

Evolving focus in reserve management

9 October 2026



Taimur Baig, PhD
Managing Director and
Chief Economist
taimurbaig@db.com

Executive Summary

Central bank reserves are instruments of monetary management, financial stability and national resilience. International reserves enable foreign-exchange intervention, provide hard currency during crises, cover imports and reassure investors. Repeated shocks and rising geoeconomic uncertainty have reinforced the case for ample buffers, while increasing scrutiny of their liquidity, composition and returns.

Sanctions, wars, trade frictions and concerns about US fiscal sustainability are encouraging gradual diversification into non-dollar currencies, alternative payment rails, and dollar assets outside US jurisdiction. But credible substitutes are limited; surveys show bonds and deposits still exceed 88% of reserve portfolios, with gold near 7%.

Asset performance nevertheless supports a reassessment of portfolio construction. Across developed- and emerging-market equities, global credit, gold, oil, real estate and US Treasuries, the leadership has shifted materially. During 2000–19, EM equities and real estate delivered the strongest excess returns, while bonds achieved the best risk-adjusted result. Since 2020, gold and DM equities have led returns and Sharpe ratios, whereas global credit and US Treasuries have produced negative excess returns. EM equities have been the most consistent across both periods.

Central banks should segment assets by purpose, retain sufficient short-duration liquidity, reassess concentration and jurisdictional exposure, and diversify carefully where buffers permit. Risk should encompass duration, convertibility, market depth, sanctions vulnerability and crisis usability—not merely volatility. Objectives may remain stable, but portfolios must evolve with changing inflation, interest rates, geopolitics and asset performance.

Same goal, shifting means

Central bank's purpose of maintaining reserves stem from the obvious to the esoteric. It has also evolved over time, reflecting shifts in technology, market depth, and geoeconomic considerations. The motivation behind the **domestic currency** component of central bank reserves is the easiest to explain. They are used for the purpose of liquidity management, settlement of bank-to-bank transactions, implementation and transmission of monetary policy, and maintenance of financial stability. All central banks with a domestic currency to issue and support work along these lines.

The purpose of maintaining **international reserves** however takes on a more heterogenous underpinning. A country with a free-floating exchange rate, open capital and current accounts, deep and liquid money and bond markets, stable inflation, interest rate, and exchange rate environment, and a well-established regulatory environment for financial markets may not need to hold any foreign currency reserves. In this theoretical world, currency and liquidity demand and supply would be matched in the private markets, with interest rates and exchange rates adjusting accordingly. Reserves accumulation, bond and currency market intervention, and credit allocation would cease to be core functions of a central bank.

Real world considerations rule out such a paradigm. Many central banks buy or sell their own currency using foreign reserves to influence its value. FX reserves come in handy during an economic shock or a financial crisis, to give domestic banks and firms access to foreign currency. International reserves are seen by market participants and ratings agencies as an anchor of sorts, to provide confidence in the role of the central bank as a provider of import cover, lender of the last resort if there is sudden stop of capital inflows, and insurer of external borrowing.

An economy characterised by high savings should enjoy low borrowing costs and ample liquidity. Such an economy can benefit further if it has strong net foreign asset buffers, achieved through retained export earnings, returns on foreign direct and financial investments, and central bank international reserves.

Such motivations for holding ample reserves have been around for decades. Recent bouts of global financial market turmoil have further solidified those motivations, with a "more the better" mentality among many central bankers. In a world beset with geoeconomic uncertainty, buffers that seemed adequate yesterday come across as insufficient today.

But that then leads to questions like hold what, for how long, with what kind of returns, and so on. A central bank's reserves should be seen as different from that of a sovereign wealth fund, as the former needs to focus on short-term liquidity, while the latter can take the long view. But upon closer examination, the differences break down. Central banks' profit/loss can have profound fiscal and political implications, while a sovereign wealth fund cannot be all illiquid. Returns and liquidity matter for both, in fact. And increasingly, a geopolitical angle has supplemented such considerations.

If a central bank's reserves are aimed at bolstering confidence of foreign lenders and equity investors, holding largely USD assets makes sense. After all, most trade and financial transactions are done over the USD payment rails with USD denominated prices. For a very long time, that was the rule of thumb for central banks around the world. But sanctions, trade friction, kinetic wars, shifting alliances, and an erosion of the international order have led to some re-think in this area.

We see two kinds of thought processes. First, should a central bank hold more non-USD denominated hard currency assets? This is partly due to the rise of China as a global trading superpower and push toward invoicing commodity and other tradable products in RMB. It also stems from concerns that the USD is ripe for a structural decline in its value, given the US government's mounting debt burden and fiscal policy making dysfunctionality in the near- and medium-term.

Second line of thinking has nothing to do with the value, current or projected, of the dollar. It has more to do with the weaponisation of the dollar. Nations do not want their reserves frozen or stranded in New York or London due to an adverse political development. Nor do they want their financial sector to be hostage to USD payment rails that can be cut-off. This is motivating three kinds of developments: (i) exploration of payment rails that are outside the scope of sanctions; (ii) reducing USD-denominated asset holdings; (iii) adding USD assets that are not domiciled in the US.

On finding alternative rails, fintech developments have helped. Blockchain based payments, stablecoins, newly developed regional or sovereign rails have come up in the past 15 years, giving countries a wider array of options.

On reducing USD assets, or de-dollarisation, the trend is mixed. US stock, bond, alternative, real asset, and money markets remain the deepest in the world, making the intent to reduce exposure to USD open to the most obvious question, go where? It is sobering to conclude that there are not

that many options. European or Japanese debt, EM stocks, gold, cryptos, the list is modest.

This brings us to the intriguing option of holding USD assets but not within the reach of the US authorities. Eurodollar market has existed for long, and many countries have borrowed in USD terms for decades. On the margin, the attractiveness of this asset class will grow, in our view. Supply, however, is not particularly large.

Recent surveys of central bank reserve managers reveal strong preference for liquidity and stability over maximising returns. Bonds and deposits make up more than 88% of their holdings, followed by gold at about 7%. Remaining are in corporate credit and equities, with the latter making up less than 2%.

We can therefore conclude that central banks are not at the cusp de-dollarisation in a big way, nor are they about to load up on gold or equities much more than they already have.

Asset allocation by central banks

% of total, average

DM govt bonds	36.0
Bank desposits	25.1
Supranational and agency bonds	10.8
Money markets funds	8.0
Gold	7.3
IG credit	2.8
Equity (DM)	1.9
EM govt bonds	1.4
MBS	0.9
TIPS	0.8
Covered bonds	0.8
Others	4.2

Source: World Bank Reserve Management Survey

Should a central bank think like a sovereign wealth fund when it comes to reserve management? Should they try to be more proactive in their investment strategy than relying mostly on bonds? Once near-term liquidity buffers are covered, does it make sense for them to embrace more risk? Also, what is risky from the central bank's perspective? Can a chunk of its reserves ride out near-term volatility to incur higher return for its population? After all, a central bank that makes more in the long run can provide more profits to its finance ministry.

Performance:

How have various assets performed in this century, and are they performing differently of late? We analyse the returns, volatility, and volatility adjusted returns (Sharpe ratio) of key assets over two periods. First, 2000-19, and then 2021-26. The second time-period is important as it reflects greater inflation bias and rising rate momentum. Such dynamic may well be the case for the rest of the decade.

Returns:

A central bank can choose to have a 100% USD denominated, “safe” portfolio by investing entirely in treasury bonds. It can hold till maturity to eliminate duration risk, although in the interim, there would be mark-to-market risks. Also, anything beyond short-duration bonds, say 3-month maturity, there would be liquidity or usability issues. What good are central bank reserves if they can’t be mobilised expeditiously, after all.

Hence a central bank reserve manager would need to weigh in the returns from a wide range of financial assets while keeping in mind duration and liquidity risks. With that context, we look at returns, in USD terms, of seven asset classes, taking our cue from the central bank reserve managers’ survey. We consider (i) DM equities, (ii) EM equities, (iii) Global credit, (iv) Gold, (v) Oil, (vi) Real Estate, and (vii) US Treasuries.¹

We first calculate returns from the first two decades of this century (2000-19) and followed by the period spanning this decade (2020 to September 2026). With this, there is proper contextualisation of long-term historical performance and near-term developments. We calculate the return in USD terms, adjusted for inflation. We subtract 3-month T-bill returns from the total returns to arrive at excess returns.

The first two decades of this century were characterised by the dot-com boom/bust, China’s economic and markets boom, global financial crisis and

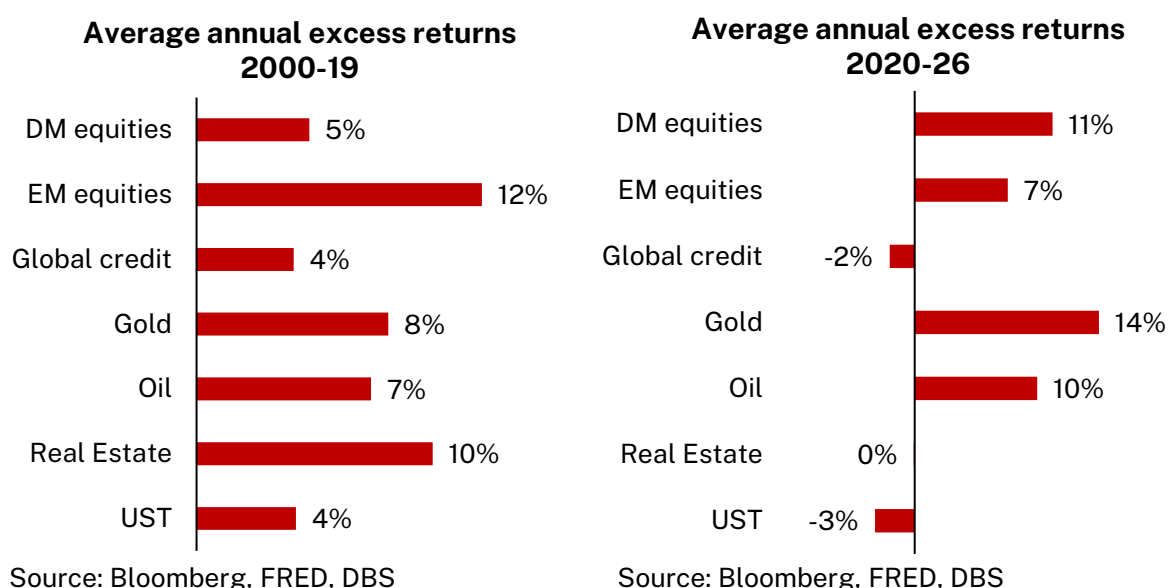
¹ The analysis was carried out using annual data from January 2000 to September 2026.

Variables used and their Bloomberg codes are (i) DM equities: MSCI Total Return DM Equities (M1WO); (ii) EM equities: MSCI Total Return EM Equities (M1EF), (iii) Global credit: total return of global aggregate credit (LGDRTUU); (iv) Gold, USD per ounce (XAU), (v) Oil: crude oil, USD/barrel (CL1 for 2026, and FRED database for historical data), (vi) Real Estate: 7-10 year FTSE REITS (RUGL); and (vii) US treasuries: value (LT09TRUU). Safe return asset is US 3-month T-bill (GB3). To convert nominal to real values, the US Personal Consumption Expenditure index was used.

the subsequent period of QE, low rates, and surging asset prices. Excess returns from EM equities (12%) and global real estate (10%) topped the ranking, with gold (8%) and oil (7%) following. DM equities (5%), US bonds (4%), and global credit (4%) trailed considerably.

Since 2020, a period characterised one seismic macro shock after another, from the pandemic to the Ukraine war, reciprocal tariff to Iran war, gold has been outstanding, with an annual average excess return of 14%, followed by DM equities (11%) and oil (10%). Global credit and US treasuries have yielded negative returns during this period.

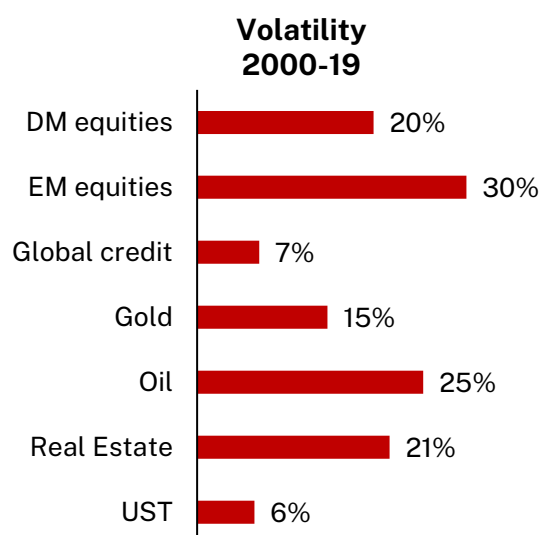
Going just by returns, US bonds have not been a good investment from a long-term or short-term perspective. One would have done much better with equities, gold, and oil.



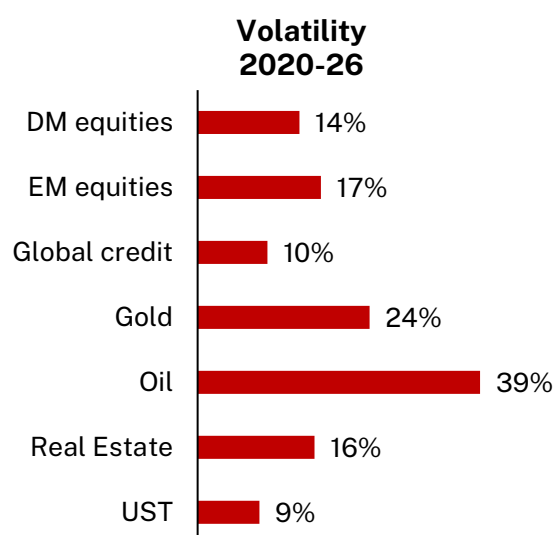
Volatility:

But have those returns been stable? When we consider the standard deviation of these assets over the two periods, the risks become better understood. During the first two decades of this century, equities, oil, and real estate were highly volatile, while bonds and credit were stable.

During the course of this decade, oil and gold have remained volatile, while bonds and credit much less so.



Source: Bloomberg, FRED, DBS



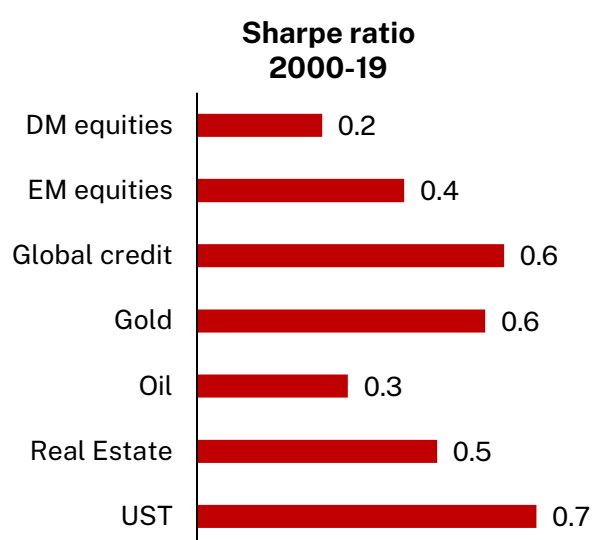
Source: Bloomberg, FRED, DBS

Risk adjusted return

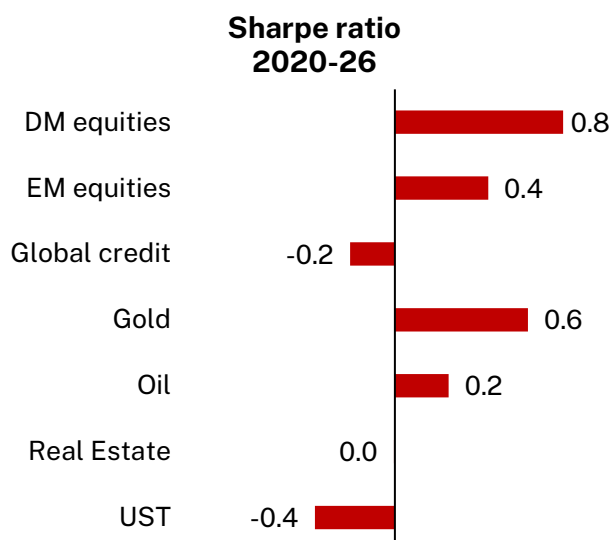
To estimate the risk-reward trade-offs, we calculate Sharpe ratios, which are derived as excess returns divided by standard deviation. Higher the ratio, the better for the risk manager, by this metric.

During 2000-19, bonds beat out all other asset classes with a Sharpe ratio of 0.7, followed by global credit and gold. DM equities scored the worst.

During this decade, however, bonds and credit have slipped, with the worst Sharpe ratios (-0.4 and -0.2). DM equities (0.8) and gold (0.6) have taken the two top slots, followed by EM equities and oil.



Source: Bloomberg, FRED, DBS



Source: Bloomberg, FRED, DBS

Breaking down the returns, volatility, and Sharpe ratios in two sample periods allows us to appreciate the regime change in asset performance during this century. Gold looks to be a better bet in general, particularly in recent years compared to US bonds. DM equities are having their moment in the sun presently, which was not at all the case during 2000-19. EM equities, strikingly, have been the most consistent. Real estate and credit have lost their lustre considerably.

This analysis is illustrative of the challenges facing reserve managers. What was deemed safe in the previous decades may still be safe now, but from a risk-return perspective, there has been a substantial change in performance among various asset classes. Central banks may have the same objectives as far their international reserve holdings are concerned, but their portfolio choices need to shift with the times.

ECONOMICS & STRATEGY

Taimur BAIG, Ph.D.

Chief Economist
Global

taimurbaig@db.com

Mo Ji, Ph.D.

Chief Economist
China/HK SAR

mojim@db.com

Han Teng Chua, CFA

Senior Economist
Asean

hantengchua@db.com

Wei Liang CHANG

FX & Credit Strategist
Global

weiliangchang@db.com

Tieying MA, CFA

Senior Economist
North Asia

matieying@db.com

Philip WEE

Senior FX Strategist
Global

philipwee@db.com

Mervyn Teo

Senior Credit Analyst
USD, SGD, AUD

mervynteo@db.com

Eugene LEOW

Senior Rates Strategist
G3 & Asia

eugeneleow@db.com

Sherilyn Chew

Multi-asset Strategist
Global

sherilync Chew@db.com

Ian Haan Chui

Credit Analyst
USD

ianchui@db.com

Samuel TSE

Rates Strategist
Asia

samueltse@db.com

Tracy Li Jun LIM

Credit Analyst
USD, SGD

tracylimt@db.com

Joel SIEW, CFA

Credit Analyst
USD, SGD, AUD

joelsiew@db.com

Amanda SEAH

Credit Analyst
USD, SGD, AUD

amandaseah@db.com

Teng Chong LIM

Credit Analyst
USD, SGD, AUD

tengchonglim@db.com

Daisy SHARMA

Analyst
Data Analytics

daisy@db.com

Iris GAO

Credit Analyst
USD

irisgao@db.com

Radhika RAO

Senior Economist
Asean/EU/South Asia

radhikarao@db.com

Violet LEE

Associate
Publications
violetleeyh@db.com

Nathan CHOW

Senior Economist
China/HK SAR

nathanchow@db.com

Byron LAM

Economist
China/HK SAR

byronlamfc@db.com

GENERAL DISCLOSURE/ DISCLAIMER (For Macroeconomics, Currencies, Interest Rates, Digital Assets or Commodities)¹

The information herein is published by DBS Bank Ltd and/or DBS Bank (Hong Kong) Limited (each and/or collectively, the “Company”). It is based on information obtained from sources believed to be reliable, but the Company does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. The information herein is published for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Company and its associates, their directors, officers and/or employees may have positions or other interests in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking or financial services for these companies. The information herein is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction (including but not limited to citizens or residents of the United States of America) where such distribution, publication, availability or use would be contrary to law or regulation. The information is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction (including but not limited to the United States of America) where such an offer or solicitation would be contrary to law or regulation.

[#for Distribution in Singapore] This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) which is Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 65-6878-8888 for matters arising from, or in connection with the report.

DBS Bank Ltd., 12 Marina Boulevard, Marina Bay Financial Centre Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.

DBS Bank Ltd., Hong Kong Branch, a company incorporated in Singapore with limited liability. 18th Floor, The Center, 99 Queen’s Road Central, Central, Hong Kong SAR.

DBS Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability. 11th Floor, The Center, 99 Queen’s Road Central, Central, Hong Kong SAR.

¹ This disclaimer may not apply if they are falls within 'financial instruments' that are within the scope of Article 2(1) EU MAR (e.g. financial instruments that are traded on a regulated market, MTF or OTF, etc.). Section C of Annex I of MiFID2 specifies these 'financial instruments'.