

The Volatility Tax

Why “wait and see” has become the most expensive currency strategy on the table.

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Corporate treasuries that still treat FX hedging as an occasional, deal-by-deal decision are absorbing a cost they'd never accept anywhere else in the P&L: unmanaged volatility. The evidence from 2026 is unambiguous — hedging has moved from a treasury nicety to a board-level governance expectation, and the companies still improvising are the ones showing up in earnings-call surprises rather than the ones setting the narrative.

I've spent my career moving between two vantage points on this problem: the McKinsey side, where currency risk is a line in a model, and the operator's seat, where it's real money hitting a real bank account on a Friday afternoon. Both views converge on the same conclusion — the discipline matters more than the prediction.

Here's what the data says.

1. Hedge ratios are rising because the cost of not hedging has become visible.

Average hedge ratios among US and UK corporates climbed from 49% to 57% in early 2026, and UK-specific research shows the mean rising from 45% in 2024 to 53% in 2025. This isn't caution for its own sake — it's a direct response to geopolitical-driven currency swings that have repeatedly shown up as unplanned line items on income statements. Academic research has also found that firms which hedge FX exposure trade at a market valuation premium of nearly 5% versus unhedged peers. The market isn't rewarding companies for guessing right on currency — it's rewarding them for removing the guess entirely.

2. The toolkit has diversified well beyond the rolling three-month forward.

Layered hedging — building a position in tranches (20% now, another 20% in month three, and so on) rather than committing to a single rate — has become standard practice because it removes the “regret risk” of one large hedge placed at exactly the wrong moment. Alongside this, options structures like collars are gaining ground: buying a floor while selling a call to partly fund it, preserving some upside participation that a pure forward gives away entirely. The right instrument depends on forecast confidence, not habit — high-confidence exposures suit forwards; less certain ones belong in options. Sophisticated treasuries increasingly run both, calibrated to the specific exposure.

3. Exposure classification now determines the hedge, not the other way around.

The strongest programs I've seen explicitly separate balance-sheet (transactional) exposure from cash-flow (forecasted) exposure, and apply different tools to each — short-dated forwards for the former, layered forwards-plus-options for the latter. Natural hedging — matching foreign-currency costs to foreign-currency revenue, or sourcing and selling in the same currency wherever operationally possible — is being used as the first line of defense before any derivative is bought, because it carries no premium and no counterparty risk. It's the cheapest hedge a company will ever put on, and it's the one most frequently overlooked because it requires operational coordination rather than a phone call to a bank.

4. Governance is no longer optional — it's the difference between a program and a habit.

Boards and audit committees increasingly expect a written hedging policy: defined risk appetite, approved instruments, minimum and maximum hedge ratios, and regular performance reporting against that policy. A hedging program without that infrastructure is, as one 2026 treasury guide put it bluntly, "a document, not a discipline." That distinction is exactly where I've watched operator-led companies either build durable resilience through a downturn or get blindsided at the worst possible moment — usually because the hedge that existed was a personality, not a policy.

The bottom line for operators: FX hedging in 2026 isn't about predicting the next move in the dollar, the euro, or any currency you touch — it's about building a policy-driven, layered, properly governed program before volatility forces the issue on you. The businesses treating it as a strategic discipline are the ones protecting margin quarter after quarter. The ones treating it as an afterthought are the ones explaining variances on the next earnings call, one currency pair at a time.

What's your organization's current hedge ratio — and is it the product of a deliberate policy, or an accident of timing? I'd genuinely like to compare notes.