

# Global currency outlook



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## Emerging-market currencies take centre stage



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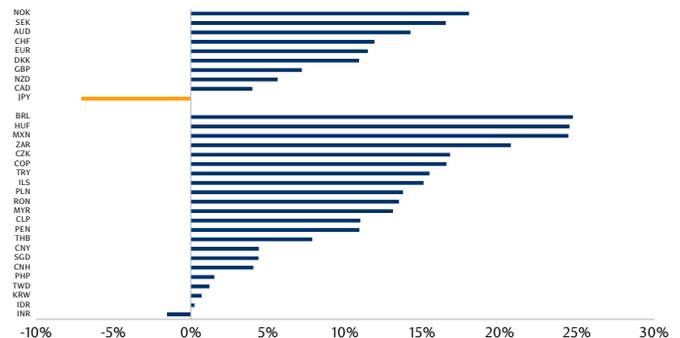
Our assumption at the end of last year was that the U.S. dollar would resume its weakness on continued tariff uncertainty, unrestrained fiscal spending and the threat of a politicized Federal Reserve (Fed). Over the past year, the dollar has fallen by roughly 10% on a trade-weighted basis (Exhibit 1), and the declines have furthermore unfolded against both emerging- and developed-market currencies (Exhibit 2). Outside of Asia, where currencies tend to be highly managed by central banks, returns against the dollar have averaged 12% to 15%. Double-digit returns are less common these days, but we think this move is simply the first phase of the dollar’s descent. Analogues to past U.S.-dollar bear-markets (Exhibit 3) suggest that another leg of U.S. dollar weakness is coming, and that at least another 10% fall is needed to bring the overvalued greenback down to levels more in line with its purchasing power over the next few years.

**Exhibit 1: Long-term cycles in the U.S. trade-weighted dollar**



Note: As at February 13, 2026. Source: Bloomberg, U.S. Federal Reserve, RBC GAM

**Exhibit 2: 12-month currency returns**



Note: As at February 26, 2026. Source: Bloomberg, RBC GAM

Supporting the view that we are in the early stages of another big U.S. dollar bear market are a variety of cyclical and structural factors. A few of these are worthy of more detailed explanation.

**The U.S. yield advantage has shrunk**

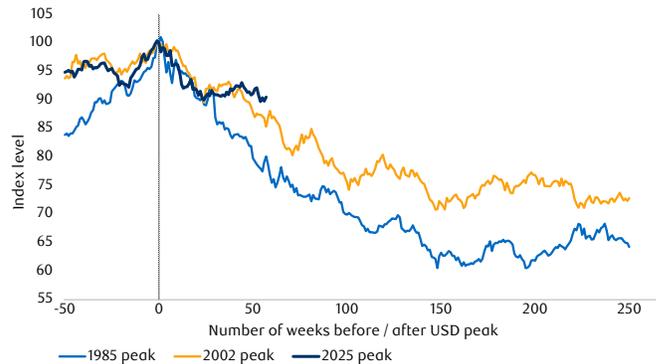
The Fed remains in rate-cutting mode, most recently reducing the bank’s key policy rate by 25 basis points in December, and two more interest-rate reductions are expected before year-end. The arrival of Kevin Warsh, a Fed governor between 2006 and 2011, as the replacement for current Chair Jerome Powell is aligned with market expectations for further interest-rate cuts. Warsh was likely required to establish his predisposition for cutting rates as a condition for securing President Trump’s nomination. Even if the Fed ends up easing monetary policy less than is currently expected, the Fed will stand out as one of the more dovish developed-market central banks, since the European Central Bank (ECB) and the Bank of Canada (BOC) appear to be on hold while central banks in Japan and Australia have been raising rates (Exhibit 4).

**There is greater competition for capital from the rest of the world**

For several years, returns on U.S. stocks have outrun other developed-market regions as greater fiscal spending bolstered domestic economic growth. U.S. returns have also been fuelled by exposure to the technology companies that have been at the forefront of developing and supplying artificial intelligence (AI). More recently, however, U.S. stocks have begun to cede some of their leadership (Exhibit 5) on concerns about valuations and that AI will destroy the business models of software developers, which account for

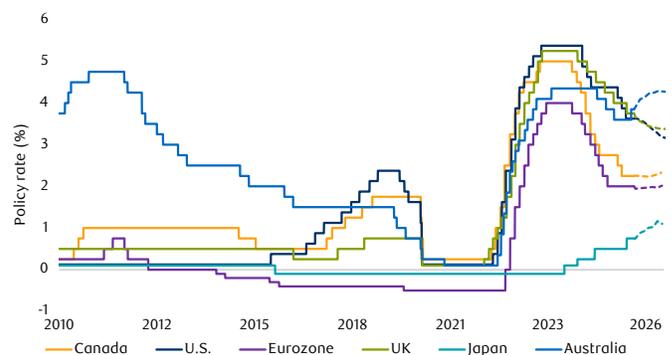


**Exhibit 3: Past bear markets suggest further dollar downside**



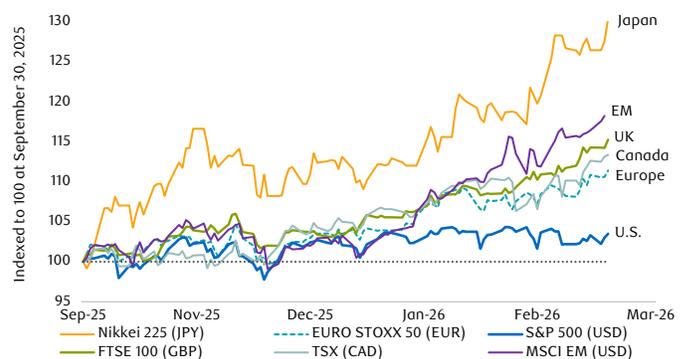
Note: As at February 22, 2026. Source: U.S. Federal Reserve, Bloomberg, RBC GAM

**Exhibit 4: The Federal Reserve’s cutting bias stands out against other developed-market central banks**



Note: As at February 27, 2026. Source: Bloomberg, RBC GAM

**Exhibit 5: U.S. stocks have lagged other markets**



Note: As at February 25, 2026. Source: Bloomberg, RBC GAM

10% to 15% of U.S. equity indexes. The so-called “Magnificent Seven” stocks began to underperform in early February. Investors have also taken note of better prospects for equities in Europe and emerging markets given rising growth forecasts for those regions (Exhibit 6). Europe’s increased defense spending arrives with full force this year, and an added boost will come from the rush to spend expiring post-pandemic emergency funds.

Cross-border capital flows suggest that American investors are joining their overseas counterparts in pulling back from the S&P 500 and reinvesting proceeds abroad. This behaviour is important because even a small allocation shift in the US\$80 trillion estimated to be in U.S. portfolios (Exhibit 7) would be enough to move the needle on foreign equities and currencies. In fact, large capital shifts are likely to have big impacts on smaller and less liquid markets like Canada, Australia, Switzerland and much of the emerging-market world.

### Geopolitics is a catalyst that could trigger more U.S.-dollar weakness

Trump’s musings since last year about taking over Greenland provoked a decisive and united response from European nations, which have banded together in solidarity. Doubts over whether the U.S. will support fellow NATO members are

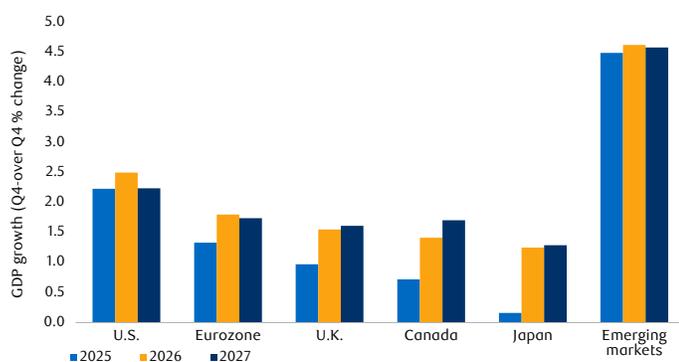
likely to have far-reaching effects on economies, currencies and borrowing rates across the globe. The theme stretches far beyond the decisions of Finland, Sweden and Denmark to liquidate at least some of their U.S. Treasury holdings. The U.S. retrenchment from global institutions leaves a security and economic void that will require Europe to spend more on defense and perhaps hand China the chance to inherit greater global influence in areas where the U.S. is stepping away.

### A credible threat of coordinated intervention has emerged

Importantly, a weaker U.S. dollar might well serve U.S. interests. Fed minutes released in February confirmed that the Treasury is considering joining Japan in selling U.S. dollars.

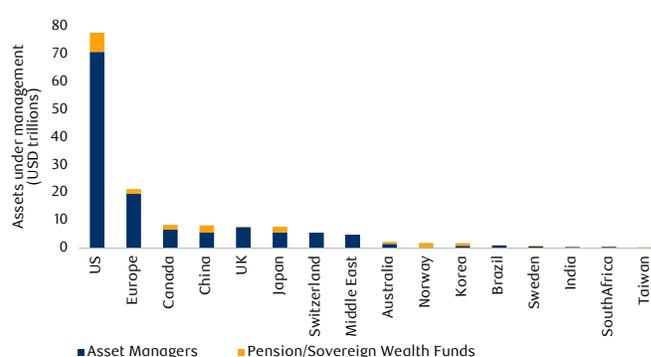
Officials at Japan’s Ministry of Finance (MOF) have for months been expressing concern about U.S.-dollar strength, ratcheting up their warnings to market participants. Having been put on notice, investors are unlikely to be surprised if Japanese authorities decided to intervene in currency markets. What caught traders off guard were steps taken by the Fed’s trading desk sending a message that the U.S. could join the intervention. We would note that Japan and the U.S. acting in tandem would have much bigger impact on currency movements than Japan acting alone.

Exhibit 6: Robust growth forecasted outside the U.S.



Note: As at February 6, 2026. RBC GAM Economic forecasts. EM includes Brazil, China, India, Mexico and Russia. Source: RBC GAM

Exhibit 7: U.S. portfolios dwarf those of other regions



Note: As at November 10, 2025. Source: Pensions & Investments, RBC Capital Markets

Signalling a preference for a weaker currency also hints that that the U.S. may be less committed to a decades-long policy of a strong dollar. Treasury Secretary Bessent’s support for intervention might also be an attempt to head off Japanese intervention, since Japan is the largest foreign holder of U.S. government bonds (Exhibit 8), and significant sales of Treasuries would result in an economically damaging spike in U.S. bond yields.

The power of joint intervention, unseen since the Fukushima nuclear accident in 2011, would be such that its mere suggestion caused the yen to rally 4% over the span of just a few days – equal to the magnitude of past occasions when Japan intervened entirely on its own.

**U.S.-dollar outlook**

We expect a continued broad-based decline in the greenback. We have factored some modest gains for the euro, pound and Canadian dollar into our base-case expectations, with forecasts of US\$1.26, US\$1.40 and US\$1.30, respectively. The Japanese yen is the major developed-market currency that could offer higher price returns, given its more extreme undervaluation, discount to traditional drivers (Exhibit 9) and the potential for currency intervention. The yen’s yield disadvantage, however, will reduce its overall total returns.

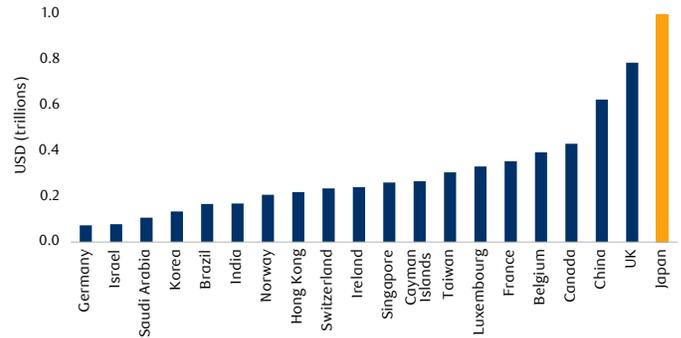
**Emerging-market currencies to outperform**

We expect emerging-market exchange rates to be the biggest beneficiaries of generalized U.S.-dollar weakness. These rates have lagged gains in the euro and other G10 currencies since early 2025 (Exhibit 10), and the undervaluation gap suggests that further gains lie ahead.

A weaker dollar is especially positive for emerging-market stocks, bonds and exchange rates. Many emerging market nations produce metals, oil and agricultural products, and surges in commodity prices are due in part to a reaction to a softer dollar. The focus has mostly centred on an appreciation in metals prices, but soybean, cattle and wheat have also risen over the past year. Countries whose economies are geared to agriculture and resource extraction – particularly Chile, Peru and Brazil - have enjoyed trade gains through rising export prices.

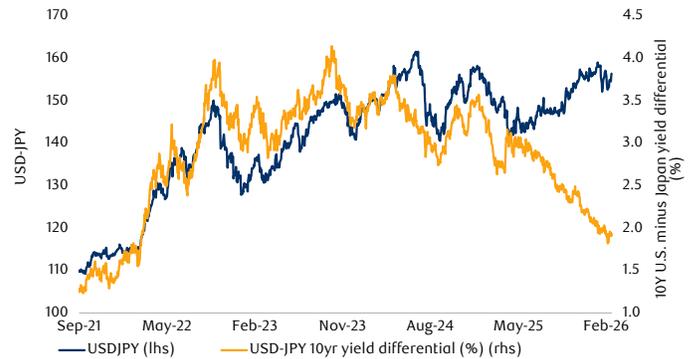
Before the current war in Iran, Asia’s energy-importing economies had been benefiting from low and stable oil prices. That story is being put to the test following the escalation

**Exhibit 8: Japan is the largest foreign holder of U.S. Treasuries**



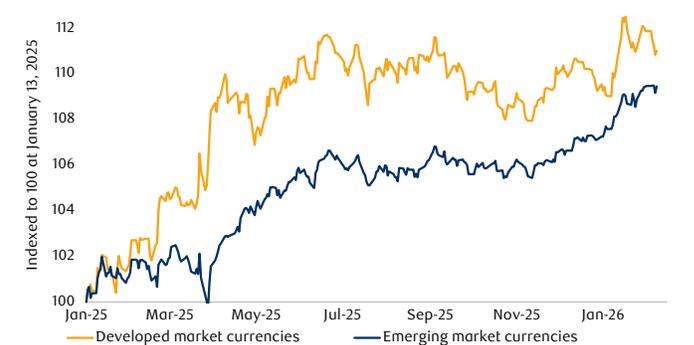
Note: As at December 31, 2025. Source: U.S. Department of Treasury, RBC GAM

**Exhibit 9: The Japanese yen is trading weaker than yields differentials would imply**



Note: As at February 25, 2026. Source: Bloomberg, RBC GAM

**Exhibit 10: Emerging-market currencies have underperformed G10 peers over the past year**



Note: As at February 22, 2026. Developed Market Currencies use US Fed Trade Weighted Nominal Advanced Foreign Economies Dollar Index and Emerging Market Currencies use US Fed Trade Weighted Nominal Emerging Market Economies Dollar Index Source: U.S. Federal Reserve, Bloomberg, RBC GAM

of the conflict. While the array of possible outcomes in the conflict has widened, our view is that only a prolonged war would keep oil prices elevated long enough to change the global growth outlook. Wild cards involve how long the Strait of Hormuz, a key oil chokepoint, will remain largely impassable, and the number of countries that get involved.

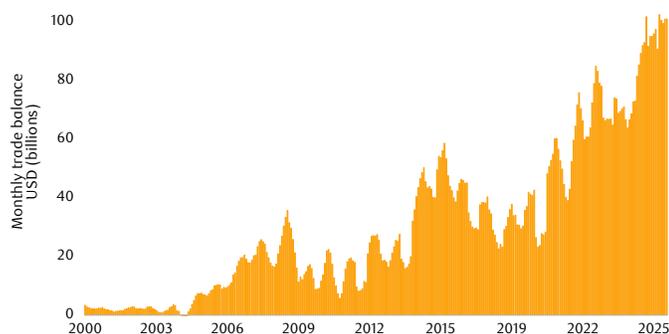
A second important effect of a weaker greenback is that it cheapens the cost of borrowing in U.S. dollars for developing countries. When the dollar depreciates, it becomes cheaper for these countries to repay U.S. dollar loans using their local currencies.

Third, an environment where the dollar declines is conducive to greater capital flows into emerging markets, as U.S. investors seek to buy assets in currencies that are more likely to appreciate. The effect is amplified by emerging-market central banks, which are lowering interest rates in support of economic growth. Interest rates can be dropped without creating investor unease because inflation has fallen more quickly than in developed markets – in part because recent currency gains improve household purchasing power and make imported goods less costly.

Also supporting emerging-market currencies are:

- Valuations, similar to most G10 exchange rates, as emerging-market currencies are significantly cheap.
- A political shift toward more investor-friendly governments.

**Exhibit 11: China's trade surplus continues to grow**



Note: As at December 30, 2025. Smoothed using a 6-month moving average. Source: China General Administration of Customs, RBC GAM

- More responsible fiscal policy relative to developed-market borrowers, including recent improvement in notoriously spendthrift countries such as South Africa, Argentina and Turkey.
- Higher inflation-adjusted yields than those offered in developed market nations.
- The reduced ability of the U.S. to impose tariffs following the U.S. supreme court's decision to strike down Trump's use of emergency measures to justify the trade barriers.
- New trade deals, including the EU's recent pact with the South America's Mercosur bloc, that lessen the tariff burden and expand export markets.

The Chinese renminbi's appreciation is an additional support for emerging-market currencies. China's strong and growing trade surplus (Exhibit 11) suggests that the renminbi is cheap, and so its rise makes sense. The People's Bank of China (PBOC) has allowed the currency to strengthen in a near-linear path since Trump announced his sweeping plan to boost U.S. tariffs in April 2025 (Exhibit 12). It remains unclear, however, whether China's leaders are allowing renminbi appreciation because of a back-door deal with the Americans, or whether they are motivated by a long-term goal of positioning the renminbi as a reserve currency. In any case, the steady path of managed appreciation and the scope for greater repatriation of U.S.-dollar balances to the Chinese banking system suggest to us that further gains lie ahead for the renminbi, and by extension, for emerging-market currencies.

**Exhibit 12: The renminbi has strengthened since April 2025**



Note: As at March 2, 2026. Source: Bloomberg, RBC GAM

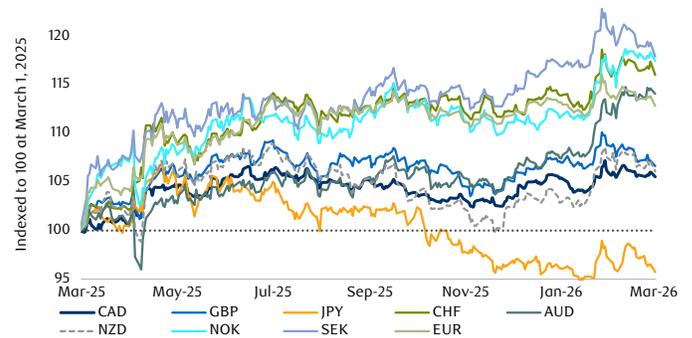
### Canadian dollar underperformance could reverse in late 2026

The Canadian dollar has managed to rise against the U.S. dollar over the past 12 months, largely owing to broad U.S.-dollar weakness. The loonie has, however, been a persistent laggard among G10 nations the past year, outdone only by weakness in the Japanese yen (Exhibit 13). In our view, the Canadian dollar’s underperformance stems from concerns about a renewal of the U.S.-Mexico-Canada (USMCA) agreement, soft consumer demand and less attractive yields than other G10 currencies. All three of these concerns are likely to persist, at least for the first half of 2026, and so we expect further underperformance in the loonie over the near term. Our outlook is, however, for the loonie to begin outperforming once these negatives start to recede sometime in late 2026.

Canadian export growth has seriously lagged that of other emerging- and developed-market economies (Exhibit 14), which shouldn’t be surprising given that the country’s largest trading partner, the U.S., is focused on domestic re-industrialization and improving competitiveness through tariffs. Uncertainty ahead of USMCA negotiations is likely to limit the Canadian dollar’s performance in the first half of 2026.

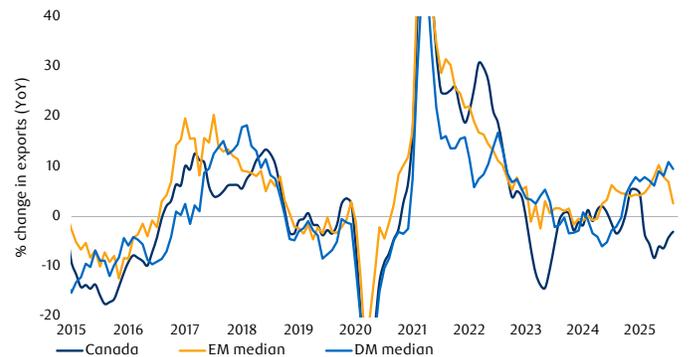
Soft household spending is one reason why RBC GAM’s economics team has dropped its forecasts for Canadian growth, while raising them elsewhere (Exhibit 15). Canadian finances are stretched just as population growth slows, meaning lower overall demand for household items and greater demand for less expensive goods and services. Household indebtedness is an area of focus this year given that an estimated 20% of fixed-rate mortgages are due to be reset at higher interest rates at the same time that the unemployment rate is rising the fastest among G10 economies. A recent survey by the BOC flags a rising number of households worried about the prospect of missed debt payments and job losses (Exhibit 16). It is unlikely that government spending would offset lower consumer spending given Prime Minister Carney’s focus on interprovincial trade and public-private partnerships rather than social spending. With a weaker outlook for exports and consumption, the onus falls on business investment to carry the economy.

Exhibit 13: Canadian dollar has lagged most developed-market currencies over the past year



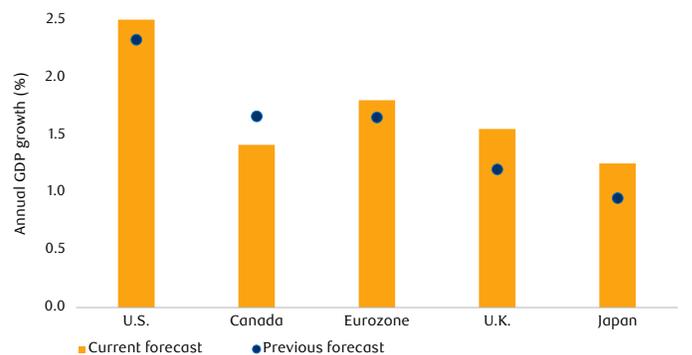
Note: As at March 2, 2026. Source: Macrobond, RBC GAM

Exhibit 14: Weak Canadian export performance



Note: As at October 31 2025. Smoothed using 3-month moving average. Source: Deutsche Bank, IMF, RBC GAM

Exhibit 15: Canadian growth forecast downgraded

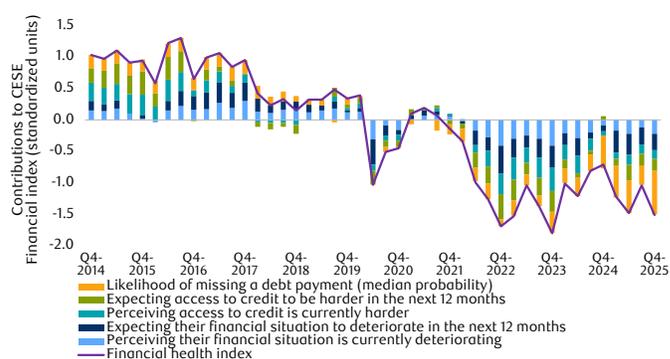


Note: As at January 30, 2026. Source: RBC GAM

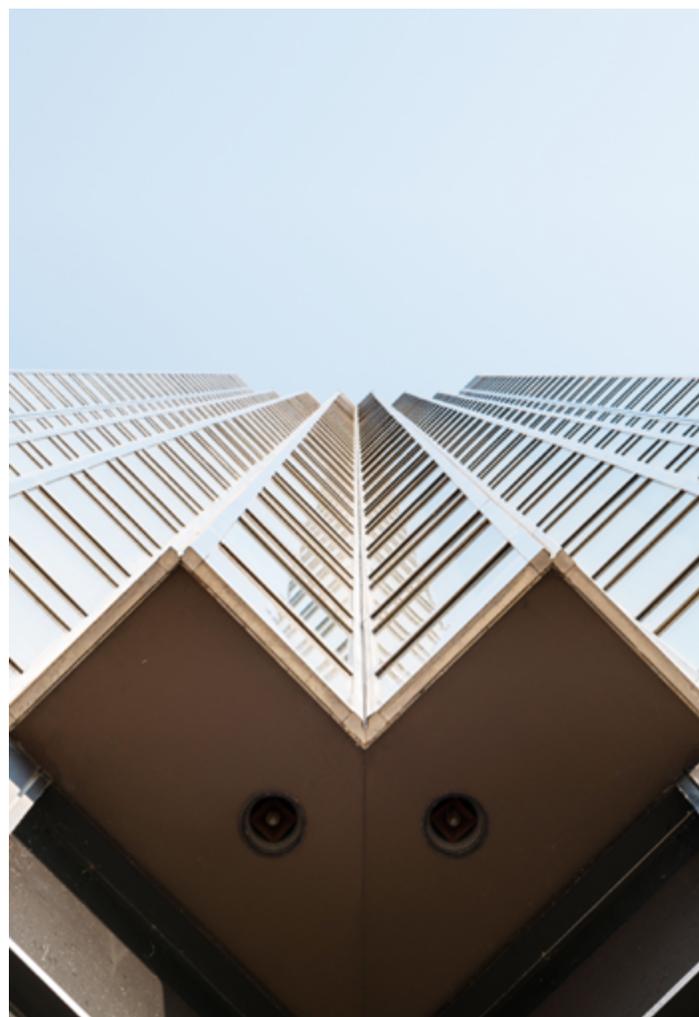
Canada's lower interest rates are also a short-term burden for the currency, as domestic investors look abroad in search of higher returns. The silver lining is that rates are low due to the BOC's aggressive interest-rate cuts, which started in mid-2024. Since then, the Canadian central bank has delivered 2.75 percentage points of reductions, in contrast to 1.75 points for the Fed, 1.50 points for the Bank of England; and 2.00 points for the ECB. This stimulus should help ease the cost of refinancing debt and encourage business spending. In this environment of low interest rates, we note that the real-time measures of prices for goods and services are rising faster than suggested by official inflation statistics. If the economy can manage to deliver a bit more growth than the BOC's 1.2% forecast for 2026, it is possible that the central bank's next move could be an unexpected, loonie-supporting rate hike.

While we expect that the Canadian dollar will appreciate this year versus the U.S. dollar, pushed stronger by the force of a broadly weaker greenback, we fear that the loonie will fall versus other major currencies for the next several months. Many of the loonie's challenges are shorter term in nature, and we would not be surprised if the Canadian dollar picked up momentum later this year. A stronger loonie would depend on a clearer path toward finalizing a North American trade agreement, a relatively low number of mortgage defaults as Canadians refinance mortgages at higher rates, and investor optimism that the BOC will pivot to rate hikes. Given the prospect for some of these improvements to materialize later this year, we are revising our 12-month forecast for the Canadian dollar to \$1.30 per U.S. dollar from \$1.32 last quarter.

### Exhibit 16: Canadians are growing more concerned about missing debt payments



Note: As at December 30, 2025. Source: Bank of Canada, RBC GAM



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