

# Global Markets Overview

Asset Research Team

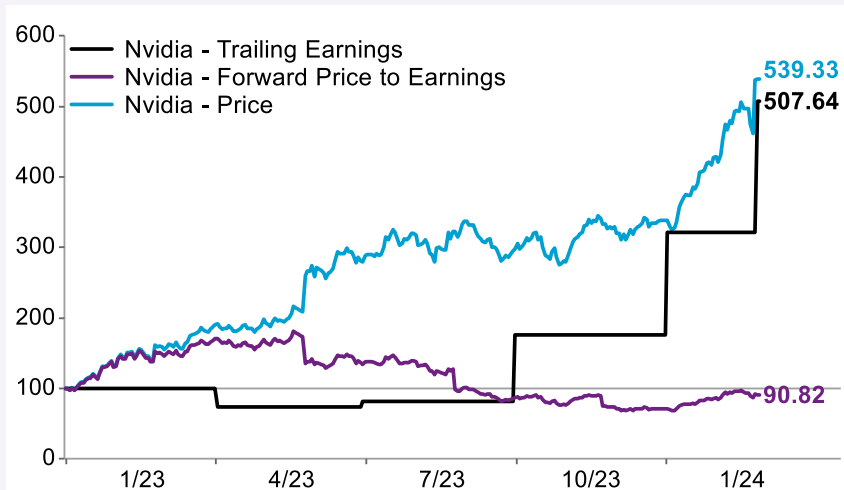
March 2024

## Some standouts in equity markets

- February saw strong performance in global equities driven by resilient economic data and robust earnings reports, especially in the US. AI remains a key theme underlying price action. Nvidia, which designs chips utilised in AI computing, set a record daily rise in its market capitalisation in February. Its stock rose over 16%, adding USD 277 billion to the company's value, after earnings beat already positive expectations. We expect the benefits from developments in AI to rotate to other economic and market sectors.

### Nvidia's stock price has increased dramatically, in-line with trailing earnings

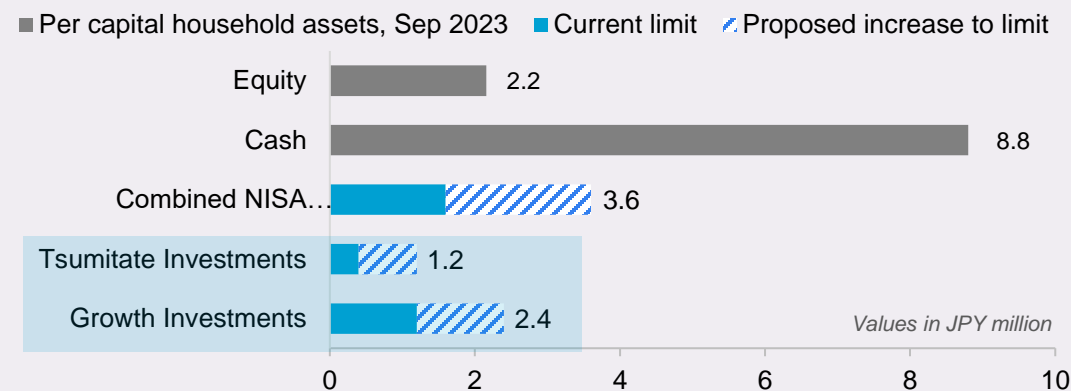
Price and Earnings index, 01 Jan 2023 = 100



- Japan's Nikkei stock index rose past its record set in 1989 during Japan's property price bubble. Less than three years after 1989, it had fallen roughly 60% and continued to decline markedly in the years that followed. This time around index earnings are multiples of what they were, balance sheets are healthy, and there have been corporate governance initiatives to boost shareholder value. The government has also taken measures to encourage more domestic savings to be channelled into Japanese stocks.

### NISA revisions raise investment limits and scrap the cap on tax benefit years

Japanese households hold over half of their savings in cash. Revisions to NISA, a tax-free stock investment scheme for individuals, could encourage households towards riskier assets such as equities



# Government bonds

## At current yield levels, we believe that selective government bonds are attractively priced

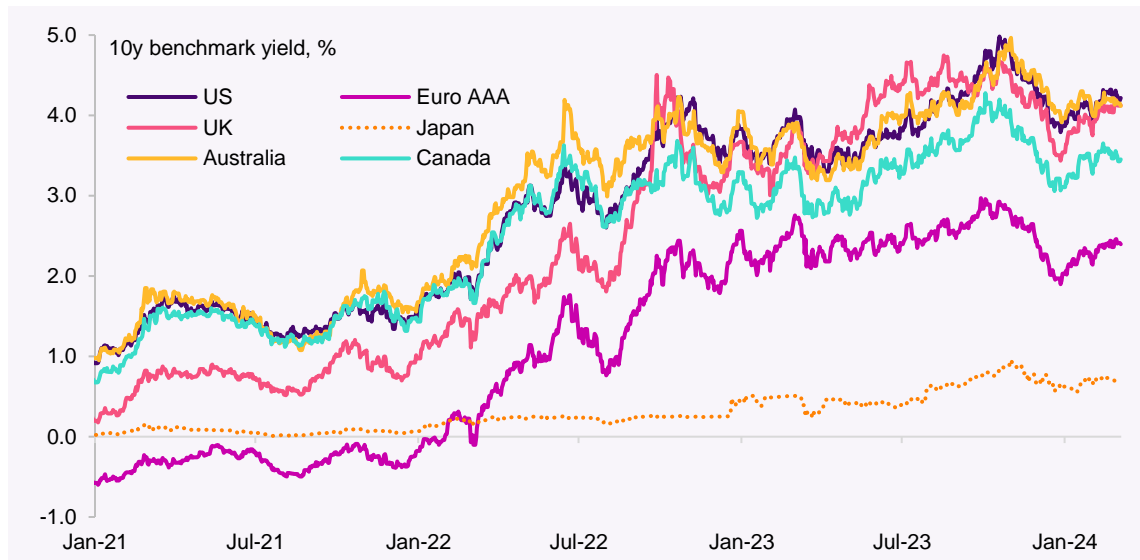
### What happened over the past month:

**Bond yields rose over the past month.** Gilt yields have been the biggest mover, with 10y rates rising 33bps (as of 04 March), followed by US Treasuries (c. 27bps) and German bunds (c. 24bps). Canadian yields also rose, but less, while Australian and Japanese yields were relatively flat.

### Factors influencing market trends:

**Bond markets remain sensitive to economic data and policy news.** The US economy has continued to show relative economic strength in recent weeks. The latest PMI survey data points towards robust expansion, notably in services sectors. Additionally, the US labour market has remained resilient, with key wage metrics remaining strong. In response, bond investors have slightly pushed back their expectation for interest rate cuts, which has pushed up bond yields.

### Global 10-year benchmark nominal bond yields



Sources: Refinitiv Eikon, WTW

### Looking ahead:

**Yield volatility may continue for the next few months.** Having fallen so sharply in Q4 2023, there is a risk that yields continue to move higher, near-term. However, as more consumers and businesses are confronted with higher borrowing costs, we expect economic headwinds ultimately to dominate, pushing yields lower. **Over 2 to 3 years, we think it is probable that bond yields (prices) fall (rise) relative to current levels,** protecting return-seeking portfolios.

**For under-hedged liability-driven-investment portfolios, current pricing appears reasonable to return towards target levels.** This will help to maintain funding levels in a scenario where yields adjust down. This is a risk, particularly in the UK, given high starting yields and signs of economic weakness.

### Strong US wages pushed yields higher; we expect pressures to subside over 12 months



Sources: Refinitiv Eikon, WTW

# Credit

## Over five years we expect investment grade credit to outperform government bonds moderately

### What happened over the past month:

**Global investment grade corporate credit spreads fell slightly again in February** – spreads fell by 4bp from 111bp to 107bp, with the biggest falls in Euro area, UK, and Canadian spreads. Global high yield had a strong month from a spread return perspective with US credit spreads falling 30bp and European spreads falling by 39bp.

### What has influenced recent market dynamics?

Relatively **healthy interest coverage ratios** and a **notable phase of corporate issuers terming out their debt maturities** prior to the recent rate hiking cycle, has cushioned corporate credit markets from the slowdown in economic growth in various advanced economies. The exceptional resilience of the US economy has also been a notable support. As a result, the **non-financial corporate downgrade and**

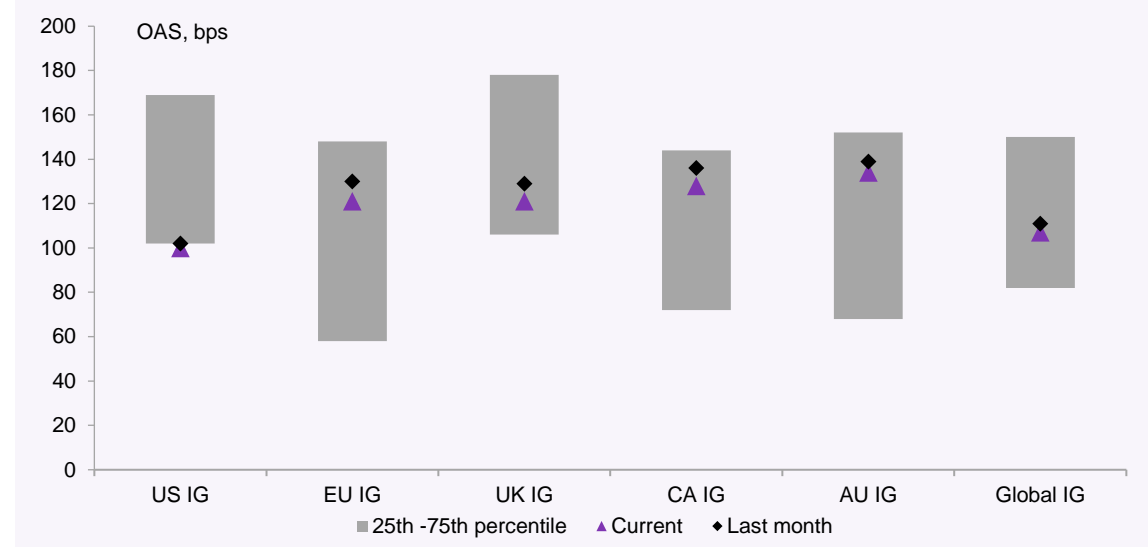
**default cycle has been relatively benign throughout 2023 and into 2024.**

### Looking ahead:

**Over a three-to-five year horizon, we expect global investment grade corporate credit to provide moderate returns above government bonds.** Similarly, we expect global high yield credit to outperform government bonds and investment grade credit over the medium-term.

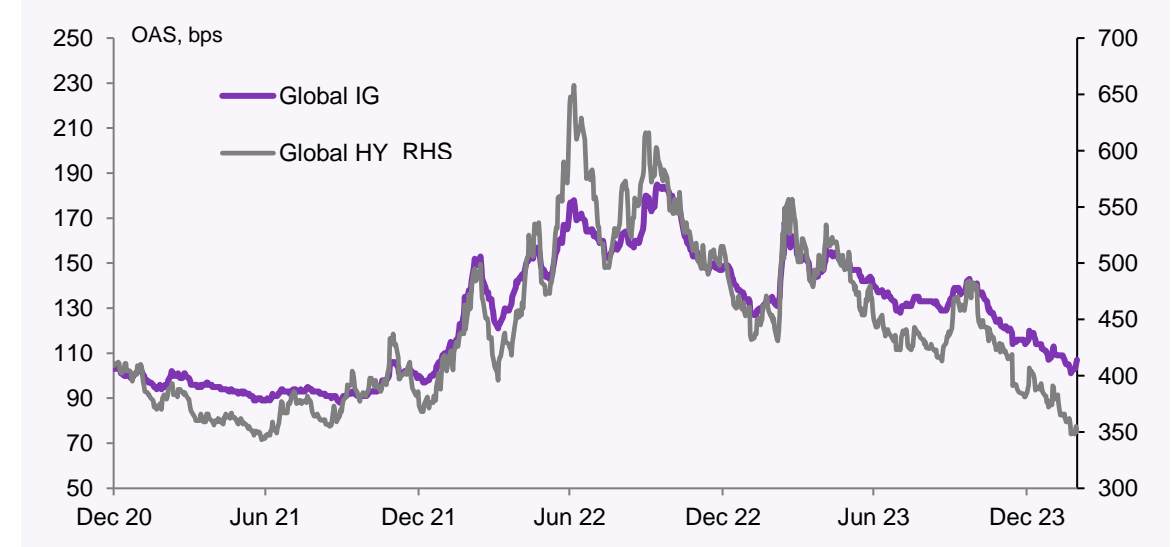
We are more cautious in the shorter-term, given the narrowing of corporate credit spreads in 2023, their low levels currently, and our slight tilt towards downside risks to earnings growth in 2024. US corporate credit spreads are especially low, are pricing-in a very good set of fundamental conditions for company debt, and are at risk of disappointing market expectations in our view.

### Investment grade spreads by country



Sources: FactSet, WTW

### For the time being, both credit spreads and company debt measures show little sign of corporate stress – we expect this to gradually weaken going forward



Sources: FactSet, WTW

# Equities

## Economic resilience and earnings strength

### What happened over the past month:

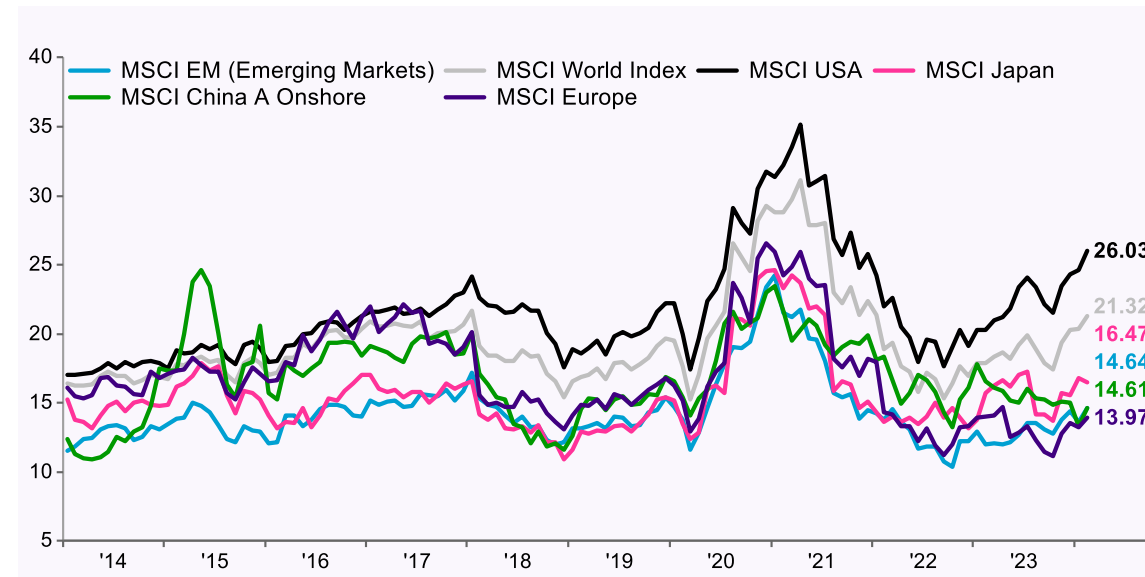
**February saw strong performance in global stock markets driven by resilient economic data and robust earnings reports, particularly in the US.** Emerging markets also rose in aggregate, bolstered by a China rebound. MSCI China A onshore equities gained 9.9% over the month, aided by stronger spending activity over the lunar new year holiday and government interventions. The MSCI Japan price index reached historical high levels not seen since 1989 over the month.

### Broad market trends:

Q4 2023 saw market gains amid declining inflation, with February the fourth month of consecutive positive returns for the S&P 500. Technology and AI-related companies have performed well – both in terms of returns and earnings per share growth. Looking to forward earnings, both equity pricing and analyst forecasts for future earnings growth expect that earnings will pick up significantly in 2024; in the US

### Global equity valuations

Trailing price to earnings ratio



Sources: FactSet, WTW

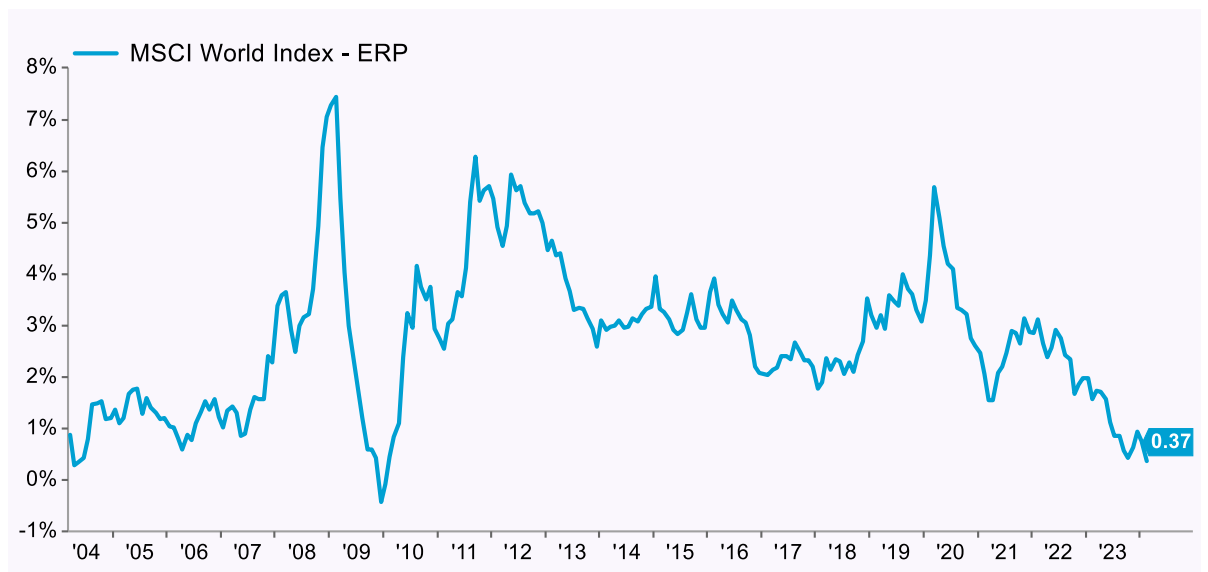
especially. Our assessment of economic and corporate fundamentals leads us to a marginally more cautious view given the restrictive level of monetary policy.

Currently, declining inflation and expectations of looser monetary policy are key drivers of broad equity market pricing and valuations. Equity markets are extrapolating an expectation of falling interest rates to be a positive for stock prices. However, we expect a more accommodative central bank stance would be more consistent with weaker economic fundamentals. That is, equities will face near-term downside risks if we see more evidence of growth weakness and/or a downside revision to earnings expectations.

### Looking ahead:

**Overall, we retain a neutral view on equities over a five-year horizon.** We continue to see value in Japanese equities, given the positive impact on fundamentals of a push to improve corporate governance, stimulative policy, and good cyclical economic growth conditions.

### The Equity Risk Premium has meaningfully contracted since the end of July



Sources: FactSet, WTW

# FX

## We hold a positive view on most developed currencies relative to the US dollar over the long term

### What happened over the past month:

The Japanese yen fell c. 3% versus the US dollar since the end of January (to 04 March), with the Canadian and Australian dollar depreciating roughly 1.5% each. Other currencies were relatively flat over the month.

### Factors influencing market trends:

Interest rate differentials between countries have played a key role in driving short-term currency volatility. As noted in the bonds section, intermediate yields have risen more in the US than Japan, Australia and Canada. The same has also been true at the shorter-end of the curve. These relative interest rate dynamics have likely encouraged capital flows away from these markets.

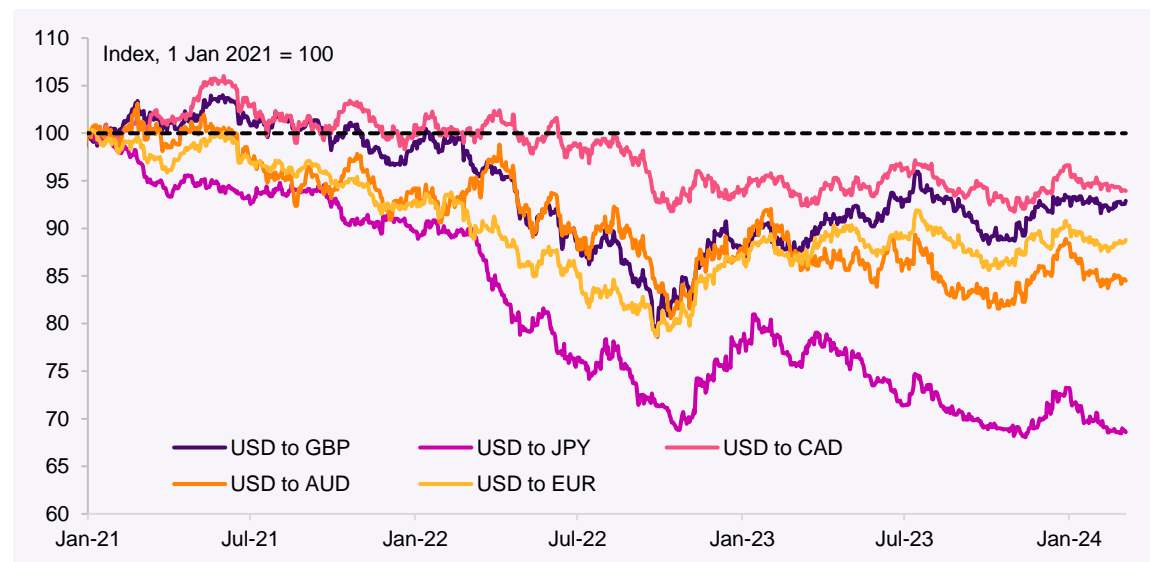
Over a two-to-three-year horizon, the US dollar remains significantly stronger. Higher US interest rates

have favoured the currency over this longer period. Additionally, **growth and terms-of-trade have been supportive**. The fact that the US economy has been as resilient as it has been – many were predicting a recession in 2023 – has supported an extended period of strong capital flows into the US.

### Looking ahead:

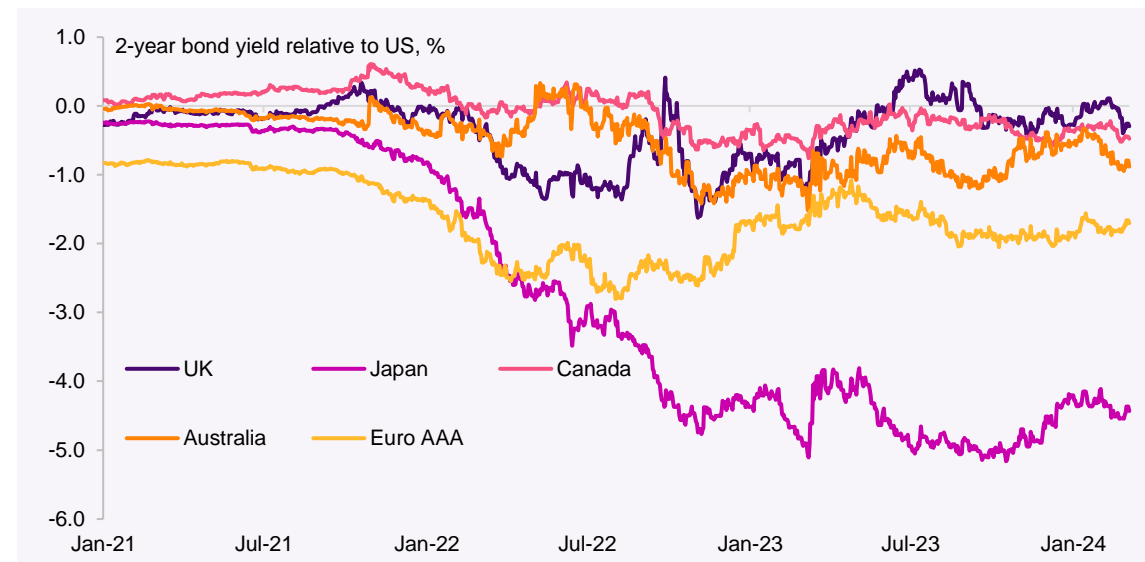
The US dollar has become more expensive and less competitive against other major currencies on our preferred medium-term fair value metrics. This suggests downward pressure over a 3-to-5-year horizon and **a positive view on most developed market currencies against the dollar**. In the near term, however, the relative strength of the US economy and/or its safe-haven status could lead to further appreciation. In the shorter term, we are neutral on most currencies except for a positive view on the Japanese yen.

### Developed exchange rates versus the US dollar



Sources: Refinitiv Eikon, WTW

### Short term exchange rate dynamics have been influenced by differences in interest rates between countries



Sources Refinitiv Eikon, WTW

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