Currencies

USD vs Developed Markets Currencies

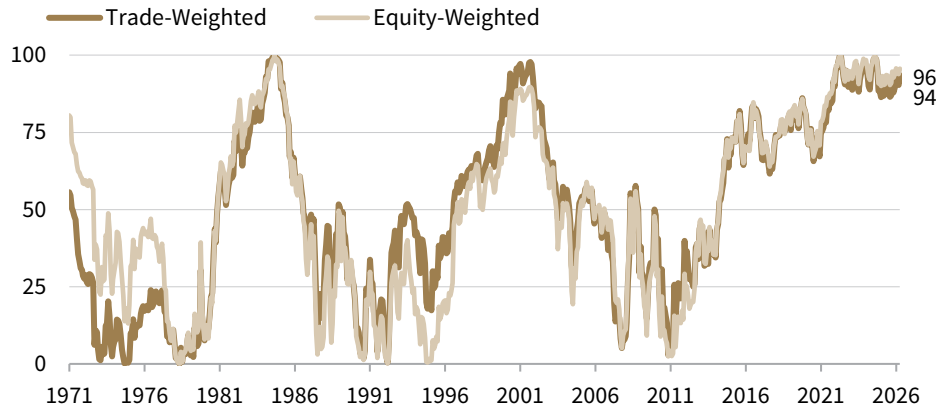
Facts & Figures Third Quarter 2026

The US dollar rose 0.2% in trade-weighted terms in 3Q 2026 bringing its trailing one-year performance to 3.0%. An escalation in the Iran War has delivered some support for the dollar via an increase in energy prices. Meanwhile, widening interest rate differentials have also helped lift the dollar above its prior range. Bigger picture the dollar's still-elevated valuation points to a weaker currency over time, aided by subsiding support from growth differentials and capital flows.

- The US dollar remains richly valued, with its real effective exchange rate at the 96th and 94th 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.
- The dollar peaked for this cycle in late 2022 and reapproached those levels in early 2025 as markets expected proposed US tariff, tax, and immigration policies to support US growth and inflation. Subsequently, however, the dollar began a decline as policy uncertainty and tariffs weighed on the US outlook, seeing non-US investors increasing their dollar hedges. More recently, the uncertainty engendered by war, uneven impact of higher energy prices, and widening interest rate differentials have given the dollar some renewed support.
- With nearly four hikes priced in by late next year, the support from interest rate differentials now looks mature. Support derived from the uncertainty and energy impact of recent conflicts should also subside in time. Risks from concentration, valuation and geopolitics should also mean that persistent support from capital inflows is unlikely to endure. The global policy backdrop should also be a headwind, including continued BOJ hiking and increased fiscal spending in Germany.
- Key risks to this view include a reacceleration of the US economy on the back of AI investment, a continuation of the Iran War which impacts peers more than the United States, or persistent outperformance of tech/AI attracting foreign inflows despite elevated valuations.

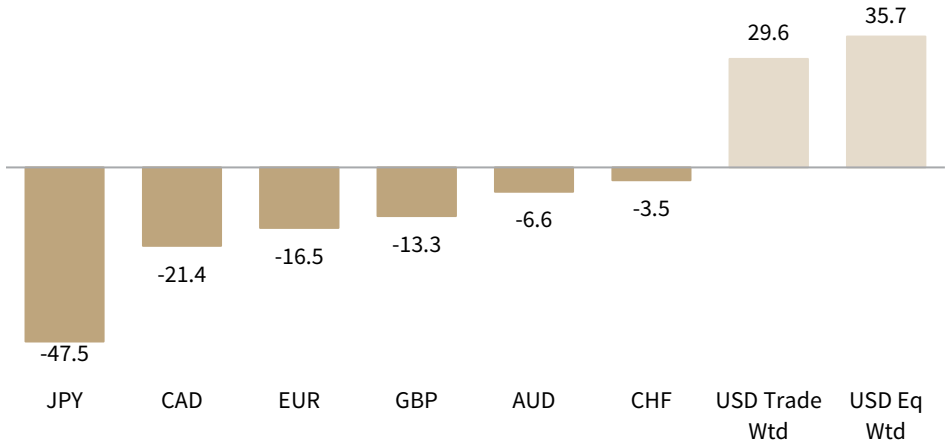
USD basket real exchange rate percentile

Jun 30, 1971 – Sep 30, 2026



Real exchange rate vs the USD: % from median

As of Sep 30, 2026



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 June 30, 2026. Canada, Japan, and UK inflation as of August 31, 2026. All other inflation data are as of September 30, 2026.

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GBP vs Developed Markets Currencies

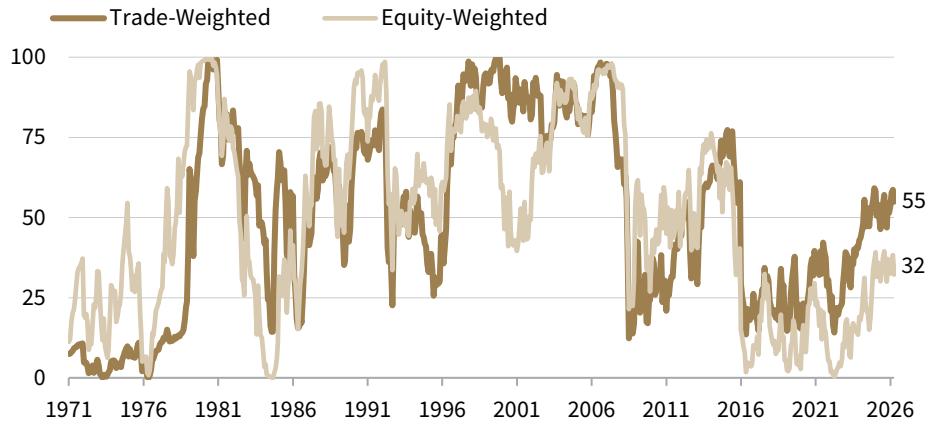
Facts & Figures Third Quarter 2026

Sterling was up by 0.6% in trade-weighted terms in 3Q 2026 bringing its trailing one-year performance to 1.1%. While sterling's strength over the last year has been relatively broad-based, euro softness was the main driver of trade-weighted performance. Domestically, there are signs of a firming in activity, however, the labor market remains soft, and the impact of the Iran War continues to represent a headwind.

- 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 77%, while the euro has a weight of 55% in the trade-weighted index. Our expectation of further weakness in the dollar should support sterling going forward, particularly on an equity-weighted basis
- The UK's consensus GDP growth forecast has inched up during 2026 (now at 1.2% with upside ahead) despite the rise in energy prices, due to an unexpectedly strong 1H, though it remains below broader DM expectations of 1.7%. The monthly GDP prints for July and August show some continuing strength, though a composite PMI of 52 is consistent with moderate growth. Furthermore, the labor market continues to appear soft, albeit there are some signs of bottoming.
- The BOE kept rates at 3.75% during the quarter, despite the increase in energy prices. With core inflation now firming some hikes may be forthcoming, however pricing of nearly 4 hikes still appears excessive. Cuts should eventuate once energy price volatility subsides. This would bring down currently high levels of household saving, helping to support domestic demand.
- 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. The upcoming budget may be a source of some volatility, in light of global debt-load concerns and recent UK fiscal concerns, though the latter is likely overstated.

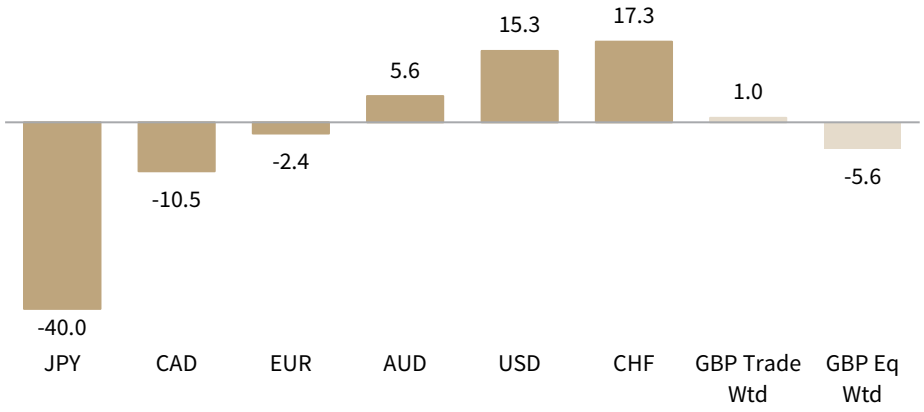
GBP basket real exchange rate percentile

Jun 30, 1971 – Sep 30, 2026



Real exchange rate vs the GBP: % from median

As of Sep 30, 2026



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

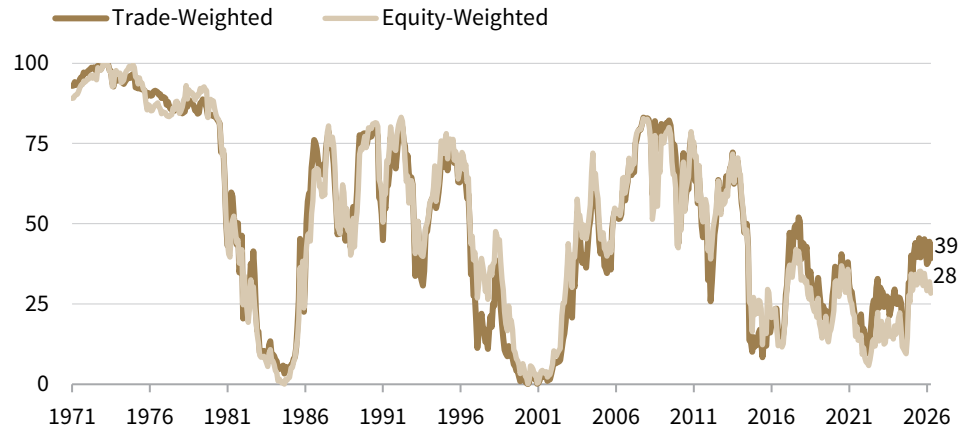
Facts & Figures Third Quarter 2026

The euro fell 0.2% in trade-weighted terms in 3Q 2026 bringing its trailing one-year performance to -1.5%. The euro's softness reflects the impact of higher energy prices and widening rate differentials versus the US, while French political gridlock has challenged fiscal credibility. On a longer horizon, the euro should be supported by German stimulus, stronger peripheral growth, and a US dollar that should decline from an elevated valuation.

- On a valuation basis, the euro's REER stands at the 28th percentile on an equity-weighted basis and the 39th percentile on a trade-weighted basis, 9.6% and 1.9% 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.
- The economic backdrop is mixed in the Eurozone. GDP growth forecasts have been revised down since the outbreak of the Iran War, due to the region's greater reliance on energy imports in the face of higher energy prices. Yet, activity is showing resilience in the face of this headwind with GDP growing 0.6% in 2Q and the PMI in solidly expansionary territory. Once the conflict ultimately de-escalates, monetary stability, and likely easing, in addition to German fiscal stimulus, should be supportive of future growth. Nonetheless, there are only tentative signs that Germany's growth impulse has bottomed as it battles competitiveness issues, while France faces political gridlock.
- 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 French political instability undermining fiscal credibility, stronger US growth, German stagnation, and an extended war in Iran.

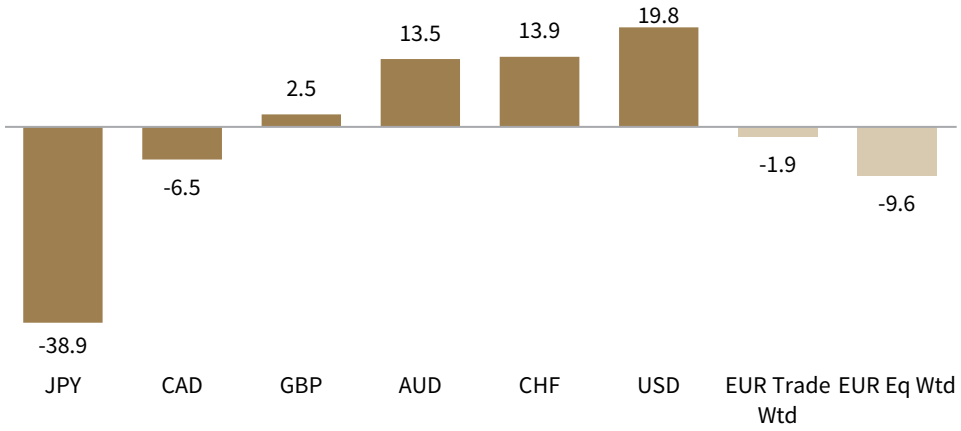
EUR basket real exchange rate percentile

Jun 30, 1971 – Sep 30, 2026



Real exchange rate vs the EUR: % from median

As of Sep 30, 2026



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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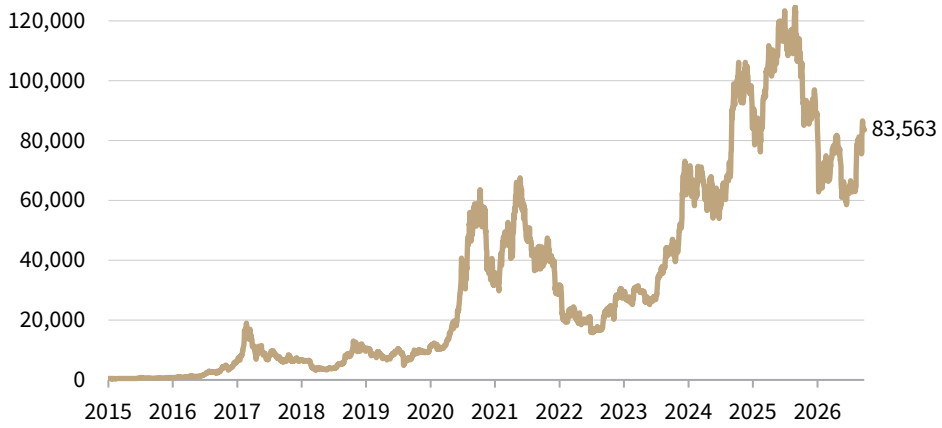
Digital Assets
Facts & Figures Third Quarter 2026

Bitcoin rose 42.8% in 3Q as investor confidence improved, while the S&P Cryptocurrency Broad Digital Asset ex Bitcoin Index gained 50.2%. Despite the rebound, trailing 12-month returns remained negative for bitcoin (-26.7%) and the broader digital asset index (-37.5%).

- Bitcoin rebounded after three consecutive quarterly declines. A sharp rally in late August followed the Treasury's announcement of expanded long-dated bond buybacks, which revived concerns about dollar debasement; short covering may have amplified the move. Spot bitcoin ETFs attracted nearly $6.4B in net inflows during the quarter.
- Crypto market sentiment improved sharply, with the CMC Fear and Greed Index briefly reaching "extreme greed" in late August. Sentiment moderated by quarter-end but remained moderately bullish and well above 2Q lows. Given crypto assets' sensitivity to investor sentiment, such measures may serve as contrarian indicators.
- 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.

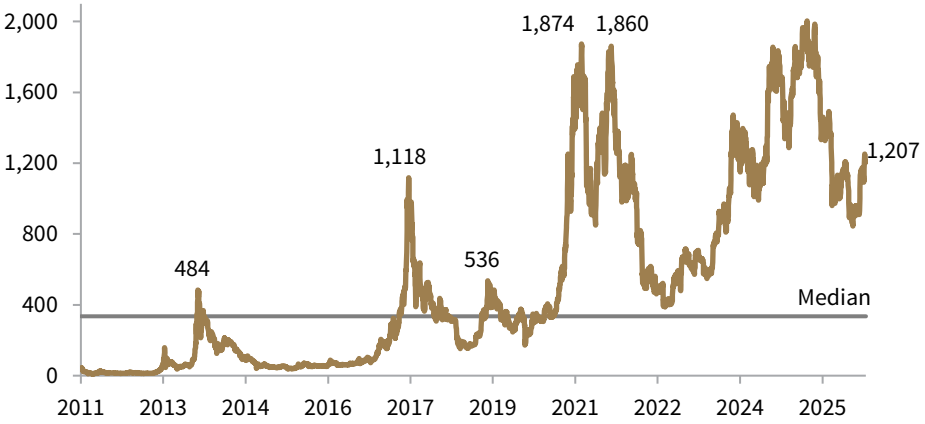
Bitcoin price

Dec 31, 2015 – Sep 30, 2026 • US Dollars



Ratio of bitcoin price to transactions per coin

Aug 31, 2011 – Sep 30, 2026



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.

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