

# Unhedged Wins: Currency Volatility Has Boosted S&P 500 Returns for Canadians

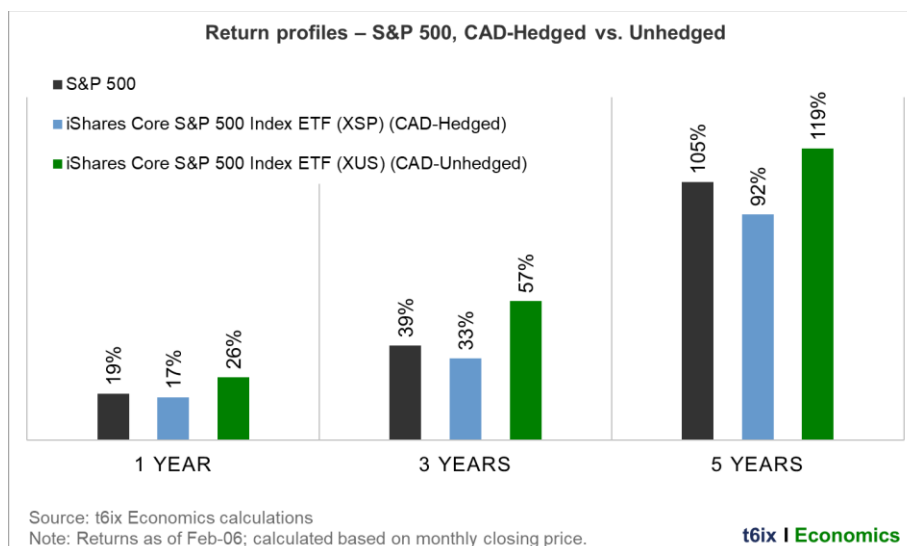
Unhedged exposure to the S&P 500 has consistently outperformed CAD-hedged investments, particularly since 2019, thanks to trade uncertainty, tariff risks, and Canadian dollar weakness. This trend shows no signs of slowing.

To examine this divergence, we analyzed two widely-used ETFs: **iShares Core S&P 500 Index ETFs: XUS**, which tracks the S&P 500 with unhedged CAD exposure, and **XSP**, which offers CAD-hedged exposure. Both ETFs replicate the S&P 500 index but differ in how they handle currency risk, providing critical insights into the impact of FX movements on investment performance.

## KEY INSIGHTS

- **Unhedged strategies thrive on CAD weakness:** Over the past five years, XUS delivered a **119% return**, far exceeding XSP's **92%**. The Canadian dollar's **6% decline** against the USD over the same period magnified unhedged returns (Chart 1).
- **Trade tensions amplified the divergence:** Since the 2024 U.S. Election, unhedged exposure delivered **5.1%** returns versus only **1.8%** for hedged investments. The persistent uncertainty during this period benefited USD-based assets (Chart 2).
- **Currency trends remain favorable for unhedged exposure:** The CAD has declined **11% over three years**, reflecting structural challenges in Canada's economy. This trend, coupled with macroeconomic volatility, continues to bolster unhedged returns (Chart 3).

**Chart 1: Unhedged Wins – Long-term- Returns Outpace Hedged Strategies**



## WHY UNHEDGED RETURNS OUTPERFORM

### 1. Currency Depreciation Drives Gains

The Canadian dollar's persistent weakness, including a **3.4% decline since the U.S. Election**, significantly boosts unhedged returns. Over five years, this structural trend amplified XUS's (*Unhedged*) performance relative to XSP (*Hedged*) by a **27 percentage point margin**. (Chart 1).

### 2. Trade Policy and Tariff Risks

Short-term divergence remains notable - Since the U.S. Election, XUS returned **5.1%**, outperforming XSP's **1.8%**. The CAD's **3.4% depreciation** during this period highlights the structural advantage of unhedged exposure (Charts 2 & 3)

### 3. Global Uncertainty Favors the USD with Higher Risk-Adjusted Returns

The Canadian Dollar has weakened by **11% over three years** and **6% over five years**, providing a tailwind for USD-denominated investments (Chart 3)

Chart 2: Tariff Talk Fuels Unhedged Outperformance

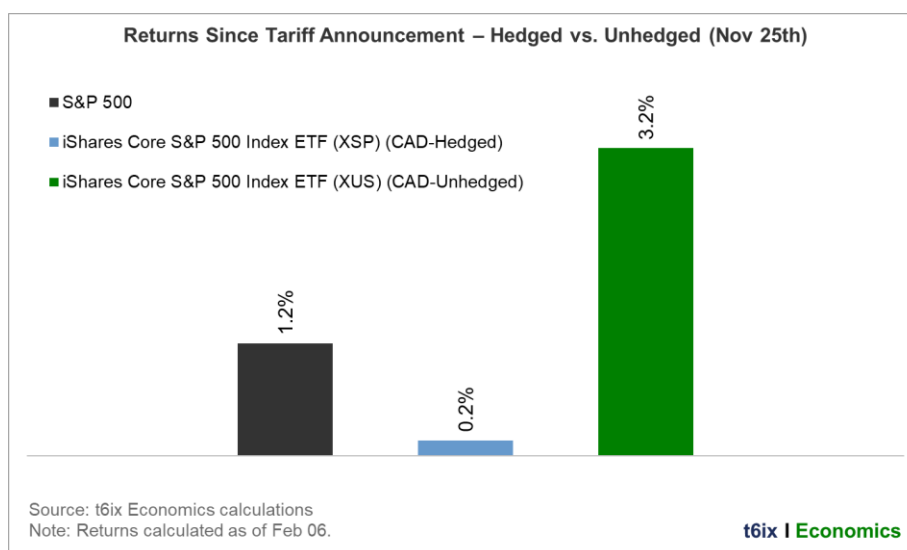
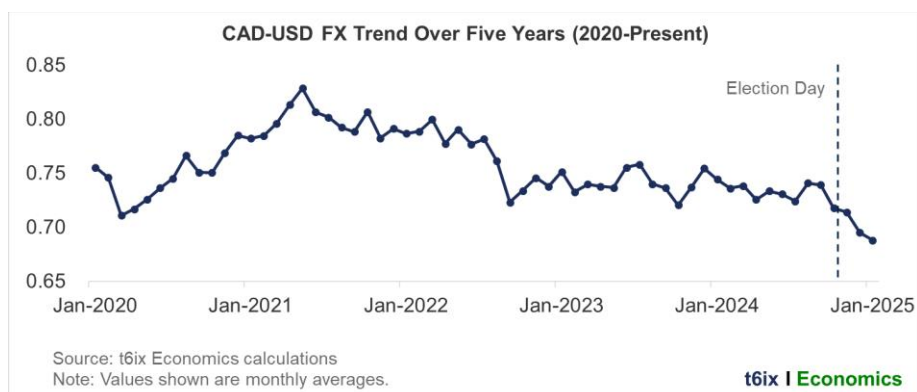


Chart 3: CAD Weakness: A Persistent Tailwind for Unhedged Investors



## FINAL TAKEAWAY

**Currency volatility is an enduring driver of unhedged returns. With persistent trade risks and a structurally weaker CAD, unhedged strategies remain well-positioned to outperform.** Over the past five years, the CAD's **steady decline against the USD (-6%)** has been a boon for unhedged investors. This depreciation trend reflects broader economic pressures, including weaker productivity growth and reliance on commodity exports. For Canadian investors in U.S. equities, hedging may mean sacrificing gains during uncertain times.

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