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# Dollar Milkshake Theory: Evidence For and Against

*Brent Johnson's Dollar Milkshake thesis has attracted significant attention. This article stress-tests the mechanism against current capital flow data.*

## 1. The Thesis in Plain Terms

Money manager Brent Johnson coined 'Dollar Milkshake Theory' to describe a scenario in which years of quantitative easing across the developed world created a giant 'milkshake' of global liquidity, and the U.S. dollar acts as the 'straw' that sucks that liquidity back toward itself during periods of stress — strengthening the dollar even as the Fed itself eases, simply because everyone else is in worse shape.

The mechanism rests on the dollar's dual role: it is both the U.S. domestic currency and the de facto reserve and funding currency for the rest of the world. An estimated $12–13 trillion of dollar-denominated debt sits outside the United States. When global growth slows or risk appetite falls, borrowers and institutions abroad still need dollars to service that debt, creating structural demand for dollars independent of what the Fed is doing domestically.

## 2. The 'Least Dirty Shirt' Argument

A second pillar of the thesis is relative, not absolute: the U.S. does not need to have a strong economy for the dollar to rally, it merely needs to look better than the alternatives. Japan's decades of near-zero rates, the Eurozone's structural growth and fiscal fragmentation problems, and China's property-sector deleveraging all leave the dollar as, in Johnson's phrase, 'the least dirty shirt in the laundry basket' — the default destination for capital seeking safety even when U.S. fundamentals are themselves unremarkable.

## 3. Evidence Supporting the Thesis

The clearest supporting data point is 2022: as the Fed hiked aggressively while the Bank of Japan held its yield-curve-control policy and the ECB moved more slowly, the DXY dollar index rallied over 15% for the year, EM currencies from the Turkish lira to the Egyptian pound saw sharp devaluations, and dollar funding stress in offshore eurodollar markets became a recurring headline — textbook milkshake behavior.

More broadly, the dollar has historically strengthened during global growth scares and risk-off episodes (2008, March 2020, 2022) even when those episodes originated in the U.S. itself, which is consistent with the thesis that the dollar functions as a safe-haven funding currency first and a reflection of U.S. domestic conditions second.

## 4. Evidence Against the Thesis

Critics point to the long-run structural case for dollar weakness: the U.S. runs persistent twin deficits (fiscal and current account) that, in standard balance-of-payments logic, should pressure the currency lower over time as foreign holders accumulate ever-larger claims on U.S. assets that eventually need servicing.

There is also an active and accelerating de-dollarization push among BRICS and allied economies — bilateral trade settlement in local currencies, central bank gold accumulation at multi-decade highs, and discussion (so far more rhetorical than operational) of alternative settlement systems. The share of global FX reserves held in dollars has drifted down from roughly 71% in 1999 to the high-fifties percent range by the mid-2020s, even as the dollar's share of trade invoicing and FX turnover has remained far stickier.

The Triffin dilemma critique adds a longer-horizon concern: to supply the world with dollar liquidity, the U.S. must run trade deficits, which over long periods erodes confidence in the currency's value — a tension that predates Johnson's thesis by decades and that milkshake proponents generally acknowledge but treat as a multi-decade rather than multi-year risk.

## 5. What the Data Says Right Now

As of this writing, foreign official holdings of U.S. Treasuries have been broadly stable rather than collapsing, dollar invoicing shares in global trade remain dominant, and offshore dollar funding markets continue to show the kind of episodic stress the milkshake thesis would predict during risk-off windows. At the same time, reserve diversification has been real, if gradual, and gold's multi-year rally reflects genuine central bank buying rather than pure speculation.

The honest conclusion is that both camps are describing real, simultaneous forces: a cyclical dollar-strength mechanism that reliably shows up during global stress episodes, layered on top of a slower-moving structural erosion of the dollar's singular dominance. Neither fully invalidates the other — they operate on different time horizons, which is precisely why the debate has proven so durable.

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