Insights
**Currency & Cash**

**December 2024**

# Currency Market Commentary

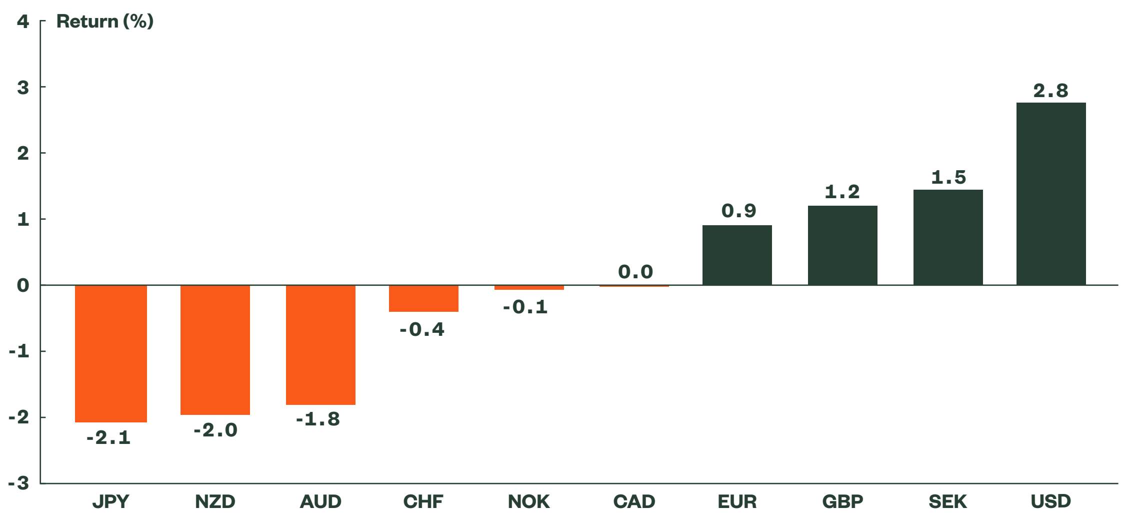
**Aaron R Hurd, FRM**
Senior Portfolio Manager

## Summary of Views

It was another strong month for the US dollar, supported by attractive relative growth, rising yields, and tariff risks posed by the incoming Donald Trump's administration. The yen was the worst-performing currency, driven by rising US yields and the Bank of Japan's decision to hold off on additional rate hikes at its December meeting. The Australian and New Zealand dollars also underperformed due to expectations for easier monetary policy and concerns about slow Chinese growth — a focal point for Trump's proposed tariffs. The euro and British pound underperformed the US dollar but gained relative to the G10 average, despite serious concerns about future growth prospects. Both currencies benefitted from increased yields and growing bearish sentiment on low-yields currencies with greater exposure to China. The Swedish krona also outperformed the G10, bolstered by euro strength and signs that the Riksbank is nearing the end of its aggressive easing cycle.

We anticipate continued US dollar strength into Q1 2025, supported by superior growth, rising yields, and its safe-haven appeal amid Trump's tariff risks. However, long US dollar is a consensus trade, the Q4 2024 rally was huge, and positions are becoming stretched. A modest, temporary pullback over the next 1–2 months due to profit-taking appears increasingly likely, as the slow, messy reality of the legislative process dampens optimism around some of Trump's more growth-positive policies. That said, any pullback in the dollar is expected to be temporary and shallow unless there is a material slowdown in the US economy.

Figure 1
**December 2024 Currency Return vs. G10 Average**




Source: Bloomberg and State Street Global Advisors, as of 31 December 2024. **Past performance is not a reliable indicator of future performance.**

Figure 2
**December 2024 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 Global Advisors, as of 31 December 2024.

Outside the US, we foresee ongoing growth struggles, lower short-end yields, and regional political risks in Europe weighing on both the euro and the Swiss franc. These factors will likely also limit any meaningful gains for the Norwegian krone and Swedish krona. However, much of this pessimism is already priced into the euro and Scandinavian currencies, whereas the British pound has been buoyed by relatively hawkish Bank of England (BoE) policy expectations. There is more room for BoE rate expectations to be revised downward as the economy stagnates and inflation gradually recedes. The descent of the New Zealand economy into recession, the dovish tilt of the Reserve Bank of Australia, and ongoing headwinds to Chinese growth — including US tariff risks — signal further weakness in the Australian and New Zealand dollars. On the upside, the recent selloff in these Antipodean currencies could open the door to a larger relief rally compared to Europe, should US tariffs prove milder than expected or Chinese stimulus turn out to be more robust.

The yen is unlikely to see significant appreciation against the US dollar until US yields begin to decline. However, it is poised to outperform against the G10 excluding the US, as yields outside the US are constrained by lackluster growth, a less favorable monetary and fiscal policy outlook, and disinflation. Consequently, we continue to favor a long yen position versus the Swiss franc. The expected yield differential between the two by April next year has collapsed from nearly 2% in favor of the franc to near zero. The last time this differential was at that level, CHF/JPY was trading around 120, while it is currently over 170, indicating a massive misalignment.

## Review and Outlook by Currency

### US Dollar (USD)

The US dollar rose steadily through December, finishing with a 2.8% gain against the G10 average and capping off a significant 7.7% rally for Q4. The US dollar strength began early in the month, driven by President-elect Trump's threats of 100% tariffs on BRICS countries should they seek alternatives to the US dollar as a primary reserve currency. A slightly better-than-expected employment report, including an upside surprise in average hourly earnings, helped the dollar maintain its gains. The dollar further strengthened in the week leading up to the Fed meeting on 18 December, buoyed by another 0.3% MoM increase in US core Consumer Price Index (CPI) and rate cuts from both the European Central Bank (ECB) and the Swiss National Bank. On 18 December, the Fed cut rates by another 25 bps but raised its projections for growth, inflation, and the policy rate for 2025. This, combined with a more dovish-than-expected Bank of Japan (BoJ) decision, triggered a sharp 1.25% jump in the dollar against the G10 average. Strong underlying US dollar fundamentals allowed it to hold these gains through the end of the month.

The US dollar remains the top-ranked currency in our model, supported by strong growth, high yields, and its safe-haven appeal. Trump's victory reinforces this dynamic for investors, given his focus on deregulation and tax cuts — both the extension of cuts from his previous administration and the prospect of additional new cuts. Meanwhile, growth in the UK, EU, Antipodeans, and China continues to soften. We expect the dollar to remain resilient with an upside bias, as the strong fundamental outlook makes it difficult to sell.

However, long dollar is a consensus trade, the Q4 2024 rally was substantial, and positions are becoming stretched. A modest, temporary pullback over the next 1–2 months, driven by profit-taking, seems increasingly likely as the slow, complex legislative process hampers some of Trump's more growth-positive policies. That said, any pullback in the dollar is likely to be temporary and shallow, barring a significant slowdown in the US economy.

Our long-term views remain unchanged. We have consistently held that the US dollar is likely to decline by at least 10–15% over a two-year horizon, as US yields and growth revert toward the G10 average, and the country grapples with substantial fiscal and current account deficits. Trump's plans to reduce spending and implement effective, wide-ranging deregulation that could spark a productivity renaissance — without significantly increasing fiscal debt — seem unlikely. If historical patterns repeat, any Trump stimulus will likely accelerate the build-up of US debt, pointing to a more challenging long-term outlook for the US economy, corporate earnings, and the dollar. For investors with over a two-year horizon, we strongly recommend short US dollar positions.

### Canadian Dollar (CAD)

The Canadian dollar ended December trading in a choppy range, finishing flat against the G10 average, but down 2.1% versus the US dollar. The month started positively with better-than-expected manufacturing and services Purchasing Managers, Index (PMI) reports. However, this momentum was quickly reversed following a disappointing November employment report on 6 December, which showed an unexpected rise in the unemployment rate from 6.5% to 6.8% and weaker wage growth than expected. This softer data solidified expectations for a 50 bps rate cut by the Bank of Canada (BoC) at its 11 December meeting.

While the BoC delivered the 50 bps cut as anticipated, Governor Macklem's accompanying statement hinted at a slower pace of rate cuts going forward. Following this, the Canadian dollar rebounded to near flat for the month before facing another setback due to a softer-than-expected inflation print on 17 December. A more hawkish-than-expected Federal Reserve decision on 18 December weakened the Canadian dollar against the US dollar but helped it to remain flat against the G10 as the US dollar's strength provided support.

For the remainder of the month, the Canadian dollar traded mostly sideways with a slight upward bias, buoyed by strong US dollar performance and better-than-expected October gross domestic product (GDP) figures. Despite this, the currency failed to regain positive momentum by the month's end due to the resignation of Canada's finance minister, weaker retail sales, and Canada's relatively low interest rates compared to other major economies.

We hold a neutral tactical view on the Canadian dollar versus the G10 and a modestly negative view against the US dollar. Our models suggest that the Canadian dollar has sold off excessively, particularly given lower interest rates and the recent improvement in economic growth. This presents a potential for a short-term relief rally for the Canadian dollar, perhaps bringing USD/CAD down to the 1.40–1.41 range. However, over the longer term, strong US fundamentals could push USD/CAD back toward its 2020 highs near 1.47, indicating further Canadian dollar weakness.

Nevertheless, the Canadian dollar appears more attractive against the broader G10 currencies. The positive spillover effects of US dollar strength, recent improvements in Canadian economic data surprises, and higher oil prices (driven by cold weather) are expected to provide support to the Canadian dollar moving forward.

## Euro (EUR)

The euro gained 0.9% against the G10 average in December, underperforming the US dollar by a wide margin but holding up well against the rate-sensitive Japanese yen and the China-sensitive New Zealand and Australian dollars. On 12 December, the ECB cut policy rates by 25 bps and signaled further 25 bps cuts in January, March and April. While this might seem like a recipe for broad euro weakness, it was actually a hawkish shift relative to expectations, which provided support for the euro. Entering December, markets had priced in 125 bps of ECB cuts through April, including three 25 bps cuts and one 50 bps cut. Following ECB President Lagarde's press conference, expectations were revised to just a 25 bps cut at each meeting — a less dovish outcome than anticipated.

Meanwhile, the Reserve Bank of Australia (RBA) tilted dovish, the BoJ surprised markets by holding rates steady instead of hiking, the Swiss National Bank (SNB) unexpectedly cut rates by 50 bps, and both New Zealand and UK growth data came in lower than expected. A positive surprise in EU services PMI on 16 December (51.4 vs 49.5 expected) provided further support for the euro. With much pessimism already priced into the EU growth outlook and the ECB rate path, December turned out to be a decent month for the euro, which outperformed the G10 excluding the US.

We are shifting to a neutral outlook with a slight negative bias on the euro over the tactical horizon versus the G10 average but expect more pronounced weakness against the US dollar, with the pair likely to fall to parity or slightly below. Household balance sheets remain strong, and unemployment is at historically low levels. Additionally, the pickup in services PMI and the moderation of expected ECB rate cuts to 25 bps per meeting are supportive factors; however, they are not enough to justify a long euro bias against the G10 average.

Several headwinds stand in the way of a more robust euro recovery, skewing risks to the downside in our near-term neutral outlook. Growth remains weak, largely due to a significant drag from the manufacturing sector. Long-term potential growth in the region is sluggish, and there is little political momentum toward much-needed economic reforms. While the revised ECB path is less dovish than initially expected, euro rates are still set to remain below 2% through 2025.

Political risk also looms large heading into 2025, with unclear leadership in France, the upcoming German election in February, and potential policy and tariff risks stemming from the new Trump administration in the US. Beyond these near-term challenges, our long-run fair value model suggests that the euro remains expensive relative to most G10 currencies, with the exception of the US dollar and Swiss franc.

## British Pound (GBP)

The British pound rose 1.2% against the G10 average in December, despite slowing growth, as markets adjusted their expectations for BoE rate cuts in response to persistently high wage growth and upside surprises in core and services inflation. The pound performed well early in the month, benefiting from being the highest-yielding G10 currency and having less exposure to Trump's threatened 100% tariffs on BRICS countries. Between 2 and 11 December, the pound remained steady against the US dollar and outperformed the G10 average.

The pound initially dipped following the ECB meeting on 12 December and the downside surprise in October's UK GDP, which contracted by 0.1% MoM versus an expected 0.1% gain. However, this weakness was short-lived, with the pound rallying mid-month on a positive surprise in services PMI and a strong October employment report, which showed addition of 173,000 new jobs compared to expectations of only 5,000. Additionally, average weekly earnings rose 5.2% YoY, above the 4.6% forecast. A more dovish than expected BoE decision on 19 December, in contrast to a hawkish Fed, caused a brief decline in the pound. Still, it managed to recover and close the month near its 18 December high, despite weaker-than-expected final Q3 GDP and November retail sales figures.

We are shifting from a negative to a neutral tactical view on the pound against the G10 average, with a negative bias due to a modest improvement in recent economic data surprises. Against the US dollar, we anticipate the pound could trade down to 1.20 or slightly below, in line with our downside expectations for EUR/USD. While strong employment, high yields, solid services PMI, and robust wage growth are favorable factors for the pound, we retain a negative bias due to slowing economic growth, likely flat (0%) growth in second half of 2024, and the potential for the BoE to cut rates more aggressively than markets expect in 2025.

Markets are currently pricing in slightly more than two 0.25% rate cuts for 2025, aligning closely with expectations for the Fed. However, with wage growth at 5.2% and core inflation persistently hovering around 3.5%, this outlook makes sense. Our concern lies in the recent economic slowdown and the potential for greater labor market weakness due to payroll tax hikes. The BoE's December vote was 6–3 in favor of holding rates steady, with three members voting for a 25 bps cut. BoE Governor Andrew Bailey downplayed the strength of wage data in his post-meeting comments, signaling that labor markets are more balanced. This indicates a bias toward easing that could quickly materialize if labor markets and growth weaken further.

Our long-term valuation model remains more positive on the pound, particularly against the US dollar and Swiss franc, where the pound appears undervalued. However, upside expectations should be tempered by low productivity growth and sticky inflation, which are pushing fair value lower. Since May 2022, the fair value of the pound versus the US dollar has fallen from 1.55 to 1.40. With inflation expectations and productivity differentials continuing to weigh, we expect fair value to decline to the upper -1.30s over the next few years. Despite this, the pound remains moderately cheap from current levels in the mid-1.20s, even if fair value trends downward as anticipated.

## Japanese Yen (JPY)

The yen was the worst-performing currency in the G10 during December, declining by 2.1% against the G10 average. As throughout 2024, the yen closely tracked US yields, and this month was no exception. Initially, the yen managed to gain 0.4% by 6 December, but as US yields began trending higher, with the 10-year yield rising by 48 bps from 6 to 27 December, the yen steadily declined, shifting from a 0.4% gain to a 2.6% loss by 27 December. Both US yields and the yen retraced some of their movements as the month came to a close.

While US yields played a significant role in driving the yen's weakness, Japanese yields were also a factor. Mid-month, the yen attempted a rally in anticipation of a possible BoJ rate hike or at least signals of a future hike at 19 December meeting. However, the BoJ opted to hold rates steady and maintained a cautious outlook, citing the need for more clarity on wage gains for 2025. As major wage negotiation results won't be released until March–April, markets started doubting a January rate hike, and the yen resumed its downtrend.

We maintain a positive long-term outlook for the yen, though we continue to expect modest underperformance against the US dollar. The divergence in monetary policy expectations between the Fed and the BoJ will likely keep USD/JPY in a 150–160 range, with potential to shift toward 155–165 if US yields rise further, such as if the US 10-year yield retests 5%. This is an upward revision from last month's expected 145–155 range. However, with the potential for 25–50 basis points of rate hikes from the BoJ and 50–75 bps of rate cuts from the Fed in 2025, we see USD/JPY trading lower toward 140 by year-end. As the yen approaches the 160 level, the risk of intervention to curb yen weakness increases. Such action could be well-received by the Trump administration, which favors a weaker US dollar.

Against the rest of the G10 (excluding the US), the outlook for the yen is more favorable. Slower growth and greater room for disinflation outside the US allow for greater yield compression relative to the yen. As a result, the yen, which is currently severely undervalued, is expected to outperform the G10 average. The Swiss franc, in particular, looks like an attractive short against the yen in the coming quarters. The yield differential between the two currencies, which was near 2% in favor of the franc in late 2023, is expected to fall to near zero by April 2025. The last time the differential was at that level, CHF/JPY traded near 120, while it is currently over 170, indicating a significant misalignment. The risk to this view lies in a broad reacceleration of US and global growth and inflation, which could challenge the yen's performance. Nevertheless, even in that scenario, while the yen might struggle against the US dollar, it would likely outperform currencies from regions with slower growth, especially in Europe.

## Swiss Franc (CHF)

In December, the Swiss franc fell 0.4% against the G10 average, with notable losses of 3.2% against the US dollar and 1.3% against the euro. Early in the month, the franc rallied on news of France's no-confidence vote and President-elect Trump's announcement of a 100% tariff threat against BRICS nations, which weakened the Australian and New Zealand dollars. The franc even managed a small gain against the US dollar at that time. However, the SNB surprised markets with a 50 bps rate cut on 12 December, which drove the franc lower. The currency's decline was exacerbated by a more hawkish-than-expected ECB decision on the same day, leading investors to adjust their expectations for future SNB rate cuts.

While the franc showed signs of recovery starting on 17 December, this upward trend proved short-lived due to ultra-low Swiss yields and a relief rally in the euro, which weighed on the franc's performance through the end of the month.

We maintain a negative outlook on the Swiss franc over both tactical and strategic horizons. According to our long-term fair value estimates, the franc is the most overvalued G10 currency.

It also has the second-lowest yields among G10 currencies, and by March 2025, it could have the lowest. Furthermore, Switzerland's core inflation is the lowest in the G10, and the real trade-weighted franc is at the upper end of its 30-year range.

With the SNB continuing to cut rates, we anticipate it may increasingly favor direct currency market interventions to weaken the franc once the policy rate drops below its current 0.50% level. Given that franc strength has directly contributed to low inflation through lower import prices, we believe the SNB could shift its focus from further rate cuts to a policy aimed at weakening the currency. Overall, we expect the franc to begin a long-term reversion toward our estimate of its fair value.

## Norwegian Krone (NOK)

The Norwegian krone was essentially flat, down by 0.1% against the G10 average in December, despite positive data on core inflation, retail sales, and industrial production. Historically, the krone is closely tied to oil prices, and this correlation was evident throughout the month. Brent crude oil prices moved sideways, with krone tracking the intra-month fluctuations. The krone experienced a small rally alongside oil prices early in the month, followed by a selloff through 6 December, a subsequent bounce until 13 December, and another pullback into 19 December.

On 19 December, the Norges Bank held its policy meeting, keeping rates steady at 4.5%. However, the bank indicated that rate cuts would likely begin at the March 2025 meeting. While this guidance was expected, it stood out due to its contrast with the Fed's upward revision of its 2025 rate expectations. As a result, the krone weakened, maintaining a softer tone until the end of the month, despite a gradual recovery in oil prices. Furthermore, the Norges Bank announced an increase in daily krone sales from 150 million to 250 million, contributing to a slightly negative outlook for January.

Our tactical model has shifted to a negative view on the krone relative to the G10 average. This shift is driven by a pullback in local equity market performance, which was only partially offset by a positive change in our economic surprise indicator. While krone remains historically undervalued based on our estimates of fair value and is supported by steady long-term growth potential and a strong balance sheet, we expect it to face near-term volatility. This uncertainty stems from oil markets grappling with reduced geopolitical tensions in the Middle East, potential increases in OPEC+ production, and policy uncertainties in Europe and the US.

## Swedish Krona (SEK)

The Swedish krona rose by 1.5% relative to the G10 average, outperforming the euro by 0.6% in December. While local economic data was mixed, it was mildly supportive of the currency. Manufacturing PMI rose slightly, while services PMI came in weaker than expected at 50.9, compared to the expected 53.2. Core inflation was weak at -0.2% MoM for November but beat expectations of -0.3%. Retail sales (excluding auto fuel) rose to 1.6% MoM for November, up from 0.9% the prior month.

The main drivers of the krona's performance appeared to be spillover from the steady uptrend in the euro and a more hawkish-than-expected decision by the Riksbank on 19 December. The central bank cut rates by 0.25% to 2.5% as expected but indicated that there might only be one more rate cut in the first half of 2025. Market expectations for rate cuts by May 2025 fell from 3.5 cuts to 2.16 cuts, signaling a hawkish shift that supported the krona, which rose nearly 1.0% on the day of the Riksbank meeting.

Our tactical outlook on the krona moved back to neutral in December. Slightly better economic data more than offset poor local equity market performance. The krona remains risk-sensitive with a high beta to the euro. Uncertainty over the EU economic outlook and the potential for global policy uncertainty to spark bouts of volatility in risky assets limit upside for the currency in the near term. However, the aggressive easing by the Riksbank anchors a more solid growth outlook for 2025 as monetary stimulus takes effect. The krona is currently undervalued relative to long-run fair value and is cyclically depressed. As growth picks up and global yields decline due to increased monetary easing from central banks like the Fed, the krona has room for recovery. While we remain neutral for now, we anticipate a more optimistic outlook for the currency later in 2025.

## Australian Dollar (AUD)

In December, the Australian dollar (AUD) faced a challenging month, down 1.8% relative to the G10 and 4.6% against the US dollar. Weakness in the currency began early in the month following a weaker-than-expected Q3 GDP report, with growth of just 0.3% QoQ compared to the 0.5% expected. The underlying details were even more concerning, with government spending accounting for a disproportionate share of growth. Additionally, President-elect Trump's threats of further tariffs on China contributed to negative sentiment.

On 10 December, the RBA held policy rates steady at 4.35%, but Governor Bullock struck a dovish tone, leaving the possibility of a near-term rate cut open. This prompted the currency to fall more than 0.5% on the day. A better-than-expected jobs report on 12 December provided momentary relief, but soft PMI and consumer confidence data reinforced the dovish central bank outlook and concerns over potential US tariffs on China. Furthermore, the relative hawkish shift in 2025 expectations for the ECB and Fed added downward pressure on the Australian dollar. While markets priced fewer rate cuts in the US, EU, UK, and Sweden for 2025, they priced in one additional rate cut in Australia. As a result, the dollar was unable to hold the gains from 12 December and continued to track lower through the end of the month.

Our tactical models are neutral on the Australian dollar with a negative bias. Growth headwinds from China, the lack of definitive fiscal stimulus from Chinese authorities, and the potential for significant US tariffs are significant challenges for the dollar strength. While Australian rates are among the highest in the G10, providing some support, the dovish outlook from the RBA suggests that this yield support may wane. On the positive side, the steep selloff in the Australian dollar during Q4 appears excessive relative to changes in growth and rates expectations. The currency is oversold by our estimates, potentially opening the door for a temporary bounce over the next 4–8 weeks. However, we may need to see AUD/USD approach 0.60 before a relief rally materializes. In the long term, the outlook for the Australian dollar is mixed. It is cheap relative to the US dollar, British pound, euro, and Swiss franc, offering room for appreciation, but it is expensive against the yen and Scandinavian currencies.

## New Zealand Dollar (NZD)

The New Zealand dollar experienced a 2.0% loss against the G10 average in December. Like the Australian dollar, the New Zealand dollar faced pressure early in the month following President-elect Trump's threats of 100% tariffs on BRICS countries, raising concerns over the potential spillover effects of a US-China trade war. The dovish shift in the RBA outlook on 10 December likely had a negative effect on the dollar as well, compounded by soft building permits, home prices, and manufacturing PMI data.

On 18 December, the Q3 GDP report came in much weaker than expected, showing a contraction of 1% QoQ versus the expected -0.2%, which sent the currency down nearly 1%. This negative growth pushed New Zealand into a technical recession, with two consecutive quarters of negative growth, and the recession turned out to be deeper than anticipated.

Our tactical model remains negative on the New Zealand dollar. The benefit of New Zealand's high yield has dissipated as the Reserve Bank of New Zealand (RBNZ) eases policy in response to disinflationary pressures and recessionary conditions. Ongoing challenges to growth and a weak external balance, with the current account at -6.7% of GDP, are enough to keep the currency under pressure. Additionally, risks associated with the US-China trade war pose a further headwind for the currency due to China's significant role as a trading partner.

While we believe the RBNZ's rate cuts are necessary and beneficial, the positive effects will take time to materialize. Until then, the outlook for the New Zealand dollar remains challenging. Looking ahead, our long-term outlook is mixed. Our estimates of long-term fair value suggest the currency is cheap relative to the US dollar and Swiss franc, with ample room for appreciation. However, it remains expensive against the yen and Scandinavian currencies.

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* Pensions & Investments Research Center, as of December 31, 2023.
†This figure is presented as of September 30, 2024 and includes ETF AUM of $1,515.67 billion USD of which approximately $82.59 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 Global Advisors are affiliated. Please note all AUM is unaudited.

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**Marketing communication**

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