Insights
Currency & Cash

February 2025

Currency Market Commentary

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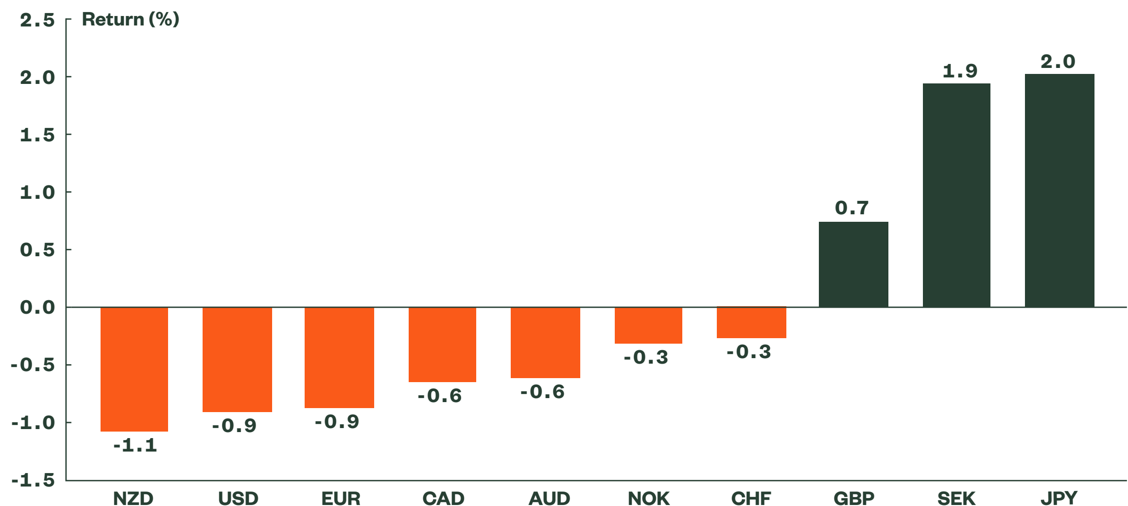
Summary of Views

Cracks began to emerge in the bullish US dollar narrative in February, as weak retail sales and a plunging services Purchasing Managers Index(PMI) compounded negative fiscal headlines. The US dollar, US yields, and the S&P 500 all declined during the month. Renewed fears of tariffs on Mexico, Canada, and China, starting on 4 March, helped the US dollar recover toward the month's end, but it still finished as the second-worst performer in the G10. The Japanese yen was the biggest winner, benefiting from falling US yields and negative equity market sentiment. The Swedish krona finished a close second, supported by higher-than-expected inflation, strong Q4 gross domestic product (GDP), and hopes that increased European Union (EU) defense spending would boost its economy. A dovish central bank and the risk of higher Chinese tariffs weighed on the New Zealand dollar, which was the only currency to underperform the US dollar. The Australian dollar faced similar pressure from tariff risks and softer inflation.

Last month, we highlighted signs of US dollar weakness on the horizon, but now that horizon appears much closer, and the signals are even clearer. The highly publicized fiscal cuts in the Department of Defense and projected cuts in the proposed budget moving through Congress are likely to weigh on US growth expectations and the dollar going forward. In contrast, the EU has proposed up to 800 billion euro in defense spending, alongside Germany's proposed 500 billion euro infrastructure fund and an additional 1% increase in defense spending. These are game-changing amounts.

That said, we would not write off the US dollar just yet. The shift in US economic sentiment is understandable, as the negative GDP impacts of Trump's policy agenda are likely to materialize before any positive effects. However, US growth is not poised for a steep decline, and much of the negative news so far has been reflected in sentiment indicators rather than hard economic data. More crucially, tariffs will become an increasingly important topic in the next 4–8 weeks.

Figure 1
February 2025 Currency Return vs. G10 Average



Bloomberg and State Street Global Advisors, as of 28 February 2025. **Past performance is not a reliable indicator of future performance.**

Figure 2
February 2025 Directional Outlook

	Tactical Outlook	Strategic Outlook
USD	↑	↓
CAD	↑	—
EUR	—	↓
GBP	↓	—
JPY	↓	↑
CHF	↓	↓
NOK	↑	↑
SEK	↑	↑
AUD	↑	—
NZD	↓	—

Note: All individual currency views in the table above are relative to the G-10 average.
Source: State Street Global Advisors, as of 28 February 2025.

In addition to the new tariffs on China, Mexico, and Canada that took effect today, we expect Trump to impose significant tariffs on the EU and introduce additional sectoral tariffs in April. Despite the impressive fiscal plans in the EU, the details and timeline of the proposed spending remain uncertain. While the US dollar is likely to continue declining in the near term, it may see another bounce before entering a more sustained downtrend.

The current euro rally could easily extend another 2–4%. The British pound appears less vulnerable to tariff risks, but the recent improvements in retail sales and employment data seem unsustainable. We continue to see downside risks for Bank of England policy rates and the pound this year. While there is clear potential for the current pound rally to reach as high as 1.30 against the US dollar, we expect it to face challenges beyond that and anticipate the pound will struggle against the euro.

The Swedish krona has performed well recently, with the Riksbank approaching the end of its rate-cutting cycle. While there is potential for further near-term gains, it may be challenging given the backdrop of EU tariffs and increasing equity market risks. The defense spending story is promising, but it is more relevant to 2026–2027, making it premature to fully factor in its impact at this stage.

The Australian dollar appears relatively undervalued based on long-term metrics and relative interest rates, supported by solid fundamentals, stable — though below potential — growth, strong labor markets, and a likely slow pace of Reserve Bank of Australia (RBA) easing. However, we recommend limiting long Australian dollar positions for now, given its high sensitivity to tariffs, particularly through China, and rising equity market risks.

The yen remains a favored currency for 2025, though the rapid year-to-date rally suggests a pullback is likely, as indicated by our models' negative tactical signal at the end of February. Nevertheless, weaker US growth and high Japanese inflation should continue to compress the negative carry, driving the yen higher. Notably, the yen is also exhibiting more stable safe-haven behavior, outperforming when equities decline and equity volatility increases.

US Dollar (USD)

The US dollar fell 0.9% against the G10 average in February. The month began on a negative note when Trump delayed the 25% across-the-board tariffs on Canada and Mexico until 4 March, in exchange for increased policing of illegal immigration and drug trafficking at the border. This fueled the market's belief that Trump would take a transactional approach to tariffs, reducing the tariff risk premium and pushing the US dollar lower.

Stronger-than-expected wage growth and a drop in the unemployment rate from 4.1% to 4% on 7 Febraury provided some support, despite jobs creation coming in slightly below expectations. The following week, an upside surprise in core Consumer Price Index (CPI) (0.4% MoM vs. 0.3% expected) briefly boosted the US dollar, but this rally reversed the next day, 13 February, as Producer Price Index(PPI) inflation indicated a tame core PCE inflation reading later in the month.

From that point, both the US dollar and US yields trended lower, driven by increasingly negative headlines surrounding the Department of Defense, which sparked fears of deeper fiscal cuts. Retail sales disappointed, consumer sentiment shifted lower, and PMI services plunged from 52.9 to a contractionary 49.7. The dollar found some relief only toward the end of the month, when President Trump reaffirmed his intention to impose 25% tariffs on Canada and Mexico, floated the idea of an additional 10% tariff on China in early March, and hinted at a 25% across-the-board tariff on the EU as early as April. This helped the US dollar recover over half of its month-to-date losses in the final two days of February.

The US dollar remains one of the top-ranked currencies in our model, but our positive US dollar outlook is softening as US economic data continues to underperform and US yields decline. The much-publicized fiscal cuts to the Department of Defense and the projected cuts in the proposed budget working its way through Congress are likely to weigh on US growth expectations and the dollar moving forward. However, we are not ready to count the dollar out just yet.

The negative GDP impact of Trump's policy agenda is expected to manifest before any positive effects, but even so, the US is still poised to be one of the higher-growth, higher-yield countries in the G10 in the near term. More critically, tariffs will become an increasingly important factor over the next 4–8 weeks. Alongside the new tariffs on China, Mexico, and Canada that went into effect today, we anticipate Trump will impose significant tariffs on the EU and additional sectoral tariffs in April.

As a result, we view the recent US dollar weakness as a correction — a justified one — but not yet the beginning of a sustained downtrend. For that, we would likely need to see a more significant deterioration in US economic health and a reduction in tariff-related uncertainty.

Our long-term outlook remains unchanged. We have consistently maintained that the US dollar is likely to decline by at least 15% over a two year horizon, as US yields and growth revert to the G10 average, and the US continues to contend with significant fiscal and current account deficits. Trump's plans to reduce spending and implement widespread deregulation, with the goal of triggering a productivity renaissance without a substantial increase in fiscal debt, appear unlikely to materialize.

If historical trends are any guide, any stimulus introduced by Trump is likely to accelerate the accumulation of US debt, which would lead to a more challenging long-term outlook for the US economy, corporate earnings, and the US dollar. For investors with an investment horizon of over two years, we favor short US dollar positions.

Canadian Dollar (CAD)

The Canadian dollar finished the month down 0.6% against the G10 average but gained 0.3% versus the US dollar. The month began with a strong rally after President Trump delayed the 25% tariffs until 4 March. A better-than-expected employment report on 7 February (added over 76,000 new jobs compared to expectations of 25,000 jobs) contributed to the Canadian dollar's upside. At its peak on 12 February, the Canadian dollar was up over 1% against the G10 average and reached a peak of +2.6% against the US dollar on 17 February. However, fears of the impending 4 March tariffs began to weigh on the currency, leading it to give up all its gains and finish the month down.

Despite the weakness, local data remained more constructive. December retail sales came in at +2.5% MoM (vs. 1.6% expected), Q4 GDP was 2.6% QoQ annualized (vs. 1.7% expected), and January trimmed mean core CPI was 2.7% (vs. 2.6% expected).

Improved economic data has pushed our Canadian dollar forecast higher, making it the top-ranked currency in the G10 as of month-end. However, it is challenging for the models to capture the tariff impact. President Trump's decision to follow through with the tariffs introduces the risk of a material slowdown in economic activity, which could pressure the currency to 1.47 or even 1.50 if the tariffs remain in place for a while. That said, we still believe Trump will lift the tariffs after a short period, as they do little to benefit the US economy, and targeting Canada is unlikely to appeal to US voters.

Thus, we see the Canadian dollar largely in a 1.44–1.48 range with a bias toward the top end of the range against the US dollar over the very near term, given ongoing uncertainty over tariffs. The United States-Mexico-Canada Agreement (USMCA) is scheduled for review in July 2026, but it may be brought forward. Until that agreement is renegotiated or the contours of the negotiation are well understood, we expect ongoing tariff threats to weigh on investment spending in Canada, which could present a headwind to Canadian growth and the currency — even if the current 25% tariff is lifted in the coming weeks. Therefore, our bias is for the Canadian dollar to remain weak over the near term. Later this year, we expect USD/CAD to fall back into the high 1.30s as clarity on tariffs and the USMCA improves, and as we begin to see greater growth benefits from the Bank of Canada's aggressive rate cuts and a moderation in US growth and yields.

Euro (EUR)

The euro fell 0.9% against the G10 average this month. Throughout the month, the euro struggled under the weight of stagnating growth, expectations of continued European Central Bank (ECB) rate cuts, and the looming risk of US tariffs in Q2. While the US dollar supported lower-yielding, more beaten-down currencies like the Swedish krona and Japanese yen, it did not provide the same benefit to the euro. EU economic data was light and did little to counter the pessimistic outlook. Q4 GDP came in at 0.1% QoQ, better than the expected 0%, but still indicative of stagnation. Wages remained strong, though on a downward trajectory. Meanwhile, growth data in the UK and Sweden surprised to the upside, underscoring the lackluster outlook for the EU. German elections had little impact, and overall, expectations of near-term fiscal stimulus remained muted as centrist parties failed to secure an outright majority.

Our tactical outlook for the euro has stabilized at a neutral level. While household balance sheets are strong, unemployment is low, real wage growth is positive, and the need for increased defense spending and the proposed 500 billion euro German infrastructure fund are positive for the euro, we find it difficult to see more than a 2–4% upside for the currency. The timing and scale of the benefits from these initiatives remain unclear. Defense spending could roll out slowly, and if it does not, the EU defense industry may lack the capacity to expand rapidly. There is also a risk that much of this spending is directed toward imports. Similarly, the proposed German infrastructure fund may take years to fully deploy, and the details of the spending are still unclear.

Meanwhile, growth remains stagnant, with little evidence of a catalyst to encourage consumer spending. Long-term potential growth is weak, and Trump has made it clear that he intends to apply further pressure through tariffs next month. The ECB is on track for a sub-2% policy rate in 2025. While the euro could extend its recent gains, it is more likely to retreat, possibly even back to its range lows around 1.03 versus the US dollar, depending on the intensity of the US trade war. Furthermore, our long-run fair value model suggests that the euro is expensive compared to most of the G10 currencies, except for the US dollar and Swiss franc.

British Pound (GBP)

The British pound gained 0.7% against the G10 average in February, despite a dovish 0.25% rate cut from the Bank of England (BoE) on 6 February. After a quiet start to the month, weaker-than-expected PMI data on 5 February and the unexpectedly dovish BoE decision on 6 February pushed the pound lower through 10 February. From there, the data turned more constructive, supporting a gradual upward trend through the end of the month. December industrial production, employment, Q4 GDP, January retail sales, and February services PMI all surprised to the upside. Threats of EU and China tariffs late in the month, as well as the sell-off in equities, disproportionately weighed on the euro and other tariff- or equity-sensitive currencies rather than the pound. As a result, the pound surged relative to other currencies by month-end, although it underperformed the US dollar. The US does not appear ready to directly hit the UK with tariffs, which provided support for the pound relative to more tariff-sensitive and higher-beta G10 currencies.

We are bearish on the pound over the short and medium terms. While the British pound looks better in terms of tariff risk, the recent improvement in retail sales and employment data does not seem sustainable. We continue to see risks tilted toward the downside for BoE policy rates and the pound this year. The increase in the National Insurance (NIH) payroll tax in early April is likely to contribute to a further softening of labor markets and household demand. The UK has avoided direct threats of US tariffs, given its trade deficit with the US, but weaker regional growth resulting from US tariffs will likely have a negative spillover effect in the coming months. Although the recent fall in yields provides some relief, the increased issuance of government debt to fund the budget is likely to keep investors wary of fiscal risk. At this juncture, the pound faces medium-term pressure in both rising and falling rate environments; it ultimately comes down to growth, and we see UK growth continuing to stagnate, potentially flirting with recession depending on the spillover effects of US tariffs on Europe. Therefore, we are negative on the pound.

Our long-term valuation model offers a more positive outlook for the pound. It remains particularly cheap against the US dollar and Swiss franc. However, it is important to temper upside expectations, as low productivity growth and sticky inflation are pushing fair value lower. The fair value against the US dollar has fallen from 1.55 to 1.40 since May 2022. Breakeven inflation expectations and recent productivity differentials suggest that fair value will trend down to at least the upper 1.30s over the next few years. Despite this, at current levels in the mid-high 1.20s, the pound is still moderately cheap, even if fair value trends lower as expected.

Japanese Yen (JPY)

The yen was the best-performing currency in the G10 during February, up 2.0% against the average. The primary driver, as usual, was the yield differential with the US and G10. As US growth surprised to the downside and yields fell, the yen strengthened. Domestically, Japan's higher-than-expected labor cash earnings (4.8% YoY vs. 3.7% expected), a positive Q4 GDP print (0.7% QoQ compared to 0.3% expected), and a jump in national CPI to 4% bolstered expectations for steady, albeit slow, Bank of Japan (BoJ) rate hikes. Early news regarding the Shunto wage negotiations in March pointed to pay increases at or above 5%, adding to confidence in further monetary tightening this year. In addition to the outlook for continued compression of the interest rate differential, the yen has regained its status as a haven in times of equity market stress — stress likely to persist under the strain of the trade war and US slowdown.

Our model is negative on the yen over the tactical horizon due to strength in the commodity signal and our short-term value model, which suggests the yen is overbought following its rapid appreciation in January and February. While we respect the potential for a near-term retracement lower in the yen, we remain more positive on it over the course of the year. Early 2025 commodity strength has given way to weakness, which tends to be yen-positive. More importantly, we see plenty of room for the interest rate differential to continue to compress in the yen's favor, and the yen has regained its appeal as a safe-haven currency, reliably outperforming in times of equity market stress. Weaker global growth, led by the US, and tariff risks suggest that the equity market volatility observed last month is likely to continue, benefiting the yen.

We continue to favor expressing our medium-term positive view through long positions in yen versus franc in the short term, given still high US yields and potential US dollar upside risks from tariffs. Short euro and pound against the yen also look attractive, albeit with a negative drag from carry. The risk to this view is a broad reacceleration in US and global growth and inflation that drives US yields to new highs. Even then, while the yen may struggle against the US dollar, it is likely to easily outperform currencies of regions with subpar growth, particularly in Europe.

Swiss Franc (CHF)

The franc fell 0.3% against the G10 average in February. It trended lower through 11 February as relief from the US tariff delay and strong equity markets favored higher-yielding, higher-beta currencies over low-yielders like the franc. The franc is now tied with Japan as having the lowest policy rates in the G10, at 0.5%, and the Swiss National Bank (SNB) is expected to cut rates in March, solidifying the franc as the low-yielder in the G10.

Mid-February, the tide turned more positive for the franc following a positive surprise in Swiss core CPI (+0.9% YoY vs. 0.6% expected on 13 February), coupled with a turn lower in the US dollar after the PPI inflation report on the same day. From there, the peak in US equity markets on 19 Febraury, along with steadily lower US/EU/UK yields and the resurgence of tariff fears later in the month, helped the franc recover nearly all of its losses by month-end.

We remain negative on the franc over both the tactical and strategic horizons. The franc is the most expensive G10 currency, according to our estimates of long-term fair value, and it has the lowest yields and core inflation in the G10. At the same time, the real trade-weighted franc is in the upper half of its 30-year range, and the SNB is cutting rates. We expect the SNB to become more open to direct currency market intervention to weaken the franc once the policy rate falls below its current level of 0.50%. In fact, considering that a major source of the undershoot in inflation is directly related to franc strength through import prices, we believe it makes sense for the SNB to shift focus away from rate cuts and toward a weak currency policy.

To make matters worse, President Trump has explicitly mentioned tariffs on the pharmaceutical sector, a key Swiss export sector. Overall, we see the franc transitioning toward a prolonged reversion back to our estimate of its long-term fair value.

Norwegian Krone (NOK)

The krone dropped 0.3% against the G10 average for the month. A sell-off in the US dollar, a rally in equity markets, rising oil prices, and a positive core CPI surprise (+2.8% YoY vs. 2.6% expected) all helped keep the Norwegian krone in positive territory through mid-month. However, a steep drop in oil prices and a turn lower in equity markets pushed the krone down through month-end, although it did bounce back slightly after strong retail sales on 28 February. It is important to note that these movements, both upward and downward, occurred within a narrow, choppy range, with the krone struggling to find a steady direction. The krone was overshadowed by the neighboring Swedish krona, which sustained a steady uptrend.

Our tactical view remains positive for the krone, driven by relatively high yields and stronger local equity performance. Expected monetary easing in 2025 could reduce yield support, but the krone is likely to retain yields well above the G10 average while the growth outlook remains modestly positive, especially when compared to regional neighbors like the EU and UK.

Longer-term forces also favor the currency. Despite our modestly constructive view, we caution that the recent drop in oil prices and increased equity market volatility may introduce greater risk for the krone, which tends to have a high beta to both oil prices and equity market sentiment.

In the long-term, the krone is historically cheap relative to our estimates of fair value and is supported by steady long-run potential growth and a strong balance sheet. While we remain net positive on the Krone, we acknowledge material short-term risks. Oil prices have trended lower since mid-January, and the krone has shown sensitivity to global risk sentiment, which is likely to be more volatile given high equity valuations, growth struggles across much of the G10, and high US policy uncertainty.

Swedish Krona (SEK)

The Swedish krona gained 1.9% against the G10 in February. The move higher began early in the month, pushing the krona near its peak by 14 February. A relief rally in higher beta currencies, including the krona, Canadian dollar, Australia dollar, and krone, was triggered by the US dollar sell-off following the delay in US tariffs on Mexico and Canada. Among these currencies, the krona outperformed, supported by much higher-than-expected core cost plus incentive fee (CPIF) inflation, which came in at +2.7% YoY vs. 2.1% expected on 6 February.

In the second half of the month, the pace of the krona's uptrend slowed significantly, but it held on to its early-month gains and added another 10 bps despite a weaker euro and a pick-up in equity market volatility. Falling US yields later in the month also helped support lower yielders like the krona. Additionally, plans for increased EU defense spending, as US military support for the region fades, are likely to benefit Swedish defense contractors and, by extension, the krona.

We shift to a modestly positive bias on the krona over the short term, driven by improved economic data and higher inflation. Long-term, we are more constructive. The upside surprise in CPI and a strong bounce back in Q4 GDP (+2.4% YoY vs. 1.1% expected) bode well for the currency, pushing Sweden's composite economic growth score to the best in the G10.

Markets expect another 1–2 rate cuts from the Riksbank this year, bringing yields down to 1.75–2%, which is close to the expected rate for the ECB by year-end. Additionally, the market is now expecting three cuts from the FED. However, the krona faces near-term risks. High US tariffs on the EU, promised for April, will almost certainly slow Swedish growth, and pricing in a surge from EU defense spending may be premature.

In the long-term, the currency is very cheap relative to its long-run fair value. If the recent growth recovery continues and tariff risks are resolved (or more fully priced in), the krona has ample room to continue its recovery.

Australian Dollar (AUD)

The Australian dollar fell 0.6% against the G10 average in February. For most of the month, the Australian dollar slowly trended higher. The US delayed tariffs on Mexico and Canada but imposed a 10% tariff on China. While the China tariff was negative for the Australian dollar, its impact was modest compared to previous tariff threats of up to 60%. Overall, it had little effect on the Australian dollar. Instead, a downtrend in US dollar and a general bounce in higher beta currencies helped push the Australian dollar higher through mid-month, as did the positive trend in equity markets.

On 17 February, the Reserve Bank of Australia (RBA) cut rates by 25 bps, which had been well anticipated. The RBA delivered a cautious yet slightly hawkish outlook, resulting in a small but positive impact on the Australian dollar. A couple of days later, a strong employment report (+44k new jobs vs. +20k expected) pushed the Australian dollar to its intra-month high on 20 February. However, things turned negative after equity market sentiment soured and President Trump announced a 10% tariff on all Chinese goods starting 4 March. As a result, the Australian dollar and neighboring New Zealand dollar fell sharply starting on 21 February, finishing the month at their lows.

We are slightly positive on the Australian dollar due to stable, albeit below-trend, growth, strong labor markets, and relatively high yields. However, we anticipate that the Australian dollar will struggle against the US dollar at least through mid-March due to heightened equity volatility and tariff risks. Beyond that, there are many positive aspects for the Australian dollar. Labor markets remain strong, household consumption has materially improved, the fiscal stance is supportive, and YoY core inflation is sticky near the top of the band. Given this context, a serious dovish shift in monetary policy seems unlikely.

Additionally, Australia's direct exposure to US tariff risks is moderate. Direct exports to the US are minimal, and the knock-on effects from Chinese demand may be muted if tariffs prompt China to increase fiscal stimulus, which could benefit exports like iron ore. In the long term, the Australian dollar outlook is mixed. The currency is cheap compared to the US dollar, pound, euro, and franc, with room to appreciate, but it is expensive against the yen and Scandinavian currencies.

New Zealand Dollar (NZD)

The New Zealand dollar fell 1.1% against the G10 average in February. Unlike the Australian dollar, the New Zealand dollar never entered positive territory during the month. The month started poorly with Q4 employment falling 1.1% YoY, worse than the expected -0.9%, and January credit card spending disappointing at -1.6% MoM, compared to +2% in December. On 13 February, the New Zealand dollar regained almost all its losses for the month, thanks to the US dollar sell-off following the US PPI report and a jump in the businessNZ manufacturing PMI to 51.4 from 45.9 in December. However, a 50 bps cut from the Reserve Bank of New Zealand (RBNZ), with an outlook anticipating further cuts this year, halted the rally. After a period of range trading, the New Zealand dollar dropped sharply during the final week of the month following the US announcement of another 10% tariff on Chinese goods in March and a downturn in equity market sentiment.

Our tactical model shifted to a negative outlook on the New Zealand dollar. The benefit of New Zealand's high yield has diminished as the RBNZ continues to ease policy in response to disinflation and recessionary conditions. Ongoing growth challenges and a weak external balance (with the current account at -6.7% of GDP) are likely to keep the New Zealand dollar depressed. On a more positive note, the significant sell-off in the New Zealand dollar over the past four months already reflects a discount for lower growth and yields, which may limit further losses.

In the long term, our outlook is mixed. Our estimates of long-term fair value suggest that the New Zealand dollar is cheap against the US dollar and Swiss franc and has room to appreciate, but it is expensive against the yen and Scandinavian currencies.

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* Pensions & Investments Research Center, as of December 31, 2023.
†This figure is presented as of December 31, 2024 and includes ETF AUM of $1,577.74 billion USD of which approximately $82.19 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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Marketing communication

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ID2697600-4948703.31.1.GBL.RTL 0325
Exp. Date: 03/31/2026