

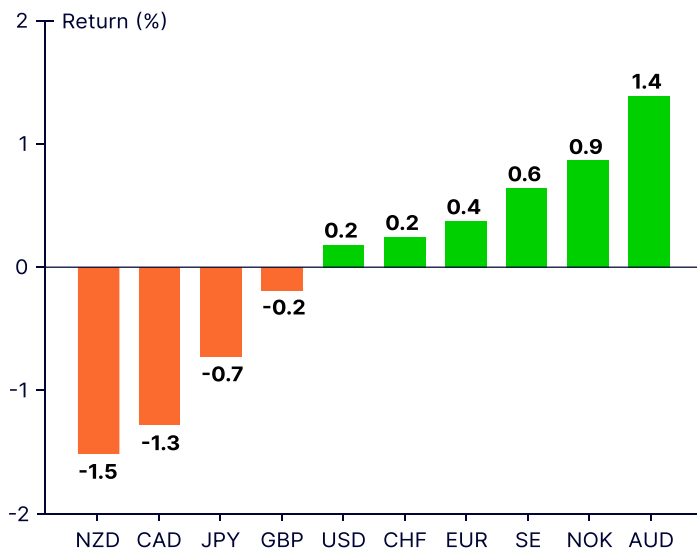
# Currency Market Commentary

## Summary

With greater—though still incomplete—certainty around tariffs, markets have shifted focus to relative fundamentals. In September, growth expectations drove movements in yields and currencies across the G10. Large downside surprises in New Zealand’s gross domestic product (GDP) and Canadian employment resulted in relative 2-year yield declines of 13–16 basis points and corresponding underperformance of their respective currencies.

On the plus side, improved growth and consistently high levels of employment kept the Reserve Bank of Australia (RBA) on the hawkish side, and the Australian dollar outperformed. Similarly, stable growth and a hawkish cut from the Norges Bank helped the Norwegian krone outperform.

**Figure 1: September 2025 currency return vs. G10 average**



Source: Bloomberg and State Street Global Investment Management, as of 30 September 2025. **Past performance is not a reliable indicator of future performance.**

The Federal Reserve (Fed) cut interest rates due to labor market softness; however, the US dollar registered a small gain, thanks to strong GDP growth powered by robust household consumption and AI-related capital expenditures.

The yen bucked the trend, weakening amid political uncertainty despite a rise in 2-year Japan government bond yields.

Looking ahead over the next 1–2 months, we expect a continuation of recent trends, a currency market increasingly focused on country-specific fundamentals. This includes growth and the monetary policy outlook, as well as any political uncertainty that may influence either—think France and Japan.

**Figure 2: October 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 Investment Management, as of 30 September 2025.

The one exception could be the risk of a broader sell-off in risky assets. Equity market strength continues to defy gravity, supported by strong US growth alongside Fed rate cuts. Even if the optimistic earnings narrative holds, a healthy market correction is overdue and could introduce some currency volatility in the coming months.

The return of Fed rate cuts and soft US labor markets imply a downside bias for the US dollar. However, as noted last month, we expect any downside to be gradual. The dollar remains supported by strong consumption, resilient AI-related capex, sticky inflation, and impressive equity returns driven by elevated corporate earnings expectations. Unless economic data turns decisively negative, the dollar should remain mostly range-bound with only a slight negative bias.

The yen looks well positioned to outperform, appearing the most misvalued relative to falling US yields. However, market concerns around looser fiscal and easier monetary policy following Sanae Takaichi's appointment as the new Liberal Democratic Party (LDP) leader need to be resolved first. In the near term, there's a risk of additional yen weakness, potentially pushing USD/JPY back toward the 155–157 range where it began the year. While her tone softened during the campaign, there remains a strong likelihood of further fiscal stimulus and a delay in Bank of Japan (BoJ) rate hikes. Still, we remain constructive on the yen and anticipate two, possibly three rate hikes over the next 15 months, as fiscal expansion helps embed above-target inflation and the yen continues to offer a solid equity hedge.

Our other favored currencies carry more risk. The Australian and Norwegian dollars benefit from decent growth, higher relative yields, and support from a firm euro. However, near-term downside risks persist, with oil trading on the soft side and the krone historically sensitive to equity volatility.

The Canadian dollar appears more vulnerable. While our models favor the Canadian dollar due to improved commodity prices and strong local equity returns, partly driven by robust earnings from commodity-linked firms, this signal may not hold in the current environment. Weak GDP growth, elevated unemployment, and looming tensions around the renegotiation of the United States-Mexico-Canada Agreement (USMCA) trade agreement (or Canada-United States-Mexico Agreement [CUSMA] in Canada) are likely to keep the Canadian dollar on the back foot.

The Swiss franc, British pound, and euro rank lowest. The franc is weighed down by low inflation, zero interest rates, and high tariff levels. The Swiss National Bank has

also resumed currency intervention to limit the Swiss franc strength, primarily against the euro.

The pound faces constraints from low growth, sticky inflation, and weak labor markets, alongside limited fiscal and monetary policy flexibility, despite high interest rates.

The euro looks relatively better and may hold up in an equity market correction. However, sluggish growth, French political gridlock, and the risk of markets pricing in another one to two European Central Bank (ECB) rate cuts next year present meaningful headwinds. We see the euro struggling to break out to the upside.

In the long term, we maintain our call for a multi-year US dollar bear market, expecting the currency to decline by at least 15% over several years. While innovative companies and the dynamic, flexible US labor and capital markets continue to attract investment, we anticipate materially reduced US economic outperformance and a weaker safe-haven status for the dollar over the next 10–15 years compared to the previous decade.

Over this multi-year horizon, we favor currencies with positive net international investment positions, as they offer the greatest potential for repatriation out of US assets, either through outright sales or higher currency hedge ratios, the latter being the path of least resistance. We also prefer countries with strong fiscal and monetary flexibility, enabling them to adapt to global economic shifts and invest in domestic growth. Lastly, we favor currencies that are historically undervalued versus the US dollar, as they reflect deep pessimism and have room for recovery and normalization.

On these criteria, the Japanese yen, Swedish krona, and Norwegian krone stand out as likely top performers. The Australian dollar, euro, Canadian dollar, and British pound should also see meaningful gains against the US dollar, in that order. The Swiss franc is most at risk of underperforming on a total return basis, given its negative interest rate carry. To offset this, the franc would need to appreciate by an average of around 3.5% per year over the next five years—a tall order for a currency already near the upper end of its long-term valuation range.

## Review and Outlook by Currency

### US Dollar (USD)

The US dollar was nearly unchanged in September, posting a modest 0.20% gain versus the G10 average. It trended lower during the first half of the month, weighed down by weaker job creation—22,000 added vs. over 75,000 expected—and benign inflation data, specifically, softer-than-expected Producer Price Index (PPI) and core Consumer Price Index (CPI) in line at 0.3% MoM.

The Fed cut rates at its 17 September meeting, signaling two additional cuts this year and one next year, while simultaneously raising its inflation and growth forecasts. The US dollar initially sold off but quickly reversed higher, supported by the optimistic growth outlook, sticky inflation expectations, and Chair Powell's framing of the cut as a risk management move. Both the dollar and 2-year US yields rose in the days that followed.

The uptrend was sustained by stronger-than-expected retail sales, a large upward revision to Q2 GDP (3.8% annual growth), robust PMI data, and better-than-expected new home sales. The dollar reached its intramonth high on 25 September at +0.66% versus the G10 average before easing slightly toward month-end, possibly in anticipation of a looming government shutdown.

Looking ahead, we remain neutral to slightly negative on the US dollar over the next month or two. The return of Fed rate cuts and soft labor market data imply a downside bias, but as noted last month, we expect any weakness to be gradual. The dollar continues to be supported by strong consumption, healthy AI-related capital expenditure, sticky inflation, and impressive equity returns driven by elevated corporate earnings expectations. Unless economic data turns decisively negative, the US dollar should remain range-bound with only a slight downward tilt. Additionally, policy risks in France and Japan may offer further support for the dollar in October.

In the long term, we maintain our call for a multi-year US dollar bear market, expecting a decline of at least 15% over the next 2–4 years. While the US remains a

strong destination for capital investment—thanks to its innovative companies and flexible labor and capital markets—we anticipate a materially smaller degree of economic outperformance and a weaker safe-haven status for the dollar over the next 10–15 years compared to the previous decade.

Key tailwinds that have supported US earnings, GDP growth, and equity valuations are fading. These include high fiscal deficits, globalization-driven offshoring, and ultra-low interest rates. Moreover, the shift toward a more insular “America First” policy stance has made the US a less reliable financial, trade, military, and political partner in the eyes of global investors.

In contrast, while investors have long focused on low productivity in the EU, UK, Canada, and Australia, as well as growth headwinds in China, we expect marginal improvement relative to chronically pessimistic expectations. US tariff policy may encourage greater free trade, global cooperation, and fiscal investment outside the US.

Based on these views, both the return and risk profile of US assets are likely to deteriorate relative to the rest of the world, incentivizing a shift toward more balanced global portfolios. According to the Bureau of Economic Analysis' net international investment position report, non-US investors hold over \$33 trillion in US portfolio investments and more than \$62 trillion in total US investments (excluding financial derivatives). Even a modest 10–15% reallocation or a 10% increase in average US dollar hedge ratios could imply over \$3 trillion in US dollar sales. While this is a simplified estimate, even half that amount could fuel a prolonged US dollar bear market, even if the US remains among the top-performing economies. Should more extreme policy proposals materialize, the flight from the dollar could be deeper and more rapid.

### Canadian Dollar (CAD)

The Canadian dollar fell 1.3% against the G10 average in September, weighed down by challenging economic data and another rate cut from the Bank of Canada (BoC). The month began with softer-than-expected PMI readings, both manufacturing and services remained in contraction at 48.3 and 48.6, respectively. This was

followed by a major labor market disappointment: a loss of 65,500 jobs versus expectations for a 5,000 gain. The unemployment rate rose to 7.1%, the highest in the G10.

On 16 September, inflation data showed core CPI holding firm around 3%, but headline inflation came in softer than expected at -0.1% MoM versus 0%. The BoC responded the next day by cutting its policy rate from 2.75% to 2.5%, matching the US Fed's 25 bps cut. A cautious tone from the BoC, citing tariff-related inflation risks, combined with a brief US dollar relief rally, helped the Canadian dollar recover nearly 0.75% over the following days. However, the bounce was short-lived. Investor focus quickly returned to Canada's weak near-term economic outlook, reinforced by a disappointing retail sales ex-autos report (-1.2% MoM vs. -0.6% expected). The Canadian dollar retreated toward its intramonth low and remained there through month-end.

Our models continue to favor the Canadian dollar based on improved commodity prices and strong local equity returns, partly driven by robust earnings from commodity-related companies. However, we see substantial near-term risks to this model scorecard. While the commodity and equity sub-signals are typically reliable, current weakness in GDP growth, elevated unemployment, and looming tensions around the renegotiation of the USMCA trade agreement (CUSMA in Canada) are likely to keep the Canadian dollar under pressure. Additionally, the recent uptick in broad commodity indices, supporting both our commodity and equity signals, appears vulnerable as oil prices trend lower. It's also worth noting that much of the recent strength in commodity prices stems from factors that are not supportive to the Canadian dollar, such as negative supply shocks in copper and a surge in precious metals driven by economic and policy uncertainty.

In the medium term, we are more constructive. The Canadian dollar is undervalued by our long-run fair value measures. We expect the North American tariff dispute to ultimately result in a renegotiated USMCA that preserves favorable relative tariffs for the region. Canada also has more room than the US for swift monetary and fiscal stimulus, as well as potential for

deregulation and expanded trade with countries outside North America.

We see scope for USD/CAD to fall into the low 1.30s by 2026, as clarity emerges on tariffs and the USMCA, the Fed resumes rate cuts, and Canada begins to benefit from BoC's aggressive easing and fiscal stimulus. Over the longer term, consistent with our broader US dollar bear market thesis, we expect USD/CAD to trade below 1.20. However, the Canadian dollar is likely to remain sluggish versus the G10 ex-US, as a weaker US dollar acts as a headwind.

## Euro (EUR)

The euro rose 0.4% versus the G10 average in September. The month began quietly, with a slight upside bias supported by higher-than-expected EU inflation—+0.2% MoM vs. +0.1% expected—and weak US employment data. On 08 September, French Premier Bayrou lost a no-confidence vote as anticipated. The euro showed little initial reaction but slipped slightly into negative territory over the following days.

At its 11 September meeting, the ECB held rates steady at 2.0%, noting that growth risks were balanced and the disinflation process appeared to be complete, with inflation stabilizing around the 2% target. The euro did not react immediately. However, as investors began to anticipate lower US yields ahead of the upcoming Fed meeting, the contrast between expected Fed rate cuts and an ECB likely done with its easing cycle helped catalyze a mid-month euro uptrend. The currency rose steadily through 23 September, further supported by slightly better ZEW survey expectations and a significant upside surprise in German services PMI. The rally stalled after 23 September, but the euro held most of its gains through month-end.

During the month, we shifted to a slightly negative stance on the euro. While our economic score for the EU ranks second-best in the G10, recent equity market underperformance and rising commodity prices weigh on the outlook. EUR/USD has remained in a tight 1.16–1.18 range since late June. Falling US yields combined with steady ECB rates suggest continued

improvement in relative interest rate carry, favoring the euro. However, growth remains fragile, political risks are intensifying in France, and the full impact of US tariffs on EU growth is likely yet to be felt. On balance, these negatives slightly outweigh the positives, and we see the euro as stable to slightly negative in the near term.

In the medium term, we remain constructive on the euro, despite its relatively expensive trade-weighted valuation. Strong household balance sheets, low unemployment, positive real wage growth, increased defense spending, and the proposed €500 billion German infrastructure fund all support the currency. Additionally, EU investors may reduce their concentrated exposure to US assets or increase average currency hedge ratios, especially as the US becomes a less reliable trade and security partner. These factors are likely to support the euro against the US dollar over the longer term, and we see scope for EUR/USD to move toward 1.35 over the next 3–5 years.

However, the medium- to long-term outlook against other G10 currencies is less optimistic. The euro is expensive relative to the Japanese yen, Norwegian krone, Swedish krona, and Australian dollar, and is likely to underperform these currencies in the coming years, particularly once tariff-related growth risks and equity market volatility are resolved.

## British Pound (GBP)

The British pound fell 0.2% against the G10 average in September. Prime Minister Starmer announced a cabinet reshuffle on 01 September, bringing in new economic advisors. The pound initially responded positively, but concerns emerged the following day that the changes might diminish Chancellor Reeves' influence, potentially weakening the fiscal outlook and driving the British pound lower. Those fears eased on 03 September after the government reassured markets and postponed the autumn budget to 26 November. Following this two-day whipsaw, the British pound began a slow, choppy decline for the rest of the month.

Mid-month, sentiment briefly improved on news of large investments expected to be announced during President Trump's upcoming UK visit. The Bank of

England (BoE) held rates steady at 4% on 18 September, signaling that the easing cycle would continue, albeit cautiously. However, news of US investments and the relatively high BoE policy rate offered little support to the British pound, which remained under pressure from weak labor market data, disappointing PMI figures, and sluggish growth—barely above 1.0%. While the monthly loss in sterling was modest, its performance was lackluster, trading underwater throughout the month except on 01 September.

We hold a modestly negative view on the pound in the near term. Sterling rests on a fragile foundation of high debt, persistent current account deficits, and near-stagflation. The delayed autumn budget is expected to introduce further fiscal tightening, which will make it harder to address weak GDP growth (running at a 3M/3M rate slightly below 1% YoY) and rising unemployment (now at 4.7%, a four-year high). Monetary policy is also constrained, with core CPI at 3.6% YoY limiting the BoE's flexibility to respond to downside economic surprises. While relatively high yields offer some support to the pound, that support is limited by the fact that rates are elevated for unhealthy reasons.

In the long term, the outlook is less shaky—at least against the US dollar and Swiss franc. While the pound faces challenges versus most G10 currencies, we expect it to stabilize in the low to mid 1.30s against the US dollar this year and approach 1.45+ over the next 3–5 years. We also see the British pound outperforming the expensive, low-yielding Swiss franc over the coming years on a total return basis. Beyond US dollar and Swiss franc, however, the pound is likely to struggle over the medium term.

## Japanese Yen (JPY)

The yen declined 0.7% against the G10 average in September. The month began with strong Japanese data, better manufacturing and services PMI, robust cash labor earnings, and an upward revision to Q2 GDP. Combined with weaker US employment figures and expectations for lower US yields, these factors should have supported the yen. However, political uncertainty overshadowed the data.

A negative review of the disappointing LDP upper house election outcome on 03 September and the subsequent resignation of Prime Minister Ishiba on 07 September triggered a downtrend in the yen. The market's concern centered on the possibility of Sanae Takaichi, a protégé of former PM Abe, winning the leadership election and reviving Abenomics-style policies, loose fiscal and monetary measures that tend to benefit equities but weigh on the yen and longer-dated bonds. As her polling numbers improved mid-month, the yen struggled.

The combination of the US Fed rate cut on 17 September and a slightly more hawkish tone from the BoJ following its 18 September meeting temporarily stemmed the negative sentiment. However, weaker-than-expected Tokyo CPI on 25 September—2.5% YoY vs. 2.8% expected—pushed the yen to its intramonth low, down 1.23% against the G10. A modest recovery came only in the final days of the month, likely driven by short-covering ahead of the early October election, as moderate candidate Koizumi gained a convincing lead in the polls.

Our models are increasingly constructive on the yen, and we believe that weak US employment data sets the stage for yen outperformance in Q4 as yield differentials compress in Japan's favor. Before a sustained rally can take hold, however, markets must digest the surprise victory of Takaichi in the LDP leadership race. Her inclination toward fiscal stimulus and loose monetary policy may cause short-term volatility in both the currency and Japanese rates markets—higher yields and a weaker yen.

While the next month may be rocky, we view politically driven yen weakness as a buying opportunity. Investors may worry about increased fiscal spending and potential pressure on the Bank of Japan (BoJ) to delay rate hikes. We believe it is highly unlikely that the BoJ will raise rates at its October meeting. Beyond that, expected fiscal expansion could help embed above-target inflation, justifying a more substantial BoJ tightening cycle next year.

Concerns about a higher fiscal risk premium—a yen negative—appear overstated. Japan's debt is

domestically financed, and the government has flexibility to avoid issuing long-dated bonds. With the 5–30 year curve already steep (around 200 basis points), the existing risk premium is healthy, and further steepening would likely be temporary.

Ultimately, our medium-term bullish view on the yen is anchored more in expectations for US rates to fall by 100–125 basis points. That shift would be a far more powerful driver than any additional 25–50 basis points of BoJ rate hikes.

## Swiss Franc (CHF)

The Swiss franc gained 0.2% against the G10 average in September. After a quiet start, the poor US jobs report drove US yields lower, boosting both Swiss franc and euro. That bounce reversed a few days later, sending the franc into slightly negative territory by 10 September as investors shifted focus toward higher-beta, higher-yielding currencies—particularly the Norwegian krone and Australian dollar.

The franc remained subdued until anticipation of the Fed rate cut lifted it on 16 September. The Fed did cut rates on 17 September, supporting both Swiss franc and euro. The franc tracked slightly higher into the Swiss National Bank (SNB) meeting on 25 September, where the committee held its policy rate at 0% as expected. The market showed little reaction to the announcement. From there, the franc remained largely stable through month-end, despite news on 30 September that the SNB had intervened to sell CHF 5.058 billion in Q2—its largest intervention since Q1 2022—in an effort to limit franc strength.

Looking ahead, we expect the franc to materially underperform other G10 currencies. It is the most expensive G10 currency based on our long-run fair value estimates and carries the lowest yields and inflation rates in the group. US tariffs are likely to add further deflationary pressure, even if partially rolled back through negotiation. In response, we expect the SNB to remain open to direct currency market intervention, as seen in Q2. The SNB may also be forced to consider negative policy rates, though we believe such a move would require a meaningful deterioration in CPI.

On a total return basis, the increasingly negative interest rate carry on long franc positions makes it difficult to see the franc outperforming. Even against the US dollar, the franc would need to appreciate by 10–15% over the next 3–5 years just to offset the drag from negative carry.

Additionally, we do not expect portfolio rebalancing away from the US dollar over the next 1–3 years to benefit the franc as much as other currencies. Swiss investors already hedge a large portion of their foreign exchange exposure, leaving limited room for further increases in US dollar hedge ratios. In simpler terms, there is less scope for US dollar selling and franc buying.

### **Norwegian Krone (NOK)**

The Norwegian krone gained 0.9% against the G10 average in September, marking its third consecutive monthly gain and finishing Q3 as the top-performing G10 currency. The key driver was improved relative interest rates. Higher-than-expected core CPI (+3.1% YoY) and a hawkish-leaning rate cut from Norges Bank boosted Norwegian yields, while weak US labor market data and the Fed's rate cut kept US yields in check. UK and EU yields were nearly unchanged, with the BoE and ECB remaining on hold.

Oil was not particularly supportive, as Brent crude traded on the soft side due to anticipated OPEC production increases in Q4. Domestic growth data was mixed: the regional network survey held steady at 0.4%, suggesting modest expansion, and retail sales showed positive growth, but manufacturing PMI pointed to near stagnation.

Our tactical model signals turned positive on the krone during September, largely due to a pickup in broad commodity prices, though we view this as vulnerable, particularly in oil. Beyond that, Norway's national balance sheet remains pristine, a significant advantage in a period marked by fiscal concerns and rising term premiums. With the Fed cutting rates again, Norwegian yields are likely to remain among the most attractive in the G10, even if Norges Bank cuts once or twice by year-end.

However, the krone is not without risk. Two key concerns weigh on the near-term outlook. First, pressure on oil markets from increased OPEC+ production could be compounded by sluggish demand growth if tariffs slow the global economy. Second, the risk of renewed equity market volatility remains elevated amid ongoing policy and economic uncertainty. Historically, the krone has been sensitive to equity market swings. For these reasons, we anticipate periods of substantial volatility in the krone despite our model's positive outlook.

In the long term, the krone is historically undervalued relative to our fair value estimates and is supported by steady potential growth and a strong balance sheet. Norway also has significant fiscal and monetary flexibility to mitigate long-term damage from the current tariff shock. We believe the krone is well positioned for solid gains once markets move past peak tariffs, reprice risky assets and oil, and begin to focus on tariff reductions and renewed fiscal and monetary stimulus.

### **Swedish Krona (SEK)**

The Swedish krona was the third-best performing G10 currency in September, gaining 0.6% against the G10 average. In the first half of the month, the currency performed well alongside the Australian dollar and Norwegian krone, reflecting a market bias toward higher-beta currencies as equity markets rallied following weak US labor data. A strong upside surprise in both services and manufacturing PMI on 01 September also helped set a positive tone. However, weaker-than-expected core CPI on 04 September raised concerns about a potential Riksbank rate cut.

A brief wobble in European equities impacted the krona between 16–17 September, deepening as the US dollar rallied following the Fed's rate cut on 17 September. After a few negative sessions, the krona rebounded and settled into a choppy range through month-end. During this period, the Riksbank unexpectedly cut its policy rate from 2.0% to 1.75%, but paired the move with a hawkish message, signaling that the easing cycle was likely complete. Aside from a brief bout of volatility, the announcement did not alter the krona's overall trend.

Our near-term outlook for the krona is modestly negative. As a small, open economy with a less liquid currency, Sweden is likely to experience greater downside volatility in sympathy with euro fluctuations, particularly as France navigates political uncertainty, regional growth remains under pressure from tariffs, and equity markets face increased risk of a healthy pullback. Historically, the krona has been sensitive to equity market volatility.

Beyond these near-term concerns, we are more constructive. With the Fed easing and the Riksbank likely on hold, interest rate differentials should continue to shift in Sweden's favor. Growth is improving, and Sweden offers an attractive way to gain exposure to potential European Union (EU) fiscal stimulus, especially given concerns around French debt and politics. The country also benefits from material defense sector exposure and a low debt-to-GDP ratio of 33%.

The krona is historically undervalued on a real effective exchange rate basis. Sweden's fiscal and monetary flexibility, combined with the potential for gradual portfolio rebalancing, adds to the positive outlook. A shift in foreign asset holdings, particularly from Sweden and the broader EU, away from the US, even if only through higher US dollar hedge ratios, could provide a meaningful tailwind for the krona.

## **Australian Dollar (AUD)**

The Australian dollar was the top-performing G10 currency in September, rising 1.4% against the G10 average. The uptrend in equity markets during the first half of the month, driven by weak US employment data, provided a supportive backdrop for the Australian dollar gains. Strength in Australian PMIs, better-than-expected Q2 GDP, and solid household spending underpinned the Australian dollar performance through 16 September.

However, the currency pulled back between 17–22 September following a rebound in the US dollar after the Fed's rate cut and softer-than-expected Australian employment data—5,400 jobs lost vs. addition of over 21,000 jobs expected. The Australian dollar regained momentum on 23 September as August CPI came

in at 3.0% YoY versus 2.9% expected, reducing the perceived likelihood of an RBA rate cut. The RBA remained on hold at its 30 September meeting, keeping the policy rate at 3.6% and striking a hawkish tone given inflation at the top end of its 2–3% target range and signs of improving growth. The Australian dollar responded with a 0.4% gain on the final day of the month.

Our tactical models have shifted to neutral on the Australian dollar in the near term. There are several headwinds: uncertainty around a durable US–China trade deal, subdued business investment, high household debt servicing burdens, and a structural downshift in productivity growth. We expect a gradual slowdown in the US economy into 2026, and the global drag from tariffs to become more evident in upcoming data. Combined with a seasonal bias toward higher equity market volatility, these factors are likely to weigh on commodity prices and cyclically sensitive currencies like the Australian dollar.

That said, there are also reasons to remain constructive. Recent data from late August and early September has been encouraging. Strong manufacturing and services PMIs signal solid expansion. Labor markets remain resilient despite the September miss, Q2 GDP surprised to the upside at 0.6% QoQ vs. 0.5% expected, and July household spending was robust at 5.1% YoY. If this momentum continues, the RBA is likely to maintain its hawkish stance, supporting the currency.

In the long term, we are quite positive on the Australian dollar. It is significantly undervalued relative to our fair value estimates. Growth has been more resilient and inflation higher than expected. Australia also has ample room for fiscal and monetary stimulus to mitigate long-term damage from elevated tariffs. Additionally, Australian investors appear to hold substantial unhedged US dollar asset exposure, which we believe will be subject to higher hedge ratios or a rotation into more diversified global portfolios. Once markets adjust to the new tariff regime, the Australian dollar has room for a meaningful long-term rally.

## New Zealand Dollar (NZD)

The New Zealand dollar was the worst-performing G10 currency in September, falling 1.5% against the G10 average and 2.9% versus the Australian dollar. The first half of the month was relatively positive, following a difficult July–August stretch. A strong rebound in risk assets—driven by weaker US employment data and lower US yield expectations—helped NZD recover early on. However, that momentum reversed sharply on 18 September after a much weaker-than-expected Q2 GDP print (–0.9% QoQ vs. –0.3% expected). Concerns over recession risk and softening inflation triggered a more than 0.8% drop in the New Zealand dollar on the day, while expected policy rates for July fell by 40 basis points. Negative sentiment persisted, and the New Zealand dollar trended lower through month-end.

Our tactical model has shifted to a neutral stance on the New Zealand dollar in the near term. Weak GDP and elevated unemployment point to lower inflation, softer policy rates, and continued pressure on the currency.

While New Zealand is largely insulated from direct US tariffs, it is likely to feel the effects of broader Asian growth headwinds as tariffs take hold. The policy rate is expected to decline toward 2.25%—a low level for a country with a moderate fiscal deficit and a current account deficit near 6%.

The New Zealand dollar also remains vulnerable to global risk sentiment, given its historically high sensitivity to shifts in investor confidence. With economic and policy uncertainty elevated, this could lead to increased volatility. The one factor tempering our negative bias is that the New Zealand dollar has already declined significantly and now reflects much of the pessimistic economic outlook.

In the long term, our view is mixed. The New Zealand dollar appears undervalued relative to the US dollar and Swiss franc, suggesting room for appreciation. However, the currency looks expensive against the yen and Scandinavian currencies, which limits its relative upside across the broader G10.

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\* This figure is presented as of June 30, 2025 and includes ETF AUM of \$1,689.83 billion USD of which approximately \$116.05 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 Investment Management are affiliated. Please note all AUM is unaudited.

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