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Nowhere to hide? Rethinking safe havens and safe assets in a fragmented world

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Summary

- **The US dollar emerged as the last remaining safe haven standing amid the war in Iran. However, this situation is increasingly conditional and regime-dependent.** Since the outbreak of hostilities in Iran, only the US dollar provided genuine safe haven protection for global equities. Interestingly, gold, the Swiss franc, the Japanese yen and government bonds all failed to deliver. This dollar safety is not an anomaly but a pattern: the same dynamic played out during the Ukraine war in 2022, when inflation concerns overrode traditional flight-to-safety mechanics toward safe government bonds. Geopolitical shocks that carry inflationary consequences now systematically undermine the hedging properties of assets that once defined crisis protection. Yet, while the greenback still appreciates during acute liquidity crises, its correlation with broader risk-off behavior has weakened materially over the past decade. The resilience of the dollar is tied less to investor flight-to-quality and more to its structural role in global funding markets. When dollar liquidity dries up, the currency strengthens mechanically. This distinction matters: the dollar protects against funding stress, not against all forms of market turmoil.
- **Against this backdrop, the era of a single global safe asset may be coming to an end. Firstly, true safe assets have become regional. Secondly, central banks across the world have accelerated their diversification away from a single reserve asset class and currency.** Currently, no single asset offers simultaneous protection against both equity drawdowns and funding dislocations. US Treasuries come closest, but their safety derives from Federal Reserve backstops, not intrinsic properties. German Bunds and Japanese government bonds hedge domestic risks effectively but offer little protection against dollar funding stress. Safety has become a function of base currency: each bond market protects primarily against shocks within its own central bank's perimeter. In the meantime, the diversification away from the US has accelerated, if we consider the allocations of central banks to be a precursor to wider rebalancing. For a third consecutive year, central banks purchased over 1,000 tons of gold in 2024. By mid-2025, the market value of the gold they held surpassed their US Treasury holdings for the first time since 1996. The euro is emerging as the preferred currency alternative: 16% of central banks are planning to increase allocations; since 2021, the percentage of non-traditional reserve currencies in global reserves has doubled to 20%.
- **Post-war, beware of strong(er) currency and government bonds volatility as the unipolar monetary order fractures without a clear successor.** Twin deficits and policy radicality have eroded the role of the US as supplier of global reserve assets. In the meantime China continues to fears financial liberalization risks, keeping Chinese bond markets secluded. As for Europe, without the fiscal integration required for credible safe asset provision, its relative attractiveness remains limited. The geopolitical fractures in the currency world assumes a weakening of the US dollar viz. surplus economies such as the Eurozone, Japan, South Korean, Singapore, the offshore Chinese renminbi market and commodity exporters including Australia, Brazil, Canada and South Africa. As for safe assets, structurally higher and more volatile interest rates are to be expected as the convenience yield erodes in countries running unsustainable deficits. This will pressure equity markets and increase the likelihood and severity of sharp, liquidity-driven market squeezes. Gold could continue to serve as a transitional hedge during this shift.

The dollar seems to be the only *safe haven* amid the war in Iran

A common error in market commentary is conflating safe assets with safe havens. The distinction is not semantic. It is fundamental to how investors should construct hedges in a world defined by overlapping shocks. Safe assets are defined by their structure. They are instruments offering capital preservation, deep liquidity and a high degree of certainty over nominal returns. Typically issued by credible sovereigns and embedded in strong institutional frameworks, they anchor pricing, provide collateral and underpin the notion of a risk-free rate. US Treasuries and German Bunds sit at the core of this category. But structural safety does not guarantee protection during market turmoil. Safe assets can and increasingly do fail to hedge portfolios during episodes of stress. Inflation has been the fault line in recent episodes. When shocks are supply-driven, as seen after the pandemic and during the Russian invasion of Ukraine, government bonds can deliver negative real returns and even positive correlation with equities. Duration risk replaces credit risk as the dominant concern.

Safe havens, by contrast, are defined by behavior. An asset qualifies as a safe haven only if it retains or increases its value when risk assets sell off. This is a conditional, empirical property rather than an intrinsic one. It depends on the nature of the shock, market positioning and the broader macroeconomic regime. Gold, the Japanese yen (JPY) and the Swiss franc (CHF) have historically been cast in this role, largely because of their perceived neutrality, liquidity and, in the case of currencies, their function in funding trades that unwind during crises. The overlap between safe assets and safe havens is partial and unstable. US Treasuries can be both, but not always. Gold is often a haven but not a safe asset in the strict sense, given its volatility and lack of yield. What matters for investors is not the label but the regime: deflationary shocks tend to reward bonds, while inflationary or geopolitical shocks produce far less predictable outcomes.

There is little evidence that traditional safe haven candidates protected portfolios during the recent escalation in Iran. Gold, the CHF, the JPY and government bonds all exhibited inconsistent performance at best, mostly because of inflation concerns. Indeed, when markets are preoccupied with rising prices and policy tightening, assets once negatively correlated with risk can move in tandem with it. This was evident during the 2022 Ukraine shock. Despite a sharp deterioration in geopolitical conditions, neither gold nor core sovereign bonds provided the expected protection. Bond prices fell as yields adjusted upward in response to inflation expectations. Gold's performance was muted and short-lived. Even traditional currency havens failed to deliver sustained diversification benefits. The episode underscored a broader shift: geopolitical risk no longer guarantees a flight to classic havens when it coincides with inflationary pressure. Replicating the methodology of Cheema et al. (2025), we find that only the US dollar behaved as a safe haven for global and US equities during the Iran conflict[1]. During episodes of acute market stress, dollar appreciation provides a reliable hedge, reflecting its role at the center of global funding markets and its status as the dominant reserve currency. We observed the same pattern during the Ukraine war, suggesting markets respond consistently to similar shocks (see Figure 1).

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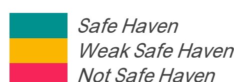
[1] *We estimate a GJR-GARCH(1,1) model regressing safe haven asset returns against stock market returns, with crisis-period dummy interactions, where a negative total beta coefficient indicates the asset appreciates when equities fall, classifying it as a safe haven as in Cheema et al. (2025)*

Figure 1: Safe havens across different market events (*beta* coefficients vs MSCI World)

	Gold	USD	JPY	CHF	US Treasuries	Swiss T-bonds	Bunds	JGB
Black Monday (1987)	-0.07	-0.01	0.02	0	-0.33	N/A	-0.07	-0.16
Iraq War (1990)	-0.15	0.14	0.13	-0.2	0.3	N/A	0.15	0.27
Asian Crisis (1997)	0.33	0.1	0.14	-0.12	-0.18	-0.02	-0.06	-0.05
Dot-com (2000)	-0.02	-0.05	-0.03	0.02	-0.07	0.02	-0.01	-0.03
9/11 Attacks (2001)	-0.23	-0.04	-0.12	-0.27	0.22	-0.01	0.06	-0.05
2002 Bear Market (2002)	-0.16	0.09	-0.08	-0.17	-0.27	-0.09	-0.11	-0.01
Global Financial Crisis (2008)	0.08	-0.11	-0.28	-0.01	-0.29	-0.09	-0.11	-0.01
EU Debt Crisis (2010)	0	-0.17	-0.39	0.16	-0.51	-0.11	-0.22	-0.07
2011 Bear Market (2011)	0.01	-0.26	0.02	0.17	-0.6	-0.12	-0.23	-0.02
China Crisis (2015)	-0.24	0.21	-0.42	-0.22	-0.43	-0.05	-0.14	-0.01
Crypto Sell-off (2018)	-0.18	0	-0.15	-0.03	-0.26	-0.08	-0.07	-0.02
Covid-19 (2020)	0.2	0	-0.09	0	-0.25	-0.03	-0.03	0
War in Ukraine (2022)	0.15	-0.18	0.03	0.07	0.14	0.11	0.08	0.01
War in Iran (2026)	0.84	-0.28	0.17	0.26	0.27	0.22	0.34	0.14

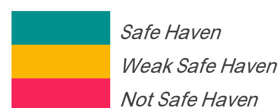


Sources: Cheema et al.(2025), Allianz Research

The yen's regional exception. One notable outlier in our results is the JPY, which acted as a safe haven for Chinese equities even as it failed to protect holders of developed market indices (see Figure 2). The beta coefficient for JPY against Chinese stocks was -0.09 during the Iran conflict, compared with +0.17 against the MSCI World. This divergence might underline that when geopolitical risk concentrates in the Middle East, Asian markets face distinct transmission channels: energy import dependence, supply-chain exposure and regional capital flow dynamics that differ markedly from those affecting US or European equities. The yen's traditional role as a funding currency for Asian carry trades means that deleveraging in the region mechanically strengthens the currency precisely when regional risk assets are selling off. For Chinese equity investors specifically, the yen offers a hedge that US dollar strength cannot provide, particularly when Sino-American tensions make dollar assets less attractive as a destination for flight capital. The implication for portfolio construction is clear: safe haven status is not universal but relative to the risk being hedged. What protects a Shanghai portfolio may offer nothing to a New York one.

Figure 2: Safe havens since the beginning of the war in Iran (*beta* coefficients vs different market indices)

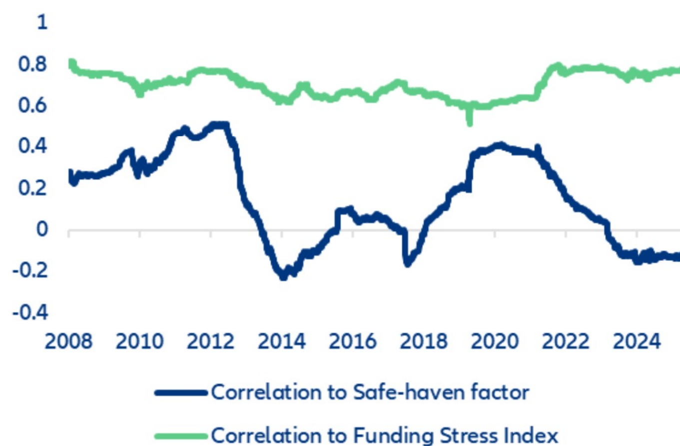
	MSCI World	S&P 500	MSCI China	EuroStoxx 50	FTSE 100
Gold	0.84	0.21	0.97	0.87	1.29
USD	-0.28	-0.18	-0.01	-0.15	-0.13
JPY	0.17	0.1	-0.09	0.05	0.01
CHF	0.26	0.17	0.05	0	0
US Treasuries	0.27	0.04	0.04	0.09	0.13
Swiss T-bonds	0.22	0.06	0.09	0.14	0.18
Bunds	0.34	0.08	0.1	0.18	0.25
JGB	0.14	0.04	0.06	0.08	0.11



Source: Allianz Research

Moreover, when zooming out, the US dollar's role as a conventional safe haven is becoming more conditional and, arguably, weaker over time. The dollar tends to appreciate only briefly during standard risk-off episodes and may even depreciate against traditional havens, strengthening in a persistent and broad-based way only when global funding stress triggers a shortage of dollar liquidity. This distinction is critical: it implies that the dollar's resilience is tied less to investor flight-to-safety behavior and more to its central role in the global funding system. More importantly, the empirical link between the dollar and global safe-haven dynamics appears to be weakening over the longer run. A rolling correlation between the dollar and a composite safe-haven factor[2] has declined materially in recent years, pointing to a fading structural relationship, and despite a the slight pick-up in recent weeks the correlation between the dollar and the safe-haven factor has trended downward over time, suggesting that the currency is becoming less systematically aligned with global risk-off shocks (see Figure 3). In practical terms, the dollar still offers protection in acute liquidity crises – we find that it is still strongly correlated with the funding stress index[3], but it is no longer a constantly reliable hedge against broader market stress, reinforcing the view that its safe-haven status is increasingly regime-dependent rather than structural.

Figure 3: USD correlation to safe-haven and funding stress factors



Sources: LSEG Workspace, Allianz Research

The Dollar : A falling king without a successor

The dollar's universe is fracturing. Amid deepening doubts about US institutional credibility, the dollar's safe asset status is eroding. Yet what comes next remains profoundly uncertain. The dollar's most resilient argument is its plumbing. A vast offshore liquidity network, commodity markets priced in dollars, deep money market funding capacity, an open capital account and a sophisticated derivatives infrastructure still sit far above any competition. Markets continue to buy dollars in moments of panic not from blind faith in US governance but because of the depth, sophistication and interconnectedness of networks built over decades. That coordination between public institutions and private markets remains the dollar's most durable structural advantage, and precisely the weakest point of its challengers.

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[2] *We follow Groethe et al. (2025) and extract the safe haven factor from the first principal component of a basket of traditional safe haven assets – including nominal effective exchange rates of the dollar, euro, yen and Swiss franc, 10-year government bond yields for the US, Germany and Japan, plus gold and the VIX - which captures the common variation when investors rotate into defensive positions during risk-off episodes.*

[3] *The funding-stress index is a synthetic measure of dollar liquidity conditions constructed from money market stress indicators – typically including cross-currency basis swaps, FRA-OIS spreads and commercial paper spreads –which captures the cost and availability of dollar funding in global markets, spiking when offshore institutions scramble for greenback liquidity.*

Two credible alternatives are taking shape: China and Europe. Each is attempting to build competing networks through fundamentally different approaches and under different structural constraints. Europe operates its swap line network in a manner broadly analogous to the Federal Reserve, as a backstop to private sector funding. Its counterparties are overwhelmingly allies and developed economies, accounting for roughly 70% of foreign holdings[4]. Yet the ECB's ambition remains constrained. As Christine Lagarde acknowledged in her "Global Euro Moment" speech, the euro still lacks the geopolitical credibility, economic resilience and institutional integrity required to challenge dollar dominance. Without deeper federal integration, Europe wants to replace the dollar but structurally cannot. China's approach is deliberately strategic. Its swap lines are built with emerging markets and commodity exporters. Unlike Europe and the US, China does not seek to attract large capital inflows to monetize its debt, which remains protected by a closed capital account that preserves sovereignty over exchange rates and interest rates. China could potentially replace the dollar but deliberately chooses not to, unwilling to internationalize the renminbi at the cost of losing domestic monetary sovereignty. This leaves a structural void. The US no longer wants, nor can, supply the global reserve currency given its domestic imbalances. China could but will not. Europe wants to but cannot.

The result is that we are not in a clean transition but in fragmentation mode. Capital is progressively relocating toward domestic bond markets. Volatility is becoming structural, making liquidity squeezes more frequent. Without a safe haven to absorb risk aversion, demand shifts toward cash rather than bonds, exerting persistent downward pressure on government bond prices globally. The deeper risk lies in collateral bifurcation: a western funding system requiring government securities as collateral against cash, and an eastern system requiring commodities exchanged for goods rather than financial claims. This divergence would mean expensive hedging, inflated commodity prices and persistent volatility in capital flows, all of which would structurally impair growth and erode institutional trust on both sides of the divide. The fragmentation of the unipolar monetary order into a multipolar one will not only redraw geopolitical alliances. It will fundamentally reshape the architecture of global funding markets, and with it, the entire investment framework built on the assumption of a single, universally accepted safe asset. This backdrop assumes a weakening US Dollar, favoring surplus economies whose currencies may appreciate as capital is reallocated, notably in Asia (Japanese Yen, South Korean Won, Singapore Dollar, Chinese Yuan (offshore)) and commodity exporters (Australian Dollar, Brazilian Real, Canadian Dollar, South African Rand). Gold could serve as a transitional hedge during this shift. Structurally higher interest rates and volatility are expected to pressure equities, increasing the likelihood of sharp, liquidity-driven market squeezes.

Figure 4: Comparison table of currencies

	USD	EUR	RMB
Deep, liquid capital markets	✓	Partial	✗
Open capital account	✓	✓	✗
Robust legal/institutional framework	✓	Fragmented	✗
Vast offshore liquidity network	✓	Limited	Emerging
Commodity markets priced in currency	✓	✗	Emerging
Sophisticated derivatives infrastructure	✓	Partial	✗
Credible central bank as global lender of last resort	✓	Eurozone only	Bilateral only
Unified fiscal backing	✓	✗	✓
Geopolitical credibility	Eroding	✓	✗
Willingness to supply global safe asset	Declining	✓	✗

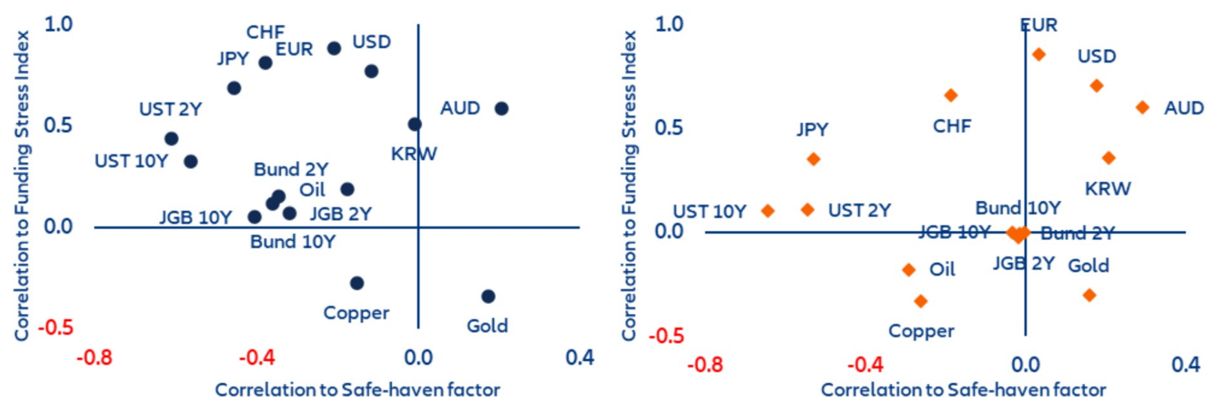
Source: Allianz Research

[4] Europe's "global euro" moment

Where have all the safe assets gone?

No single asset currently qualifies as a true global safe asset, one that simultaneously protects against risky-asset drawdowns and funding market dislocations. Analyzing correlations between major assets and both safe haven and funding stress factors reveals a fundamental fragmentation. The CHF and JPY strengthen during periods of stress, but not because they offer protection. Their appreciation is a symptom of carry trade unwinds: when funding stress rises, leveraged positions are closed and borrowed francs and yen must be repurchased. These currencies do not hedge a crisis; they strengthen precisely because someone else's leverage is being unwound (see Figure 5). US Treasuries in the 2-to-10-year sector come closest to offering safe asset status, scoring well on both safe haven and funding stress dimensions. Yet German Bunds, while solid safe haven instruments, offer only marginal protection against dollar funding stress. Japanese government bonds display a similar pattern: reliable hedges against domestic equity drawdowns, but with essentially no sensitivity to dollar funding dislocations. This divergence reveals a critical truth: Each bond market protects primarily against shocks within its own central bank's perimeter. Treasuries hedge dollar funding stress because the Federal Reserve backstops the dollar system. Bunds and JGBs hedge domestic risks but offer little refuge when cross-currency funding markets are in distress.

Figure 5: Asset correlations to safe-haven and funding stress factors — historically (orange markers) vs current regime (blue markers)



Notes: Scatter plots show the Pearson correlation coefficient of daily asset returns against two synthetic factors: a safe-haven index (x-axis) and a funding stress index (y-axis). Orange markers reflect full-sample correlations estimated over the period January 2006–March 2026. Blue markers reflect rolling 500-day correlations as of 31 March 2026. Sources: LSEG Workspace, Allianz Research

Safe assets are now regional, ultimately underwritten by each central bank's capacity to act as lender of last resort in its own currency. The era of a single global safe asset is ending. Safety has become circumstantial and one-dimensional: investors must choose between protection against risky-asset drawdowns and protection against funding stress. The only asset that combines both is the one supplied by your local central bank, making safe asset status fundamentally a function of base currency. Diversification, not concentration, is now the only viable safe asset strategy.

Central banks: The Great Reallocation

"Liberation Day" was not the start of reserve diversification but a structural acceleration point. In early 2025, the dollar began exhibiting uncharacteristic weakness even during episodes of global risk aversion. Gold was the clearest beneficiary of this reorientation. Central bank purchases exceeded 1 000 tons for a third consecutive year in 2024, and through the first three quarters of 2025 accumulated a further 634 tons, on pace to exceed 1000 tons again for the full year (see Figure 6). By the second quarter of 2025, the market value of gold held by global central banks exceeded their US Treasury holdings for the first time since 1996. The buying is broad-based but concentrated among countries with the greatest exposure to US geopolitical leverage. Poland's Narodowy Bank Polski reached 530 tons by late 2025, targeting 30% of total reserves in gold. Brazil's central bank re-entered the market after a two-year pause to accumulate 31 tons. The People's Bank of China extended its buying streak to twelve consecutive months, lifting gold's share of Chinese reserves from 5.5% to 8%.

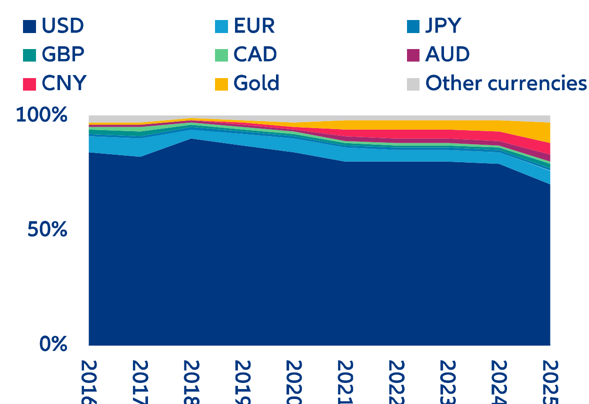
Figure 6: Gold reserves held by central banks globally continues to climb, in tons

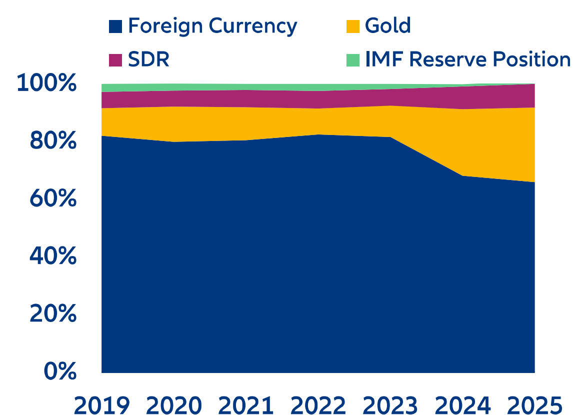
Source: IMF Cofer, Allianz Research

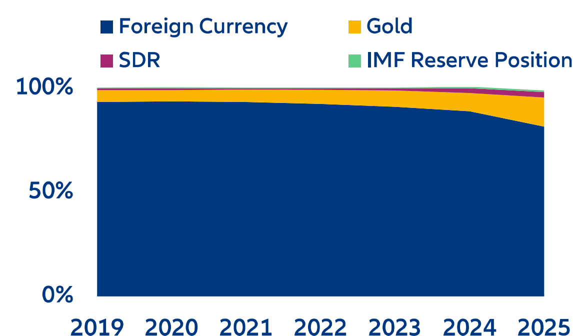
The euro has emerged as the primary currency alternative, though well behind gold. Some 16% of central banks indicated plans to raise euro allocations[5], more than any other currency, partly supported by Germany's historic fiscal expansion, which has increased the supply of high-quality euro-denominated safe assets. The renminbi, by contrast, has stalled as a reserve destination. The share of central banks investing in mainland China fell from 56% in 2024 to 43% in 2025, reflecting deteriorating growth perceptions and strategic ambiguity created by US-China trade escalation. Running parallel to these shifts is a quieter but equally significant development. Central bank holdings in non-traditional currencies, including the Australian and Canadian dollars, the South Korean won, the Swiss franc and the Singaporean dollar, have more than doubled their share of global allocated reserves since 2021, rising from approximately 10% to over 20% by mid-2025.

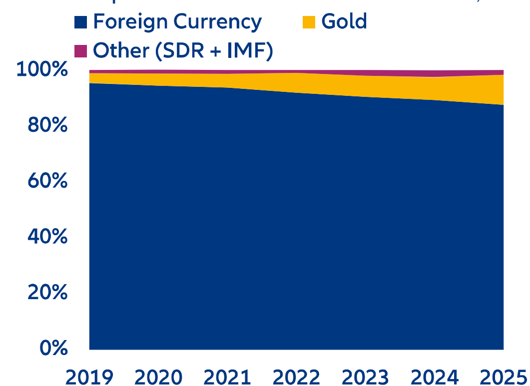
[5] *OMFIF Global Public Investors 2025 survey*

Figure 7: Selected EM central bank holdings shifts since 2020









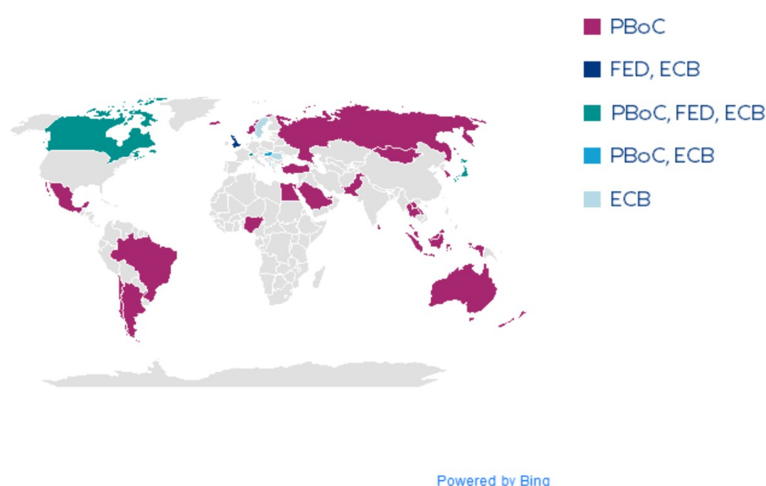
Source: National Central Banks, Allianz Research

While larger EMs have responded to dollar weaponization concerns by diversifying into gold and non-traditional currencies, frontier sovereigns face a harder constraint, instead leveraging their domestic bond markets as collateral to access cheaper dollar financing through total return swaps. This is mainly due to the inability to keep the pace on reserve accumulation given tight fiscal positions. This shadow-borrowing architecture, concentrated in Sub-Saharan Africa, represents the other side of the local currency debt deepening trend: markets developed enough to be pledged, but not yet deep enough to insulate governments from dollar dependency.

The architecture of a parallel system

Running in parallel to the shift in reserve currency composition is a quieter reconfiguration, in which bilateral central bank swap lines have become an instrument of both liquidity provision and geopolitical positioning. Historically dominated by the US Federal Reserve, whose dollar swap network functioned as the backbone of global crisis response in 2008 and 2020, the swap line architecture has been fundamentally reshaped by China's decade-long expansion. As of May 2025, the PBoC has signed bilateral local currency swap agreements with the central banks of 32 countries and regions, with the outstanding balance of RMB drawn by overseas central banks standing at RMB 81.8bn. Outstanding balances of Chinese swap lines reached close to USD33bn in 2023, and more than three-quarters of countries that have drawn on their PBoC lines have done so in times of financial distress. Unlike the Fed's network, China typically extends lines with few or no policy conditions, making PBoC swap lines a genuinely independent alternative to IMF financing, with draws since 2009 amounting to 12% of overall IMF lending in disbursement terms.

Figure 8: Open swap lines of the PBoC, the FED and the ECB



Note: The ECB and Fed have a permanent swap line with each other. During the GFC and Covid-19, the Fed established temporary swap lines with Brazil, Mexico, South Korea, Singapore, Australia, Denmark, Norway, New Zealand and Sweden.

Sources: PBoC, FEC, ECB, Allianz Research

Countries receiving RMB through swap draws hold it temporarily as reserves, contributing mechanically to the gradual rise in CNY's share of global allocated reserves. Chile's USD7bn PBoC swap line and its 8% CNY benchmark allocation are the clearest single-country illustration of how swap architecture and reserve diversification reinforce one another. This swap network, read alongside the proliferation of total return swap deals across Sub-Saharan Africa, points to the same underlying dynamic: the gradual construction of a parallel financial system routing liquidity, trade settlement and emergency financing through non-dollar channels. Still fragmented and far from replacing the incumbent system, this architecture is now large enough to materially affect reserve composition, creditor hierarchies and the geopolitics of financial crisis management.

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