Why Dedollarization is here to stay 05th November, 2026

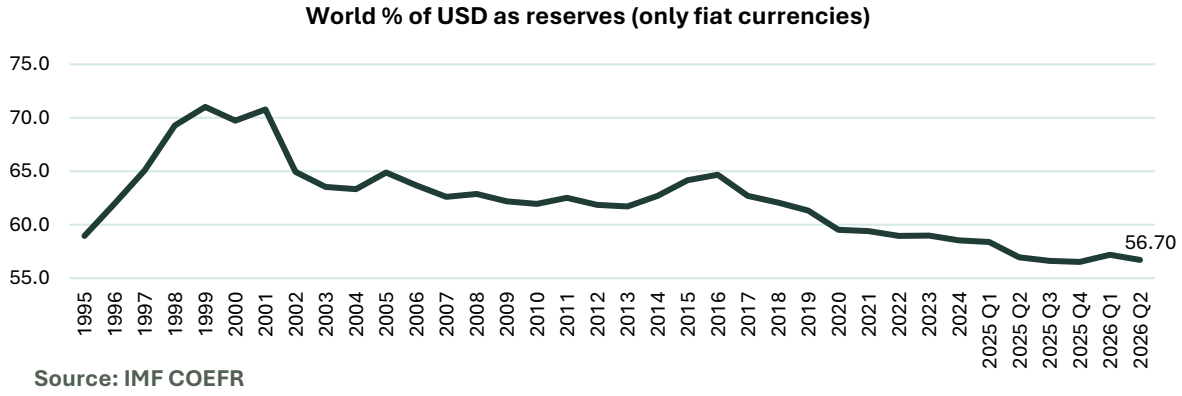
Backdrop

This is a geopolitical note, so it combines facts with our own interpretation and opinion. We recognise we could be wrong - but we believe the Republicans losing their majority in both the House and the Senate is a pivotal moment in global politics and markets.

We continue to believe we are undergoing a structural shift in the global world order. The Bretton Woods system (1944) was designed for the US to be the hegemon of the world. **In exchange for the world using the US Dollar**, it had the responsibility to:

1. Be fiscally prudent and maintain trust
2. Be the flag-bearer for globalization
3. Protect global waterways

The US has repeatedly breached fiscal responsibility needed to maintain trust in global markets and geopolitics (2000, 2008). In response, the incremental proportion of USD needed by the world was lesser – US couldn't simply print its way out of crises.



Source: IMF COEFR

Since the world wasn't using enough dollars incrementally, US reversed its stance on globalization. It started to shift towards re-regionalization around 2017, accelerated it during Covid, and **made it an explicit strategy in 2022** – which it has continued to push till this day.

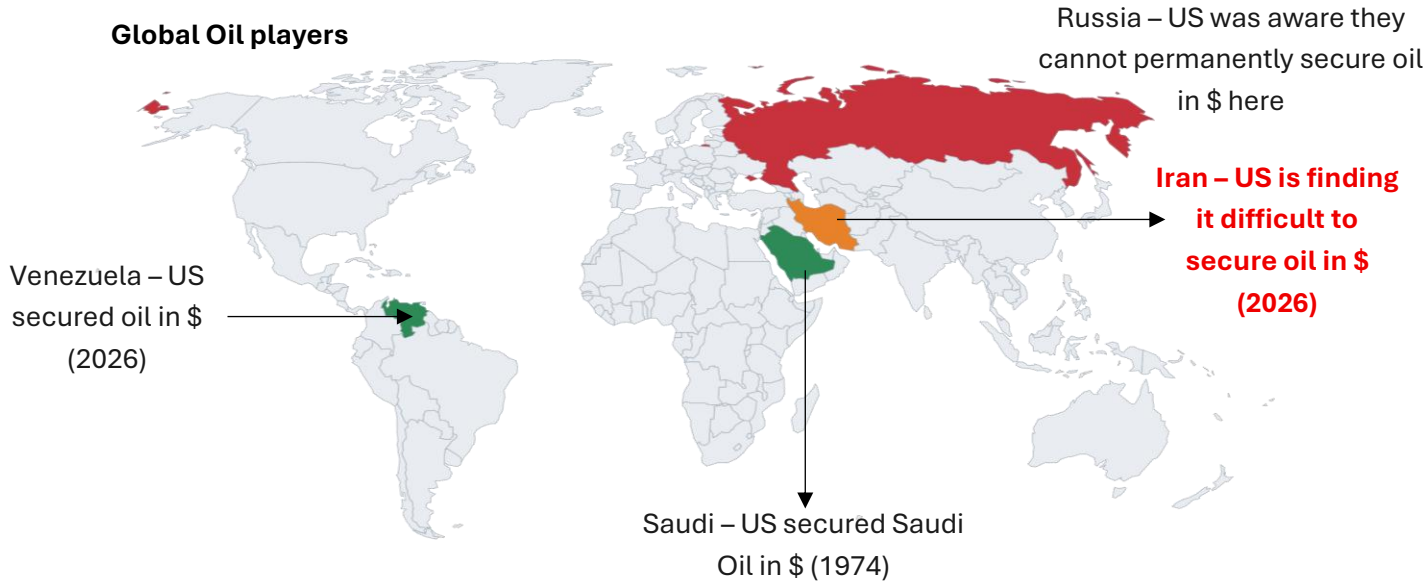
Period	Development	Significance
2017–18	US-China trade war under Trump 1.0	First major push to reduce dependence on China.
2020	COVID-19 supply-chain disruptions	Exposed vulnerabilities of globally concentrated manufacturing.
2021	Biden's America Supply Chains executive order	Formal review of critical supply-chain dependencies.
2022	CHIPS Act and Inflation Reduction Act	Incentivised domestic semiconductor, clean energy and manufacturing capacity.
2022–23	Friendshoring and nearshoring	Shift towards trusted partners such as Mexico, Vietnam and other allied economies.
2025 onwards	Trump's renewed America First agenda	Greater emphasis on tariffs, domestic production and "forced" bilateral trade arrangements.

When reversing globalization into re-regionalization wasn't solving its problems, it tried to:

- Force tariffs to the world
- Picked fights with NATO countries
- Tried and failed in a trade war v/s China

All these factors were contributing to dedollarization to be a structural theme. However, during Trump's current term, US managed to secure Venezuelan oil to be traded in US Dollars – increasing dollar demand. If it secured Iranian oil as well, the dedollarization theme would have remained in the backseat.

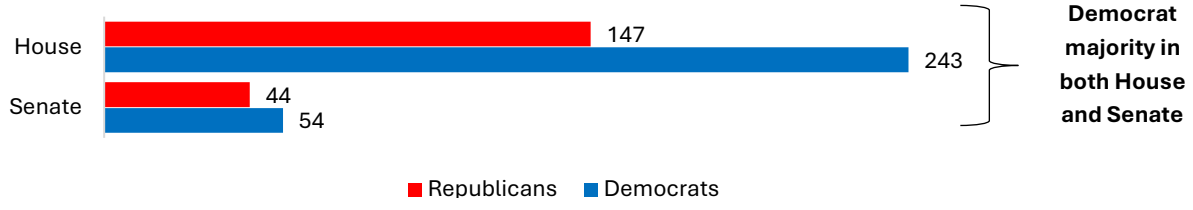
Global Oil players



- However, securing Iranian oil to be traded in US Dollars remained a problem the Trump administration **could not solve**
- Securing Brazil in the US sphere of influence could not happen. Flavio Bolsonaro (US leaning) lost against Lula da Silva (Anti-US)
- Benjamin Netanyahu (Trump ally) couldn't secure a majority in the Israeli elections

Taken together, these setbacks undercut the administration's claim of strength abroad. Combined with domestic inflationary pressures, we believe they were a key factor in the Republicans losing control of Congress.

US Mid-term elections



Source: Bloomberg

A Perfect Storm

Trump came into power in 2025 when Republicans had majority of both the House and the Senate – Trump's decisions were approved with little resistance. Republicans losing the midterm elections has put the US in a **state of policy paralysis and political fragmentation**:

- Republicans (Trump) are going to find it extremely difficult to pass new laws
- Democrat laws are likely to be vetoed by the President (Trump)

} **Impasse**

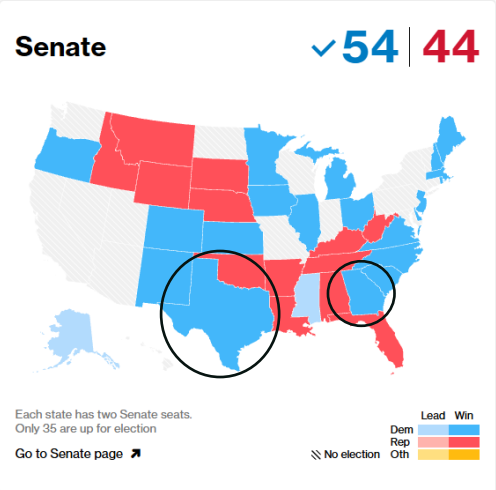
This is occurring at a point in time when the US is:

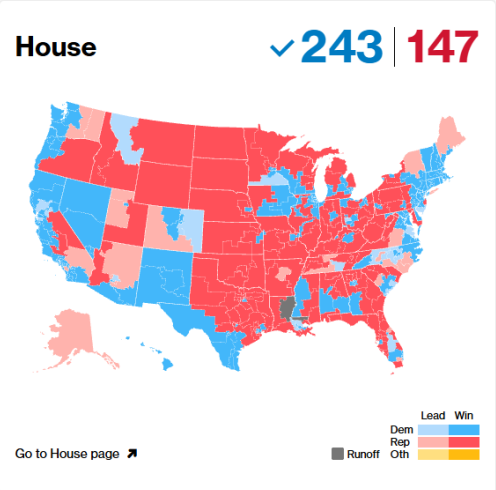
- In an inflationary scenario
- At a conundrum to raise interest rates as it will add to fiscal stress
- Facing lower dollar demand – limiting its ability to print its way out of crises

Essentially, Trump has found himself in a perfect storm of his own creation.

- Now the single biggest policy roadblock for the US is the debt ceiling – It is about $800 billion shy of its $41.1 trillion borrowing limit, and strategists expect the government to hit it in H1 CY2027. **(Source: Bloomberg)**
- **With Democrats now controlling Congress**, the debt ceiling could become a **key bargaining tool** in negotiations with the Trump administration, **raising the risk of a prolonged political standoff**.
- **Any resolution that adds to spending rather than addressing fiscal imbalances could further push up long-term yields and the US government's borrowing costs.**

This increases concerns to US inflation and fiscal constraints. On the other hand, Democrats winning **increases questions around the AI trade due to constrained data centre buildout**.





Source: Bloomberg

Texas, Georgia and Ohio are 3 major data-centre states which shifted to Democratic leadership, with proposals to pause or restrict new development of data centres.

US future political outcome

SCENARIO A

40% probability

Legislation gridlock

- Loss of effective political power
- Repeated difficulty in securing congressional approvals

SCENARIO B

40% probability

Republican fracture

- Republican infighting
- Trump sidelined

SCENARIO C

20% probability

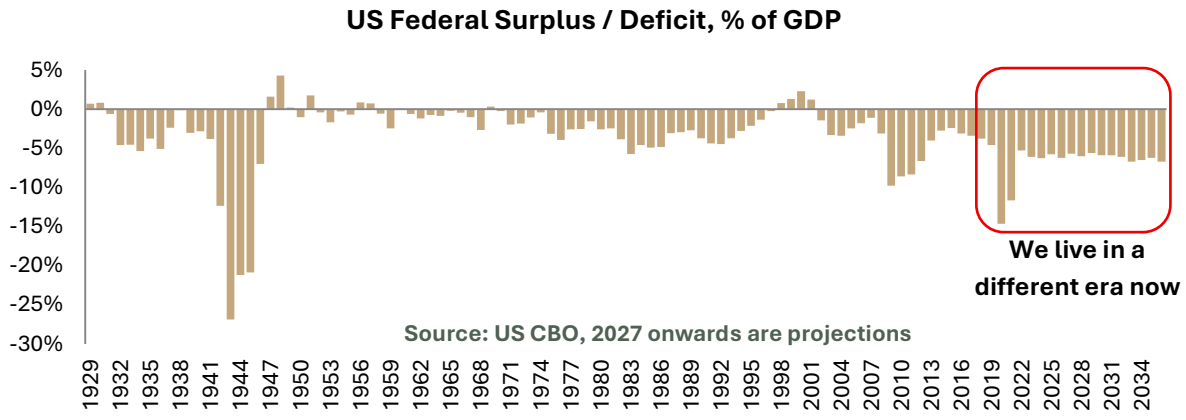
Removal risk

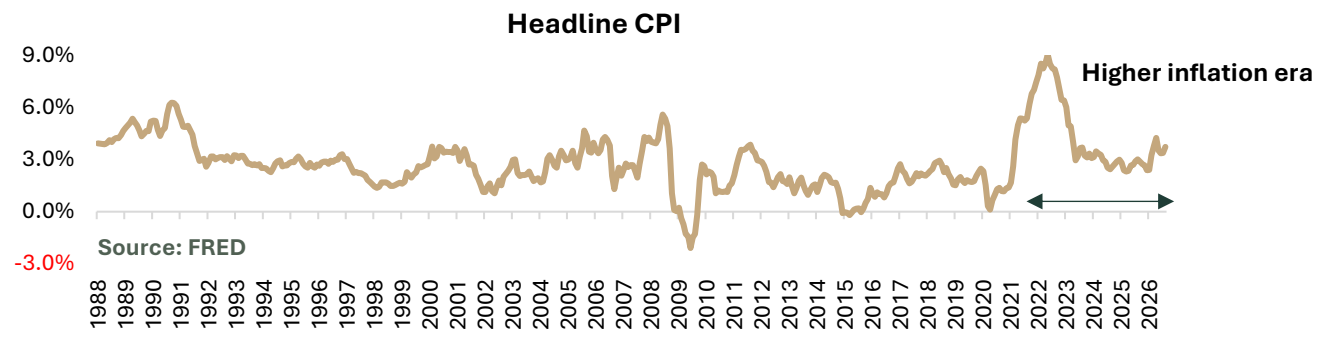
- Impeachment / removal
- Escalation of legal proceedings

All of the potential policy outcomes make it harder for the US to keep pressuring global supply chains. Additionally, all of the potential outcomes re-iterate the case for dedollarization – because **none of the outcomes address the US' structural fiscal problems.**

Pravia Insights

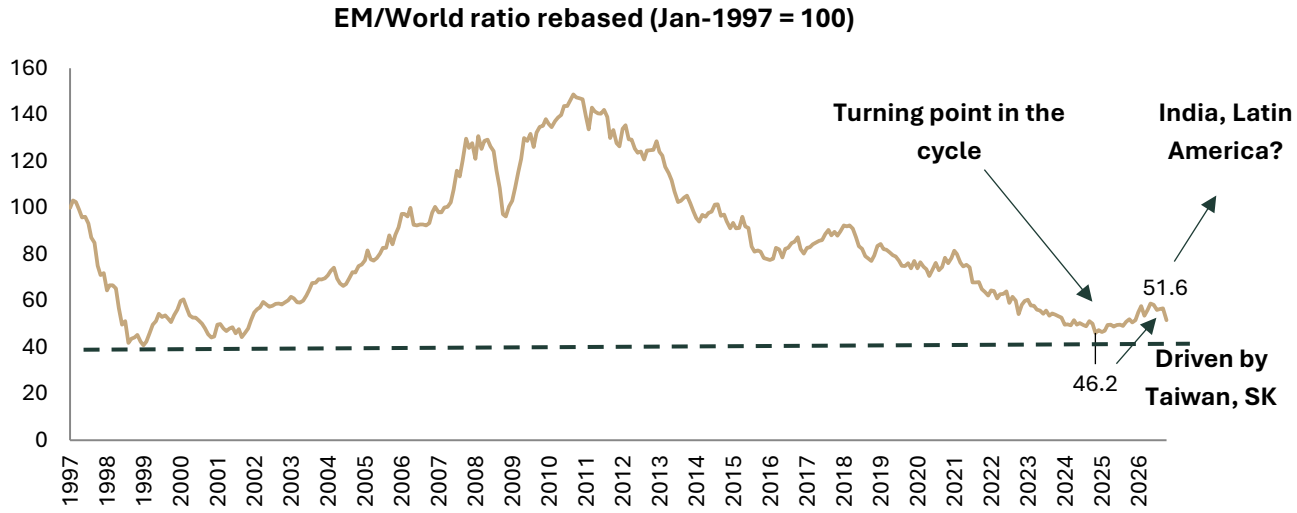
However, we see this as a test of US democracy. Trump has already shown he can work around legal setbacks. After the Supreme Court invalidated his IEEPA tariffs, he quickly reimposed them under a different statute (Section 122). Losing Congress may limit him, but the probability of him surprising the world like he did with tariffs is not 0.





Implications

Emerging markets (EM) are a direct beneficiary of dedollarization. We believe emerging markets outperform developed markets in long cycles. We are already in an EM outperformance cycle. Up until now, the cycle was driven mainly by AI-related markets – South Korea and Taiwan. However, we believe the emerging market cycle is far from over – and the next leg of growth can come from non-AI related economies – like India and Latin America.



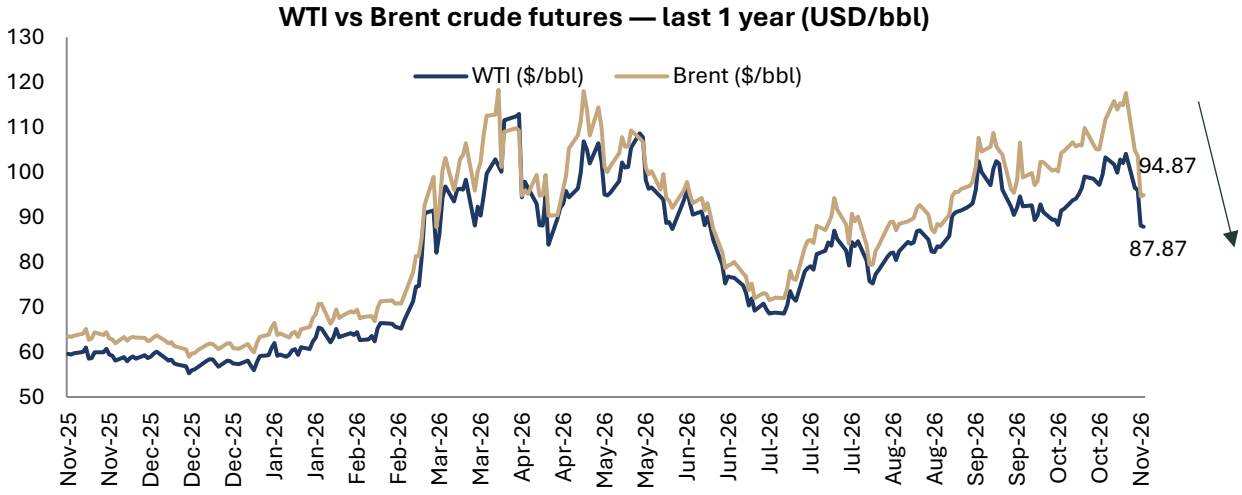
Source: MSCI

Pravia Insights

Additionally, for India, Data Centre buildout can be a structural growth story, especially after a possible slowdown in Data Centre buildout in the US is visible.

There were 2 headwinds holding Indian markets back in the eyes of FIIs – Oil and AI

We believe we are at a point where both the headwinds can be cleared out for India in the near-term. Post the US midterm election, oil prices fell across the board.



Source: investing.com

Lower oil prices combined with slowdown in the AI story provided a significant tailwind for India, creating a potential for re-rating.

The India story has only gotten stronger since September 2024 –

- Demographic dividend
- Continued focus on capital expenditure to lay out the country's infrastructure
- Strong focus on making India a developed nation over the next ~20 years
- Stronger geopolitical presence
- Numerous trade deals

In our note, "Thinking Big Picture," we asked investors to zoom out and take a bird's-eye view of India's place in the world. **In September 2024, India had a story but not the numbers to back it. By October 2026, the numbers are there, but the story had gone quiet.**

In our note, "Hopelessness, an Opportunity?" We re-iterated to investors – the biggest risk in markets at that point in time was to remain under-invested. Hopeless times in the market – are often offering the best prices – **as they have nothing factored in**.

Investment Positioning

- Large Caps – Positive, we believe there is further room for upside
- Small Caps – We will wait for more attractive entry points given valuations remain elevated
- Precious metals – In our note on 23rd October, "Precious Metals Outlook – Oct 26," we turned positive on Gold and Silver as we believed the right prices had arrived.
- Industrial metals – We are bullish on copper miners and are fully allocated for clients.
- Emerging markets – We remain positive on Emerging markets, although there is a possibility of rebalancing of weights in the Index. We remain bullish on Brazilian markets.
- Real Assets – We re-iterate our positivity around Real assets. We have invested in REITs, InvITs, infrastructure funds and select Real estate stocks along with Metals and Energy sectors.

Risks

- Trump's autocratic behaviour and unpredictable decision-making can still cause renewed Iran escalation and energy shocks.
- US political recovery, increasing US interest rates and resilience of the AI trade.

Conclusion

The world is moving away from a single dollar-centred order, and the US is now accelerating that shift. The deal behind Bretton Woods asked the US to stay fiscally prudent, champion globalization and protect global trade routes in return for the dollar's privilege. On each count, **the US is moving the other way**.

A divided government, a looming debt ceiling and a Fed forced to tighten into fiscal stress mean that **none of the likely political outcomes fix the underlying problem**. That is why we reiterate dedollarization to be a structural theme.

The beneficiaries of this shift are emerging markets. The first leg of the EM recovery was led by AI-heavy Korea and Taiwan. **We believe the next leg will broaden to economies that have so far been overlooked, and India stands out**. The two headwinds that kept foreign investors away, oil and the AI trade, are starting to ease at the same time. Meanwhile India's fundamentals have only strengthened since September 2024.

India has moved from a story without numbers to numbers without a story. In our experience, that is when the best entry points appear: before the narrative catches up with the fundamentals.

We remain positive on large caps, gold, silver, copper miners, real assets and select emerging markets including Brazil, and patient on small caps. A stronger dollar or a renewed oil shock could delay this thesis, but in our view, they would not reverse it.

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