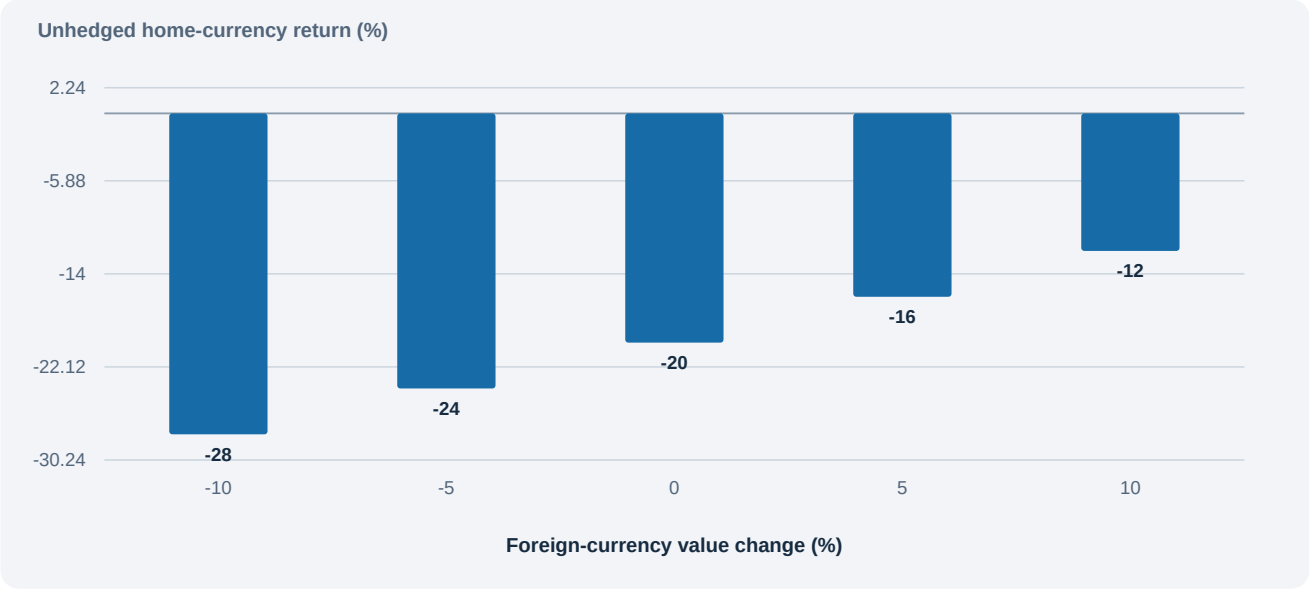
Combining asset and currency returns

Return comparisons | Original synthetic example | Edition 2026-11-26

For a foreign asset translated into home currency, the asset growth factor and the foreign-currency value growth factor multiply. The exchange-rate quotation convention determines the sign.

FORMULA Home return = (1 + local asset return) x (1 + foreign-currency return) - 1

SCENARIO 01: Local asset return -20%; currency quote home per foreign



WORKED EXAMPLE

A +5% foreign-currency move with local return -20% gives -16% home return, including interaction.

COMMON MISTAKE

Adding the two percentage returns omits their interaction and can use the wrong currency direction.

BEFORE YOU USE THE CALCULATION

1. Define home currency per foreign unit.
2. Use matching periods.
3. State whether currency exposure is hedged.

COMPARE TWO MORE INPUT SETS

Scenario 05: Local asset return 5%; currency quote home per foreign. A +5% foreign-currency move with local return 5% gives 10.25% home return, including interaction.

Scenario 10: Local asset return 30%; currency quote home per foreign. A +5% foreign-currency move with local return 30% gives 36.5% home return, including interaction.

Synthetic values are not historical market data. Educational material; trading can result in substantial losses.