

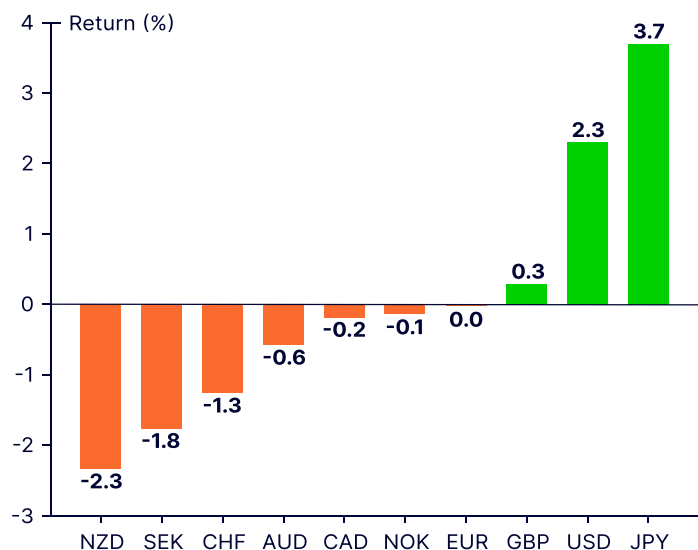
Summary

High interest rates and elevated energy prices are likely to keep investors on edge and inclined to assess upcoming Q3 corporate earnings announcements with a discerning eye. At the same time, robust current growth and impressive absolute corporate earnings growth will likely limit the extent of any risk-off move. For the most part, these are similar offsetting forces to those we have seen in recent months, which, in turn, suggest a continued range-bound market. However, we are approaching yield levels at which something could break. This is probably not an imminent problem given resilient growth, but it is enough for investors to worry and could catalyze a break from recent currency ranges.

In that context, the US dollar stands out as the currency most likely to break higher and the euro as the most likely to break lower. The US has G10-leading growth and lower sensitivity to both oil prices and interest rates, making it relatively attractive.

The EU is more sensitive to both rates and energy prices, while questions about the sustainability of French debt and the sharp widening of French government bond (OAT)-German Bund credit spreads introduce even greater downside risks. These EU growth and fiscal risks will likely continue to spill over to the Swedish krona. That said, we are increasingly impressed by the medium-term trajectory of Swedish growth and believe the market underappreciates how rapidly inflation may normalize, as it is being artificially depressed by temporary food and electricity **value-added tax** cuts and public transportation subsidies.

Figure 1: September 2026 Currency Return vs. G10 Average



Source: Bloomberg and State Street Global Investment Management, as of 30 September 2026. **The performance data quoted represents past performance. Past performance does not guarantee future results.**

The Swiss franc looks poised for a continued rebound, supported by the surge in French credit spreads and strong domestic growth. The British pound also appears to be an attractive short-term alternative to the euro, with policy rates 125 bps above those of the European Central Bank (ECB), PMI data pointing to continued expansion, better-than-expected retail sales, and a soft but resilient labor market.

However, we remain negative on the pound because of increased fiscal pressure from high gilt yields, lackluster growth, and our skepticism that the Bank of England will deliver the four rate hikes priced in over the next year.

The risk- and commodity-sensitive Norwegian krone and Australian dollar look attractive over the medium term, but elevated near-term volatility and broad equity market weakness pose risks. Notably, the krone was nearly flat in September despite a 15% rise in oil prices, while the Australian dollar lost 0.6% versus the G10 average. This is a clear sign that unstable global risk sentiment, combined with the fact that both the Norges Bank and the Reserve Bank of Australia (RBA) are nearing the end of their hiking cycles, outweighs the benefits of elevated commodity prices. We continue to wait for more attractive entry points.

Figure 2: October 2026 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 2026.

US Dollar (USD)

Strong employment and consumption growth, high yields, elevated energy prices, and impressive corporate earnings growth provided a solid foundation for September's US dollar rally and point to increasing potential for it to break higher out of its 18-month range. However, before that occurs, we see increased risks of a temporary pullback given the speed of the recent move, the weak employment report released yesterday, the downward revision to core PCE inflation, and reports that oil shipments from the Middle East are nearing pre-war levels.

That said, we expect any pullback to be shallow and short-lived unless there is a material negative shift in US growth, inflation, energy prices, and/or the Fed's tightening outlook. Such a shift appears unlikely over the next four to six weeks. Employment was soft, but the three-month average remains at 51,000 new jobs per month, more than enough to maintain full employment.

Middle East energy shipments are up and oil prices are off their highs, but refined energy product prices are likely to remain elevated, and that matters most to businesses and consumers. At the same time, the AI boom and ongoing strength in consumer spending should keep a floor under both GDP and corporate earnings growth relative to the rest of the G10.

There are potential US dollar headwinds to watch going into next year. In 2027, the economy is unlikely to benefit from a repeat of the large tax and tariff refunds seen in 2026, while the falling savings rate and persistently negative real wage growth raise doubts about the sustainability of household consumption.

However, it is not 2027 yet, and the tailwinds from growing AI capex and the stubborn willingness of US households to spend may easily overcome these headwinds for an extended period.

We retain our pessimistic multi-year US dollar view. Rising macro risks in the US from tariffs and other policies, high debt and fiscal deficits, and the current account deficit undermine the dollar's long-term attractiveness.

The capex boom and AI frenzy will probably pay off, but they are unlikely to do so before we encounter a few unsettling bumps in the road. Innovative companies and the dynamic, flexible US labor and capital markets underpin the US as a strong destination for capital investment. But why not hold those companies alongside a partial US dollar hedge to offset some of these pronounced US macro risks?

Canadian Dollar (CAD)

The Canadian dollar is in a tough spot over the near term. On the positive side, growth is improving, energy export prices are high, and the Bank of Canada (BoC) struck a hawkish tone on concerns that elevated

headline inflation could spill over into inflation expectations. Capex, especially in the energy sector, should also improve next year. These are supportive factors, and our model scorecard reflects them with a bullish bias. However, economic drag from the ongoing US tariff war and the fact that core inflation has been stuck at the BoC's 2% target for months, alongside accelerating US growth and the hawkish Fed shift, are likely to keep the Canadian dollar on the defensive.

Last month, we spoke of a USD/CAD range of 1.38 to 1.42, which has largely held. Now, the risk of a modest break higher to 1.44-1.45 appears increasingly likely before the Canadian dollar enjoys a steadier recovery next year toward the low- to mid-1.30s. Real policy rates near 0% are likely below their long-run equilibrium level and should rise once growth begins to improve sustainably.

Tariffs are an issue, but 80% of trade remains largely tariff-free under the Canada-United States-Mexico Agreement (CUSMA), and we remain hopeful that the ongoing back-and-forth tariff dispute with the US will remain contained and gradually subside next year.

As we move into 2027 and 2028, lower mortgage rates in Canada should also become mildly stimulative, or at least cease to be a headwind, as mortgages originated near peak rates begin to reset. At the same time, we expect the relative Canadian growth story to improve as US growth, while still healthy, decelerates alongside inflation later this year and into next year. Ultimately, over a five-year-plus period and under our US dollar bear market thesis, we see USD/CAD trading back toward 1.20.

Euro (EUR)

We are negative on the euro versus the G10 average despite recent improvements in economic data and the September ECB rate hike. The problem is that high energy prices and elevated interest rates are likely to remain significant headwinds. Beyond that, the mosaic of risks is profound, including well-founded investor concerns about French debt sustainability, longstanding worries about the EU's low potential growth, competitive pressures from China, the EU's lagging role in AI, and the slow pace of reforms to address these issues.

Another one or two ECB rate hikes are unlikely to provide much support in this context. They would add further challenges to growth while still failing to make the euro one of the highest-yielding G10 currencies. Next year may be a different story if energy prices come back to earth, uncertainty around the French election is resolved, US growth decelerates modestly, the Fed wraps up its mini hiking cycle, and some of the recent momentum in German industrial production develops into a broader, more sustained recovery. Until then, we expect the euro to remain under pressure, with heightened risk of further weakness.

In the long term, defined as five years or more, we remain more constructive on the euro versus the US dollar, driven primarily by US weakness rather than EU strength for the reasons outlined in the US dollar section above. The case for EU investors to pull back from their concentrated exposure to US assets, or at least implement higher average currency hedge ratios, remains strong as the US becomes a less reliable trade and security partner.

The outlook against other G10 currencies is less optimistic. The euro is expensive relative to the Japanese yen, Norwegian krone, Swedish krona, Canadian dollar, and Australian dollar and is likely to materially underperform those currencies over the coming years.

British Pound (GBP)

We are neutral with a negative bias on the British pound versus the G10. We are neutral because the UK enjoys yields that rank in the top half of the G10, with gross domestic product growth coming in at the upper end of recent expectations, though still an unimpressive 1.4%-1.5% per year on an absolute basis. The Burnham government has also been sufficiently moderate in its fiscal guidance to maintain investor confidence despite the recent focus on debt issues in France.

We maintain a negative bias because the UK remains exposed to higher energy prices, unemployment is elevated, real wage growth is soft, and higher gilt yields have eroded much of the fiscal space available in the budget. On the policy front, core inflation at 2.6%, combined with sluggish wage growth, makes it increasingly likely that the Bank of England will fail to deliver the four rate hikes currently priced in by the market over the next year.

In the long term, the story is not as shaky, at least relative to the US dollar and Swiss franc. Over a three- to five-year horizon, we see GBP/USD peaking above 1.40. We also expect the pound to outperform the expensive, low-yielding Swiss franc on a total-return basis over the coming years. Beyond the US dollar and Swiss franc, however, we see the pound struggling against the rest of the G10 over the medium and longer term.

Japanese Yen (JPY)

We are neutral on the Japanese yen following its strong September rally, largely due to a lack of additional near-term catalysts. The Bank of Japan (BoJ) delivered the expected September rate hike, while both Japanese and US officials reiterated their support for the currency. We also continue to see downside risk to the yen as limited by the credible threat of coordinated US-Japan currency intervention.

The challenge is that, with BoJ expectations already repriced higher and intervention risk well understood by investors, we do not see many additional yen-positive catalysts at present. In fact, the rapid rise in global yields outside Japan, Japan's continued position as having the second-lowest short-term yields in the G10, and lackluster household spending all point to near-term yen weakness. The prospect of capital repatriation is another potential source of support that has entered the conversation, but we believe this is more likely to be a 2027 or even 2028 story. Negative carry remains too large to drive a significant shift in hedge ratios, while strong international asset returns, particularly in equities, continue to incentivize Japanese investors to maintain their overseas allocations.

That dynamic should change over time as we move beyond the current Fed hiking cycle and begin looking toward future rate cuts, and as global equity returns eventually moderate, at least for a period. Robust capex plans and expanding AI opportunities in Japan should also support greater domestic investment. It is also important to note that we do not necessarily need to see a large-scale repatriation of capital back to Japan for the yen to strengthen. A meaningful slowdown in portfolio and foreign direct investment outflows could be sufficient.

Over the longer term, we expect substantial upside versus the US dollar, with USD/JPY likely falling back into the 120-130 range over the next three to five years, consistent with our long-term US dollar bear market thesis.

Swiss Franc (CHF)

We are neutral on the Swiss franc versus the G10, with a slight positive bias in the near term. The franc looks less attractive as global real and nominal yields rise relative to Switzerland's zero nominal and negative real policy rate. Even the defensive, low-yielding Japanese yen now offers positive carry relative to the franc, at more than 1.25% and rising. As a result, we prefer the franc as a funding currency for carry trades. This leaves us negative on the franc over the medium to long term on a total-return basis, given its negative interest rate carry.

However, we expect near-term strength due to surging domestic growth, core inflation rebounding to 0.5% year over year, and, most importantly, safe-haven demand associated with the sharp widening in French credit spreads. Following the joint US-Japan yen intervention in July, we observed a rotation away from selling the yen and toward selling the franc as the preferred funding currency for carry trades.

That dynamic is likely to partially unwind under current conditions. If equity market volatility increases through earnings season and/or global yields correct lower, the safe-haven bid for the franc could be further amplified by a broader, temporary unwinding of carry trades.

Norwegian Krone (NOK)

We remain constructive on the Norwegian krone but view it as a risky position. Higher-for-longer oil prices, resilient growth, and 4.5% yields point to additional krone strength. The problem is that marginal changes in growth and interest rates have become less supportive. Recently, inconsistent retail sales, weak industrial production, and decelerating month-over-month core inflation have offset the benefits of high oil prices. These data suggest that the Norges Bank is nearing the end of its hiking cycle after raising rates from 4.25% to 4.5% in September.

Most importantly, the tight positive correlation between oil prices and the krone that prevailed in Q2 and early Q3 has broken down. The 15% rise in oil prices during September failed to lift the krone. The broad sell-off in non-technology equities, rising economic and financial risks as many G10 yields approach 20- to 25-year highs, and the negative global growth implications of elevated energy prices appear to have fully offset the benefits of higher oil prices. Over the past five-plus years, the krone has been one of the G10 currencies most sensitive to rising risk aversion and equity market declines. Thus, while our scorecard ranks the krone at the top, we see significant risks to that view in the near term.

The long-term outlook is more durably positive. The krone remains historically cheap relative to our estimates of fair value and is supported by steady, albeit somewhat modest, long-run potential growth, attractive yields, and a strong sovereign balance sheet.

Swedish Krona (SEK)

We retain a negative tactical view on the Swedish krona, but the currency is depressed, and we see positive signs that are worth watching over the medium term. The market favors higher yields and strong, resilient growth. Sweden's 1.75% policy rate against a tax-impact-adjusted core inflation rate near 2% is not attractive for the krona. High energy prices and sensitivity to the weak EU outlook also weigh on the currency.

We do not expect significant near-term relief in energy prices, and the last two month-over-month core inflation prints have come in below expectations, limiting scope for markets to price in additional monetary tightening. Increased investor focus on the euro's challenges is also likely to continue weighing on the krona. Thus, we see scope for additional krona depreciation versus the G10 average.

On a more positive note, expected growth in the mid-2% range, backed by 4% year-over-year household consumption growth and a strongly expansionary composite PMI of 57.6, is supportive of the krona, as is an expected November Riksbank rate hike.

In the long-term, valuation also favors the krona, which remains historically cheap on a real effective basis. In addition, Sweden's debt-to-GDP ratio of 33% compares favorably with many peers and should prove beneficial in a world of elevated fiscal burdens. We further expect Sweden to benefit from gradual portfolio rebalancing under our long-term US dollar bear market thesis over a multiyear horizon. On balance, spillover risks from high energy prices, weaker EU growth, and low real yields are likely to outweigh the otherwise solid growth outlook, pushing the Swedish krona lower for now. However, we continue to monitor the positive factors that could drive a medium-term turnaround in the currency.

Australian Dollar (AUD)

We are neutral on the Australian dollar with a slight positive bias. The G10-leading 4.6% policy rate, with another hike likely over the next six months, provides absolute support for Australian dollar valuations. The composite PMI at an expansionary 51.3, the low 4.6% unemployment rate (unemployment was steadily above 5% pre-COVID), and household consumption at 6.8% year over year in August suggest resilient growth. High yields and resilient, positive growth are a recipe for currency appreciation, especially for currencies like the Australian dollar that are cheap relative to long-run historical valuations.

However, on the margin, the story is less enticing. The Reserve Bank of Australia is nearing the end of its tightening campaign while other central banks shift more hawkish, particularly the Fed. The result is less investor enthusiasm for the Australian dollar. Recent household consumption, retail sales, home price, and unemployment data have shown signs of deceleration. On top of that, a pickup in equity downside outside the technology sector and widening high-yield credit spreads historically weigh on the Australian dollar. Therefore, while the absolute fundamentals, yields, and valuations are attractive, we are cautious on the Australian dollar over the near term due to the softer marginal news flow.

Over the multiyear horizon, we are quite positive on the currency, especially against the US dollar and Swiss franc. Australian investors appear to have high levels of unhedged US dollar asset exposure. In accordance with our long-run bear market thesis, we believe the Australian dollar will be well positioned due to its high yields and a strong incentive for Australian investors to adopt higher currency hedge ratios or rotate away from the US into a more diversified global portfolio.

New Zealand Dollar (NZD)

We are positive on the New Zealand dollar versus the G10 average after it sank to its 52-week low and to 16% below our estimate of long-run fair value following a 2.3% decline versus the G10 in September, the worst performance in the group. Rising energy prices, softer global investor sentiment, and a dovish rate hike from the Reserve Bank of New Zealand (RBNZ) on September 1 against widespread rate increases outside New Zealand all combined to weigh on the currency.

We accept that our positive signal may be somewhat premature. Current economic activity is uneven, yields remain near the G10 average, and we see clear risks

of further volatility in investor sentiment. However, the economy is gradually recovering from its 2024-2025 recession, and both the manufacturing PMI and consumer confidence have shown further signs of improvement recently. Moreover, the recovery appears to be spreading across sectors and regions, including stronger net immigration inflows.

On the policy front, the RBNZ attempted to walk back some of its more cautious (dovish) statements later in September as the spike in energy prices and the weakening New Zealand dollar reignited inflation concerns. The trajectory is moving in the right direction, and a considerable degree of pessimism is already reflected in the currency. Therefore, while it may be somewhat early, we see solid medium-term recovery potential for the New Zealand dollar that warrants gradually building a long position on any further weakness.

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

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* This figure is presented as of June 30, 2026 and includes ETF AUM of \$2,203.98 billion USD of which approximately \$156.81 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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