are increasingly shifting away from dollar assets, traditionally a favorite, and turning to gold, crypto and China, said Amy Lo, the co-head of wealth management for Asia, at Bloomberg's New Voices event in May. About 10 family offices and advisers who oversee billions of dollars have also said they're cutting exposure or freezing investments, mostly in US equities and Treasuries.

Not everybody agrees that Trump's policies are accelerating capital flight or will lead to a structural shift in Asia's reliance on the dollar. And while the protectionism policies put fences around the US, it won't drive a complete decoupling by investors, they say.

"For this to be structural, you should know where to go," says Alicia Garcia Herrero, chief Asia-Pacific economist at French bank Natixis SA in Hong Kong, who instead posits that this is so far a cyclical shift. "Nobody gives the return that the dollar has been giving. Nobody."

Money and wealth managers though, both globally and in the region, are already plotting strategic changes.

Allianz's Maisonneuve expects Europe and India to be among markets benefiting from the capital pivot. JPMorgan Asset Management's chief market strategist for Asia Pacific Tai Hui points out the attractiveness of Japanese equities. Salman Ahmed, global head of macro and strategic asset allocation at Fidelity International, sees opportunities in the euro and yen.

Data show money is already flowing into Japan, as its economy recovers from deflation and 30-year bond yields touched a record high. Foreign investors bought a net ¥8.2 trillion ($57 billion) of Japanese bonds and stocks in April, preliminary data from the nation's Ministry of Finance showed. That's a record based on balance-of-payments data going back to 1996.

There's room for a reallocation given bets on US exceptionalism — that its economy will outperform peers — have led to a dominance of its markets. For example, Japanese stocks make up just 5% of the MSCI global equity gauge, while China accounts for about 3%. Their markets, including Hong Kong, have a combined market capitalization [1]of around $23 trillion. The US accounts for 64% of the gauge, with a value of around $60 trillion.

A recent surge in Japanese bond yields will encourage investors to switch from Treasuries, George Saravelos, head of FX research at Deutsche Bank AG, argued. The yen's advance against the dollar suggests that a shift is already occurring, he wrote in a note this month.

Such a pivot though won't necessarily be straightforward. Treasuries rallied on May 27 on speculation the Japanese government may sell less debt, lessening competition for capital.

“The extreme concentration has probably peaked for now,” says Shaniel Ramjee, co-head of multi asset at Pictet Asset Management in London. “Stabilization in China will mean that the emerging markets, especially Asia in general, will attract a lot more capital, especially domestic capital.”

Dollar Unwind

In an ideal future, there would be an orderly unwinding of dollar dominance and a return of capital back into Asia. Underperforming currencies will appreciate, leading to a “triple-merit scenario,” as foreign money flood in, real interest rates decline and asset prices rise, says Gavekal’s Sikand.

The current-account surplus of Asia’s 11 biggest economies totaled more than $900 billion last year, according to official data tallied by Bloomberg News. That’s money for potential overseas investment.

Many in Asia are now planning for a fundamental shift in the global trading regime. Governments will need to pivot toward boosting domestic consumption.*Photographer: Na Bian/Bloomberg*

Such a scenario will need an Asian pivot toward domestic consumption. The region’s propensity to save — China’s household saving rates is at over 30% — rather than consume has long been cited by economists as a reason for its reliance on exports. Even today, exports are equivalent to about 17% of the gross domestic products of China and Japan.

“Trump-era tariffs and policy volatility have reshaped risk frameworks,” says Steve Alain Lawrence, chief investment officer of Balfour Capital Group, a $400 million investment manager based in Switzerland. “He’s accelerating preexisting de-dollarization and decoupling moves.”

— With assistance from Mia Glass, Momoka Yokoyama, Taiga Uranaka, and Yujing Liu