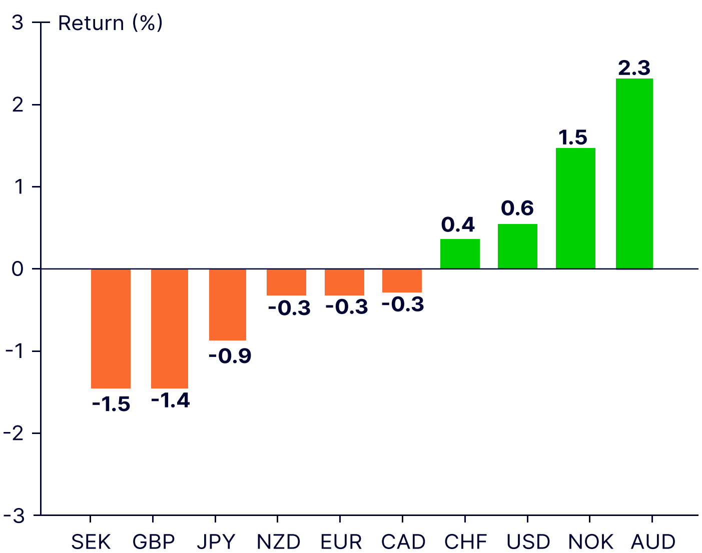
Currency Market Commentary

Insights
February 2026

Summary

At this point, barely 48 hours after the start of the conflict with Iran, markets are pricing a short lived disruption. This is evident in the inverted oil futures curve. We broadly agree with this assessment, although the risk of serious damage to oil production infrastructure, whether intentional or accidental, is material and should be respected when adjusting portfolios. Beyond this week, that risk should decline steadily as Iran's offensive capabilities are degraded and depleted. Over time, we expect the initial currency market reaction to reverse and recent medium term trends to reassert themselves.

Figure 1: February 2026 Currency Return vs. G10 Average



Source: Bloomberg and State Street Global Investment Management, as of 28 February 2026. **Past performance is not a reliable indicator of future performance.**

Those medium term trends favor currencies of countries with high yields, stable growth, positive commodity exposure, and strong government balance sheets, such as the Norwegian krone and the Australian dollar. The Swedish krona is also likely to perform well as its economy recovers and it benefits from European Union (EU) fiscal stimulus.

However, after a strong one year rally, it appears overbought and is likely to retrace over the next one to two months. Canada benefits from exposure to elevated commodity prices, a reasonable government balance sheet, and a stabilizing growth outlook. As a result, the Canadian dollar scores well in our model, but significant headline risks around this summer's United States–Mexico–Canada Agreement (USMCA) renegotiation leave little room for further appreciation.

The US dollar is likely to be biased higher during this period of elevated geopolitical risk and rising energy prices. Beyond that, the outlook is mixed, with a negative skew. Recent upside surprises in core Personal Consumption Expenditures (PCE) inflation, employment, and industrial activity argue for a modest dollar recovery.

Offsetting these factors are ongoing policy risks, expected Fed rate cuts, weak retail sales, and continued labor market fragility. We also see evidence in ETF flows and relative equity market performance that investors are favoring less US centric allocations, which tilts the balance toward a weaker dollar over time.

The British pound appears vulnerable as fiscal austerity, soft labor markets, and renewed disinflation open the door to more aggressive Bank of England (BoE) easing. The Swiss franc is struggling with near zero inflation, zero interest rates, and the growing risk of intervention. The Swiss National Bank (SNB) is likely to rely on currency intervention to limit further downside pressure in the face of safe haven inflows.

The euro looks relatively better and should fare well in a non energy driven equity market correction. However, EU growth remains sluggish, and the scale and effectiveness of German fiscal stimulus remain uncertain. We therefore see the euro struggling to break meaningfully higher over the next one to two months and expect it to continue to underperform the G10 average.

Figure 2: March 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 28 February 2026

US Dollar (USD)

Assuming the Iranian conflict is measured in weeks rather than months, and that the risk of a substantial and long lived energy shock diminishes quickly, we expect the recent US dollar rally to reverse into month end March.

Beyond the upheaval in the Middle East, we see a broader negative bias for the US dollar as US equities continue to underperform and investors rotate toward a more balanced global portfolio. Expectations for Federal Reserve easing through year end, continued labor market fragility, and ongoing US policy risks further point to a weaker dollar—particularly against pro cyclical, commodity sensitive currencies such as the Australian dollar and Norwegian krone.

Against lower beta, slow growth, and low yield currencies such as the euro, Swiss franc, Swedish krona, and British pound, the dollar should hold up reasonably well in the near term, but performance will remain highly data dependent. While US labor markets remain fragile, recent improvements, alongside solid headline growth, resilient manufacturing data, and ongoing fiscal support, should underpin consumer spending and business capital expenditure. This relatively firm growth backdrop, combined with recent upside surprises in core PCE and Producer Price Index (PPI) inflation, at a minimum limits near term downside for the dollar and could sustain a modest rally versus currencies supported by weaker growth and lower yields.

In the long term, we maintain our call for a multi year US dollar bear market, with the currency declining by at least 15% over the next two to four years. The US remains a compelling destination for capital investment, supported by innovative companies and dynamic, flexible labor and capital markets. However, rising macro risks—including policy uncertainty, elevated debt levels, and a persistent current account deficit—have diminished the dollar's upside potential and weakened its role as a reliable safe haven during periods of economic stress. We expect a gradual increase in US dollar hedging on the roughly $33 trillion of foreign portfolio investments in the US, and anticipate that the US will capture a smaller share of incremental global portfolio flows as investors pursue more diversified allocations.

Canadian Dollar (CAD)

The Canadian dollar is well positioned to outperform the G10 average during the Iran conflict, supported by elevated oil prices and its relatively high correlation with the US dollar. This reinforces our positive model signals, which favor Canada on the back of the year to date commodity rally, strong local equity performance, and a stabilization in growth following a weak 2025. That said, recent data have softened modestly, with the broad SEPH employment trend turning lower, services Purchasing Managers' index (PMI) deteriorating, and Gross Domestic Product (GDP) contracting by 0.6% QoQ in Q4 2025.

We are therefore less optimistic than our models imply and see the Canadian dollar range bound between 1.36 and 1.40 versus the US dollar. While the domestic economy is stabilizing, Canada remains exposed to downside risks from renewed US tariff threats and the upcoming renegotiation of the USMCA trade agreement (CUSMA in Canada). We expect US rhetoric and tough negotiating tactics to intensify over the coming months, undermining consumer and business confidence and acting as a drag on the Canadian dollar.

We are more constructive over the medium term. The Canadian dollar screens as cheap on our long run fair value measures. We expect the North American trade dispute to ultimately result in a renegotiated USMCA that largely preserves favorable intra regional tariff treatment relative to the rest of the world. Canada also has greater scope than the US for rapid monetary and fiscal stimulus, as well as meaningful room for deregulation and expanded trade with partners outside North America. Under this scenario, we see scope for USD/CAD to fall into the low 1.30s by late 2026.

Over the longer term, consistent with our US dollar bear market thesis, we see USD/CAD trading back toward—or potentially below—1.20 in the years ahead. However, we expect the Canadian dollar to lag the G10 excluding the US, as a structurally weaker US dollar remains a headwind given Canada's close economic and financial integration with the US.

Euro (EUR)

We remain neutral to slightly negative on the euro. The EU economy should be able to absorb an Iran related energy price shock if it is limited to one to two months, but uncertainty around the duration and severity of the current crisis is likely to weigh on the currency in the near term. As the conflict resolves, the euro should recover and stage a relief rally.

Beyond the current crisis and any associated bounce, the broader outlook remains fragile. The EU remains stuck in a low productivity growth regime, squeezed by US tariffs and intensifying competition from China, on top of the current, albeit likely temporary, energy price shock. While the European Central Bank is likely finished with its rate-cutting cycle, its 2% policy rate still sits in the lower half of the G10 yield spectrum and is unlikely to attract meaningful capital inflows. Fiscal expansion, led by Germany, is supportive in principle but appears largely priced into currency markets, with marginal risks skewed toward slower and or less effective implementation.

We continue to view the euro as a useful hedge against broad global economic weakness that drives equity markets lower. However, crisis driven shocks associated with elevated energy prices, such as the current Iran conflict—are particularly negative for the currency and undermine its safe haven characteristics.

Over the longer term, we remain constructive on the euro versus the US dollar, driven primarily by US weakness rather than EU strength. The case for EU investors to reduce their concentrated exposure to US assets, or at least increase average currency hedge ratios, has strengthened as the US becomes a less reliable trade and security partner. We see scope for EUR/USD to move toward 1.30 or higher over the next three to five years.

The outlook against other G10 currencies is less favorable. The euro screens as expensive versus the Japanese yen, Norwegian krone, Swedish krona, Canadian dollar, and Australian dollar, and we expect it to materially underperform these currencies in the coming years as tariff related growth risks fade and equity market volatility normalizes.

British Pound (GBP)

We are negative on the pound over the near term. Sterling is negatively exposed to the conflict in the Middle East as a net energy importer. Beyond that, the currency rests on a fragile macro foundation characterized by high public debt, persistent current account deficits, and structurally weak productivity growth. Recent economic momentum has been soft, with sluggish growth, a steadily weakening labor market, and inflation trending lower. This combination points toward easier monetary policy and a weaker currency. Ongoing concerns around fiscal sustainability, political risks facing Prime Minister Starmer's government, and the continued inability to lift long run growth prospects are also likely to weigh on UK sentiment and the pound.

There are some mitigating factors. Downside pressure on sterling should be partially offset by recent improvements in manufacturing and services PMIs, an uptick in retail sales at the start of the year, and better performance in local equity markets.

The longer term outlook is less fragile, at least against the US dollar and the Swiss franc. While the pound appears challenged versus most of the G10, we see GBP/USD stabilizing in the mid 1.30s this year. Over a three to five year horizon, we see scope for GBP/USD to peak in the 1.40–1.45 range. We also expect the pound to outperform the expensive, low yielding Swiss franc on a total return basis over coming years.

Outside of the US dollar and franc, however, we see the pound continuing to struggle over the medium term, reflecting the UK's weak structural growth profile and limited ability to attract sustained capital inflows.

Japanese Yen (JPY)

We see value in the yen and expect it to deliver sizeable gains over time, but not yet. As a major energy importer, the yen is likely to struggle during the Iran related energy shock. To the extent that markets interpret the energy shock as part of a broader correction in risk assets, safe haven flows should support the yen versus most G10 currencies, although it is unlikely to outperform the US dollar in that environment.

The yen screens as very cheap on our long run fair value measures, and interest rate differentials, both real and nominal—are slowly moving in its favor. The credible threat of coordinated US Japanese intervention to support the yen is unlikely to trigger a sustained appreciation, but it should place a floor under further weakness. That said, markets remain concerned that the newly empowered Takaichi government will pursue a reflationary policy mix characterized by higher fiscal spending, low interest rates, and, by extension, a tolerance for yen weakness. Until those concerns ease, the yen is likely to remain under pressure.

Over time, however, we expect the Bank of Japan to return to policy tightening as negotiated wage gains remain elevated and growth and inflation firm, supported by robust fiscal spending. Risks associated with Japan's large public debt stock are mitigated by a persistent current account surplus, which implies a high degree of domestic funding and a low risk of abrupt capital flight. Taken together, these factors should be sufficient to drive the yen back toward the 140–145 range versus the US dollar by the end of 2026. As such, we maintain a medium term bullish view on the yen, while acknowledging that the recent volatile and disappointing performance may persist through much of the first half of 2026.

Over the longer term, we see additional upside. Consistent with our structural US dollar bear market thesis, we expect the yen to strengthen further into the 120–130 range against the US dollar over the next three to five years.

Swiss Franc (CHF)

We maintain a decisively negative view on the Swiss franc across both tactical and strategic horizons. The franc has failed to play its traditional safe haven role during the early phase of the Iran conflict. Switzerland is heavily reliant on energy imports and highly exposed to EU growth, which itself is particularly vulnerable to elevated energy prices. At the same time, in its struggle against sub trend growth and inflation hovering near zero, the SNB has little tolerance for renewed franc strength driven by safe haven inflows, a point underscored by explicit intervention warnings on 02 March.

Looking beyond the current Middle East shock, the franc stands out as the most expensive G10 currency on our long run fair value estimates and offers the lowest yields and inflation in the group. Inflation is likely to remain uncomfortably close to zero, with growth stuck below trend. In that environment, we expect the SNB to be increasingly willing to rely on direct currency market intervention to limit further franc appreciation. On a total return basis, once the increasingly negative interest rate carry of long franc positions is taken into account, it is difficult to see the franc outperforming the broader G10. Even versus the US dollar, the franc would need to appreciate by an additional 10–15% over the next three to five years merely to offset negative carry.

Moreover, we do not expect portfolio rebalancing away from the US dollar over the next one to three years to be as supportive for the franc as it is for other currencies. Swiss investors already hedge a relatively large share of their foreign currency exposure, leaving limited scope for a meaningful increase in US dollar hedge ratios. In practical terms, this implies less potential for sustained US dollar selling and franc buying, further reinforcing our negative outlook for the franc.

Norwegian Krone (NOK)

Norway and the krone benefit from higher oil prices, but the currency is also highly sensitive to global risk sentiment. As a result, higher oil prices in the context of the Iran conflict are a net negative for the krone. This adverse impulse is compounded by the currency's recent popularity and strong relative performance, which biases markets toward selling as risk averse investors unwind crowded positions. We therefore see continued downside risk for the krone until there is greater clarity around the trajectory of the Middle East conflict.

Beyond the Iran shock, however, we retain a positive tactical bias on the krone. It remains cheap on our long run fair value measures and is supported by structurally higher oil prices, above target inflation, elevated domestic yields, a pristine sovereign balance sheet, and generally positive equity market sentiment. While local growth was sluggish at the start of the year, recent data point to some stabilization, with improvements in retail sales and industrial production.

The longer term outlook is also constructive. The krone remains historically undervalued relative to fair value and is underpinned by steady long run potential growth and one of the strongest public balance sheets in the G10. Norway also retains significant fiscal and monetary flexibility, providing ample scope to cushion the economy against any lasting damage from the current tariff shock. Taken together, these factors argue for meaningful krone appreciation once near term geopolitical and risk sentiment headwinds fade.

Swedish Krona (SEK)

We retain a negative tactical bias on the Swedish krona. Sweden is a net energy importer and is highly exposed to EU growth, both of which are negatively affected by the energy price spike triggered by the Iran conflict. Even prior to the escalation in the Middle East, we saw scope for further near term krona depreciation following downside surprises in services PMI, softer core inflation, and weak January retail sales, which rose just 0.1% month on month.

Beyond these near term headwinds, we are more constructive on the medium term outlook. The trajectory of Federal Reserve policy favors easing, while the Riksbank appears set to remain on hold for an extended period. As a result, interest rate differentials should continue to move in Sweden's favor. In addition, near term softness notwithstanding, Sweden's economy is recovering after a difficult 2023–2024 period. Public finances remain exceptionally strong, with debt at roughly 33% of GDP, and the economy has meaningful exposure to the defense sector, a key beneficiary of planned EU fiscal expansion.

Valuation also supports a more positive medium to long term view. The krona is historically cheap on a real effective exchange rate basis. Over a multi year horizon, Sweden should also benefit from gradual portfolio rebalancing under our long term US dollar bear market thesis. The scope for shifts in large foreign asset holdings in both Sweden and the broader EU away from the US, whether through outright reallocation or higher US dollar hedge ratios should provide a material longer term tailwind for the krona.

Australian Dollar (AUD)

The Australian dollar remains one of our preferred currencies in the G10, although it is likely to remain under pressure until Middle East risks subside. Once the geopolitical backdrop stabilizes, Australia's strong domestic fundamentals should allow the Australian dollar to recover convincingly. Elevated CPI, improving consumer spending, and robust house price gains underpin a solid 2026 growth outlook and should keep the Reserve Bank of Australia biased toward higher policy rates, to the benefit of the currency. The improving trend in the Chinese yuan also provides an important external tailwind. In addition, Australia retains ample fiscal space and the capacity for more aggressive fiscal support should global growth weaken, an enviable position in a world burdened by high government debt.

In the long term, we are decidedly positive on the Australian dollar. Australian investors appear to hold a relatively high share of unhedged US dollar asset exposure, which we expect to be gradually addressed through higher currency hedge ratios and/or a rotation toward a more diversified global portfolio. As the global economy adjusts to the new tariff regime, we see significant scope for a sustained long term rally in the Australian dollar.

New Zealand Dollar (NZD)

New Zealand is a net energy importer with a large current account deficit, and the New Zealand dollar remains sensitive to global risk sentiment. As a result, we expect the currency to continue to underperform until there is greater clarity around the Iran conflict and its implications for energy prices and global risk appetite.

Beyond the near term geopolitical uncertainty, we retain a slightly constructive outlook for the currency. Following a recession in 2024 and a difficult start to 2025, the economy has stabilized and is on track for growth above 2% in 2026. Both manufacturing PMI and consumer confidence have rebounded sharply, reaching levels not seen since late 2021. At the same time, the broad commodity rally has lifted New Zealand's terms of trade index toward the upper end of its three year range. The US–China trade truce and a modestly improved outlook for Chinese growth are additional positives, given China's importance as a key export market.

Over the longer term, our outlook is more mixed. Our long run fair value estimates suggest the New Zealand dollar is cheap versus the US dollar and the Swiss franc, leaving scope for meaningful appreciation against those currencies. However, it screens as expensive relative to the Japanese yen and the Scandinavian currencies, suggesting more limited upside, and potential underperformance, on those crosses over time.

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* This figure is presented as of December 31, 2025 and includes ETF AUM of $1,950.80 billion USD of which approximately $173.02 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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ID3953500-4948703.42.1.GBL.RTL 0326 Exp. Date: 03/31/2027