

The Dollar’s Comeback Is a Fed-Chair Trade, Not a Regime Change

Quantumvest • 3 min read

THEME ID	CONVICTION	TIME HORIZON	TOPIC
MT-24	Medium	1–2 quarters	FX / Rates

The U.S. Dollar Index touched a 15-month high above 101.6 this week, and the consensus narrative has shifted almost overnight from “structural dollar decline” to “dollar resurgence.” We think that reframing is premature, and that markets are treating a single hawkish policy surprise as if it were a durable change in regime.

Go back six months and the major-bank consensus — Goldman Sachs, J.P. Morgan, MUFG among them - was leaning toward meaningful dollar weakness, with some forecasts pointing to a DXY in the low 90s. That view rested on an assumption the Fed would keep cutting. Instead, new Fed Chair Kevin Warsh's first policy meeting in June delivered a dot plot that flipped from an implied rate cut to an implied hike, with nine of eighteen officials penciling in at least one increase this year and a median year-end rate revised up to 3.8% from 3.4% in March. The dollar's entire recent rally traces to that single hawkish surprise, reinforced by Chair Warsh's parallel campaign to shrink the Fed's balance sheet.

Six months ago, the consensus dollar call was structural weakness. Today it’s structural strength. Neither view has actually been tested by more than one FOMC cycle.

This matters because the structural case for dollar weakness - persistent fiscal deficits, a rising term premium, and gradual reserve diversification away from dollar assets by central banks - has not actually been resolved. It has simply been overridden, for now, by a change in the reaction function of one institution under new leadership. Positioning data and the sharp reversal in bank forecasts suggest the market is increasingly treating Warsh's hawkishness as a settled, multi-year regime rather than what it currently is: a stance that depends on inflation staying elevated and the labor market staying resilient across every meeting between now and year-end.

WHY WE THINK THIS IS MISPRICED

FX positioning has swung aggressively long-dollar on the assumption that one hawkish dot plot represents a durable policy regime. But Chair Warsh's tenure has produced exactly one meeting under this framework. The structural bear-case drivers for the dollar — deficit-driven Treasury issuance, a still-elevated term premium, and incremental de-dollarization by reserve managers — have not reversed; they have simply been outweighed, temporarily, by a hawkish surprise that markets are extrapolating further than the evidence currently supports.

WHAT WOULD CHANGE OUR MIND

Confirmation that the hawkish stance persists across two or three additional FOMC meetings - rather than softening at the first sign of weaker labor data - would support treating this as genuine regime change. Conversely, a soft jobs report or downside inflation surprise that prompts a rapid dovish reversal would validate our view that current dollar strength is a fragile, single-catalyst trade rather than a structural shift.

Related: “Rate Cuts Are Off the Table” (CIO Note, June 29, 2026) • “America Doesn’t Have a Growing Economy” (Macro Theme, MT-23)

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