

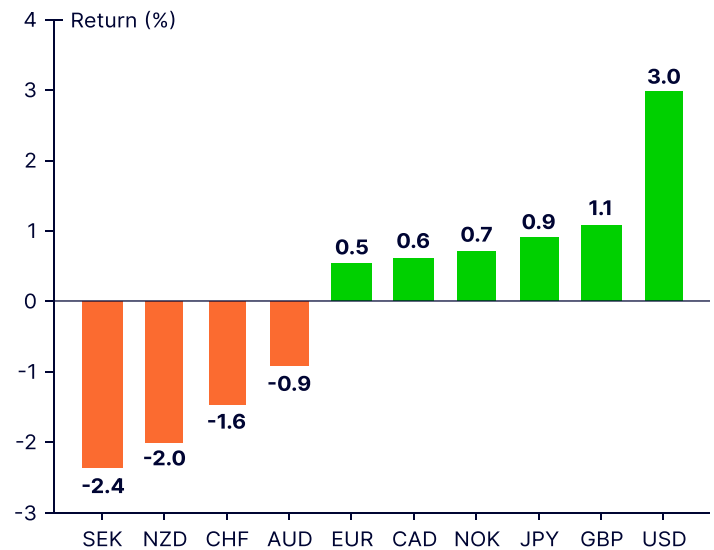
Summary

The Iran war has escalated toward a worst case scenario, with major disruptions to energy supply that risk a longer, deeper shock to global growth and more persistent inflation. This raises the likelihood that markets do not revert to prewar patterns, increasing the probability of sustained US dollar strength over the next one to two quarters and heightened downside risk for growth sensitive currencies such as the Australian dollar, British pound, and Swedish krona.

So far, markets have largely treated the conflict as a temporary shock. Risk premia have risen modestly, but resilient earnings expectations suggest limited concern about a severe slowdown. The US dollar has been the clear outperformer, supported by its net energy exporter status and AI driven growth tailwinds, alongside gains in other energy exporting currencies such as the Norwegian krone and Canadian dollar. By contrast, the Swedish krona, Swiss franc, and Australian dollar have underperformed due to energy import dependence, weak carry, policy constraints, and position unwinds. The Japanese yen strengthened late in the period, driven more by intervention risks and de escalation hopes than by a traditional safe haven bid.

On the announcement of resolution to the war, or at least a cessation of attacks, we expect the kneejerk reaction to be a sharp fall in the US dollar and energy prices. We see the extent of such a dollar selloff as limited. Enough damage has been done that it will take months to normalize energy, fertilizer, and other commodity supplies even after the announcement of a peace deal. This suggests ongoing stress that would likely pressure energy prices and support the dollar for months after that kneejerk selloff. Though we'd expect that a quick resolution would allow for greater US dollar weakness later this year on a resumption of the rotation trade away from US mega cap tech stocks, US Fed rate cuts, resurgent concerns over unsustainable US fiscal deficits, and the consequences of further erosion in US geopolitical relationships with the rest of the world.

Figure 1: March 2026 Currency Return vs. G10 Average



Source: Bloomberg and State Street Global Investment Management, as of 31 March 2026. **Past performance is not a reliable indicator of future performance.**

The problem is that we see heightened risks of a longer and more disruptive conflict than currently priced by markets. It's hard to put a number on it. At this point let's say we see a greater than 50% chance the conflict persists longer and becomes more intense than markets are pricing. Why?

President Trump promises further escalation and the Iranians promise further retaliation against key infrastructure if a negotiated solution is not reached soon. A negotiated solution could come fast, and in a 1 April speech President Trump also pointed to the war ending in 2-3 weeks alongside his threats to escalate. But actions suggest a resolution is some way off. The US is sending a third aircraft carrier strike group and thousands of additional troops both arriving to the area mid-late April, the end of that 2-3 week window. That seems more like escalation than resolution. Even if escalation of fighting is minimal the closure of the strait of Hormuz is self-escalating. The global oil deficit grows and time it takes to repair and restart production increases with each passing week.

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 31 March 2026.

Typically, we provide a summary of our currency views at this point in the outlook based on the current macro regime and our currency model scorecards. Indeed, we provide the scorecard outlook table as usual but our confidence in the tactical views is much lower than usual. We are in a period of upheaval, and the underlying drivers of currency markets, growth, interest rates, relative equity performance, commodity prices, and market risk premium are all subject to large and potentially persistent swings depending on the length and outcome of the war. Therefore, it is hard to provide a succinct top-level summary and we leave the discussion of the outlook to the individual currency sections below. That said, we can make some high-level observations:

- 1 The US dollar outlook through Q2 and Q3 2026 is materially stronger than we expected before March. Roughly, the worse the crisis becomes the stronger the dollar.
- 2 Do not trust relative interest rates as a reliable driver of currency. Stagflation risk means that relative interest rate increases may happen for bad reasons and therefore may be negative for the currency, and vice versa for countries that have the flexibility to cut rates.
- 3 There is no status quo. Status quo in this war is not status quo for asset markets. The current level of fighting could continue or slow somewhat but the

longer the strait of Hormuz is closed the higher energy prices and other essential commodity shortages become. That means the negative impact on the global economy and markets will accelerate.

- 4 The more disruptive the crisis becomes the more we expect markets to shift focus away from inflation and toward recession risk. Equity and credit market downside accelerates and that accelerates downside in risk sensitive currencies such as the Australian dollar, New Zealand dollar, Norwegian krone, Swedish krona, and British pound. US dollar is the clear winner. The Japanese yen and euro fare better as investors consider wholesale reductions in risky asset allocations and tend toward bringing money home.

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 industry and an economic tailwind from the AI capex boom. The current energy shock is enough to soften the labor market, consumer demand, and non AI capex. However, the magnitude of that impact is likely to be materially smaller than for most other countries, and that should benefit the US dollar, particularly if the crisis worsens. Thus, we expect the dollar to perform well over the next one to two quarters.

That dollar strength could be interrupted by a quick resolution to the war, or at least a cessation of attacks. In that event, we expect the kneejerk reaction to be a sharp fall in the US dollar and energy prices. We see the extent of such a dollar selloff as limited because it will take months after a peace deal for commodity supplies and prices to normalize.

While our dollar outlook has shifted positively for the next one to two quarters, and perhaps all of 2026 if the conflict intensifies enough, we retain our call for a multiyear US dollar bear market. We expect to see the dollar lose at least 15% over the next two to four years.

Innovative companies and the dynamic, flexible US labor and capital markets underpin the US as a strong home for capital investment. But rising macro risks in the US from tariffs and other policies, high debts and deficits, and the current account deficit have damaged the dollar's attractiveness. Why not hedge some of the pronounced US macro risk via

an increased US dollar hedge ratio while retaining exposure to attractive, innovative US companies and other investment opportunities? Over coming years, we expect a gradual increase in USD currency hedges on the \$33 trillion in foreign portfolio investments in the US, and we believe the US will attract a smaller percentage of new portfolio flows as investors seek 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 with a close relationship with the more stable US economy. This reinforces our positive model signals, which favor Canada due to the year-to-date commodity rally and strong local equity performance. While higher energy prices benefit Canadian exporters, they are another source of uncertainty, in addition to the ongoing United States–Mexico–Canada Agreement (USMCA) trade agreement (CUSMA in Canada), that should keep business capex, household spending, and labor markets soft. Thus, while the Canadian dollar is likely to hold up well versus the G10 during this crisis, we expect it to remain weak versus the US dollar.

We are more constructive in the medium term, once the impacts from the war and USMCA 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 agreement 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 with the rest of the world.

We see scope for USD/CAD to fall into the low 1.30s 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 versus the G10 ex-US as a weaker US dollar serves as a headwind.

Euro (EUR)

We have a negative view on the euro as a major energy importer with substantial exposure to energy intensive manufacturing. The EU is stuck in a low productivity growth regime, being squeezed by US tariffs, increased competition from China, and relatively low interest rates. Fiscal expansion led by Germany is supportive but is already well priced by currency markets, and the marginal risks appear tilted toward fears of slower and/or less effective implementation of that spending.

Despite the sensitivity of the European Union (EU) economy to energy driven shocks, we still see some positives that may help it weather the storm better than many expect versus more cyclically sensitive currencies such as the British pound, Swedish krona, and Swiss franc. Unemployment remains low, household savings are ample and could be used to offset higher energy prices, the European Central Bank (ECB) may lend a hand via higher interest rates, and many countries will likely step in with additional fiscal support. That said, it is a fine balancing act and the euro is at risk. Too much fiscal stimulus risks dangerous second round inflation effects, especially given the greater reliance on negotiated wage settlements in the EU compared with other regions. Premature or overly aggressive rate hikes risk inducing a recession, which would ultimately damage the euro despite improved interest rate carry.

In the long 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 pull back from their concentrated exposure to US assets, or at least implement higher average currency hedge ratios, is strong as the US becomes a less reliable trade and security partner. We see scope for a move toward 1.30+ in EUR/USD over the next three to five years. The outlook against other G10 currencies is less optimistic. The euro is expensive versus the Japanese yen, Norwegian krone, Swedish krona, Canadian dollar, and Australian dollar, and is likely to materially underperform those currencies over coming years once tariff related growth risks and the heightened potential for equity market volatility fade.

British Pound (GBP)

We are negative on the pound over the near term and do not think it can maintain the outperformance seen in March. It is negatively exposed to the conflict in the Middle East as a net energy importer. Beyond that, sterling rests on a fragile foundation of high debt, persistent current account deficits, and structurally low productivity growth. Recent growth has been sluggish—just 0.1% QoQ in Q3 and Q4 2025 and 0% in January 2026. Correspondingly, the labor market has been soft. In the current crisis, the tax of high energy costs is set to further weigh on the economy, and there is little policy flexibility to manage the shock. High debt and the bond market's intolerance for additional fiscal spending severely constrain the government's ability to ramp up fiscal support. Likewise, the Bank of England is unable to lower rates enough to revive the economy and may have to increase rates in the face of higher energy prices and the persistence of core inflation above 3% for the past five years.

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

Japanese Yen (JPY)

We see value in the yen, which should ultimately lead to sizable gains, but not yet. As a significant energy importer, the yen is likely to struggle during the Iran shock. To the extent that the energy shock becomes a broader correction in risky assets, the flight-to-safety impulse is likely to support the yen versus most G10 currencies, though it is not likely to keep up with the US dollar.

The yen is very cheap relative to our measures of long-run fair value and improving interest rate differentials, both real and nominal. The credible threat of joint US-Japanese intervention to buy the yen is not likely to initiate a positive trend, but it should help slow further weakening. However, outright yen strength is difficult given low yields and market concerns that the newly empowered Takaichi government will pursue

a reflationist policy mix marked by increased fiscal spending, low rates, and, by extension, a weak-yen bias. Importantly, near-term news is unlikely to calm concerns about reflationist policy. The large fiscal stimulus in the new budget should pass parliament in April, and the current energy shock only amplifies worries about a significant supplemental budget later this year.

On a more positive note, we see the Bank of Japan coming back to the table with higher policy rates, perhaps as soon as April, in response to elevated negotiated wage gains and a positive inflation shock backed by strong fiscal spending. The risks to the existing debt stock are moderated by the positive current account balance, which implies a high degree of domestic funding and a low chance of abrupt capital flight. In the end, we think these factors should be sufficient to get the yen back toward 150 versus the US dollar by end-2026, assuming the energy crisis is largely past by then. Thus, we have a medium-term bullish yen view, despite acknowledging that the recent rocky period may persist through much of Q2 and Q3 2026.

Longer term, we see even more upside, with the yen likely to move back into the 120–130 range versus the US dollar over the next three to five years, consistent with our long-term US dollar bear market thesis.

Swiss Franc (CHF)

We continue to have a decisively negative view on the franc over both 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 EU 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 its zero nominal and negative real policy rate. Importantly, the Swiss National Bank (SNB) made clear on 02 March and again at its mid-month policy meeting that it stands ready to intervene to prevent excessive franc strength. Because inflation caused by an energy shock is unhealthy, the SNB may allow some franc appreciation if oil surges past \$150 a barrel. But we would view that as temporary, and other negative factors—such as poor carry, slower growth, and recent underperformance—are likely to limit market enthusiasm to buy the franc even if the SNB stands aside.

Beyond the current Middle East shock, the franc is the most expensive G10 currency based on 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 versus the US dollar, the franc would have to gain at least another 10% to 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 share of their foreign exchange exposure. That means there is less scope for further increases in US dollar hedge ratios. Put simply, we see limited scope for sustained US dollar selling and franc buying.

Norwegian Krone (NOK)

We are constructive on the krone as a major oil exporter with high yields, but we see it as relatively risky. Norway benefits from higher oil prices, but the krone is highly sensitive to global risk sentiment. To date, we have seen a dramatic rise in oil prices alongside a more muted selloff in equities and credit. As a result, the krone has held up better than expected. It should continue to outperform unless the conflict intensifies, causing a sharper fall in risky asset prices and a tightening in global liquidity. In that more severe scenario, higher oil prices would remain supportive, but the krone would be at risk of sudden downdrafts, as it has experienced in prior stress episodes.

Beyond the conflict with Iran, we retain a positive tactical bias on the krone due to its cheap long-run valuation, stronger oil prices, above-target inflation, high local yields, a pristine sovereign balance sheet, and positive equity market sentiment. As with all currencies, the postwar outlook depends on the length of the disruption and the degree to which it causes lasting economic damage.

In the long term, the outlook is also positive. The krone is historically cheap relative to our estimates of fair value and is supported by steady long-run potential

growth and a strong balance sheet. Norway also has significant fiscal and monetary flexibility to limit long-term damage from the current tariff shock.

Swedish Krona (SEK)

The krona was the worst-performing G10 currency in March, and we retain a negative tactical bias. Sweden is a net energy importer and is highly exposed to EU growth, which is at risk from the energy price spike. Core inflation at 1.4% YoY and unemployment in the upper half of its 10-year range give the Riksbank more room than other central banks to keep rates low through the energy shock, which may further erode krona interest-rate carry and weigh on the currency.

Beyond our near-term concerns, we are more constructive. Over the medium term, after a resolution of the war, interest rate differentials are likely to shift in Sweden's favor. In addition, near-term softness aside, Sweden's economy is well positioned to recover with support from flexible fiscal policy. Sweden has a very comfortable public debt burden, with debt at around 33% of GDP, and meaningful exposure to the defense sector, which is a primary beneficiary of planned EU fiscal expansion.

Valuation also favors the krona, which is historically cheap on a real effective basis. Over a multiyear horizon, Sweden should also benefit from a gradual portfolio rebalancing under our long-term US dollar bear market thesis. The scope for a shift in the large foreign asset holdings in both Sweden and the EU away from the US—even if only through higher US dollar currency hedge ratios—should provide a material 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. Australia enjoys a substantial net energy export surplus, but it imports nearly 90% of its refined fuel products. As a result, the Iran war is likely to hit businesses and consumers through higher costs, weighing on demand and capex. If the conflict triggers a broader negative global growth impulse, Australia would also be vulnerable through weaker demand for its industrial metal exports.

Finally, Australia is more exposed to Asian growth, and Asia stands to be among the regions most affected by this crisis.

Once the war is resolved, Australia's strong fundamentals entering the crisis should help both the economy and the Australian dollar recover well. High CPI, improving consumer spending, and strong home price gains underpin a solid postwar growth outlook, assuming limited long-term damage from the conflict. The stability of the Chinese yuan even during this period of upheaval is also supportive. In addition, Australia has ample room for fiscal support, with the ability to deploy more aggressive stimulus should the world slide into a negative global growth shock—an enviable position in a world constrained by elevated government debt levels.

In the long term, we are quite positive on the currency. Australian investors appear to hold high levels of unhedged US dollar exposure through foreign assets, which we expect will be subject to higher currency hedge ratios or an outright rotation toward a more diversified global portfolio. Once the global economy adjusts to the new tariff regime, the Australian dollar has scope for a material long-term rally.

New Zealand Dollar (NZD)

New Zealand is a net energy importer with a large current account deficit, and its currency is sensitive to global risk sentiment. As a result, we expect it to

continue to underperform until there is greater clarity on the conflict with Iran. This stands in contrast to our model scorecard, which favors the New Zealand dollar, as its focus on typical currency drivers makes it unable to fully capture the impact of the Iran war.

That said, the model score does have merit when looking beyond the war, assuming the conflict does not become severe enough to push the global economy into a new and less healthy phase of the business cycle. After a recession in 2024 and a difficult start to 2025, the economy has recovered and was on track for stable growth above 2% in 2026. Both manufacturing PMI and consumer confidence have moved notably higher, 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 Chinese growth outlook are also positive, given China's role as a key trading partner. The war is likely to disrupt these favorable trends, but at this stage we would expect the positive trajectory to reassert itself three to four months after a cessation of hostilities.

In the long term, our outlook is mixed. Our estimates of long-run fair value suggest the currency is cheap versus the US dollar and Swiss franc, with ample room to appreciate, but expensive against the Japanese yen and the Scandinavian currencies.

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