

Global Currency Commentary

Q1 2025



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Global Currency Commentary Q1 2025

Record Currency Management

\$100bn
AuME*
as of December 2024

94
Employees

40+
Years' experience
managing currency

27
Members of the
Investment Team

\$900bn
Annual Trading
Volume

Valuations

	Start	End	% Change	High	Low	Valuation†
EUR	1.04	1.08	-4.14%	1.09	1.02	-29.6%
JPY	157.16	149.54	5.10%	158.42	147.16	-39.1%
GBP	1.25	1.29	-2.97%	1.30	1.22	-14.0%
CAD	1.44	1.44	-0.07%	1.46	1.42	-20.7%
CHF	0.91	0.88	2.43%	0.92	0.88	9.3%
AUD	0.62	0.62	-0.64%	0.64	0.62	-15.4%
SEK	11.05	10.05	10.00%	11.30	9.99	-19.8%









†over/under valuation of foreign currency vs USD based on PPP

3m Annualised Carry (Hedging to USD)

EUR	JPY	GBP	CAD	CHF	AUD	SEK	Total
2.1%	4.1%	0.0%	1.8%	4.3%	0.3%	2.1%	2.1%

Total = MSCI World ex-US

G10 Currency Moves

 USD	Depreciated against most G10. U.S. economic weakness kept the dollar under pressure, and uneven communication on tariffs allowed for a partial unwind in tariff premium	 CHF	Appreciated due to risk-off movements into the franc in response to U.S. growth anxieties. This is despite the SNB cutting the Swiss bank rate to just 0.25%, the lowest among G10 economies
 EUR	Appreciated as optimism for the Eurozone picked up following the announcement of military spending packages by the EU and Germany, and investors rotated away from U.S. assets into European assets	 CAD	Depreciated as Trump's tariffs weighed on the loonie. However, the currency showed remarkable resilience, only weakening marginally and supported by rising inflation and a BoC holding rates
 JPY	Appreciated due to Japan's relative isolation from Trump's trade agenda and the yen's safe-haven status benefitting from U.S. weakness	 AUD	Appreciated despite soft economic data and exposure to Trump's tariff policies via China. Cautious messaging from the RBA further supported AUD, even as its easing cycle began
 GBP	Appreciated as resurgent UK inflation prompted BoE policymakers to make a hawkish cut in February and keep rates on hold in March. Some expected UK resilience to Trump's tariffs further supported GBP	 SEK	Appreciated following a burst in domestic inflation, prompting the Riksbank to pause rate cuts. Green shoots for Sweden's economy also helped build optimism for the Krona, as Q4 GDP outperformed

Appreciation/depreciation is against the USD, with USD versus G10 average

Source: Record. Data as of March 31, 2025, unless stated otherwise. *AuME = Assets under management equivalent and includes the total notional exposure of Passive Hedging, Currency for Return, Dynamic Hedging (maximum hedgeable exposure). March 31, 2025 numbers will be available when Record plc announces its trading update on April 25, 2025.

Developed Markets



The US dollar depreciated following uncertainty in US markets

US dollar

Donald Trump's return to the White House proved tumultuous, with the new President's policies and geopolitical manoeuvring fueling uncertainty in markets. In the leadup to the President's inauguration, USD strength picked up in anticipation of Trump implementing an aggressive tariff regime. However, uneven communication and indecisive action on tariffs, including delaying implementation on multiple occasions, drew scepticism from market participants and resulted in a partial tariff premium unwind for USD. Tariff headlines largely overshadowed communications from the FOMC, which held rates steady at its January and March meetings. However, the outlook for Fed policy has become increasingly dependent on the evolution of economic policy, especially trade policy, limiting the effectiveness of forward guidance.

Market reactions to U.S. economic weakness kept the dollar under pressure. U.S. retail sales got off to a weak start in 2025, and increasingly pessimistic consumer sentiment readings have cast doubt on the U.S. growth outlook. That said, recession fears tempered later in the quarter, as hard data (e.g. payrolls, durable goods orders) demonstrated resilience, even as soft data characterized slower growth ahead. The weaker outlook weighed on U.S. yields and equities, with the S&P 500 entering correction territory in March. Despite the risk-off movement, USD remained weak and did not benefit from its typical safe-haven capacity as investors instead rotated funds out of the U.S. into assets such as European equities and gold. The resulting dollar weakness was further exacerbated by Europe gaining

economic momentum after the EU and Germany announced overlapping fiscal stimulus packages with an emphasis on defence and infrastructure spending.

Euro

Optimism for the Eurozone gathered pace in Q1, with the EU announcing an increase in military spending and Germany putting to vote a fiscal package to increase infrastructure and defence investments. The prospect of a fiscal windfall, combined with weakness in the U.S., boosted European assets. German elections resulted in a viable CDU/SPD coalition, bringing much needed political stability to the country. Additionally, hopes for a ceasefire between Ukraine and Russia further boosted the euro, although negotiations are ongoing. The European Central Bank (ECB) lowered rates by 25bps in January and March, but policymakers have signaled a shift to a more gradual easing pace in response to the brighter Eurozone outlook and a need for further disinflation progress.

Japanese yen

Japan's relative isolation from Trump's trade agenda and the yen's safe-haven status allowed the currency to benefit from market upheaval in North America and Europe. Much of the yen's rally can be explained by external forces, but internally, domestic data continued to print to the BoJ's liking, with core inflation remaining close to target and real wage growth staying positive. Strong gains for unions during the Spring wage negotiations are set to further boost wage growth, raising the possibility of the BoJ bringing hikes forward if price growth continues to accelerate.

British pound

Resurgent UK services inflation put the Bank of England (BoE) on notice, leading policymakers to make a hawkish cut in February and keep rates on hold in March. Should UK wage and price pressures remain stubbornly persistent, the risks could even be tilted toward a slower pace of easing, preserving the GBP's rate advantage over peer currencies. Better-than-expected GDP data and the possibility of a ceasefire in Ukraine further buoyed the pound. The UK has also so far avoided Trump's tariff ire. Resilience here likely lies in the fact that it currently runs a trade deficit against the US, at least regarding goods. That said, some lingering doubts over the feasibility of the ruling Labour Party's fiscal plans limited overall pound strength.

Swiss franc

The Swiss National Bank (SNB) elected to reduce its key interest rate by 25bps in March, citing depressed inflation and global economic uncertainty. The move brought the Swiss bank rate to just 0.25%, the lowest among G10 economies. Near-zero policy rates and renewed optimism for the Eurozone have unwound some of the safe haven appreciation that benefited CHF, but anxieties over U.S. growth provided a bulwark against any USD rebound.

Canadian dollar

Trump's tariff threats cast a long shadow over the Canadian economy in Q1, however, the Loonie mostly held firm in the face of adversity, weakening marginally. Trump's 25% tariff on Canadian imports were initially delayed and eventually reduced, with carve outs for energy, autos and USMCA compliant goods. The piecemeal approach limited the FX impact as markets await further policy communication in April. Trump's aggression helped to spark renewed support for Canada's ruling Liberal party, which countered with its own retaliatory tariffs against U.S. goods. Newly elected Liberal PM Mark Carney struck a defiant tone in his victory speech, and expressed interest in trade cooperation beyond the U.S. The Loonie was further supported by rising inflation in Canada as well as the Bank of Canada signaling it was nearing the end of its easing cycle.

Australian dollar

Despite soft economic data and exposure to Trump's tariff policies via China, AUD eked out a small gain versus USD this quarter. The Reserve Bank of Australia (RBA) at last commenced easing at its February meeting, making it the last G10 nation, sans Japan, to enter the global easing cycle. The RBA maintained its cautious messaging even as softer inflation and employment data led market participants to expect a more rapid pace of easing. Australia runs a trade deficit with the U.S.

and has so far dodged tariff threats, but exposure to China leaves it vulnerable to future trade policy developments.

Swedish krona

The Krona outperformed its G10 peers in Q1, helped by a sudden burst in domestic inflation which prompted the Riksbank to put rate cuts on hold. Green shoots for Sweden's economy were apparent following a better-than-expected Q4 GDP report, however more decisive hard data, particularly for consumption, are likely necessary to cement optimism for a turnaround. The Krona further benefited from its status as a high-beta EUR proxy thanks to revived prospects of a ceasefire in Ukraine and hope for a European peace dividend.

Equities and Bonds

The S&P 500 declined about 4.6% over the quarter. Initially, equities advanced through mid-February, aided by tariff threats either being postponed or scaled back. However, sentiment soured when growth concerns tied to those tariffs took center stage. While the labor market remains relatively solid, consumer confidence has deteriorated sharply. In parallel, the **10-year Treasury yield fell by roughly 33bps**. Notably, inflation expectations actually climbed, suggesting that investors worried about a potential stagflationary shock.



Trump's tariff threats had mixed effects on a range of G10 currencies

Emerging Markets

Key EM Themes

President Trump's repeated tariff threats initially weighed on export-oriented EM economies. However, many EM currencies appreciated once the market focus turned to a slowing US economy. Although most EM central banks paused their cutting cycles, Brazil stood out by continuing to hike aggressively. Meanwhile, Fed funds futures moved from pricing under one rate cut to more than three, improving forward carry prospects for EM currencies. Divergences remained as some "hawkish cuts" still occurred, as in Mexico, where Banxico emphasized that tariffs could reignite inflation. Importantly, tariff risk was priced out by the market for much of the quarter, but that could reverse if Trump follows through on fresh "Liberation Day" tariff announcements on April 2, 2025.

Emerging-market currencies generally **appreciated against the dollar** after U.S. growth concerns overshadowed President Trump's early tariff threats.



Many EM currencies appreciated as tariff risk was priced out

CEEMEA

European EM currencies benefited not only from delayed tariffs but also from renewed optimism tied to Germany's fiscal package. Expectations for stronger demand in Europe lifted the **Hungarian forint (HUF)**, **Polish zloty (PLN)**, **Romanian leu (RON)**, and **Czech koruna (CZK)**. The **South African rand (ZAR)** gained in part due to tariff postponements and later found support from progress on a budget agreement within the ruling coalition.

LatAm

The **Brazilian real (BRL)** strengthened significantly thanks to back-to-back 100bp Selic rate hikes aimed at combating inflation and offsetting fiscal stimulus under President Lula. Early indicators show inflation may have peaked, with higher rates working through the economy. The **Chilean peso (CLP)** benefited from rising copper prices and a "hawkish hold" by its central bank. The **Mexican peso (MXN)** appreciated as tariff threats were repeatedly delayed and President Sheinbaum pursued a conciliatory stance toward Washington. Moreover, speculation about renegotiating parts of USMCA fostered hopes that Mexico might address looming

U.S. demands. Although Banxico cut its policy rate by 50bp, it maintained a cautious tone and warned that inflation could reignite if tariffs were fully implemented.

Asia

The **Indonesian rupiah (IDR)** underperformed after the central bank adopted a more dovish tilt (emphasizing growth) and amid lingering fiscal concerns, such as proposed changes to export-proceeds rules. The **Korean won (KRW)** weakened slightly, hindered by uncertainty over President Yoon's impeachment. The **Chinese renminbi (CNH)** appreciated modestly on the hopes for some relief in US/China tensions, particularly around Chinese tech issues. The **Philippine peso (PHP)** appreciated, benefiting from a notable downside inflation surprise that improved its carry outlook.



BRL strengthened thanks to persistent rate cuts

Currency upside considerations

\$

- **FOMC cutting cycle shallower** than expected on inflation pressures
- **Trump cabinet pursues blanket tariffs** and fiscal expansion
- **Geopolitical risks rise** in Middle-East, Russia-Ukraine war, and Sino-US relations

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- **UK and EU build on relations** under a Labour government
- **Growing wage demands and tight labor** market add to BoE hawkishness
- **Labour budget improves growth** and investment beyond the near term

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- **Conflict de-escalation** in the Russia / Ukraine war and ceasefire / peace deal
- **Trump lowers proposed tariffs** on key sectors in Europe after concessions
- **Germany debt brake reform** leads to fiscal windfall in second half of year

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- Yen weakness and or volatile moves drive **intervention by Ministry of Finance**
- **Political pressure** leads to a more assertive stance at the Bank of Japan
- **Risk-off events** (e.g. China/US/Taiwan) and lower commodity prices

Currency downside considerations

- **Disinflation trend sustained as** higher real rates lead to a weaker labor market
- **Tariff policies** less aggressive than expected
- **Institutional and monetary stability** risks under a Trump presidency
- **Potential stagflationary** impact of Trump's immigration and trade policy

- **Labour pursue a fiscal expansion** with limited structural growth impact
- **Inflation moderates further**, increasing the probability of rate cuts
- **Risk sentiment worsens** and weighs on the pound as a risk-sensitive currency

- **Economic challenges in China** weigh on European export growth outlook
- **Germany's economy weakens** as traditional business model threatened
- **Fiscal pressures from defence** spending widen peripheral spreads

- **LDP Minority government** lacks mandate and encourages easier policy by BoJ
- **Wage growth fails to settle at 3%**, reducing the BoJ's confidence in rates hikes
- **Output gap falls below zero** as an impediment to policy normalization

Key Event Risks

Date	Currency	Event	Potential Implication
Apr 17	EUR	ECB Interest Rate Decision	The OIS market is split between a halt and a 25bp cut. Friedrich Merz's budget shifted the odds slightly in favor of a halt.
Apr 28	CAD USD	Canada Election	Newly elected Liberal leader Mark Carney is expected to call a snap election for the end of April. A renewed Liberal majority would likely pose stiffer resistance to Donald Trump's aggressive tariffs on Canadian goods.
Apr 30	USD	Q1 25 GDP First Estimate	Due to companies front running tariffs, net exports are expected to be negative, which could lead to the first negative quarterly GDP print since Q1 2022.
May 1	JPY	BoJ Interest Rate Decision	No rate hike expected.
May 2	USD	US Employment	First payrolls report follow announcement/implementation of reciprocal tariffs.
May 7	USD	Fed Interest Rate Decision	No action is expected, but Jerome Powell addressing US growth, the labour market, potential acceleration of inflation in the context of tariffs might be a market mover.

Risk Warnings

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