

Summary

While the war with Iran remains an important driver of currency markets during May, we saw investors refocus on relative growth, inflation, and policy outlooks in differentiating currencies. With respect to Iran, on-and-off-again hopes of an extended ceasefire or long-term peace deal created broad underlying trends in oil exporters vs. importers. The US dollar, Canadian dollar, Australian dollar, and Norwegian krone were soft early on deal hopes, strengthened mid-month, then weakened as ceasefire signs improved.

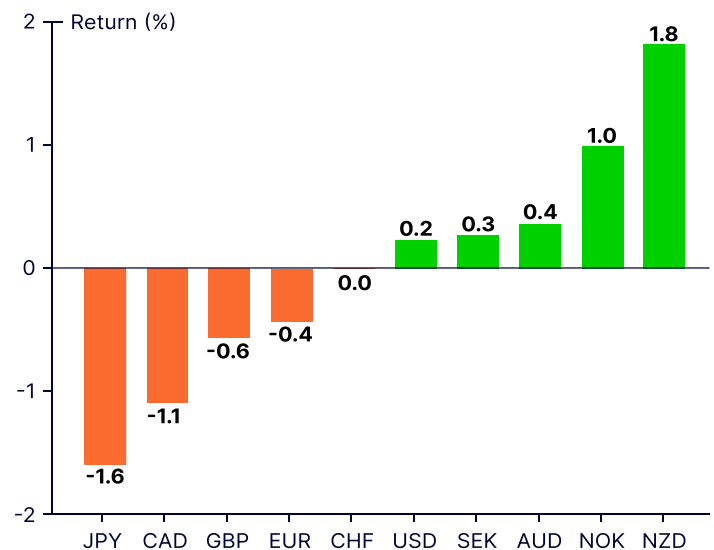
Around that Iran war-driven impact, specific country-level economic, policy, and political outlooks drove considerable differentiation. The New Zealand dollar was the big winner in May, thanks to a sharp late-month rally following hawkish Reserve Bank of New Zealand comments. New Zealand is also poised to experience greater relief from a peace deal. Currencies were supported by both resilient growth outlooks, positive energy exposure, and high interest rates. The US dollar, Australian dollar, and Norwegian krone stand out most in that regard. However, a deterioration in Australian economic data during the month caused it to lag the Norwegian krone.

The Japanese yen was the big loser, shrugging off supportive currency intervention and succumbing to ultra-low real interest rates and ongoing worries of excessive fiscal spending. The Canadian dollar was the second-worst performer in the G10 on the back of weak economic data, including a negative Q1 GDP print, the second negative quarter in a row. The euro and pound also lagged the G10 due to slow growth, heavy exposure to higher oil, and, in the case of the pound, ongoing political risk.

The main cross-market theme remains the Iran/Middle East energy shock, which has lifted oil, favored net exporters, and pressured major importers. This has supported the US dollar, the Australian dollar,

and the Norwegian krone. A peace deal would likely trigger a knee-jerk reversal, with the US dollar and the Norwegian krone most exposed and the Swedish krona potentially rebounding the most after underperforming sharply since the conflict began. However, low Swedish rates, weak near-term growth, and below-target inflation suggest any Swedish krona rally would likely fade unless domestic fundamentals improve.

Figure 1: May 2026 Currency Return vs. G10 Average



Source: Bloomberg and State Street Global Investment Management, as of 31 May 2026. **The performance data quoted represents past performance. Past performance does not guarantee future results.**

If no deal is reached in June, the pressure likely intensifies as oil inventories fall and the current outperformance of exporters continues. That said, if higher oil ultimately triggers a broader equity correction, the US dollar should outperform the Australian dollar and the Norwegian krone. Headlines suggest the broad contours of a ceasefire are in place, but market conditions may not yet be weak enough to pressure President Trump to approve a final agreement, and accidental re-escalation remains a live risk.

A second, increasingly important theme is growth divergence, especially if a peace deal is reached. The US remains relatively resilient, supported by AI-led capex, stronger earnings, and steadier labor markets, while Europe, Sweden, the UK, Canada, and parts of Asia-Pacific face weaker demand and softer confidence. As a result, any US dollar selloff on peace is likely to be shallow and short-lived, and we would still expect the Fed to stay on hold. The Norwegian krone may weaken somewhat more in a peace scenario but should remain supported by oil above \$80, high yields, and decent growth.

The least attractive currencies are those combining energy-import dependence, weak growth, low carry, expensive valuation, or limited policy flexibility. The Swiss franc stands out most clearly, with very low yields, rich valuation, and active Swiss National Bank resistance. The British pound also looks vulnerable given weak growth, high debt, external deficits, and political risk. The euro remains tactically soft for similar reasons, while the Canadian dollar faces added pressure from weak domestic growth and upcoming United States–Mexico–Canada Agreement (also known as CUSMA in Canada) trade negotiations.

Figure 2: June 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 May 2026.

US Dollar (USD)

An oil risk premium, and increasingly a growth premium, are likely to continue to support the US dollar. The US is well positioned to outperform during the current Iran war turmoil as a net energy exporter and with an economic tailwind from the AI capex boom. Since the start of the Iran war, strong US economic performance and impressive corporate earnings growth have added further support for the dollar.

As the US approaches an extended ceasefire, which will hopefully lead to an enduring peace deal, the knee-jerk reaction is likely for the dollar to sell off. However, elevated oil prices are likely to linger for the remainder of 2026, which, combined with stronger US growth, sticky inflation, and stabilizing labor markets, is likely to keep the Fed on hold and underpin a strong dollar over at least the next 1–2 quarters.

While the US dollar looks good for the moment, we retain our call for a multi-year US dollar bear market. 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 USD 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 severely limit US dollar strength.

Canadian Dollar (CAD)

Higher oil prices and the stronger US dollar are positive factors supporting the Canadian dollar and bolstering our model signals for the Canadian dollar. However, Canada has entered a technical recession with two consecutive quarters of negative growth. Labor markets are weaker, with unemployment reaching 6.9%. Home prices are down some 20% from their COVID-era peak.

Purchasing Managers' Index (PMI) data is soft. And the United States–Mexico–Canada Agreement (also known as CUSMA in Canada) trade negotiation with the US adds uncertainty that is restraining investment and hiring in the important tradable goods sectors. In addition to this low-growth backdrop, core inflation is close to the Bank of Canada's target, allowing them to maintain relatively low interest rates. Overall, despite our strong model signals, we see the Canadian dollar remaining soft.

We are more constructive medium term, once the impacts from the war and uncertainty of CUSMA renegotiation subside. The Canadian dollar is cheap by our long-run fair value measure. We do not believe the contentious CUSMA 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 1.30s versus 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 1.20s in coming years, though the Canadian dollar likely remains sluggish against the G10 excluding the 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 rapid deterioration in consumer confidence provide evidence of the negative impact of the spike in energy prices. That is a difficult cyclical hurdle, given that the European Union (EU) is stuck in a low-productivity

growth regime, being squeezed by US tariffs and increased competition from China. Fiscal expansion led by Germany is supportive but is already well priced by currency markets, and the marginal risk appears tilted toward fears of a slower and/or less effective implementation of that spending.

We see a European Central Bank (ECB) rate hike in June and possibly another in Q3. That may seem positive for the euro at first glance, but premature or overly aggressive rate hikes in response to a temporary oil shock risk a more serious economic slowdown, which would damage the euro despite the improved interest rate carry.

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

British Pound (GBP)

We are negative on the pound over the near term. It's negatively exposed to the conflict in the Middle East as a net energy importer. An extended US-Iran ceasefire and/or peace deal may alleviate some of that stress. But we do not expect peace to provide durable support for the British pound because it rests on a fragile foundation of high debt, persistent current account deficits, and structurally low productivity growth.

High debt and the bond market's intolerance for additional fiscal spending severely constrains the ability of the government to ramp up fiscal support. Likewise, in the face of higher energy prices and the persistence of core inflation above 3% for the past 5 years, the Bank of England is unable to lower rates enough to support growth. On top of the weak economy and limited policy options, the pound faces material political risks. Prime Minister Keir Starmer is on shaky ground and likely to face a leadership challenge later this year. Should that

lead to his ouster, markets are likely to fear additional debt-financed fiscal spending and push both the British pound and gilts lower. On a positive note, markets feared that the poor outcome of the 07 May local elections could trigger a quick leadership challenge. Instead, it appears that Starmer is safe for the next two to three months, which is a marginal positive for the British pound, for the moment.

The longer-term story isn't as shaky, at least not against the US dollar and the Swiss franc. Over the three- to five-year horizon, we see the British pound/the US dollar peaking at 1.40 or higher. We also see the British pound outpacing the expensive, low-yielding Swiss franc over coming years on a total return basis.

Beyond the US dollar and the Swiss franc, we see the pound struggling against the rest of the G10 over the medium and longer term.

Japanese Yen (JPY)

Our models are moderately positive on the yen, but we do not see a near-term catalyst and think it could take a while to realize the upside potential. Indeed, there is much to like about Japan and the Japanese yen, including strong growth, self-sustaining above-target inflation, strong corporate earnings, promising corporate reforms, rising yields, and a solid exposure to the AI capex boom.

On top of that, the Ministry of Finance organized a market intervention, selling more than \$70 billion of US dollar and buying the Japanese yen to strengthen the yen. We do not think this is meant to induce an uptrend in the Japanese yen, but it likely limits downside, thereby creating a positive skew to future yen returns.

The problem is timing. Over the near term, it is hard to see a catalyst to break the yen out of its malaise. Japan's dependence on energy imports hinders the outlook until the US and Iran resolve their issues. We expect two Bank of Japan (BoJ) rate hikes in 2026, one this month. But that is well priced by the markets and does not appear sufficient to trigger a yen rally. Part of the reason is that real short-term yields remain ultra-low. Additionally, markets continue to worry that the Takaichi government will pursue a reflationary policy mix that would keep the yen depressed. In fact, last month brought talk of another supplemental budget

on top of the large fiscal expansion approved earlier this year.

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 under-hedged Japanese investors in foreign assets.

In the long term, we expect substantial upside against the US dollar, with the yen likely to fall 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)

Our models have flipped positive on the franc against the G10 on the back of slightly better economic data and a positive signal from our short-term value model. The short-term value signal is driving the bulk of the change, and such signals usually only last a couple of weeks.

Beyond the potential for a very short-term bounce, we continue to have a decisively negative view on the franc. Switzerland is heavily reliant on energy imports and exposed to EU growth, which is at risk due to high energy prices. A peace deal may help, but high oil is likely to persist even if the US and Iran extend the ceasefire due to lags in ramping up production and rebuilding global reserves. 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 Swiss National Bank has made clear that it stands 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 vs. 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 krone as a major oil exporter with high yields and respectable growth. This year we have seen a dramatic move higher in oil prices alongside strong equity and credit markets, a double positive. As a result, the krone has been a star, the best performing G10 currency for 2026. So long as those conditions persist, we see additional krone strength.

Against that positive backdrop, we see some short-term risks. As we get closer (we hope) to a US-Iran peace deal, oil prices have moderated. This has weighed slightly on the Norwegian krone in late May. The announcement of a final deal will likely see additional weakness. However, that should be limited as we expect oil prices to remain firm, above \$80/barrel, throughout 2026 and likely into 2027 due to lags in the reopening of the Strait of Hormuz and the need to rebuild global reserves. The tremendous equity rally since March is likely to correct, at least temporarily, at some point. In the past, the krone has been sensitive to equity drawdowns, which may lead to additional, temporary periods of volatility.

In the long term, the 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. Norway also has significant fiscal and monetary flexibility to prevent long-term damage from the current tariff shock.

Swedish Krona (SEK)

We retain a negative tactical bias on the krona. Over the past few months the spike in oil prices and weaker EU growth outlook related to the Iran war has weighed on our Swedish krona outlook. A peace deal would likely

provide some relief. However, weaker growth and inflation data over the past 4–8 weeks plays a more central role in our view and we think will limit krona upside even in the case of a comprehensive peace deal. At 1.75%, Sweden has the third lowest policy rates in the G10. MoM core CPI inflation has come in negative for three of the first four months of 2026 bringing YoY core inflation in April to 0.0%.

Manufacturing PMI points to growth, but negative Q1 GDP and soft April retail sales suggest overall weakness in the economy. Inflation well below target and anemic growth leaves the Riksbank on the dovish side and the krona biased lower, even in the event of a peace deal with Iran.

Beyond our near-term concerns, we are more constructive. The medium-term, after the 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 likely to recover later this year with support from flexible fiscal policy, Sweden has a very comfortable 33% debt/GDP.

The country also enjoys a material exposure to the defense sector, a primary recipient of planned EU fiscal expansion and focus for the region given US pressure on NATO. Valuation also favors the krona which is historically cheap on a real effective basis. And, over a multi-year horizon Sweden should benefit from a gradual portfolio rebalancing under our long-term USD 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 just in the form of higher US dollar currency hedges, should provide a material longer term tail wind for the krona.

Australian Dollar (AUD)

The Australian dollar remains one of our favorite currencies in the G10 over the medium term, but is vulnerable over the near term. It's a matter of level against change. Australia has the highest yields in G10, is expected to be among the fastest-growing economies this year, and the Australian dollar is cheap to fair value. In contrast, the recent growth impulse is negative. Australia enjoys a substantial net energy export surplus, but it imports nearly 90% of its refined products. Because of that, the Iran war is likely to hit business and consumers with higher costs, depressing household

demand and capex. A peace deal may help with refined energy prices, but composite PMI has slipped into contractionary territory, employment data disappointed to the downside, and the most recent inflation data was a touch softer than expected. Thus, we see a strong basis for the Australian dollar to strengthen over the medium term but see risks for weaker price action over coming weeks.

Over the multi-year horizon, we are also quite positive on the currency. Australian investors appear to have high levels of currency-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. A hawkish Reserve Bank of New Zealand

statement following its May meeting triggered a steep rally in the New Zealand dollar. That's fair given the long period of low yields and depressed currency valuation. However, we struggle to see that rally sustaining through June. New Zealand is a net energy importer with a large current account deficit, making the New Zealand dollar sensitive to global risk sentiment. As a result, we expect the New Zealand dollar to continue to underperform until we have clarity on the conflict with Iran. With the energy price shock boosting headline inflation, the market expects almost five rate hikes by March 2027. However, the impending ceasefire deal may alleviate some pressure for hikes. And because we see oil prices remaining firm into 2027, New Zealand's early-stage economic recovery is likely to be challenged by the negative energy shock alongside any monetary tightening.

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

About State Street Investment Management

At State Street Investment Management, we have been helping create better outcomes for institutions, financial intermediaries, and investors for nearly half a century. Starting with our early innovations in indexing and ETFs, our rigorous approach continues to be driven by market-tested expertise and a relentless commitment to those we serve. With over \$5 trillion in assets managed*, clients in 60 countries, and a global network of strategic partners, we use our scale to deliver a comprehensive and cost-effective suite of investment solutions that help investors get wherever they want to go.

* 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.

statestreet.com/investment-management

Marketing communication

State Street Global Advisors Worldwide Entities

State Street Global Advisors (SSGA) is now State Street Investment Management. Please go to statestreet.com/investment-management for more information.

Investing involves risk including the risk of loss of principal. All material has been obtained from sources believed to be reliable.

There is no representation or warranty as to the accuracy of the information and State Street shall have no liability for decisions based on such information.

Currency Risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

The views expressed in this material are the views of the Aaron Hurd through the period ended 06/03/2026 and are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

This document may contain certain statements deemed to be forward-looking statements. All statements, other than historical facts, contained within this document that address activities, events or developments that SSGA expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by SSGA in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances, many of which are detailed herein. Such statements are subject to a number of assumptions, risks, uncertainties, many of which are beyond SSGA's control. Please note that any such statements are not guarantees of any future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication is directed at professional clients (this includes eligible counterparties as defined by the "appropriate EU regulator") who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description (including retail clients) should not rely on this communication.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information, and it should not be relied on as such.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

The performance data quoted represents past performance. Past performance does not guarantee future results.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

Assets may be considered "safe havens" based on investor perception that an asset's value will hold steady or climb even as the value of other investments drops during times of economic stress. Perceived safe-haven assets are not guaranteed to maintain value at any time.

© 2026 State Street Corporation. All Rights Reserved.
ID4415300-4948703.45.2.GBL.RTL 0626 Exp. Date: 06/30/2027