

Summary

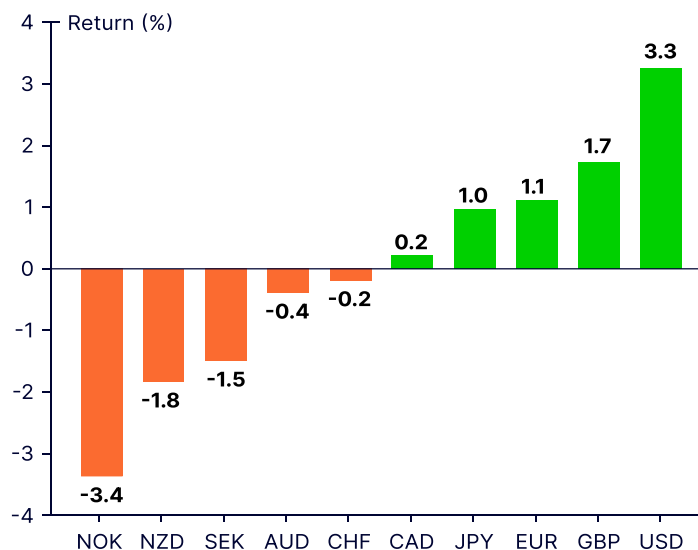
The initial adjustment following the US-Iran MOU is well advanced, with oil effectively back to its prewar level. The outlooks for relative growth, inflation, and, by extension, monetary policy should solidify their role as the primary drivers of currency markets. However, differences in business and inflation cycles are well priced, making a choppy, rangebound currency market the most likely outcome through the summer.

The US dollar has outperformed significantly on strong growth and hawkish monetary policy expectations. The weak employment report on 2 July dented that bullish dollar story, leaving little to sustain the recent uptrend absent a surprisingly strong June core Consumer Price Index print to be released in mid-July. In fact, we see the potential for some downside dollar risk over the coming days before the resilient growth outlook, decent yields, and strong corporate earnings help provide support.

The Japanese economy and equity markets continue to look quite attractive and should support the ultra-weak yen, with intervention risk helping to cap further downside. But again, we do not see the catalyst for sustained upside in July, with the BoJ taking a very slow approach to policy normalization and longer-term fiscal concerns lingering.

The euro and British pound benefit from lower oil, but their relative outperformance against the G10 (excluding US) is likely to run into roadblocks. Medium- to long-term growth prospects remain poor, and lower oil is also likely to lead the market to price out expected monetary tightening. We further expect any benefit from reduced fiscal and political risk premium in the UK to be temporary, as the difficult policy constraints facing a new Burnham-led government reintroduce uncertainty. The Swedish krona is likely limited by subdued euro upside as well as Sweden's low inflation and low-interest-rate outlook.

Figure 1: June 2026 Currency Return vs. G10 Average



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

The energy price drag on the Norwegian krone is probably near its end, but a modest negative bias remains over the next four to eight weeks as markets grapple with the risk of an oil supply glut into 2027. This should also weigh on the Australian dollar, but to a lesser extent. The bigger issue for the Australian dollar is the recent softness in domestic growth data, softening housing prices, the end of the Reserve Bank of Australia's rate-hiking cycle, and the lack of a positive growth impulse from China.

Overall, looking through the G10 currency by currency, we see a decent balance between bullish and bearish factors given current foreign exchange levels. This, in turn, suggests that we are entering a period of relatively sideways consolidation through the summer.

Figure 2: July 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 June 2026.

US Dollar (USD)

The US dollar ranks high on our scorecards based on robust equity market performance, strong economic data, and relatively high interest rates. The problem is that the dollar has already enjoyed a rally, and the soft employment data on 02 July casts doubt on the degree to which growth will continue to improve and pressure the Fed to hike rates. A temporary correction lower is likely as markets digest the weaker-than-expected labor market. Beyond that, it is hard to make a case for the dollar to remain weak. US growth, corporate earnings power, and interest rates remain among the most attractive in the G10. Until that changes, US dollar is likely to remain strong, just probably not much stronger than the recent highs.

Looking past the summer, we can clearly see the scenario in which the dollar does trend lower. Inflation is likely to roll over in coming months, with negative headline prints reflecting the drop in oil prices. At the same time, it's very possible that the consumer loses momentum without the benefits of tax refunds in first half of 2026 and the World Cup spending splurge alongside a tepid labor market. The AI capex story is here to stay for the foreseeable future, but the potential for deceleration outside of AI to weigh on growth and inflation later in Q3 is a clear risk to the dollar.

We also continue to maintain our pessimistic multiyear US dollar view. 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 debt 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?

We think this will be an increasingly attractive strategy over the next several years. Thus, we expect a gradual, multiyear increase in US dollar 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. This is likely to fuel a prolonged period of dollar weakness or, at least, severely limit further US dollar strength.

Canadian Dollar (CAD)

A technical recession, two consecutive quarters of negative growth, lower oil prices, news that the US is unwilling to renew the United States–Mexico–Canada Agreement (also known as CUSMA in Canada) trade agreement, and near-target core inflation are all negative for the Canadian dollar. We, however, are neutral over the near term. Growth may be weak and interest rates low, but on the margin, things are improving. April gross domestic product (GDP) printed +0.5% MoM, backed by expansionary Purchasing Managers' Index (PMI) readings, a pickup in hiring, and positive retail sales growth. The US refusal to renew CUSMA is not great and will result in ongoing uncertainty, as the agreement is subject to annual reviews for the next 10 years. But this was our base case, and we think it's well priced by the markets. The best scenario would have been renewal, but just a moderate improvement in the tail risk that the US leaves the agreement should help stabilize business expectations in the exporting sectors. That, in turn, should help improve capex and hiring plans, albeit modestly.

We are more constructive over the medium term. Monetary policy is appropriately loose. Real policy rates near 0% are likely below long-run equilibrium

and should rise once growth stabilizes and begins to improve. We need a little more clarity around the CUSMA negotiations, but we do not expect a damaging increase in tariffs. As we head into 2027-2028, lower mortgage rates in Canada should become stimulative as mortgages written nearer to peak rates begin to reset. At the same time, we expect US growth to remain healthy but decelerate alongside inflation later this year and into next. That should help keep a lid on Fed expectations and allow the interest rate differential to shrink with Canada. Overall, we expect conditions to gradually improve, allowing USD/CAD to fall into the mid-1.30s against 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 1.20s 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 are neutral on the euro, with a negative bias against the G10 average and a more firmly negative view against the US dollar, despite the potential for a near-term US dollar correction in early July. The euro-area economy remains sluggish, with Q1 GDP below zero, weak retail sales, and poor services PMI. Lower energy prices should help but are unlikely to cause a pronounced bounce. Meanwhile, inflation should quickly fall back toward target, allowing the European Central Bank to stay on hold and disappointing current market pricing of a second hike by year-end. Lower interest rates and a limited economic recovery should keep the euro on the weak side, particularly against the more robust growth, higher yields, and stronger equity markets backing the US dollar.

In the long term, we remain constructive on the euro against 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. The outlook against other G10 currencies is less optimistic. It is expensive against 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 shift from negative to neutral on the pound as retail sales, unemployment, and both manufacturing and services PMIs show improvement. Lower oil prices should further support that marginal rebound in the economy. Political risks have temporarily calmed, with the presumptive new PM, Burnham, promising to honor the fiscal rules. While we do not expect the BoE to raise rates this year, as predicted by current market pricing, current policy rates at 3.75% are reasonably supportive of the pound.

Recent data and circumstances have improved at the margin and moved us off our short bias for now. But conditions do not justify a long pound bias. Economic data has gone from weak to slightly positive. Unemployment remains at 4.9%, and PMIs suggest that the growth impulse is tepid. There may have been a modest relief rally following the resignation of PM Starmer, but it may not last long. The economy and the pound rest on a fragile foundation of high debt, persistent current account deficits, and structurally low productivity growth. It will be extremely difficult for the new PM to address these problems without new deficit spending or higher taxes, both of which would likely sour the mood of investors.

In the long term, the story isn't as shaky, at least not against the US dollar and Swiss franc. Over the 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 the coming years on a total return basis. Beyond the US dollar and franc, we see the pound struggling against the rest of the G10 over the medium and longer term.

Japanese Yen (JPY)

Looking at the onslaught of headlines about the yen hitting a 40-year low against the US dollar creates the sense that it was exceptionally weak in June. It was weak against the US dollar but gained against the G10 average. And its 40-year low against the US dollar was only about 50 bps below its July 2024 low. The move wasn't that dramatic and was driven by broad US dollar strength, not yen weakness. In contrast, the level of weakness over the past few years, despite interest rates steadily moving in the yen's favor, has been dramatic.

Even more so considering improved economic growth, self-sustaining above-target inflation, strong corporate earnings, promising corporate reforms, rising yields, solid exposure to the AI capex boom, lower oil prices, and the threat of currency intervention, which hinders further yen downside. In addition to these positive fundamentals, portfolio flows are gradually turning in favor of Japan. The yen ranks second on our scorecard behind only the US dollar.

The problem is timing. The Bank of Japan (BoJ) remains behind the curve, with real interest rates well below zero. Markets continue to worry that the ultra-loose monetary policy and longer-term plans for fiscal spending by the Takaichi government will keep pressure on real interest rates and the yen.

Thus, while there is substantial yen upside potential, we do not see meaningful appreciation until we get a catalyst. Potential catalysts include greater clarity on the fiscal stance, more muscular forward guidance from the BoJ, a sharp global risk-off event that squeezes equity markets and currency carry trades, and/or greater yen strength that causes some pain for underhedged Japanese investors in foreign assets.

In long term, we expect substantial upside against the US dollar, with the yen likely to fall back into the 120–130 against the US dollar range over the next three to five years, consistent with our long-term US dollar bear market thesis.

Swiss Franc (CHF)

Our models remain positive on the franc against the G10 in response to better economic data, falling oil prices, and a positive signal from our short-term value model. That said, the short-term value signal is driving the bulk of the change, but that signal generally only lasts for a few weeks.

Beyond the potential for near-term support, we continue to see downside risks for the franc. 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 SNB has made clear that it stands ready to intervene to prevent excessive franc strength, while core inflation, stuck at 0.3% YoY, allows it to keep policy rates at 0%. That does not bode well for CHF compared to the US

dollar, the Australian dollar, the Norwegian krone and the pound, which all enjoy policy rates above 3.6%. 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 have temporarily shifted to a bearish krone view because sharply lower oil prices and less convincing equity market sentiment have dented its near-term prospects. Much of the downside has likely been realized, with Norwegian krone underperforming the US dollar by 6.7% in June and underperforming the euro by 4.5%. However, investor fears of an oil glut next year are likely to persist for a while due to the rush to increase shipping through the Strait of Hormuz, ramp up global oil production into next year, and concerns that some of the oil demand reduction, especially from China, may be permanent. Those worries are reasonable and will likely linger for a time, driving further oil and krone downside. We also see this reflected in poor Norwegian equity market performance, given the large weighting of energy companies.

On the bright side, Norwegian core inflation remains above 3%, and the Norges Bank policy rate is steady at 4.25%, effectively tied with Australia as the highest yield in the G10. While we acknowledge that Bloomberg consensus GDP expectations are a touch soft at 1.3% for this year and retail sales have been lackluster, growth is stable and likely to improve modestly in 2027. Once oil finds its new post-war equilibrium, the krone is well positioned to bounce back. Thus, the long-term outlook is more durably 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.

Swedish Krona (SEK)

We retain a negative tactical bias on the krona but see some positive signs that are worth watching. For a market that we believe will be increasingly focused on growth and interest rates, the krona has a lot to overcome. Namely, the Riksbank's 1.75% policy rate, justified by core inflation of just 0.5% YoY and trend unemployment of 8.7%, well above its 2023 low of 7.2%. Expected GDP growth of around 2% this year is respectable against G10 peers but not enough to offset low yields.

Signs of improvement are building. Both services and manufacturing PMIs suggest a strengthening expansion, and while 0.5% YoY core inflation is low, it is up from 0.0% for the year ended April. Although lower oil prices are also likely to reduce inflationary pressures and keep the Riksbank on the sidelines. However, as a major oil importer, the sharp drop in prices should help lower costs for businesses and households, helping to support growth. Should these positive trends continue, the outlook for the krona should improve commensurately.

Long-term valuation also favors the krona, which is historically cheap on a real effective basis. And Sweden has a comfortable 33% debt-to-GDP ratio, which should help in a world of excessively high fiscal burdens. We further expect Sweden to benefit from a gradual portfolio rebalancing under our long-term US dollar bear market thesis over a multiyear horizon. The scope for a shift in the large foreign asset holdings in both Sweden and the EU away from the US, even if just in the form of higher US dollar currency hedges, should provide a material longer-term tailwind for the krona.

Australian Dollar (AUD)

Backed by policy rates above 4%, a labor market at full employment, and a decent long-run growth outlook, the Australian dollar remains one of our favorite currencies in the G10 over the medium term. But the near term looks more difficult and is suggestive of a range-trading environment with a bit of a negative bias. The steady move lower in energy prices and iron ore is a headwind, as are soft housing prices and the shift in Reserve Bank of Australia expectations from rate hikes to on hold.

The end of the Chinese yuan rally year to date through May and the lack of any notable pickup in Chinese fiscal stimulus also remove an important catalyst for additional the Australian dollar strength.

On the positive side, household spending has picked up; the composite PMI has moved back above 50, suggesting modest growth; and the labor market has stabilized, with unemployment ticking back down to 4.4% from 4.5% last month. High yields, full employment, strong data-center buildout, and lower refined oil prices should eventually support another the Australian dollar rally, but for now, we expect it to remain wobbly.

Over the multiyear horizon, we are also quite positive on the currency. Australian investors appear to have high levels of unhedged US dollar asset exposure that we believe will be subject to higher currency hedge ratios or an outright rotation into a more diversified global portfolio. Once the world adjusts to the new tariff regime, the Australian dollar has room for a material long-term rally.

New Zealand Dollar (NZD)

We are neutral on the New Zealand dollar vs. the G10 average. Lower energy prices are an unequivocal positive for the New Zealand economy which is slowly recovering from its 2024-2025 recession. That said, the current growth trajectory remains uninspiring. Interest rates will likely rise at the Reserve Bank of New Zealand's 08 July meeting, but only to 2.5%, still low among the G10. And, importantly, the sharp drop in energy prices raises the risks of a dovish hike as the committee has more room to look through the likely Q2 inflation spike to give the economic recovery more oxygen. The New Zealand dollar is cheap, but the expectation for full normalization of interest rates and an acceleration of the economic recovery is too tenuous to coax us off the sidelines for now.

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

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