LetkoBrosseau
Global Investment Management



The Loonie Cushion

How the Canadian Dollar Dampens US Stock Swings

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When an investor buys stocks in a foreign currency, it's often described as adding currency risk. However, history suggests that for Canadian investors in US stocks, exposure to the US dollar has actually reduced volatility of returns, while having very little effect on long-term results.

Stocks and Currency 101

Buying stocks in foreign currency adds an extra dynamic to returns on an investment. The price of an investment in its own local currency, and the value of that financial asset in the investor's home currency, can move in opposite directions. From the perspective of a Canadian investor, if the price of a US stock rises in US dollars but the Canadian dollar appreciates simultaneously, some or all of the gains could be offset by US dollar depreciation. The same is true in reverse: if a US stock falls in price, but the US dollar appreciates against the Loonie, the loss in Canadian dollar terms can be reduced. This has been the case in market downturns over recent decades.

What the Loonie does when the S&P 500 falls

In the 2007–09 bear market, the S&P 500 lost 57% from peak to trough. A Canadian investor who held the same stocks unhedged lost 43%. The difference came from the exchange rate. As stocks fell, the US dollar appreciated from C$0.98 to C$1.30, so each US dollar in the portfolio was worth more in Canadian dollars.[1]

That pattern has held in every US bear market since 2000 (Table 1). It is also built into the country's balance sheet. Canada's foreign assets exceed its foreign liabilities: C$11.29 trillion against C$9.93 trillion at the end of March 2026. When the Loonie depreciates, those foreign holdings are worth more in Canadian dollars. A 1.7% depreciation against the US dollar in the first quarter of 2026 added C$88.8 billion to the country's net position.[2]

In a portfolio, this shows up as a smoother ride. Since 1999, monthly S&P 500 returns have had annualized volatility of 15.1% in US dollars and 12.7% for an unhedged Canadian investor.[3] Currency exposure is usually seen as adding risk. For Canadians holding US stocks, it has mostly done the opposite.

Table 1

S&P 500 in US$ and in C$ (unhedged) through each bear and bull market since 2000

Market phase	Dates	S&P 500 in US$	USD/CAD	S&P 500 in C$
▼ Bear markets – the Loonie cushions the decline				
Bear	Mar 2000 – Oct 2002	−49.1%	+9.1%	−44.5%
Bear	Oct 2007 – Mar 2009	−56.8%	+32.6%	−42.7%
Bear	Feb – Mar 2020	−33.9%	+9.6%	−27.6%
Bear	Jan – Oct 2022	−25.4%	+8.4%	−19.2%
Decline within current bull	Feb – Apr 2025	−18.9%	+0.2%	−18.7%

1 Bloomberg, S&P 500 Index (price) and USD/CAD daily closing rates, September 28, 1980, to September 28, 2026; LetkoBrosseau calculations. Returns exclude dividends. C$ return = (1 + US$ return) × (ending USD/CAD ÷ starting USD/CAD) − 1. Bear and bull markets are dated by conventional S&P 500 closing peaks and troughs; volatility and monthly figures use month-end closes.

2 Statistics Canada, "Canada's international investment position, first quarter 2026," The Daily, June 11, 2026.

3 Bloomberg; LetkoBrosseau calculations. See note 1.

Table 1 (continued)

Market phase	Dates	S&P 500 in US$	USD/CAD	S&P 500 in C$
▲ Bull markets – the Loonie's effect is mixed				
Bull	Oct 2002 – Oct 2007	+101.5%	−38.5%	+23.9%
Bull	Mar 2009 – Feb 2020	+400.5%	+1.6%	+408.6%
Bull	Mar 2020 – Jan 2022	+114.4%	−12.1%	+88.5%
Bull (ongoing)	Oct 2022 – Sep 2026	+115.4%	+2.5%	+120.8%

Price returns between S&P 500 closing peaks and troughs. Source: Bloomberg.[4]

Loonie depreciation cushioned every bear market, as US dollar appreciation offset some of the decline in share prices. In bull markets, the picture is mixed: in two of the four, an appreciating Loonie took a large bite out of the gains.

Month by month, however, the pattern is consistent. Over 324 months since late 1999, the S&P 500 rose in 203 and fell in 121. In the up months, it gained 3.25% on average in US dollars and 2.46% in Canadian dollars, so an unhedged Canadian investor kept about 76% of the gain. In down months, the average loss was 3.71% in US dollars and 2.48% in Canadian dollars, so the investor absorbed about 67% of the loss.[5] The currency dampens moves in both directions, a little more on the way down.

Over the full 27 years since 1999, the two effects have nearly cancelled out. The S&P 500 price index compounded at 6.9% a year in US dollars and 6.7% in Canadian dollars, because USD/CAD finished close to where it started.[6] The cushion, then, is not a source of return. What it changes is timing: smaller losses while stocks are falling, paid for with smaller gains as they recover. For a long-term holder, the benefit is a less volatile path to roughly the same place.

Where the cushion comes from

The Loonie is often called a commodity currency, and the usual story is that it depreciates in a crisis because oil prices fall. However, Bank of Canada research points elsewhere. Most of the Canadian dollar's moves reflect the US dollar appreciating or depreciating against all currencies, and oil plays a smaller role than is commonly assumed.[7] The cushion, in other words, is really about the US dollar. It works because in a serious crisis the world tends to rush into US dollars.

A pattern that has built up over four decades

Table 2

Decade	Up-month capture	Down-month capture	SPX/CAD correlation
1980s	95%	93%	−0.24
1990s	99%	79%	−0.32
2000s	62%	81%	−0.55
2010s	78%	42%	−0.60
2020s	84%	65%	−0.64

Capture = the average Canadian-dollar return in up (or down) months as a share of the average US-dollar return in the same months. Source: Bloomberg.[8]

The relationship above is newer than it looks. Data back to 1980 shows the cushion barely existed at first, then strengthened roughly decade by decade.

In the 1980s, a Canadian investor kept 95% of the market's gains and absorbed 93% of its losses. The currency had almost no effect. By the 2010s, down-month capture had fallen to 42%. Each decade since the 1980s has had a more negative SPX/CAD correlation, meaning the currency increasingly offset US equity swings.

Why the cushion has strengthened is harder to establish than the pattern itself. Canada's foreign holdings have grown sharply relative to the size of its economy over this period, and global capital markets are far more interconnected than they were in 1980. Either could plausibly explain why the Loonie now responds more to US market stress than it once did.

4 Bloomberg; LetkoBrosseau calculations. See note 1.
5 Bloomberg; LetkoBrosseau calculations. See note 1.
6 Bloomberg; LetkoBrosseau calculations. See note 1.
7 J.-S. Fontaine and G. Nolin, "The Share of Systematic Variations in the Canadian Dollar—Part II," Bank of Canada Staff Analytical Note 2017-1.
8 Bloomberg; LetkoBrosseau calculations. See note 1.

Two kinds of crisis: why the cushion fails in a year like 2025

The cushion didn't show up in 2025 because the shock began in the United States itself, so investors had little reason to rush into US dollars. From its February 19 peak to April 8, the S&P 500 fell 18.9%, much of it in the days after the April 2nd tariff announcements. By the old pattern, the US dollar should have appreciated, but it didn't: USD/CAD barely moved, and a Canadian investor lost 18.7% – a nearly equivalent amount to their US counterpart. The rebound then went the wrong way for Canadians. Over the rest of April, the S&P 500 rose about 12% while the Loonie appreciated more than 3%, leaving a gain of about 8%. For the full year, a 16.4% rise in the S&P 500 became 11.0% in Canadian dollars.[9] The difference from 2008 comes down to how the crisis starts. Recent research finds that the US dollar reliably appreciates only in severe global funding crises, when banks and companies around the world scramble for dollars to repay what they owe. In ordinary sell-offs, its gains are small and fade within days.[10] The 2008 crisis and March 2020 were funding crises, whereas the 2025 sell-off began with US trade policy, leading investors to question US assets, the currency included. When the United States is the source of the trouble, there is less reason to expect its currency to appreciate.

What this means for portfolios

For a long-term holder, hedging US-dollar stocks back into Canadian dollars has added little to returns. Over 27 years, the currency left long-run returns almost unchanged: 6.9% a year in US dollars versus 6.7% in Canadian dollars. What it did change was volatility: 12.7% a year unhedged against 15.1% in US dollars. In other words, not hedging delivered almost identical returns with less volatility. Hedging also carries costs that these figures leave out. The US-dollar returns above stand in for a perfectly hedged position, which is a best case. In practice, hedges are short-term contracts that must be chosen, sized and rolled, and that process creates hedging errors. Cutting costs makes a hedge less precise, while tightening it makes it more expensive. Either way, hedging adds cost and complexity to a strategy that has added little in return.

There are situations, such as the US-led shock in 2025, in which hedging would have paid off. However, this was a brief deviation from the pattern, partly because the crisis was short-lived. The US dollar continues to play a central role in global finance, which suggests it is likely to appreciate when global markets decline and investors seek safety, helping maintain the cushion that Canadian investors have benefited from over the last four decades.

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9 Bloomberg; LetkoBrosseau calculations. See note 1.

10 J. F. Adolfsen, A. M. Grønlund and T. Harr, "The US dollar: Not a traditional safe haven," VoxEU/CEPR, January 29, 2026.