

The Middle Ground on Currency: MSCI EAFE IMI 50% Hedged to USD

A rules-based 50% hedge that removes the need for a dollar forecast, with historical risk and return characteristics examined below.



Currency exposure is a position, whether intended or not

Every unhedged allocation to international equities carries an implicit position on the U.S. dollar: it is exposed to non-USD currencies holding their value or gaining against it. A fully hedged allocation carries the opposite position, structured on the view that currency exposure would be a net drag worth eliminating entirely. Both are legitimate choices for an advisor who has a considered view on where the dollar is headed. Most advisors do not have that view, and forecasting currency markets well enough to justify one is difficult even for the professionals who do it full time. Exchange rates move on interest-rate differentials, capital flows and sentiment that shift faster than most research processes can track, and currency movements can be difficult to forecast consistently over the horizons that matter to an equity allocation.

An advisor building a durable international equity allocation is rarely trying to make a call on the dollar. Most unhedged and fully hedged index exposures ask for one anyway, whether intended or not. **The MSCI EAFE IMI 50% Hedged to USD Index** is built to remove that requirement. It applies a fixed, rules-based 50% currency hedge to the MSCI EAFE IMI Index, the broad large-, mid- and small-cap benchmark for 21 developed markets outside North America. The hedge is not there to predict the dollar. It is there to make the prediction unnecessary.

50%

Fixed, rules-based currency hedge to USD

21

Developed markets outside North America



How the index builds the hedge

The mechanism is straightforward. For each non-USD currency represented in the index, the methodology sells that currency forward against the U.S. dollar, in an amount equal to 50% of the index’s notional exposure to it. That forward contract locks in today’s exchange rate for half of the position, so half of the return from that currency’s move against the dollar is neutralized before it ever reaches the index level. The other half passes through unhedged, exactly as it would in the parent index.

Spot rates move every day, so a hedge set at 50% today will not stay at exactly 50% tomorrow. The index resets the hedge back to the 50% target on a regular schedule. Without that reset, the realized hedge ratio would drift with every currency move, and the index would slowly turn into an unintended directional position on whichever way the dollar happened to go. The reset is what keeps the exposure structural rather than accidental.

None of this touches the equity side of the index. The parent index also determines stock selection, market-capitalization weighting and the review calendar, all unchanged. The hedge sits on top of that equity portfolio as a currency overlay, not a change to which companies are held.

Parent index	MSCI EAFE IMI Index
Constituents	2,718 securities / 2,704 issuers
Coverage	Large, mid and small cap; about 99% of free float-adjusted market cap across 21 developed markets outside North America
Hedge ratio	Fixed at 50% notional, USD
Weighting	Free float-adjusted market capitalization (unchanged from parent)
Rebalancing	Equity constituents follow the standard MSCI Semi-Annual and Quarterly Index Review schedule; the currency hedge is reset independently on a regular schedule to keep the ratio at 50%

Table 1: Index reference data, MSCI EAFE IMI 50% Hedged to USD Index, as of July 30, 2026. Source: MSCI.(GEMLT).

The table below shows which currencies make up that hedge, based on the ten largest country weights in the index.

Currency	Countries (top 10 by index weight)	Approx. Weight (%)
EUR	France, Germany, Netherlands, Spain, Italy	29.5
JPY	Japan	24.9
GBP	United Kingdom	14.6
CHF	Switzerland	8.8
AUD	Australia	7.1
SEK	Sweden	3.7
Other currencies	Remaining countries outside the top 10	~11.4

Table 2: Approximate currency exposure hedged, based on the ten largest country weights in the MSCI EAFE IMI Index, as of July 30, 2026. Source: MSCI.

Beyond the currency logic itself, the 50% hedge is also simpler to obtain than the alternative. An advisor who wants partial currency protection without it would otherwise need to run that process separately: choosing a hedge ratio, sourcing forward contracts, resetting them on a schedule and monitoring for drift between resets. The MSCI EAFE IMI 50% Hedged to USD Index performs all of that at the index level, as part of its published methodology, so the currency exposure is already built into the index calculation rather than something to be managed separately alongside it.

Why 50%, not some other number

Fifty percent is not a compromise chosen for its own sake. It represents a symmetric middle ground between fully hedged and unhedged exposure. A ratio above 50% leans toward hedging out currency risk. A ratio below 50% leans the other way. A 50% ratio sits at the midpoint between the two.

That symmetry is the point, not a side effect. If the dollar strengthens, a 50% hedge captures roughly half the benefit a fully hedged position would have captured, and gives up half of what an unhedged position would have lost. If the dollar weakens, the same holds in reverse. The index cannot be the single best-performing option in either scenario, because being the best in one scenario requires being wrong in the other. By construction, a 50% hedge sits between the fully hedged and unhedged outcomes with respect to the currency component of returns.

How it has performed

That structural choice shows up directly in the historical record. Over the trailing three years, monthly returns on the 50% hedged index moved in near lockstep with the unhedged MSCI EAFE IMI Index, a 0.975 correlation, so this is not a different set of companies, sectors or countries. It is the same underlying equity exposure, with half the currency noise removed from the path.

Growth of \$100 — MSCI EAFE IMI, unhedged vs. 50% hedged (USD)

Total return, monthly, July 2023 - July 2026

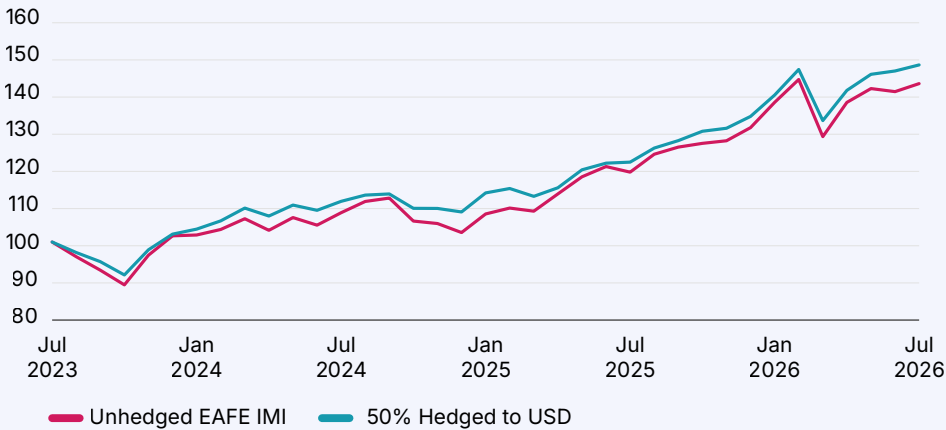


Figure 1: Growth of \$100, MSCI EAFE IMI Index, unhedged vs. 50% Hedged to USD, total return, monthly, July 2023 through July 2026. Source: MSCI.

That pattern is not limited to one lookback window. Table 3 shows the same comparison across the 1-, 3- and 5-year periods ended July 30, 2026.

Metric (1Y, USD)	Unhedged EAFE IMI	50% Hedged to USD
Annualized return	20.3%	21.8%
Annualized volatility	15.6%	13.7%
Maximum drawdown	-10.8%	-9.5%
Return / volatility	1.30	1.60

Metric (3Y, USD)	Unhedged EAFE IMI	50% Hedged to USD
Annualized return	12.8%	14.1%
Annualized volatility	13.6%	11.3%
Maximum drawdown	-11.7%	-9.5%
Return / volatility	0.94	1.25

Metric (5Y, USD)	Unhedged EAFE IMI	50% Hedged to USD
Annualized return	5.9%	8.3%
Annualized volatility	15.8%	13.1%
Maximum drawdown	-30.6%	-23.0%
Return / volatility	0.37	0.63

Table 3: Risk and return characteristics, MSCI EAFE IMI Index, unhedged vs. 50% Hedged to USD, 1-, 3- and 5-year periods ended July 30, 2026. Source: MSCI.

Across every measure shown, at every horizon, the 50% hedged variant improved on the unhedged index: a higher annualized return, lower volatility, a shallower maximum drawdown and a better return per unit of risk taken. The 5-year window includes the 2022 selloff and dollar surge, which is why its maximum drawdown figures run considerably larger than the 1- and 3-year figures for both variants. It's also why the hedged variant's difference relative to the unhedged index is largest over that longer, harder stretch. None of this came at the cost of the underlying EAFE equity story, since the two series track each other closely; it simply removed some of the currency-driven swings layered on top of it. These results reflect the specific historical periods shown, during which the dollar was broadly firm against EAFE currencies, and are not a projection for any other period. Conversely, a weakening U.S. dollar can benefit unhedged foreign-currency exposure relative to hedged exposure.

Month	Unhedged EAFE IMI	50% Hedged to USD
Mar 2026	-10.8%	-9.5%
Oct 2024	-5.6%	-3.5%
Oct 2023	-4.4%	-3.8%
Aug 2023	-4.0%	-2.9%
Sep 2023	-3.8%	-2.6%

Table 4: Five worst months for unhedged MSCI EAFE IMI, total return in USD, and the corresponding month for the 50% Hedged to USD variant, three years ended July 30, 2026. Source: MSCI.

The pattern holds up where it matters most: in every one of the unhedged index’s five worst months over the three years shown in Table 4, the 50% hedged variant lost less. The results are consistent with the effect of partially hedging currency exposure during the periods shown and do not reflect a claim about skill or timing. A hedge ratio like this dampens currency-driven swings without touching the equity exposure underneath them, in either direction.

What this means in practice

The practical effect of a fixed, symmetric hedge ratio is fewer open questions about currency. There is no need to take a position on whether now is or is not the time to hedge, no need to revisit the exposure after the dollar makes a large move and no currency call embedded in the index that would later need to be defended, whichever direction the dollar goes. The methodology settles that question once, structurally, rather than leaving it to be reassessed on an ongoing basis.

Conclusion

The MSCI EAFE IMI 50% Hedged to USD Index removes the need for a view on the U.S. dollar by design, regardless of which way the dollar eventually moves. Over the trailing three-year period ended July 30, 2026, it also had a higher historical return-to-volatility ratio than its unhedged counterpart, without giving up exposure to the underlying market.

For more information: www.msci.com/indexes/group/hedged-indexes

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