

# THE US DOLLAR: A RECKONING OF THE GLOBAL MONETARY SYSTEM

1913

## CREATION OF FEDERAL RESERVE

Laying the foundation for a stable global reserve asset and safe-haven currency hedge.

### HISTORICAL METAL BACKING

Dollar value anchored in gold and silver reserves.



**Gold Certificates**  
Backed by gold reserves.



**Silver Certificates**  
Convertible to silver; commodity-backed monetary system.

### TRANSITION TO FIAT CURRENCY

Dollar value backed by the full faith and credit of the U.S. government.



**Federal Reserve Notes**  
Authorized national fiat currency.



**Modern Small-Size Notes**  
Standardized for efficiency, scalability and global use.

1933



**END OF DOMESTIC GOLD REDEMPTION**  
Ends gold convertibility domestically; shifts toward credit-based expansion.

1971



**END OF GOLD BACKING**  
Decouples the dollar from gold; establishes a pure fiat system.

PRESENT



**GLOBAL RESERVE SYSTEM**  
Sustained by liquidity depth, institutional credibility, and global monetary reliance.

## FROM ASSET-BACKED TRUST TO SYSTEMIC MONETARY RELIANCE

*A system no longer backed by gold—but by global dependence.*





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## EXECUTIVE SUMMARY

For five decades, the U.S. dollar has been the default allocation for investors seeking shelter from geopolitical chaos. That trade is breaking down. Gold returned +65% in 2025 and hit an all-time high of \$5,405 per ounce in January 2026 per the World Gold Council. Silver delivered +144%. The Swiss Franc gained 13% against the greenback. Meanwhile, the dollar posted its worst first-half performance in 50 years, and U.S. Treasuries—once the world's risk-free asset—are now demanding a war premium as 10-year yields push past 4.40% in the wake of Operation Epic Fury.

This report traces the dollar's evolution as a portfolio hedge from the moment Nixon severed the gold link in 1971 through the stagflationary reality of March 2026. Each era is evaluated not as history, but as an allocation decision: what did the dollar do for your returns, and what did you leave on the table? The conclusion is uncomfortable but clear—the era of the dollar as a singular safe haven is over.

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## I. THE NIXON SHOCK AND THE BIRTH OF THE FIAT DOLLAR (1971-1979)

Before August 15, 1971, the dollar's role as a hedge required no market thesis—it was an institutional fact. The Bretton Woods Agreement had pegged the greenback to gold at \$35 per ounce. But by the late 1960s, foreign official dollar holdings had swollen to approximately \$36–40 billion while U.S. gold reserves held barely \$10.2 billion. The system was untenable, and Nixon pulled the plug.

What followed was something no living investor had experienced: a major reserve currency unmoored from any physical anchor. The DXY—formally created in March 1973 with a base of 100.00 against a basket of ten major currencies—immediately began to slide. The 1973 OPEC oil embargo turned the slide into a rout. Inflation hit 6.2% for full-year 1973 and peaked near 11% in 1974.

### The Petrodollar Save

The structural rescue came not from monetary policy but from geopolitics. By 1974, the U.S. had brokered an agreement with Saudi Arabia: oil would be priced exclusively in dollars, and Saudi surpluses would be recycled into U.S. Treasuries. This petrodollar system created a self-reinforcing loop of global dollar demand that effectively replaced gold as the dollar's backing.

For allocators, the 1970s were brutal. The DXY fell from ~111 in 1971 to 85.82 by 1979. Gold surged from \$35 to \$512—a 1,363% return. Real returns on Treasuries were deeply negative. The Swiss Franc and Deutsche Mark emerged as superior stores of value. In a stagflationary environment, the dollar is not a hedge—it is the risk.



**Table 1: The 1970s Allocation Scorecard**

Asset	1971-1979 Return	Annualized	Role
Gold	+1,363%	+34.6%/yr	Dominant hedge
U.S. Dollar (DXY)	-22.8%	-2.9%/yr	Liability, not a hedge
S&P 500 (total)	+36%	+3.5%/yr	Barely beat inflation
Swiss Franc (vs USD)	+118%	+9.2%/yr	Superior currency hedge

Source: Federal Reserve, World Gold Council, ICE

## II. THE VOLCKER RESET: HOW 20% RATES BUILT THE DOLLAR'S MODERN THRONE (1980-1999)

Paul Volcker raised the federal funds rate to 20% in June 1981. The DXY surged ~96% to an all-time high of **164.72 in late February 1985**. The Plaza Accord on September 22, 1985 coordinated the dollar's devaluation; from the Accord date, the DXY fell 30–39% over two years. The lesson: a currency can become too strong for its own economic base.

The 1990s vindicated the dollar. The DXY rallied from ~80 (April 1995 low) to ~120 by 2001—a six-year move powered by the dot-com boom and U.S. productivity growth. The euro, launched in 1999 as a direct rival, immediately depreciated. The dollar ended the century with a 71% share of global reserves. For the investor who held U.S. assets through the 1990s, there was no contest.

**Table 2: The Volcker/Reagan/Clinton Scorecard**

Asset	1980-1999	Key Inflection	Takeaway
U.S. Dollar	+96% to peak	Plaza Accord (1985)	Best decade, but policy risk is real
Gold	-52%	Bear market post-Volcker	Irrelevant in high-rate, strong-\$ regime
S&P 500	+1,350% total	Tech boom	Dollar + equities = dominant combo
10-Year UST	~+550% total	Falling rates	The 60/40 golden era begins

Source: S&P, Federal Reserve, ICE, World Gold Council

## III. THE 21ST-CENTURY CYCLE: CRISIS, QE, AND THE WEAPONIZATION OF RESERVES

By March 17, 2008, the DXY hit an all-time low of **70.70**. Gold had quietly quadrupled from its 1999 low of \$253 to over \$1,000. The Fed expanded its balance sheet from ~\$900 billion in 2007 to a peak of **\$8.965 trillion in April 2022**—a tenfold expansion.

### Fed Swap Lines: The Plumbing of Hegemony

Permanent swap lines with five central banks make the Fed the global lender of last resort in dollars. During COVID, swap drawings peaked at ~\$450 billion. Their selective nature—excluding China and Russia—makes them as much a geopolitical instrument as a monetary one.

### 2022: The Year the Dollar Became a Weapon



The freezing of ~\$300 billion in Russian central bank reserves was a watershed. For the first time, a G20 nation discovered its dollar reserves were conditional on Western political approval. Central bank gold purchases surged to records in 2022-2023. But the reality remains incremental: the yuan accounts for only 3–5% of SWIFT payments, and the dollar still dominates ~47% of SWIFT traffic.

**Table 3: 21st-Century Dollar Cycle**

Period	DXY	Gold	S&P 500	What Won
2002-2008	-41%	+230%	+20%	Gold dominated
2008 GFC	+8% spike	+5%	-38%	Dollar on liquidity demand
2010-2022	+58%	+48%	+380%	U.S. Exceptionalism 2.0
2022 Russia	DXY 114.78	+1%	-18%	Dollar peaked; regime changed

Source: ICE, World Gold Council, S&P; Global

## IV. THE 2025 CRACK: TARIFFS, THE SELL AMERICA TRADE, AND THE WORST DROP IN 50 YEARS

The DXY stood at 108–109 in January 2025. By mid-year it had fallen approximately **11%**—its worst six-month performance in roughly 50 years. Gold surged from ~\$2,630 to over \$4,300 by December, delivering +65%. Silver went from ~\$29 to ~\$72, returning +144%. The Swiss Franc gained 13%. Even the S&P; 500's +17.9% total return underperformed gold by 48 percentage points in real terms for unhedged global investors.

Institutional investors representing over \$53 trillion in assets reduced dollar holdings to pronounced underweight levels, per State Street. The rotation into hard assets had begun.

## V. OPERATION EPIC FURY: WAR, OIL, AND THE STAGFLATION TRADE (2026)

On February 27, 2026, President Trump authorized Operation Epic Fury. At 06:35 UTC on February 28, CENTCOM launched coordinated strikes. The Strait of Hormuz was effectively closed by early March. The IEA called it the largest supply disruption in oil market history, with at least 8 million barrels per day curtailed. Brent crude futures surged to ~\$119.50 (Dubai crude physical hit \$126).

### The Death of the Treasury Safe Haven?

Ten-year yields surged from ~3.96% to over 4.40%. The Fed held rates at 3.50–3.75% at the March 18 FOMC (11-1 vote, Miran dissenting). Stocks and bonds are falling together during geopolitical stress. The dollar posted a mere +0.3% in five days. It is no longer acting as a volatility dampener. It is acting as a bystander.

**Table 4: Five-Day Asset Performance (Feb 28 – Mar 5, 2026)**

Asset	5-Day Return	Role	Signal
WTI Crude	+35.63%	Supply Shock	Commodity exposure essential
Gold (XAU)	+2.1%	Crisis Refuge	Core strategic holding confirmed
Bitcoin	+3.42%	Context-Dependent	Secondary; lags oil ~2 days



Asset	5-Day Return	Role	Signal
U.S. Dollar	+0.3%	Defensive	No longer the crisis trade
10-Year UST	-2.1% price	Selling	Stagflation premium > safe haven

Source: Bloomberg, Reuters, CoinDesk, Axios

## VI. ASSET ALLOCATION SCORECARD: THE DOLLAR VS. GOLD, SILVER, BITCOIN, AND THE SWISS FRANC

### The Precious Metals Super-Cycle

Gold hit an all-time high of **\$5,405 per ounce in late January 2026** per the World Gold Council's Q1 2026 Demand Trends report, with the LBMA quarterly average reaching a record \$4,873. Gold's 2025 return of +65% was its best year since 1979. Silver peaked at \$121.62 on January 29 before crashing to below \$75 intraday on January 30. Central banks purchased 244 tonnes in Q1 2026 alone, led by continued accumulation from China, India, Turkey, and Poland.

**Table 5: Comprehensive Scorecard (2025 and 2026 YTD)**

Asset	2025 Return	2026 YTD	Peak	Status
Gold	+65%	~-13% from peak	\$5,405 (Jan '26, WGC)	Core hedge; correcting
Silver	+144%	Volatile	\$121.62 (Jan 29 '26)	High-beta precious
Swiss Franc	+13%	Continued strength	11-year high	Primary currency hedge
Bitcoin	~+12%	Volatile	~\$73K early Mar	Secondary; liquidity-driven
S&P 500	+17.9%	~+1.2%	~6,200+	Underperformed gold by 48pts
DXY	-11% (H1)	~98	108-109 (Jan '25)	Contested hegemony

Source: BullionVault, World Gold Council, APMEX, S&P; Global, CNBC, OANDA

**Table 6: Major Currency Pairs (Late March 2026)**

Pair	Rate	2025 Move	Status
USD/CHF	~0.7970	-13% (CHF best G10)	Primary competitor
USD/JPY	~160.20	+9.7%	Compromised haven
EUR/USD	~1.1510	+6.8%	Partial alternative
DXY	~98-100	-11% (H1 2025)	Multi-year downtrend

Source: Bloomberg, OANDA, Yahoo Finance

## VII. THE DOLLAR SMIRK: PORTFOLIO STRATEGY FOR A MULTI-POLAR MONETARY ORDER

The Dollar Smile Theory is being replaced by the **Dollar Smirk**. The right side holds: when the U.S. outperforms, the dollar rallies. But the left side—the crisis rally—is fading. Operation Epic Fury produced a +0.3% DX Y move while gold gained 2.1% and oil surged 35%.



U.S. gross national debt reached **\$39.017 trillion on March 17, 2026**—growing at \$7.23 billion per day. The dollar's reserve share has fallen to ~56.3–56.9% per IMF COFER data, down from 71% in 1999.

## **The Allocation Framework**

- 1. The 60/40 is Dead in Its Traditional Form.** Physical commodities and hard assets need a structural allocation.
- 2. Gold is Non-Negotiable.** Gold's +65% return in 2025 and central bank accumulation of 244t in Q1 2026 confirm its role. A 10–15% allocation is now consensus among sovereign wealth funds.
- 3. Silver Offers Asymmetry.** Its dual precious/industrial role (AI, EVs, solar) gives it a unique risk-return profile.
- 4. The Swiss Franc is the Currency Hedge.** The Franc gained 13% in 2025 and remains the cleanest safe haven for capital seeking currency diversification without commodity volatility.
- 5. Bitcoin is a Secondary Layer.** A monetary debasement hedge, not a geopolitical one. Size at 2–5%.

The dollar is not dying. What *is* happening is more subtle: its role as the singular safe-haven asset is being diluted. Gold, the Swiss Franc, and selectively positioned digital assets are sharing the burden the greenback once carried alone. The future of portfolio construction is not one of a single king, but of a diversified court.

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