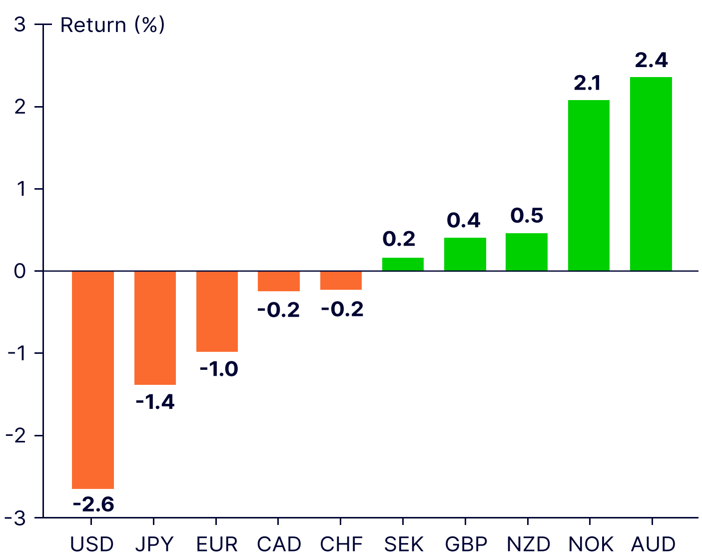
Currency Market Commentary

Summary

Going forward, risks appear greater than implied by currency, equity, and credit market behavior. The Strait of Hormuz is closed, and even if it reopens by mid May, it will take at least two to three weeks for a meaningful amount of traffic to resume and another one to two months for those shipments to reach their destinations. The ceasefire has reduced the immediate risk of attacks on regional energy infrastructure that could have impaired production for months or years, although it remains fragile and could break down at any time.

We would prefer to remain optimistic, but from an investment standpoint, optimism is difficult with equity markets at or near all time highs, credit spreads at or near multi year tights, and currency implied volatility below pre war levels. Little growth risk premium is priced into markets, yet the near term outlook remains highly uncertain.

Figure 1: April 2026 Currency Return vs. G10 Average



Source: Bloomberg and State Street Global Investment Management, as of 30 April 2026. **Past performance is not a reliable indicator of future performance.**

As a result, we see upside risks to the US dollar. We have not abandoned our longer term USD bear market thesis, as described in the US dollar section. However, the US is relatively insulated from the economic fallout of the war, benefits directly as a net oil exporter, and continues to enjoy an AI capex boom that is largely invariant to the short to medium term economic outlook. The Canadian dollar is likely to struggle against the US dollar but looks more attractive versus the rest of G10, supported by oil exports and its positive correlation with US economic performance.

The Norwegian krone has been the best performing currency this year and should continue to benefit from higher oil prices. That said, we see greater risks for krone: it has already appreciated substantially, is exposed to slowing EU growth, and tends to exhibit high beta to equity market downside. If conditions deteriorate and equity markets retreat, volatility in the krone could increase.

On the less optimistic side, prolonged energy supply disruption poses a more acute threat to the growth outlooks of oil importers, including the EU, UK, Sweden, and Japan. We expect the euro, British pound, and Swedish krona to struggle if the Strait of Hormuz remains closed. The yen outlook is more nuanced. Late April intervention should deter speculative selling, while higher oil prices may push the Bank of Japan toward a yen supportive rate hike in June.

Figure 2: May 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 April 2026.

Strong corporate earnings, AI exposure, and attractive long end Japanese government bond real yields could attract capital inflows, while renewed equity market stress may provide some safe haven support. While we see compelling long term value in the yen, there is no clear near term catalyst for a sustained rally; instead, these factors are more likely to limit additional downside for now.

US Dollar (USD)

The US is well positioned to outperform during the current turmoil as a net energy exporter, with lower exposure to energy intensive industries and an economic tailwind from the AI capex boom. Recent positive surprises in manufacturing PMI, employment data, retail sales, and corporate earnings only bolster the case for a resilient dollar. Indeed, one could argue that US large cap tech stocks have been the only true safe haven during this geopolitical shock: gold is weaker, the US dollar is flat, US Treasurys are lower, and the traditional safe haven Swiss franc and Japanese yen have struggled. The renewed appreciation for US tech's earnings resilience is likely to linger beyond this crisis, helping sustain capital flows into the US and limiting US dollar downside for a time.

While our dollar outlook has become more positive for the next one to two quarters, and potentially through all of 2026 if the conflict intensifies, we retain our call for a multi year US dollar bear market. We expect the dollar to depreciate by at least 15% over the next two to four years.

Innovative companies and dynamic, flexible US labor and capital markets continue to underpin the US as a strong destination for investment. However, rising US macro risks, including tariffs and other policy measures, high debt and deficits, and the persistent current account deficit, have diminished the dollar's longer term appeal. Over time, elevated debt levels and US policy choices are likely to erode the US growth advantage. Before that, however, investors may consider hedging some of the increasingly pronounced US macro risk through a higher US dollar hedge ratio, while maintaining exposure to attractive, innovative US companies and other opportunities. In line with this view, we expect a gradual, multiyear increase in US dollar currency hedging on the roughly $33 trillion in foreign portfolio investments in the US, alongside a smaller share of incremental global portfolio flows directed toward US assets as investors pursue a more balanced global allocation.

Canadian Dollar (CAD)

The Canadian dollar is well placed to outperform the G10 average during the Iran conflict as an energy exporter that enjoys a close relationship with the more stable US economy. This reinforces our positive model signals which prefer Canada due to the year-to-date commodity rally and strong local equity performance. On the more troubling side is the ongoing United States–Mexico–Canada Agreement (USMCA) trade negotiations (CUSMA in Canada), that should keep uncertainty elevated thereby hindering business capex, household spending, and labor markets. Higher energy prices while net positive at the macro level should further strain household finances and depress consumption. Thus, while the Canadian dollar is likely to hold up well against the G10 during this crisis, however, we expect it to remain weak versus the US dollar.

We are more constructive medium term, once the impacts from the war and USCMA renegotiation calm. The Canadian dollar is cheap by our long run fair value measure. We do not believe the contentious USMCA trade renegotiation will result in termination of the trade deal. Most likely the negotiation will fail to produce a comprehensive new pact, and the existing pact will remain in effect with annual reviews for the next 10 years. That is uncomfortable but largely preserves favorable relative tariffs for North America compared to the rest of the world. We see scope for USD/CAD to fall into the low 1.30's against the US dollar in late 2026 or early 2027. Ultimately, given our US dollar bear market thesis we see USD/CAD trading back to or even below 1.20 in coming years though the Canadian dollar likely remains sluggish against the G10 (excluding US) as the weak US dollar serves as a headwind.

Euro (EUR)

We have a negative view on the euro as a major energy importer. Sluggish retail sales, deteriorating services PMI, and a sharp decline in consumer confidence highlight the impact of rising energy prices. This presents a difficult cyclical backdrop given the EU's structurally low productivity growth, compounded by pressure from US tariffs and increased competition from China.

Fiscal expansion led by Germany is supportive but already well priced into currency markets, with marginal risks skewed toward slower or less effective implementation. A slightly more hawkish than expected European Central Bank has reinforced expectations for higher interest rates. While this may initially appear supportive for the euro, premature or overly aggressive rate hikes risk triggering a recession, which would ultimately weigh on the currency despite improved carry.

Despite the EU economy's sensitivity to energy shocks, there are some offsets. Unemployment remains low, household savings are still elevated, and manufacturing PMIs point to expansion, having improved over the past four months. While the energy shock is likely to keep growth and the euro subdued, it is unlikely to trigger a recession unless the supply disruption worsens materially.

Over the long term, we remain constructive on EUR/USD, driven more by expected US dollar weakness than euro strength. The case for EU investors to reduce concentrated exposure to US assets, or at least increase currency hedge ratios, appears strong as the US becomes a less reliable trade and security partner. We see scope for EUR/USD to rise toward 1.30+ over the next three to five years.

The outlook versus other G10 currencies is less favorable. The euro appears expensive relative to the Japanese yen, Norwegian krone, Swedish krona, Canadian dollar, and Australian dollar, and is likely to underperform these currencies over the coming years.

British Pound (GBP)

We are negative on the pound over the near term and do not expect it to sustain its March–April outperformance. The currency is negatively exposed to the Middle East conflict as a net energy importer. More broadly, Sterling rests on a fragile foundation of high debt, persistent current account deficits, and structurally low productivity growth.

Policy options to manage the energy shock are constrained. Elevated debt levels and bond market sensitivity to additional fiscal expansion limit the government's ability to provide meaningful support. At the same time, with core inflation above 3% over the past five years and higher energy prices feeding through, the Bank of England has limited scope to ease policy and may instead need to tighten further. Political risks add to the uncertainty. Local elections on 07 May could destabilize the fiscal outlook, with Prime Minister Starmer facing pressure and the Labour Party expected to underperform. Any leadership change could heighten concerns over debt financed fiscal expansion, weighing on both the pound and gilts.

The longer term outlook is more stable, particularly against the US dollar and Swiss franc. Over a three to five year horizon, we see GBP/USD rising toward 1.40+. We also expect the pound to outperform the expensive, low yielding Swiss franc on a total return basis. However, beyond the US dollar and franc, the pound is likely to struggle against the broader G10 over the medium to long term.

Japanese Yen (JPY)

At month end, the Ministry of Finance intervened in currency markets to strengthen the yen. We view this as an effort to limit downside rather than the start of a sustained appreciation trend. The underlying fundamentals continue to challenge a stronger yen, including Japan's reliance on energy imports, deeply negative real short term yields, and market concerns that the newly empowered Takaichi government may pursue a reflationary policy mix.

Near term support from interest rates also appears limited. Higher energy prices and firm wage growth have lifted inflation, increasing the likelihood of a Bank of Japan (BoJ) rate hike as early as June. However, we do not see this as a sufficient catalyst for a sustained yen rally. Foreign exchange intervention reduces pressure on the BoJ to tighten policy, and even with one to two rate hikes, real yields are likely to remain deeply negative. In addition, relative rate differentials have not moved in Japan's favor, as markets continue to price more aggressive tightening across most G10 central banks compared with pre war expectations.

On a more constructive note, we view concerns around the Takaichi government's reflation bias as somewhat overstated and maintain a positive outlook for Japan's corporate sector, supported by structural reforms and meaningful exposure to AI capex. Fiscal sustainability risks are mitigated by Japan's current account surplus, which supports a high degree of domestic funding and reduces the risk of abrupt capital outflows. Over time, we could see a stronger bias among Japanese investors to reallocate toward higher yielding Japanese government bonds and resilient domestic equities, providing some support for the yen.

In the long term, we see greater upside potential versus the US dollar. Consistent with our broader US dollar bear market thesis, we expect the yen to strengthen back into the 120–130 range against the dollar over the next three to five years.

Swiss Franc (CHF)

We continue to have a decisively negative view on the franc over the tactical and strategic horizons. The franc has not fulfilled its usual role as a safe haven during the Iran conflict. Switzerland is heavily reliant on energy imports and exposed to European Union growth which is at risk due to high energy prices. Like gold the franc also looks less attractive as global real and nominal yields rise relative to Switzerland's zero nominal and negative real policy rate. And, importantly, the has Swiss National Bank made clear that they stand ready to intervene to prevent excessive franc strength.

Beyond the current Middle East shock, our outlook is also negative. The franc is the most expensive G10 currency per our estimates of long run fair value and has the lowest yields and inflation in the group. Inflation is likely to remain uncomfortably close to zero and growth below trend. On a total return basis, accounting for the increasingly negative interest rate carry in long franc positions, it is difficult to see the franc outperforming the G10. Even against the US dollar, the franc would have to gain at least another 10-15% over the next three to five years just to overcome the negative interest rate carry.

In addition, we do not expect portfolio rebalancing away from the US dollar over the next one to three years to be as beneficial for the franc as it is for other currencies. Swiss investors already tend to hedge a large percentage of their foreign exchange risk. That means there is not as much room for US dollar hedge ratio increases. In simpler terms, we see less scope for US dollar selling and franc buying.

Norwegian Krone (NOK)

We are constructive on the Norwegian krone given its status as a major oil exporter, supported by high yields and solid growth fundamentals. However, we view the krone as relatively high risk. Norway benefits from higher oil prices, but the currency is also highly sensitive to shifts in global risk sentiment. To date, rising oil prices alongside strong equity and credit markets have provided a dual tailwind. As a result, krone has been a standout performer—the best performing G10 currency year to date. If these conditions persist, further strength is likely.

The challenge is that this combination, rising oil prices alongside improving risk sentiment, is unlikely to be sustained. While such dynamics can occur during a growth driven expansion, the current backdrop reflects a growth negative oil supply shock. At some point, higher energy prices are likely to weigh on global growth, particularly in the European Union, Norway's key trading partner. Historically, this has led to a shift in the oil krone correlation. Slower European Union growth and weaker equity markets could offset the positive impact of higher oil revenues, potentially driving krone lower or at least capping further upside.

In the long term, the outlook remains more constructive. The krone appears historically cheap relative to our estimates of fair value and is supported by stable long run growth prospects and a strong national balance sheet. Norway also retains substantial fiscal and monetary flexibility, which should help mitigate longer term risks stemming from the current tariff shock.

Swedish Krona (SEK)

We retain a negative tactical bias on the Swedish krona. Elevated energy prices weigh directly on growth by increasing costs for consumers and businesses, and indirectly through weaker external demand from a slowing EU economy. Relative monetary policy is also a headwind. The Riksbank has greater scope to keep rates lower than most central banks, with March core inflation at just 1.1% YoY and unemployment still in the upper half of its 10 year range. As a result, interest rate differentials are moving against the krona and in favor of most other G10 currencies, with the exception of the Swiss franc.

Beyond the near term, we are more constructive. Once the effects of the war fade, interest rate differentials are likely to shift in Sweden's favor. Despite near term softness, the economy should recover, supported by flexible fiscal policy and a relatively low debt burden of around 33% of gross domestic product. Sweden also has meaningful exposure to the defense sector, which stands to benefit from planned EU fiscal expansion and increased regional focus amid ongoing NATO pressures.

Valuations are supportive, with the krona appearing historically cheap on a real effective basis. Over a multi year horizon, Sweden is also likely to benefit from gradual global portfolio rebalancing under our long term US dollar bear market thesis. The potential shift in large foreign asset holdings in both Sweden and the broader European Union away from the US, whether through reallocation or higher US dollar hedge ratios, should provide a meaningful longer term tailwind for the krona.

Australian Dollar (AUD)

The Australian dollar remains one of our preferred G10 currencies over the medium term, but it is likely to struggle until Middle East risks subside. Near term risks appear clearly skewed to the downside over the next four to six weeks. While Australia runs a substantial net energy export surplus, it imports nearly 90% of its refined energy products. As a result, the conflict is likely to raise costs for businesses and consumers, weighing on household demand and capex.

If the war generates a more pronounced negative global growth impulse, Australia also faces downside risks to its industrial metal exports. The economy's relatively high exposure to Asia adds another vulnerability, as the region is likely to be disproportionately affected by the crisis. Although higher interest rates from the Reserve Bank of Australia provide some marginal support for the Australian dollar, the increase in rate expectations since the start of the war has broadly mirrored moves across the G10, limiting any relative advantage.

Once the conflict subsides, Australia's strong pre crisis fundamentals should support a recovery in both growth and the currency. Elevated CPI, improving consumer spending, and solid housing market performance point to a relatively resilient post war outlook, assuming limited lasting damage. Stability in the Chinese yuan amid the current turbulence is also supportive. In addition, Australia retains significant fiscal capacity to respond to a deeper global slowdown, an increasingly valuable advantage given elevated public debt levels globally.

In the long term, we remain constructive on the Australian dollar. Australian investors appear to hold substantial unhedged US dollar exposures, which we expect to shift gradually toward higher hedge ratios or more diversified global allocations. As global markets adjust to the new tariff regime, the Australian dollar has scope for a meaningful long term appreciation.

New Zealand Dollar (NZD)

New Zealand is a net energy importer with a large current account deficit, and its currency is highly sensitive to shifts in global risk sentiment. As a result, we expect the New Zealand dollar to continue underperforming until there is greater clarity on the Iran conflict.

The energy price shock is pushing headline inflation higher, with markets now pricing in around five rate hikes by March 2027. However, New Zealand's early stage economic recovery is likely to come under significant pressure from higher energy costs alongside tighter monetary policy. This combination raises the risk of a stagflationary environment, which is likely to keep the New Zealand dollar under pressure.

Over the longer term, our outlook is more mixed. Our estimates of long run fair value suggest that the New Zealand dollar is cheap versus the US dollar and Swiss franc, with scope for appreciation. However, it appears expensive relative to the Japanese yen and Scandinavian currencies, which may limit its relative performance across the G10.

About State Street Investment Management

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* This figure is presented as of March 31, 2026 and includes ETF AUM of $1,940.32 billion USD of which approximately $184.18 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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