CURRENCIES

CAMBRIDGE ASSOCIATES

USD vs Developed Markets Currencies

Facts & Figures Second Quarter 2025

The US dollar fell by 6.5% in 2Q 2025 in nominal trade-weighted terms, bringing its YTD performance to -9.1%. The announcement of tariffs saw the dollar and US risk assets underperform early in the quarter, though the US dollar did not take part in the subsequent rebound of US equities. The still-elevated real valuation of the dollar suggests there is room for further depreciation over a multi-year horizon. A continuation of the current geopolitical turbulence, however, could yet see a period of dollar strength if global conditions deteriorate.

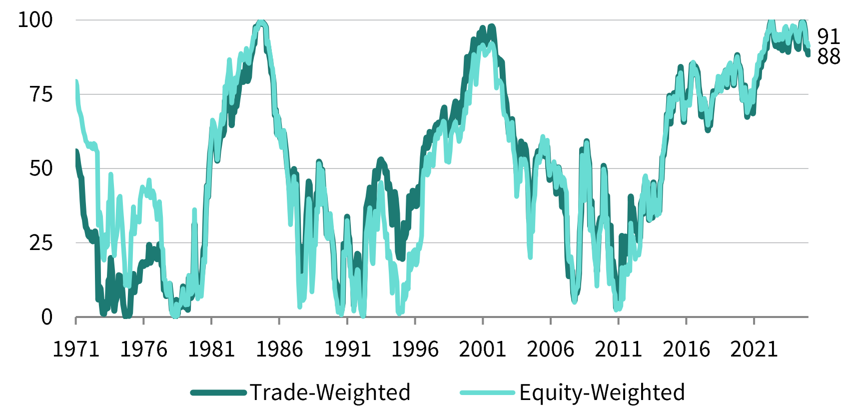
- A widening in interest-rate differentials between the US and its peers, because of an earlier rise in inflation and a more hawkish Fed, was the main plank of dollar strength since its rally began in mid-2021. The bulk of this widening had played out by October 2022, followed by a period of range trading. The US election took us right back to the top of that range as the proposed tariff, tax, and immigration policies of the incoming administration were expected to boost US growth and inflation, at least in the short run.

- Once the new administration in the US took office, asset markets focused on the growth-negative impacts of tariffs, as it became apparent that they would be implemented in a substantial way. The uncertainty engendered by the changeable policy has seen US growth slow, while the direct impact of tariffs are just starting to be felt. US interest rates declined slightly more than those of peers. However, in April and May, the dollar fell more than rate differentials alone would suggest, as foreign investors slowed or reversed US asset purchases in response to shifts in US economic and geopolitical strategy.

- The US dollar remains richly valued on a longer horizon. Its real effective exchange rate stands at the 91st and 88th percentiles for the equity- and trade-weighted series, respectively. Further easing of US rate expectations versus peers, but absent any serious global recessionary fears, would be the most potent catalyst for further USD weakness. Further growth and interest rate convergence may occur as tariff uncertainty causes greater revisions to US growth expectations, though the passage of the One Big Beautiful Bill may provide some tailwind to US activity in the medium term. The potential for the dollar to have its "exceptional" status eroded has also risen as international investors reconsider investments in the United States.

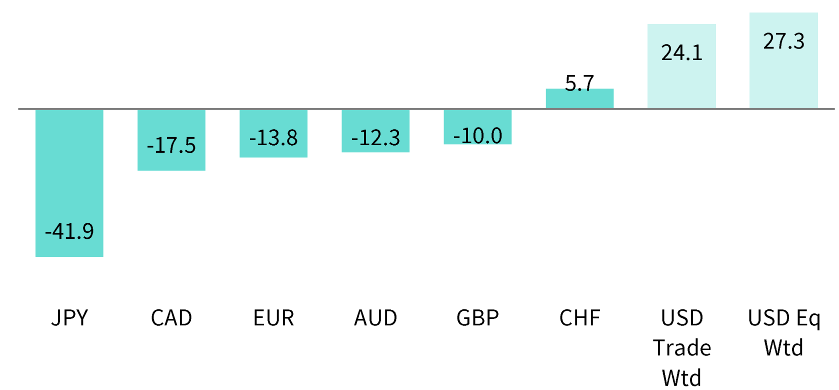
USD BASKET REAL EXCHANGE RATE PERCENTILE

Jun 30, 1971 – Jun 30, 2025



REAL EXCHANGE RATE VS THE USD: % FROM MEDIAN

As of Jun 30, 2025



Sources: MSCI Inc., National Sources, OECD, Refinitiv, Thomson Reuters Datastream, and US Federal Reserve. MSCI data provided "as is" without any express or implied warranties.
Notes: Australian inflation data are quarterly and as of March 31, 2025. All other inflation data are as of May 31, 2025.

Emerging Markets Currencies

Facts & Figures Second Quarter 2025

EM currencies, as measured by an equal-weighted basket, rose by 4.8% in 2Q 2025, bringing the YTD rise to 8%. This was driven primarily by a broad-based weakening of the dollar as US geopolitical policies impacted international sentiment toward US assets and resulted in growth and interest rate convergence versus peers. The medium- to long-term outlook should be helped by some further weakness in the dollar, though risks around tariffs and broader economic and geopolitical policy introduce some shorter horizon uncertainty.

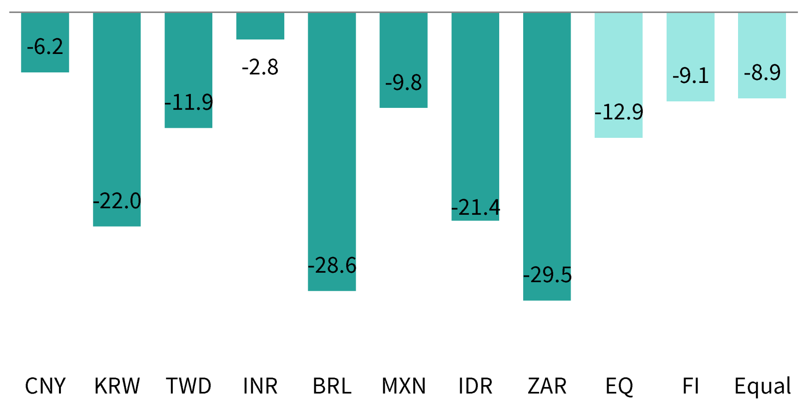
- EM currencies are highly sensitive to global growth prospects. In the post-COVID era, factors including impaired global supply chains, geopolitical risks, and fears of a policy-induced slowdown have variously impacted EM currencies. More recently, while US tariff policy could potentially eventuate a global slowdown, the relatively greater impact on US growth sentiment has more than offset these worries.

- Asian inflation has tended to be lower than peers, including post-COVID. As a result, Asian bonds and currencies have traded with a lower beta than their peers during broad risk-on and risk-off periods. This has broadly held true in the recent bounce, albeit with some notable exceptions, such as the Taiwan dollar and Korean won. The won experienced the largest depreciation in the build up to tariffs, and has bounced back strongly, while the TWD has been boosted by life insurer hedging activity. Nonetheless, the Asian heavy equity–weighted index has slightly lagged the debt-weighted index despite rising 5.4% YTD. Eastern European currencies have generally been the strongest performers so far this year, aided by a generally more-hawkish-than-expected tone from their central banks.

- The carry of EM currencies has declined since the end of 2021 as interest rate differential with DM markets has narrowed; however, the increased easing that has generally been expected of the Fed as inflation moderated saw some subsequent re-widening. Hedging out the FX exposure of EM equities currently results in a minor carry pick-up for a USD-based investor. It costs 1.8% to do likewise for EM local bonds, reflecting the greater weight of high-yielding currencies in that index.

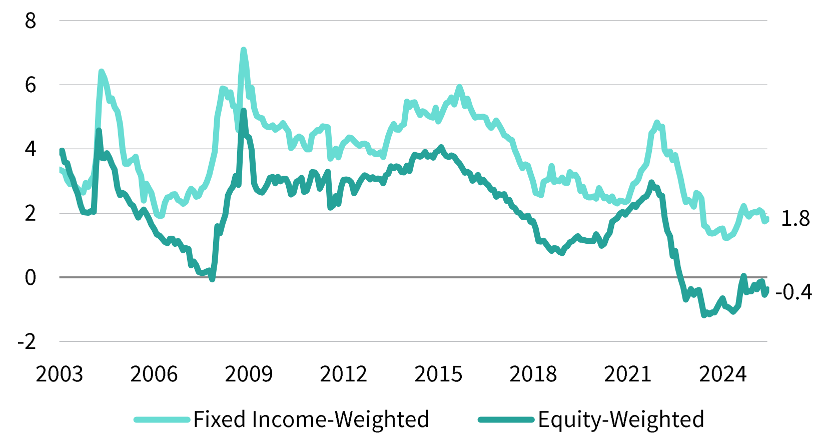
EM REAL EXCHANGE RATE VS USD: % FROM MEDIAN

Jan 31, 1994 – Jun 30, 2025



EMFX IMPLIED CARRY

Jan 31, 2003 – Jun 30, 2025 • Percent (%)



Sources: Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Taiwan; INE - National Institute of Statistics, Chile; International Monetary Fund; J.P. Morgan Securities, Inc.; MSCI Inc.; National Bureau of Statistics of China; Refinitiv; Thomson Reuters Datastream; and US Department of Labor - Bureau of Labor Statistics. MSCI data provided "as is" without any express or implied warranties.

GBP vs Developed Markets Currencies

Facts & Figures Second Quarter 2025

The pound had a modest appreciation in 2Q 2025, rising by 0.4% in trade-weighted terms to bring its YTD rise to 0.5%. Appreciation against a softening dollar was partially offset by declines against the euro and Swiss Franc. The pound is approximately at fair value in trade-weighted terms but remains cheap to the dollar. This year, consensus expectations for growth in the UK have improved modestly, though economic challenges remain.

- The Bank of England (BOE) commenced its rate cutting cycle in 3Q 2024 and one further cut this quarter brought the base rate to 4.25% after a cumulative 100 bps of cuts. Core inflation has continued to prove somewhat stubborn in the UK. Combined with sticky wage growth this has caused the BOE to be more cautious than peers regarding the pace of their rate cutting cycle. However, if growth indicators remains depressed, and US tariffs further weigh on activity, they should be able to keep cutting rates in 2025.

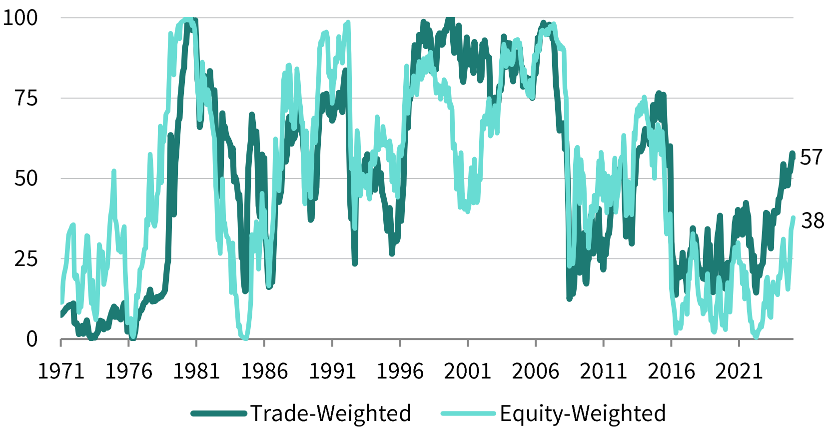
- The UK's structural current account deficit and the greater prevalence of cyclical sectors in the country's asset markets, gives sterling a propensity to behave as a risk-on/risk-off currency. Anemic domestic growth and rising bond yields have seen some concern over the UK's fiscal position add to this dynamic.

- The USD dominates the equity-weighted index, with a weight of 76%, given its dominance of the MSCI World index. We would expect cyclical softness in the dollar as tariffs weigh on growth and interest rate differentials converge. Longer term, the risk of capital being less attracted to the United States has risen because of recent policy actions. The euro dominates the trade-weighted index, at 56%.

- Monthly GDP data suggest 2Q will show weakness once more after a rebound in 1Q. However, positive real wage growth and a rate cutting cycle should still act as tailwinds as time goes on. Nonetheless, the imposition of tariffs by the United States will be a headwind. Consensus 2025 GDP growth expectations for the UK (1.1%) still lag that of broad DM (1.3%), though this may narrow as tariffs weigh on US growth. A period of political and economic stability may yet help cultivate an improved growth and markets environment. The fact that sentiment toward the United Kingdom and its risk assets remains depressed could prove supportive in the event of any improvement in fundamentals.

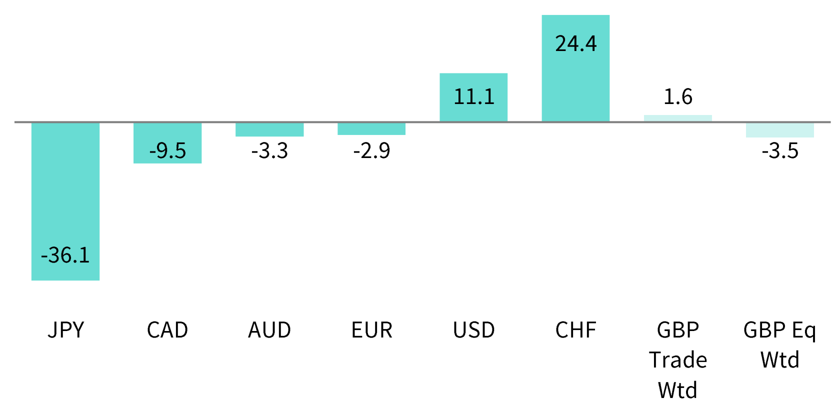
GBP BASKET REAL EXCHANGE RATE PERCENTILE

Jun 30, 1971 – Jun 30, 2025



REAL EXCHANGE RATE VS THE GBP: % FROM MEDIAN

As of Jun 30, 2025



Sources: Bank of England,MSCI Inc., National Sources, OECD, Refinitiv, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Australian inflation data are quarterly and as of March 31, 2025. All other inflation data are as of May 31, 2025.

EUR vs Developed Markets Currencies

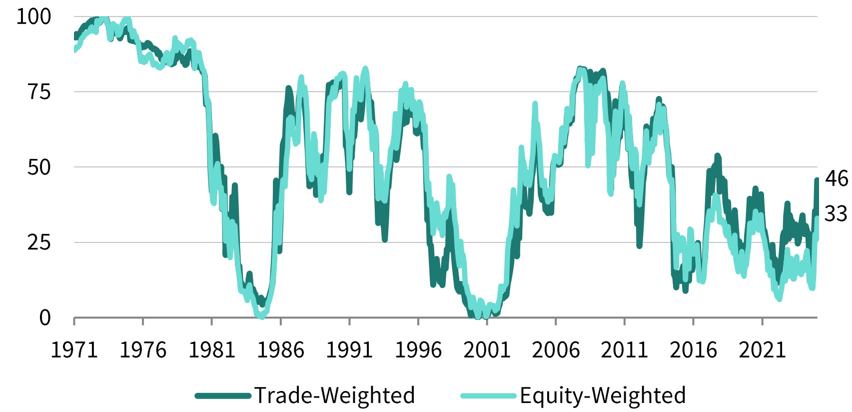
Facts & Figures Second Quarter 2025

The euro rose by 4.4% in trade-weighted terms in 2Q 2025, bringing its YTD rise to 6.5%. The euro rose against all major peers bar the Swiss Franc, though it was softness in the dollar that contributed most to its trade-weighted rise. In the medium to long term, a weakening dollar may be a continued tailwind for the euro. Volatility is likely in the short run as growth and inflation expectations fluctuate in line with changing trade tariffs.

- The ECB began a rate cutting cycle last June that has since seen them reduce policy rates by a cumulative 200 bps. Headline and core inflation are at unproblematic levels and US tariff policy should prove deflationary if anything. Though now near the end of its cutting cycle, these conditions would allow the ECB to continue easing should the activity picture further weaken.
- Though GDP growth has been materially positive in the euro area for several quarters, it has been held up by strong growth in the periphery while growth in the core, especially Germany, remains anemic. As a result of this and other geopolitical developments, the German parliament has approved large infrastructure and military stimulus packages. The EU have also indicated some willingness to expand deficits. The subsequent rise in real rates has contributed to the euro's climb and rate differentials may be less of a structural headwind going forward. Eurozone growth is expected to come in at 1.0% this year, slightly underperforming the 1.3% expected of broader DM.
- On an equity-weighted basis, the REER stands at the 33rd percentile, while it is at the 46th percentile on a trade-weighted basis. These values are 8.2% and 1.2% below median, respectively. The direction of the dollar remains key for the euro outlook, especially for the equity-weighted index which has an 81% weight to the USD. We would expect cyclical softness in the dollar as tariffs weigh on growth and interest rate differentials converge, while there is a risk of less capital being attracted to the US because of recent policy actions.
- The chances of increased fiscal and regulatory convergence between periphery and core, which is likely needed to boost potential growth and deliver domestically generated appreciation of the euro, have improved. Completing the capital markets union and growing issuance of jointly issued bonds have moved up the policy agenda in response to a changing trading, growth, and security environment.

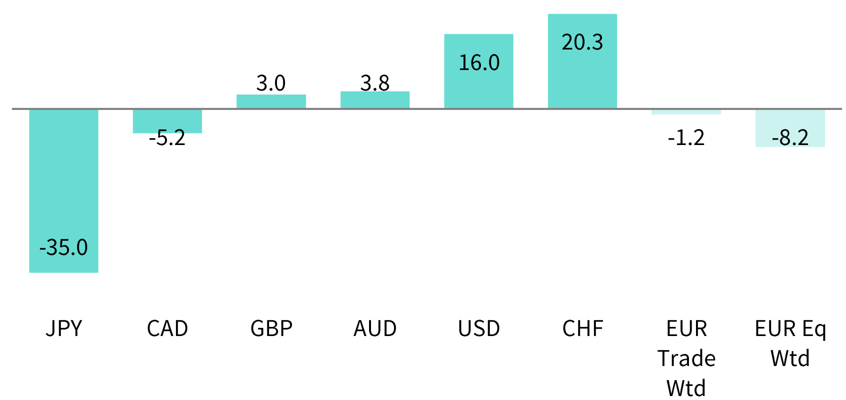
EUR BASKET REAL EXCHANGE RATE PERCENTILE

Jun 30, 1971 – Jun 30, 2025



REAL EXCHANGE RATE VS THE EUR: % FROM MEDIAN

As of Jun 30, 2025



Sources: European Central Bank, MSCI Inc., National Sources, OECD, Refinitiv, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

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Digital Assets
Facts & Figures Second Quarter 2025

The price of bitcoin increased 30% in 2Q. Over the past 12 months, the cryptocurrency has surged 78%. More broadly, digital assets have enjoyed strong performance; the S&P Cryptocurrency Broad Digital Market Index rose 26.3% in 2Q and was up 38.7% in the past 12 months.

- Bitcoin experienced a strong rally in 2Q, following an initial period of volatility driven by tariff-related concerns that unsettled risk assets. Performance rebounded swiftly after the announcement of 90-day tariff pauses. In early April, bitcoin traded below $75,000 but subsequently surged to a record high of nearly $112,000 in June. This rally was fueled by a shift toward risk-on sentiment, increased allocations to bitcoin by corporations, and ongoing discussions regarding the establishment of bitcoin reserves by sovereign nations.

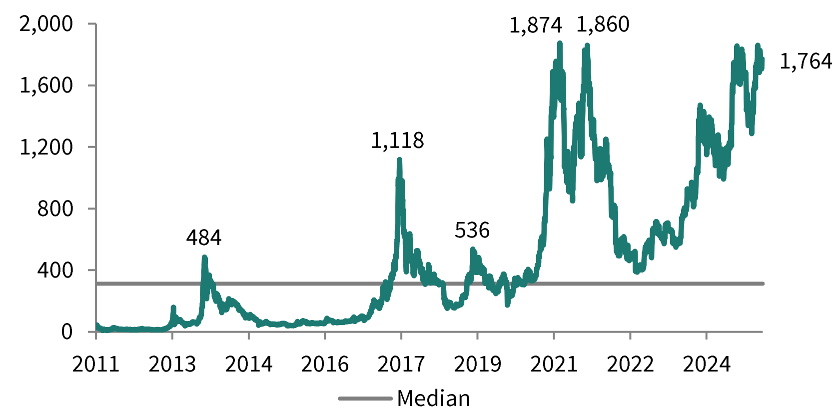
- There are few reliable options for valuing digital assets. One metric—price-to-transactions per coin (P/TC)—can be viewed as a crude valuation metric for bitcoin. Transactions per coin offers a way to gauge the utility of coins in circulation. Thus, a high P/TC could indicate speculation, with bitcoin being priced expensively for every unit of its transaction volume. But transactions per coin only show bitcoin's utility as a medium of exchange and doesn't inform on how users "stake" bitcoins, which can indicate bitcoin's utility as a store of wealth.

- Digital asset investing involves significant risks, with high price volatility being the most prominent compared to equities. Although volatility levels have moderated as digital assets gain broader acceptance and liquidity, they remain elevated. For example, over the past three years, bitcoin exhibited a standard deviation nearly five times greater than that of equities. Less established digital assets are likely to experience even higher levels of volatility.

- Bitcoin is just one of thousands of different cryptoassets that utilize blockchain technology. Implementation options have historically been limited, but passive and active options—including dedicated custodians, cryptoasset trusts, and venture capital and hedge funds—continue to be introduced.

BITCOIN PRICE
Dec 31, 2015 – Jun 30, 2025 • US Dollars

RATIO OF BITCOIN PRICE TO TRANSACTIONS PER COIN
Aug 31, 2011 – Jun 30, 2025



Sources: Blockchair.com and Thomson Reuters Datastream.
Notes: Bottom chart represents the USD price of bitcoin divided by the number of transactions per coin outstanding. All data are daily.