RBC Global Asset Management

Survival of the fittest: the future of multi-strategy in a new market regime

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> **"Moody's recent downgrade of U.S. sovereign debt, stripping it of its last AAA rating, has reignited investor concerns."**

Recent market and political developments have ignited a global debate: are we on the cusp of a systemic shift in financial markets? Is the long-standing narrative of U.S. exceptionalism starting to unravel?

Throughout 2025, the Trump Administration's bold policy moves–particularly its aggressive trade and tariff stance–have raised serious questions about the credibility of the U.S. and what that means for U.S. risk assets and the position of the dollar as the world's reserve currency.

We are seeing early signs of a structural decline in the dollar. Even established market dynamics, like higher U.S yields, typically leading to a strengthening in the dollar with rate differentials driving FX movements, are being challenged.

Similarly, for over a decade now, holding U.S. assets unhedged (i.e. being long dollar exposure) has served as an 'automatic stabiliser' for global portfolios in periods of stress, a relationship we have seen dislocate in recent months as well. As these patterns begin to falter, it is our view that this is symptomatic of a potential regime shift in global markets.

U.S. exceptionalism under pressure

This turbulence began with a chaotic tariff backdrop that rattled U.S. and global risk assets. While markets briefly stabilized, and risk assets recovered as trade tensions seemed to ease, the respite has been short-lived. Moody's recent downgrade of U.S. sovereign debt, stripping it of its last AAA rating, has reignited investor concerns.

This downgrade underscores growing doubts about U.S. fiscal stability, especially as trade policies and rising debt levels dominate headlines. This at a time when policymakers in the next two largest economies, China and Europe, are getting their act together to capitalise.

To grasp the stakes, consider the U.S.'s outsized role in the global economy. About 60% of the world's foreign exchange reserves are held in U.S. dollars[1]. Roughly 80% of cross-border trade outside Europe is invoiced in U.S. dollars[2]. And with just 4% of the global population, the U.S. accounts for a staggering 25% of global GDP[3].

This dominance ultimately means foreign investors play an outsized role in U.S. financial markets. Their decisions – whether to buy U.S. bonds, stocks, or dollars – directly impact domestic financial conditions.

Over the past few weeks or so, we have seen this dynamic play out, with markets reacting sharply to trade policy shifts. And it is likely that this volatility influenced the Trump Administration's recent step back from its hardline trade rhetoric, as policymakers recognize the global ripple effects.

What does this mean for the multi-strategy universe?

This evolving landscape has created fertile ground for multi-strategy hedge funds generally, which have broadly thrived over the past five years. Unlike the post-2008 era of zero interest rates and quantitative easing, which suppressed volatility, today's markets are defined by dislocation, risk premia, and opportunity.

The more recent resurgence of volatility – driven by trade wars, geopolitical tensions, and now challenges to U.S. dominance – has rewarded such nimble, highly diversified strategies. And we believe this shift away from U.S.-centric markets will further amplify volatility, pushing investors to seek globally focused products and solutions that can navigate this uncertainty.

As such, our view is that the priority should be towards strategies that dynamically allocate to decorrelated sub-strategies, that can take advantage from both long and short positioning in a global context to capitalise.

So, where do we stand? The U.S. economy still technically outperforms its peers right now. But the gap is narrowing – the smallest it has been in a decade. We believe this regime shift will continue to gain steam, driven by these structural challenges to the dollar and U.S. fiscal credibility.

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Against this backdrop, we believe for investors, this is not just about shielding portfolios from potential fallout; it is about reallocating capital to seize opportunities, profiting amongst the volatility to deliver strong risk-adjusted returns through long and short alpha opportunities.

Global diversification – across asset classes, regions, and strategies – will be critical to delivering long-term positive returns in this new era.

This is the environment where Multi-Strategy Funds should thrive.

1 chathamhouse.org/2024/09/us-dollar-dominance-both-cause-and-consequence-us-power.
2 Ibid.
3 documents1.worldbank.org/curated/en/649771486479478785/pdf/WPS7962.pdf.

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