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Asian Investors Scale Back US Holdings as Dollar Slips, Yet a Full Retreat Remains Elusive

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Asian investors have modestly trimmed their exposure to American equities in response to a weakening dollar, but fully scaling back investments in U.S. markets is proving to be a far more complex endeavour, according to a report by Morgan Stanley released on Tuesday.

The proportion of U.S. assets in Asia's securities portfolios declined by 0.7 percentage points in the first quarter of this year, slipping to 40.8 percent from 41.5 percent at the end of 2024. That earlier figure marked the highest level of exposure since late 2017.

China led the pullback, with the share of U.S. assets in its portfolio investments falling by about 16 percentage points over six years, reaching 28 percent in March 2025. Despite this, the region overall remains heavily invested in American markets, underlining the enduring attraction of the United States as the world's largest and most liquid financial system.

Morgan Stanley analysts observed that while Asian investors are increasingly cautious, they face structural barriers to reducing their holdings outright. The report noted that Asia's current account surpluses hit a record $1.1 trillion in the first quarter, leaving the region awash with surplus U.S. capital that needs to be deployed.

Economies with such surpluses have long relied on U.S. markets to park excess funds. As the Cato Institute, a respected Washington-based think tank, has pointed out, the scale and liquidity of American financial markets remain unmatched elsewhere.

"Asia's gross international investment position in U.S. stocks will continue to grow," Morgan Stanley analysts wrote. "The lack of large and liquid alternatives means that it would be difficult for Asia to reduce its holdings of U.S. assets."

Indeed, while China has reduced its U.S. asset holdings significantly from $1.8 trillion in 2013 to $1.3 trillion this year, other parts of Asia have expanded their exposure. The rest of the region collectively held a record $7.2 trillion in U.S. assets as of March.

The recent depreciation of the dollar has been a key factor prompting Asian investors to reassess. The U.S. Dollar Index, a measure tracking the dollar against six major currencies, fell to 98 this week, marking a near 6 percent drop over the past year, according to figures from Trading Economics.

Currency weakness has been compounded by fiscal and trade pressures. High U.S. deficits and the drag from tariffs have weighed on the dollar's prospects. In April, the Trump administration imposed minimum tariffs of 10 per cent on a wide range of imports, triggering steep retaliatory duties from Beijing that reached as high as 125 per cent.

In a recent interview with *Trading Economics*, senior analyst Raymond Li noted, "Tariffs have been a drag on both economies, and the dollar's decline reflects deep concerns over fiscal sustainability."

Efforts to ease tensions included an agreement in May to suspend additional tariffs for 90 days, a truce expected to lapse in August. Leaders from Washington and Beijing are due to resume negotiations next month in hopes of preventing a renewed escalation.

While the latest data shows a shift in sentiment, the enduring reliance on American markets underscores why a decisive move away remains unlikely in the near term. For now, Asia's gradual adjustments reflect caution rather than a wholesale retreat.