

Currencies

USD vs Developed Markets Currencies

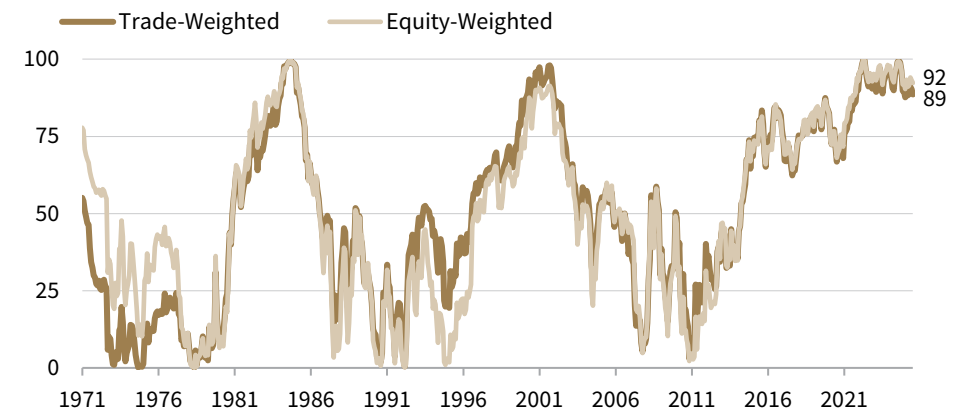
Facts & Figures Fourth Quarter 2025

The US dollar rose 0.2% in 4Q 2025 paring its calendar year loss to -8.2%. The weakening during 2025 was initially driven by tariff announcements and resultant uncertainty and expected growth impact, in addition to foreign hedging of US assets. Rate differentials have since narrowed and further USD weakness is possible as these themes persist, aided by a still-elevated valuation.

- The US dollar remains richly valued, with its real effective exchange rate at the 92nd and 89th percentiles for the equity- and trade-weighted series, respectively. This elevated valuation suggests scope for further depreciation over a multi-year horizon as several cyclical and secular trends reverse.
- A widening in interest-rate differentials—driven by earlier US inflation and a more hawkish Fed—was the main driver of dollar strength since mid-2021. Most of this had played out by October 2022, leading to a period of range trading since then. By the start of 2025, we were back toward the top of that range, as proposed US tariff, tax, and immigration policies were expected to boost US growth and inflation in the short term.
- We have returned to the bottom of that range as markets focused on the growth-negative impacts of tariffs for the US. Declining growth and interest rate differentials between the US and its peers has underpinned this move lower, with both developments having further room to run. The Fed is likely to cut rates more than most peers, with the BOJ in fact hiking, while fiscal easing may support euro area growth. Non-US investors have also turned somewhat more cautious on USD-denominated investments, hedging their currency exposure.
- A key risk to this view is whether the US economy, despite a softening labor market, may reaccelerate because of fiscal easing from the OBBB and other potential forms of stimulus. Additionally, while elevated equity valuations and concentration in tech/AI are a risk factor for a dollar, persistence of that sectoral theme could offer some support.

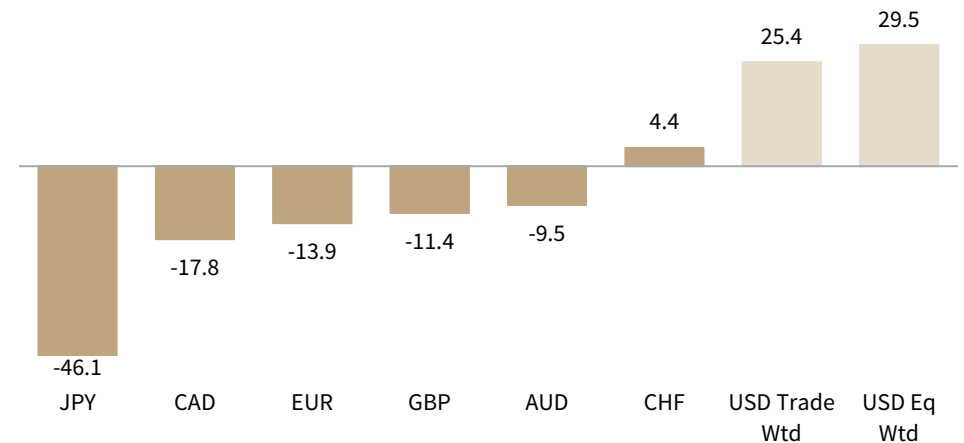
USD basket real exchange rate percentile

Jun 30, 1971 – Dec 31, 2025



Real exchange rate vs the USD: % from median

As of Dec 31, 2025



Sources: MSCI Inc., National Sources, OECD, and Thomson Reuters Datastream. MSCI data provided “as is” without any express or implied warranties.

Notes: Australian inflation data are quarterly and as of September 30, 2025. All other inflation data are as of November 30, 2025.

GBP vs Developed Markets Currencies

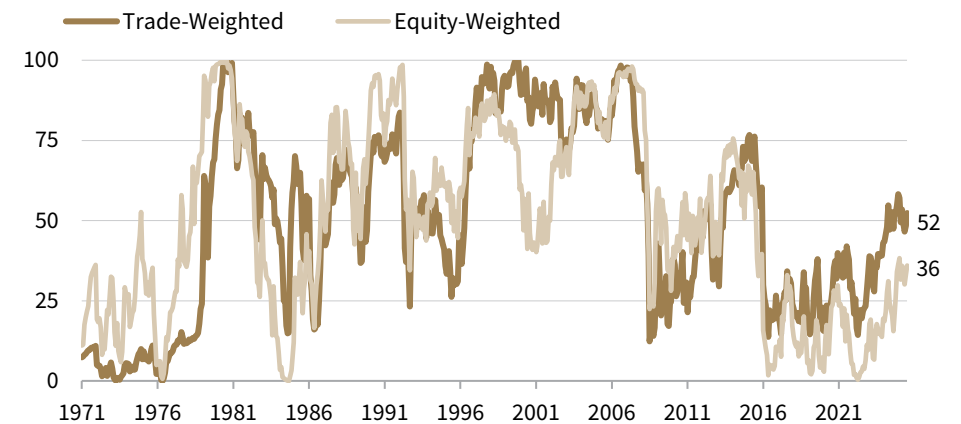
Facts & Figures Fourth Quarter 2025

Sterling was flat in trade-weighted terms in 4Q 2025 bringing its trailing one-year performance to -1.2%. The trailing one-year performance is primarily a function of a rising euro, while a decline in the dollar provided some offset. Domestically, activity has decelerated, the BOE has cut interest rates, and the budget was passed, placating the market.

- Sterling remains near fair value in trade-weighted terms but is still cheap relative to the dollar. The USD dominates the equity-weighted index with a weight of 76%, while the euro has a weight of 56% in the trade-weighted index. An expectation of further weakness in the dollar should support sterling going forward, particularly on an equity-weighted basis
- Economic growth in the UK has decelerated. While the UK had the fastest economic growth in the G7 during 1Q 2025, at 0.7%, by 3Q that had slowed to a meagre 0.1%. Consensus 2026 GDP growth for the UK stood at 1.1% at year end, slower than the 1.4% expected for 2025 and the 1.7% expected for broader DM this year. Still, the composite PMI has stood above 51 for the past three months, indicative of a slightly firmer expansion, while the budget has helped to lift the uncertainty that had pertained in the run up.
- The BOE cut their base rate by 25 bps to 3.75% during the quarter. Sticky inflation has restrained the bank from easing further to support growth. However, inflation seems likely to ease further, making additional rate cuts likely, especially if activity remains weak. Continued rate cuts should bring down currently high levels of household saving, underpinning domestic conditions.
- The UK's structural current account deficit and the prevalence of cyclical sectors in its asset markets give sterling a risk-on/risk-off profile. Sentiment toward UK risk assets remains depressed, which could prove supportive if fundamentals improve. Recent fiscal concerns, while likely over-amplified, do maintain some potential to disrupt markets in light of global debt-load concerns.

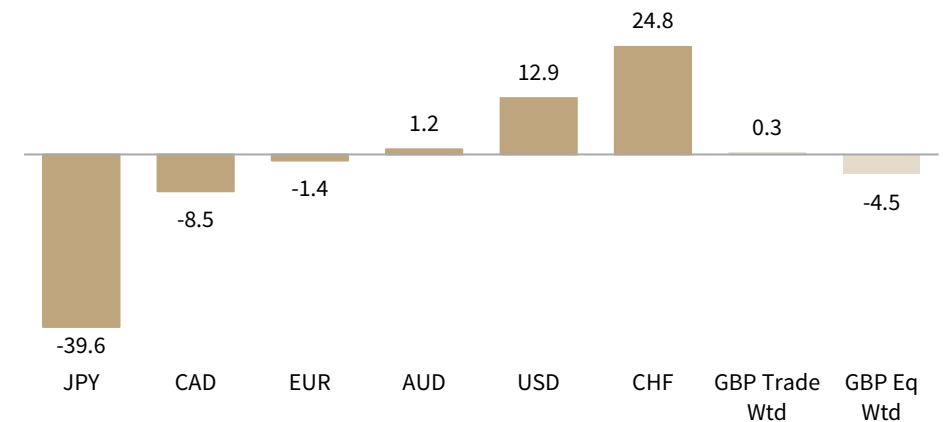
GBP basket real exchange rate percentile

Jun 30, 1971 – Dec 31, 2025



Real exchange rate vs the GBP: % from median

As of Dec 31, 2025



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

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EUR vs Developed Markets Currencies

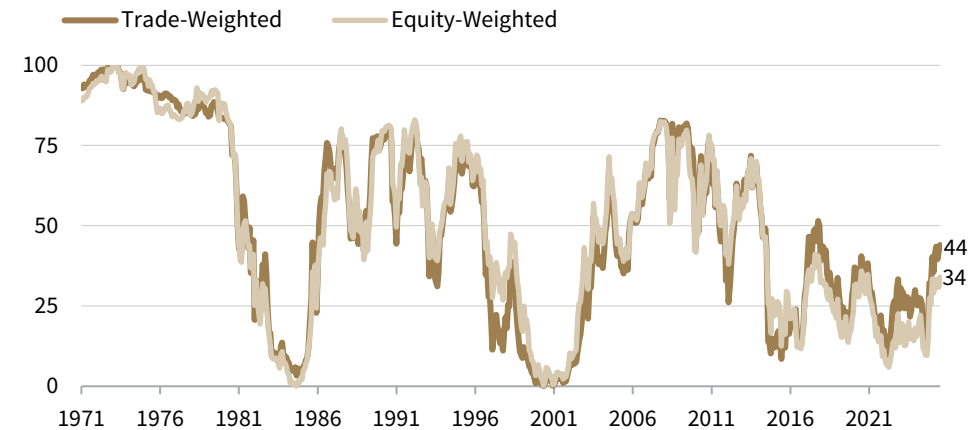
Facts & Figures Fourth Quarter 2025

The euro rose 0.2% in trade-weighted terms in 4Q 2025 bringing its trailing one-year performance to 7.6%. The euro's rise has been supported both by dollar weakness and broad strength for domestic reasons. ECB rate cuts, announced German stimulus, and strong peripheral growth were key drivers of regional optimism, while US policy uncertainty and Fed rate cuts have weighed on the dollar.

- On a valuation basis, the euro's REER stands at the 34th percentile on an equity-weighted basis and the 44th percentile on a trade-weighted basis, 7.7% and 1.6% below median, respectively. While the rise of the trade-weighted index to near its median reflects improved expectations of domestic circumstances, the direction of the dollar remains a key driver for the equity-weighted index (81%) and explains the additional undervaluation on that measure.
- Despite improving growth expectations, the economic backdrop is somewhat mixed. Eurozone GDP growth has been positive for several quarters, supported by strong periphery performance. The cumulative 200 bps of cuts delivered by the ECB, untroubling inflation and planned German fiscal stimulus are all supportive of future growth. These factors have contributed to a rise in real rates, which supported the euro's climb. Nonetheless, there are only tentative signs that Germany's growth impulse has bottomed as it battles competitiveness issues, while France faces political gridlock. Eurozone growth is expected to be 1.2% in 2026, up from 1.1% expected a quarter ago, compared to 1.7% for DM.
- To further materially drive domestically generated euro appreciation, greater fiscal and regulatory convergence between the periphery and the core is likely needed, to boost potential growth. Completing the capital markets union and expanding jointly issued bonds would also contribute to the financial resilience of the region. While expecting further appreciation against the dollar, risks include growth acceleration in the US due to further policy support, a moribund German economy, and an escalation of French political instability.

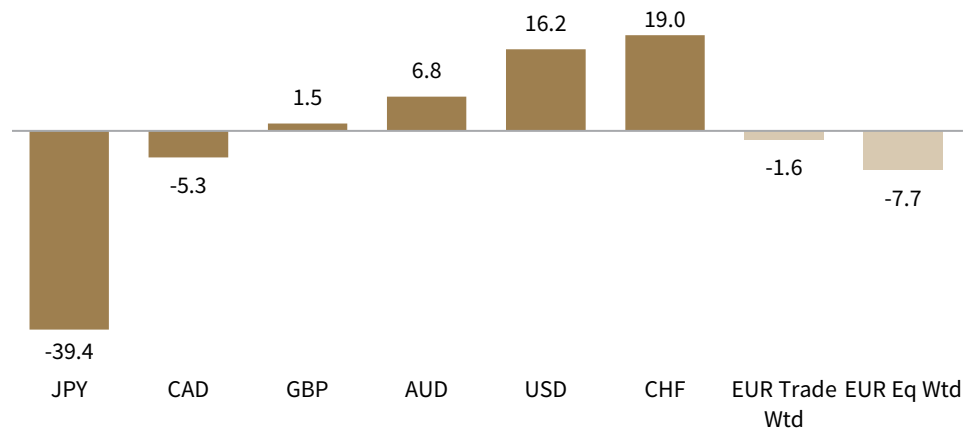
EUR basket real exchange rate percentile

Jun 30, 1971 – Dec 31, 2025



Real exchange rate vs the EUR: % from median

As of Dec 31, 2025



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

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Digital Assets

Facts & Figures Fourth Quarter 2025

Bitcoin fell 23.3% in 4Q as negative sentiment rippled across digital assets. For full-year 2025, bitcoin dropped 6.3%. The S&P Cryptocurrency Broad Digital Market Index also fell, losing 26.8% in 4Q and 15.4% for the year.

- The macro backdrop in 4Q was relatively stable, and most risk assets posted positive performance. This type of environment has typically been supportive for digital assets, but bitcoin suffered its worst quarter since 2022 after reaching an all-time high price of \$126,000 in October. The sharp decline was driven by a mix of factors: renewed regulatory uncertainty in the US and Europe, stress in crypto derivatives markets that led to forced selling, and a sharp rise in caution among investors toward digital assets.
- Measures of crypto market sentiment, such as the CMC Fear and Greed Index, indicated that investors turned extremely fearful of crypto investments in November. Such measures could be used as contrarian indicators, given the large sentiment-driven aspects of crypto assets generally.
- Given bitcoin's unique characteristics and limited history, there are few reliable valuation metrics. One metric is price-to-transactions per coin (P/TC), which can capture bitcoin's utility as a medium of exchange. Bitcoin's current P/TC ratio is highly elevated relative to history, which signals speculative pricing compared to transaction volume.
- Digital assets remain far more volatile than stocks. Over the past three years, bitcoin's price swings were nearly 5x larger than those of equities, and smaller cryptoassets are likely even more volatile. While volatility has eased somewhat as acceptance and liquidity have grown, it is still a key feature of the asset class.
- Implementation options have expanded, with both passive and active vehicles now available, including custodians, cryptoasset trusts, and VC and hedge funds, providing a range of access points to the broader universe.

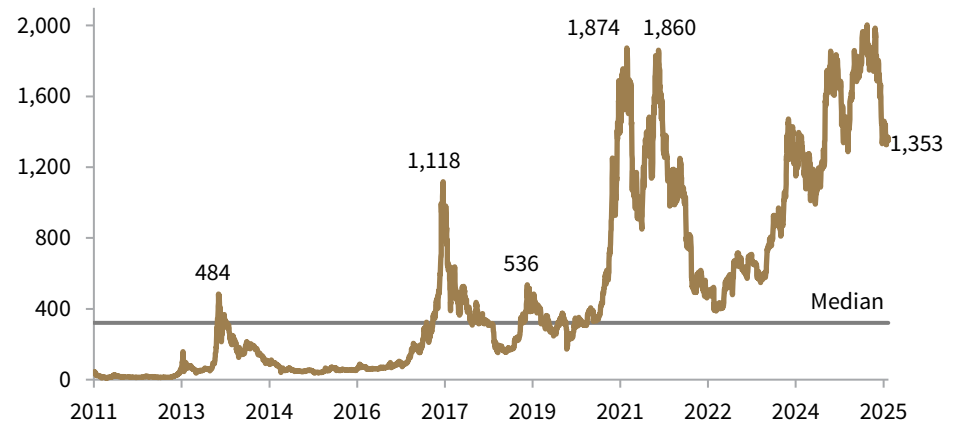
Bitcoin price

Dec 31, 2015 – Dec 31, 2025 • US Dollars



Ratio of bitcoin price to transactions per coin

Aug 31, 2011 – Dec 31, 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.