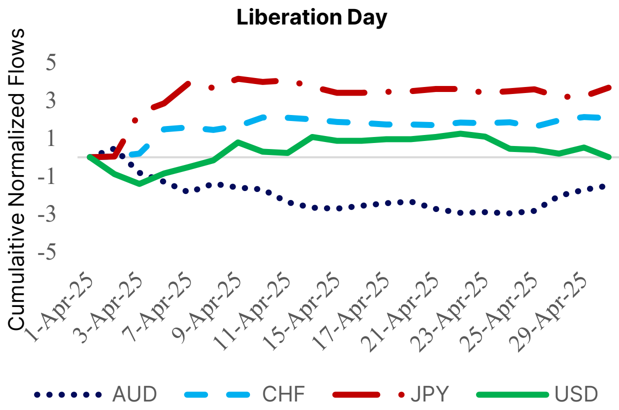
Flight to Safety or Flight From Carry?

Separable Safe-Haven and Funding Currency Roles

Safe-haven currencies are not defined simply by low interest rates. Currency dynamics evolve and depend on whether a crisis represents a flight to safety or a flight from carry. Defining safe-haven currencies as those historically negatively correlated with risk assets (i.e., the CHF, JPY, and USD) and using proprietary FX forward and sovereign bond flows—which capture demand for safe assets—we distinguish between flights to safety, typically triggered by macroeconomic uncertainty, and flights from carry. Our analysis reveals that:

A Flight from Carry



Source: State Street Associates

- During the Global Financial Crisis and COVID-19, the USD saw strong inflows and returns, while during the 2024 carry unwind and Liberation Day, the CHF and JPY saw strong inflows and returns relative to the USD.
- Even with high U.S. interest rates, the USD has continued to play a safe-haven role during economic downturns.
- Flow-based regressions assist in classifying currency crises, with Liberation Day classified as a flight from carry.
- Safe-haven status is supported by institutional strength, liquidity, and investor demand during macroeconomic stress.

From an analytical perpective, this study develops a panel regression framework—applied from 1999 to 2025 and across the G10 currencies—that leverages institutional investor flows as the dependent variable. Safe-haven status and interest rates are used as independent variables to classify crises as either flights to safety or flights from carry. Empirical evidence shows that drivers of flights to safety or flights from carry differ substantially across crises. During the 2008 Global Financial Crisis and the 2020 COVID-19 pandemic, strong USD inflows point to safe-haven demand. In contrast, the pattern of behavior during the 2024 carry unwind suggests a pullback from carry trades rather than a recession-driven flight to safety.

The use of institutional investor flows can improve classification of crisis episodes. Flow-based regressions produce fewer false positives of safe haven episodes than return-based ones, highlighting the persistence and informativeness of investor behavior beyond return-based signals alone.

At least for now, data on institutional investor flows during crises suggest that reports of the death of the role of the U.S. dollar as safe-haven currency seem premature.

For more on this topic, see our 2025 working paper: **"Flight to Safety or Flight from Carry?"** by Alexander Cheema-Fox, Edward S. Cuipa III, and Robin Greenwood

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