

# Global Markets Overview

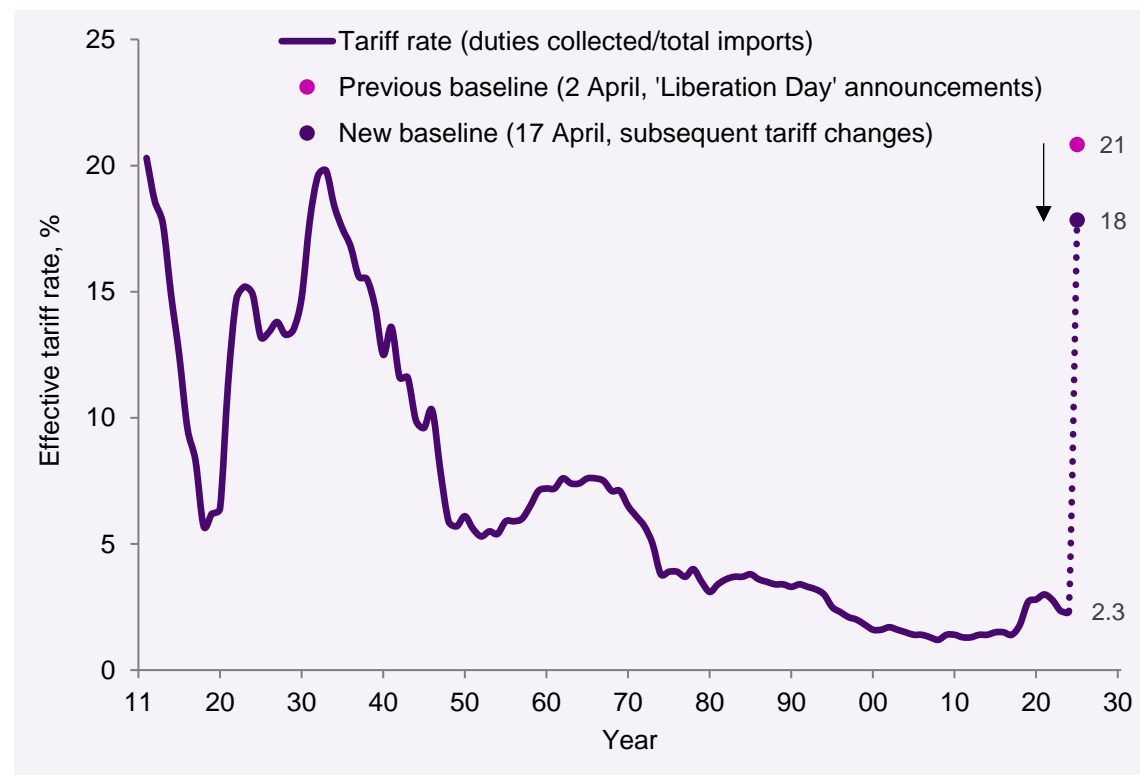
Asset Research Team

April 2025

## Chart of the month

- Asset price moves between April 3 and 17 have been dominated by what President Trump labelled “Liberation Day”. On April 2, President Trump announced a “reciprocal” tariff policy on imports to the US from almost all countries, with tariff levels much higher than expectations. Since then, part of these ‘reciprocal’ tariffs have been postponed for 90 days (April 9), tariffs between the US and China have risen materially, some sectors (e.g., consumer electronics) have been temporarily exempted by the US, and new sector investigations have been started (e.g., semiconductors and pharmaceuticals).
- The details of the policies, responses by countries, and ongoing uncertainty have been hugely impactful for financial markets in early April. For example, at one point, the S&P 500 had fallen over 20% from its February peak – the definition of a bear market – before recovering partially. However, for most investors what matters most are the asset price outcomes over the next three-to-five years and this requires looking more widely than the recent headlines on trade and tariffs.
  - Yes, the effects of tariffs are to slow economic growth, through weaker consumption and investment, and increase the price level, over the next three quarters.
  - However, over the medium-term, while trade and tariff policies matter, other policy areas – fiscal, monetary, and regulation – are also hugely important, e.g., US imports make up only 14% of US GDP.
  - Other key policy priorities of the Trump administration are: (1) reducing government spending and supporting higher private sector investment; (2) corporate and household tax cuts; (3) improving US fiscal sustainability for economic and national security reasons; and (4) big deregulatory shifts across all major US industries.
  - These other policies, if executed well, can increase US productivity, incomes, and wealth, and lower inflation. They won't be impactful in the next few weeks or months. However, they will be impactful later this year, and in the next few years especially.
- A balanced, well diversified portfolio, with selective downside risk hedges, and macro and security specific active management, remains the best way to manage the high uncertainties, tariff-related market volatility, and rising US recession risks over the short-term. It also provides the foundation to benefit from the likelihood of pro-growth US policies as they likely play out in future years at cheaper equity valuations.

### The US effective tariff rate is increasing to a level not seen for a century



Sources: WTW, US International Trade Commission

# Government bonds

At current yield levels we believe the major bond markets offer value on a three-year horizon

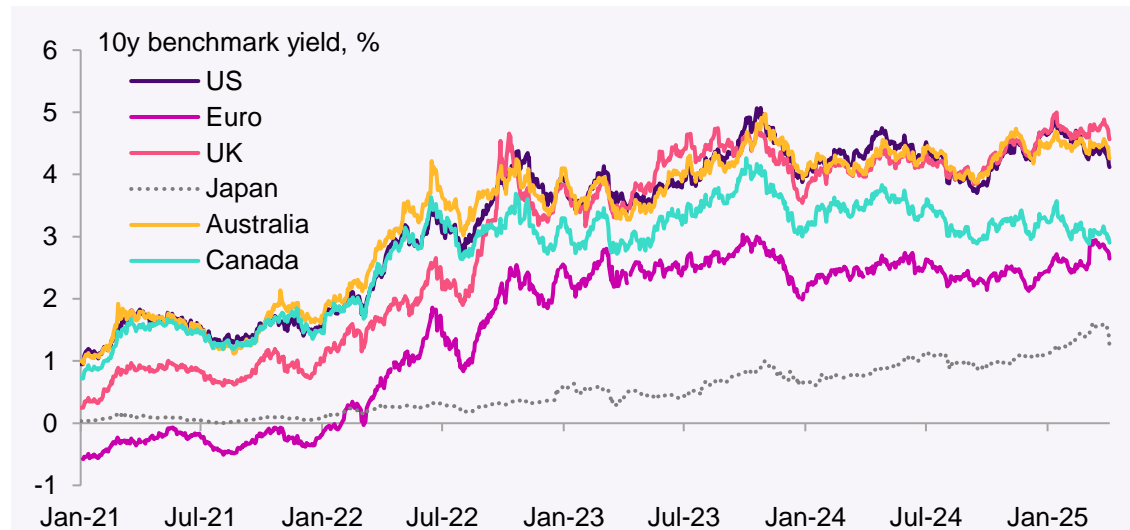
## What happened over the past month:

**Global bond yields dipped in the first week of April following Trump's "Liberation Day" tariff announcements.** Moves since the end of February have been more varied. As of 4 April, the yield on US 10-year government bonds has fallen by c.18 bps points over this period and Japanese 10-year bonds are c. 20bps lower. Conversely, 10-year Euro AAA yields are up almost 20 bps.

## Factors influencing market trends

**Bond markets remain sensitive to economic data and policy.** Recent downward pressure on yields has coincided with news flow around tariffs. Tariffs slow growth directly via higher consumer prices (in the US), and lower exports (in trade partners), as well as indirectly, from the uncertainty they bring. In Japan, where bond yields have fallen the most of late, the tariff surprise was especially large. In Europe, downward yield pressure from tariffs has been mitigated by upwards pressure from the large German fiscal stimulus plan.

## Global 10-year benchmark nominal bond yields



Sources: FactSet, WTW

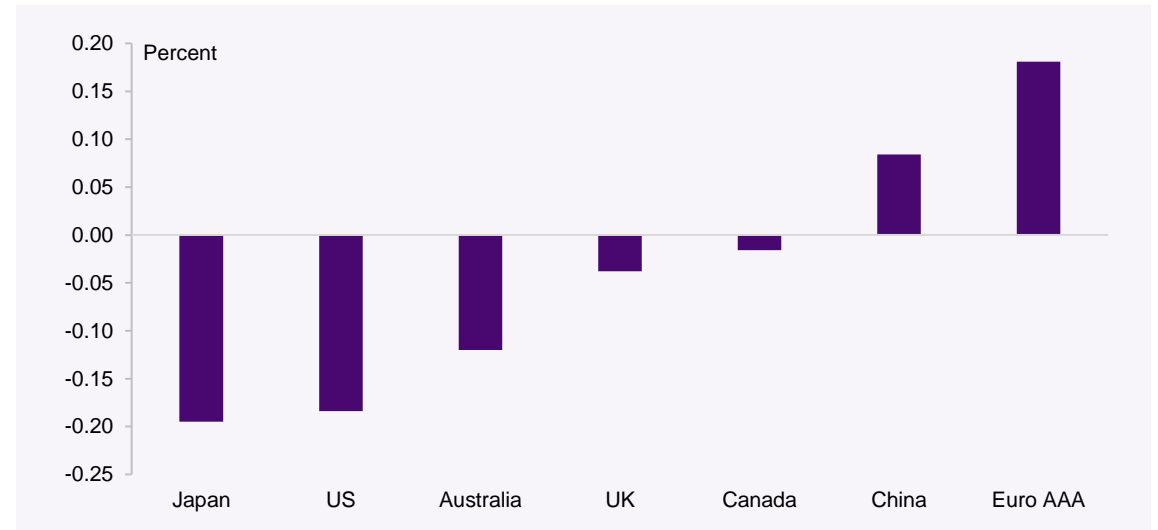
## Looking ahead:

**We expect bond yields to continue to fluctuate in the near term.** US and global bond markets will remain focused on updated policies from President Trump, with the impact on growth, inflation, and financial markets, ultimately, dependent on the actual policies that are implemented.

In 2025, our base case is for central banks to continue to ease policy, with the speed and depth of that easing cycle varying by country. Although, there are two-sided risks around this outlook from policy and geopolitical uncertainty. **Current bond pricing remains appropriate following recent moves, though we continue to think that select bond markets (e.g., UK gilts) offer value over a three-year horizon.**

Overall, it remains appropriate to maintain bond exposure for liability hedges, downside protection strategies or – for highly agile investors only – a dynamic overweight to select bond markets. However, the devil lies in the detail of wider portfolio context, starting points, and available opportunity sets, so we encourage investors to discuss the implications of this for their portfolio with their advisers.

## 10-year nominal bond yield moves since the end of February (as of: 04 April 2025)



Sources: LSEG Datastream, WTW

# Credit

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

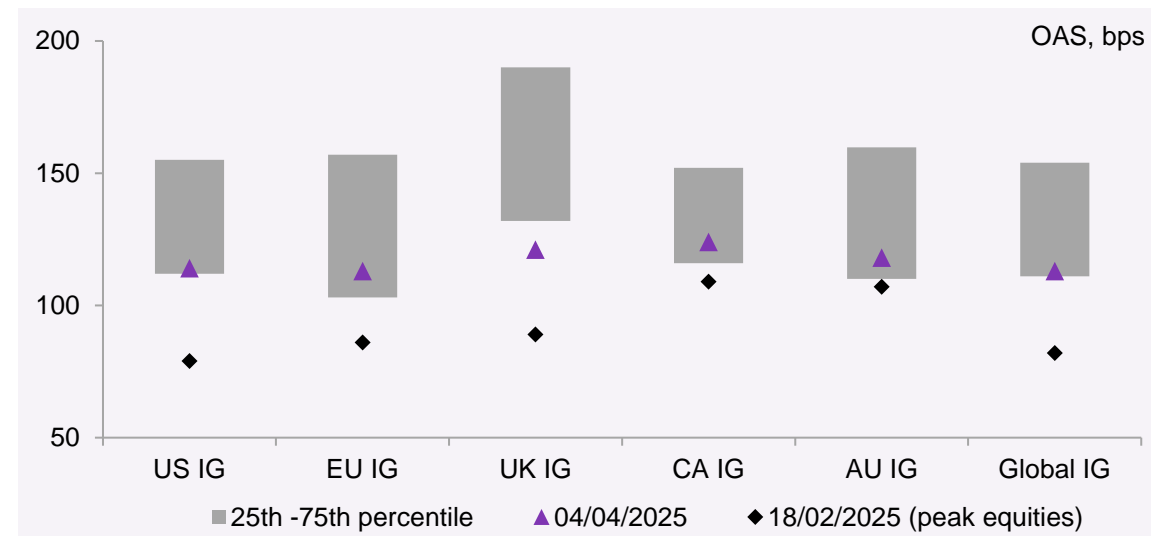
### What happened over the past month:

**Corporate credit spreads have widened across countries and credit quality since mid-February, when developed market equities reached their recent peak.** As of 4 April, in the US, investment grade (IG) and high yield (HY) credit spreads have increased by 35 bps and 183 bps, respectively, over this period. Notably, nearly half of this increase occurred in April, driven by the escalation of US tariffs and rising trade tensions. In Europe, IG spreads have risen by 27bps, while HY spreads have climbed by 103bps. Similar to the US, a notable proportion of the moves have been observed this month as investors grow increasingly concerned about the downside risks to US, European, and global economic growth.

### What has influenced recent market dynamics?

Despite a notable increase in credit spreads, they remain at the lower end of their historical ranges. Relatively **healthy interest coverage ratios** and **a notable phase of corporate issuers terming out their debt maturities** prior to the recent rate hiking cycle have helped cushion corporate credit markets,

### Investment grade spreads by country



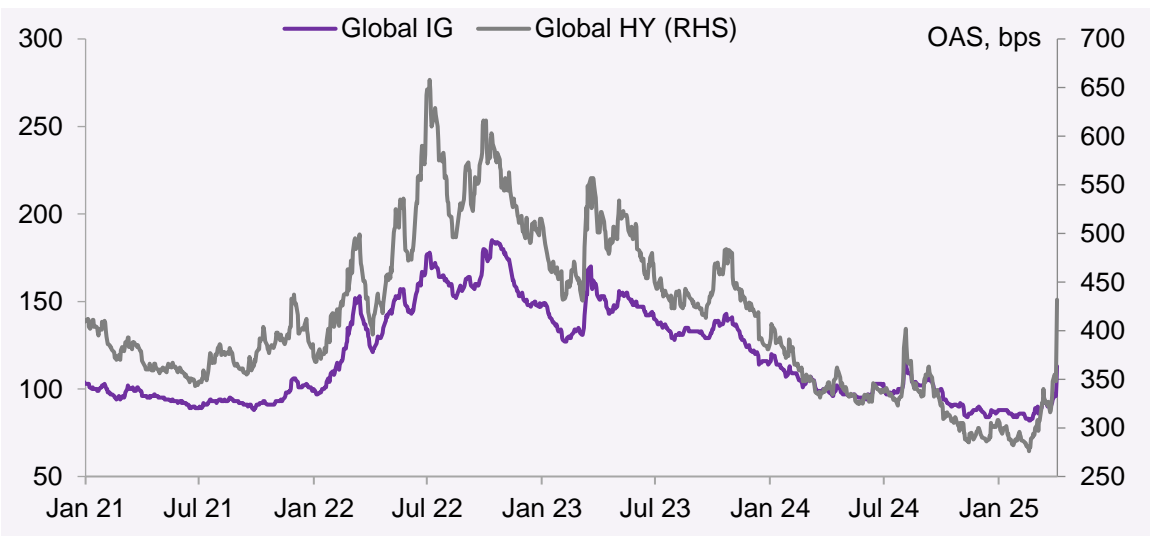
Sources: FactSet, WTW

somewhat, from the recent rise in risk aversion. US policy developments present some near-term risk of further increases in credit spreads, though we are starting from a **non-financial corporate downgrade and default cycle in the US which has been benign so far**. Additionally, demand for corporate credit should remain supportive given high all-in yields but could deteriorate if corporate fundamentals begin to weaken materially.

### Looking ahead:

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

### Credit spreads, lower credit ratings especially, have risen but remain well short of pricing in a US recession



Sources: FactSet, WTW

# Equities

Overall, we retain a neutral view on equities over a five-year horizon

## What happened over the past month:

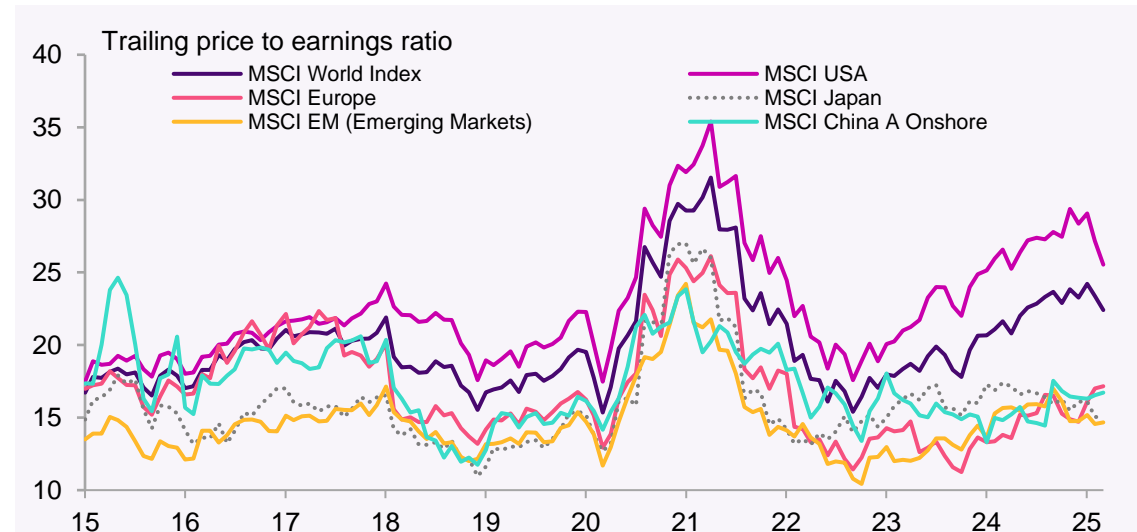
As of April 7, global equities had declined by 10.2% on a total return basis, since March 7. Emerging markets have demonstrated greater resilience, falling by only 3.3%, compared to an 11.0% decline in developed markets.

Within developed markets, falling equity prices were led by US equities (-12.1%), driven by mounting recession fears and heightened trade tensions as the White House pushed forward with aggressive tariffs on key trading partners despite ongoing market volatility. Escalating concerns over a deepening trade war also weighed heavily on Euro area equities, which fell 10.2%, while Japanese equities declined by 7.7%.

In emerging markets, Chinese equities declined by 5.6%, with equity market falls exacerbated by Beijing's decision to impose a 34% tariff on all US imports, opting for retaliation over negotiation.

## Broad market trends:

### Global equity valuations



Sources: FactSet, WTW

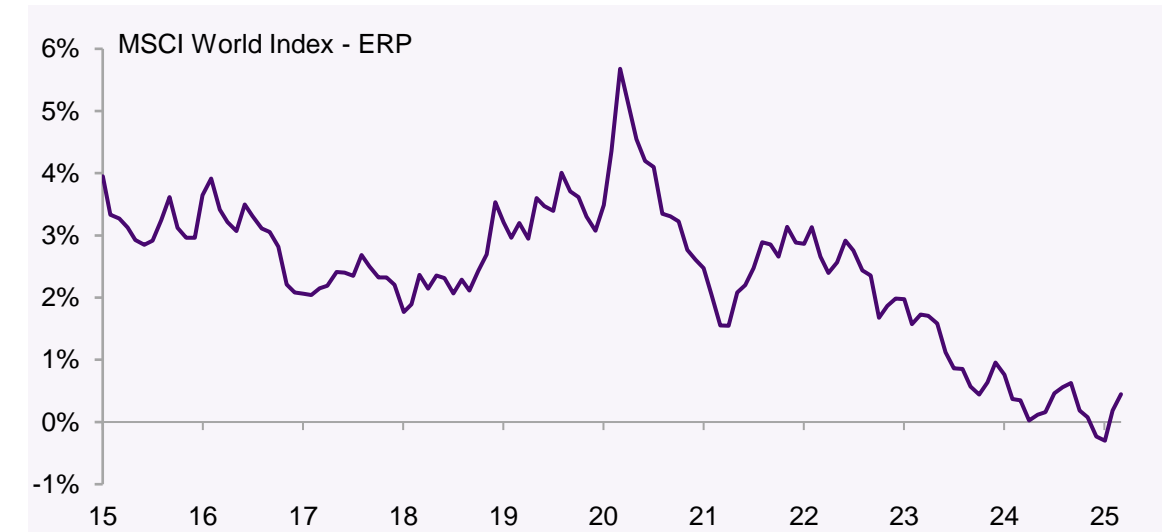
Overall, the impacts of the tariffs on economies, corporate earnings, and valuations are highly country-specific, the uncertainties or unknowable issues are also high in the short term, and these uncertainties could remain for weeks or months. This creates downside pressures on economic growth and increases asset price volatility significantly. For example, the likelihood of a US recession in 2025 has risen materially since the start of the year. Although, it remains our baseline view that while US growth will slow sharply, especially towards the end of the year, it should just avoid recession.

Over the last three months, the top performing sectors have had defensive characteristics – Consumer Staples (4.2%), Utilities (2.6%), and Healthcare (-2.1%).

## Looking ahead:

Overall, we retain a neutral view on equities over a five-year horizon. Over one-to-two years, we continue to see value in Japanese equities and US small caps, with our downgrades of their likely rates of earnings growth in 2025 more than offset by the recent fall in their prices.

### The global equity risk premium remains low currently



Sources: FactSet, WTW

# FX

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

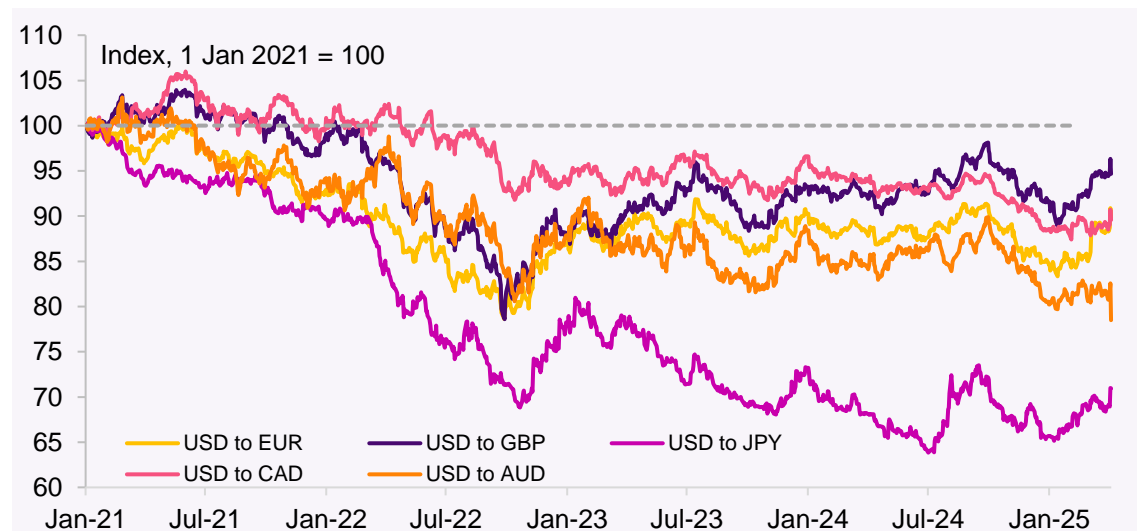
### What happened over the past month:

**Since the end of February most major currencies have appreciated against the US dollar.** As of 4 April 2025, the euro has risen 5.7% versus the dollar, the British pound 2.8%, and the Japanese yen 3.5%. This brings year-to-date yen appreciation to 8.0%.

### Broad market trends:

**Recent Events:** this US dollar weakening has coincided with a fall in US short interest rates versus other markets, which deters capital inflows. US rates have declined due to rising growth concerns, exacerbated by the likely future negative growth effects of the new tariffs. Investors now expect the Fed to cut at least four times this year. By contrast Eurozone and Japanese short rates have faced some upwards pressures – in the case of Europe, on the back of significant German fiscal stimulus that promises to lift growth and, in the case of Japan, increased confidence in the country experiencing sustainable inflation.

### Developed exchange rates versus the US dollar



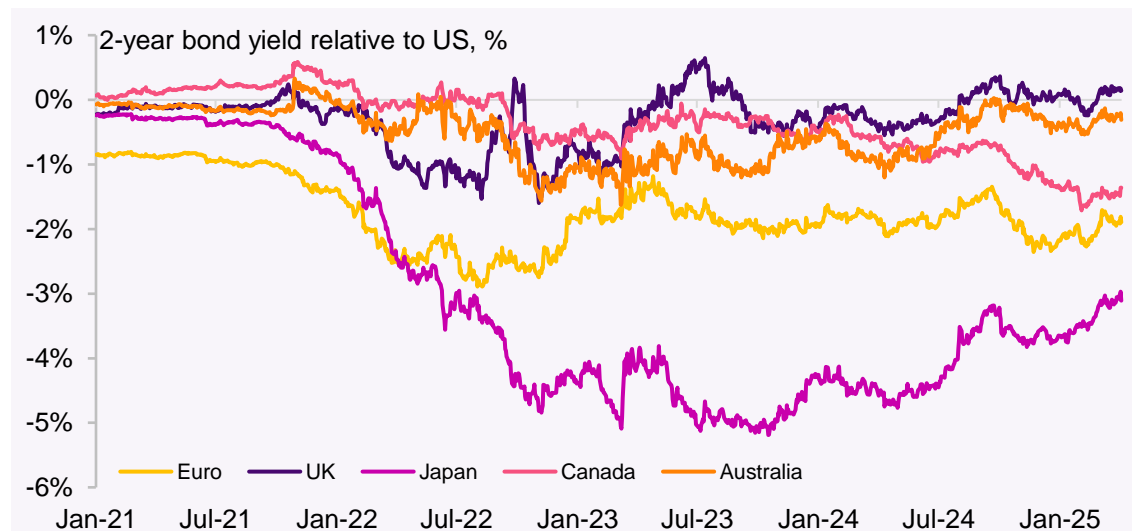
Sources: FactSet, WTW

**Longer term:** the US dollar has strengthened significantly versus most currencies over the past few years. Over this longer horizon, US interest rates have generally risen vs. peers. Growth and innovation have also been consistently better than other economies, attracting investment and supporting dollar strength.

### Looking ahead:

Following a sustained period of appreciation, the US dollar has become more expensive 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**. This view of expensiveness appears to be shared by the Trump administration, who want to weaken the dollar to boost manufacturing competitiveness. In the near term, the US dollar's continued safe-haven status combined with the rising likelihood of a global recession could lead to further appreciation. We hold a neutral view short-term against most currencies, except for a positive view on the Japanese yen.

### Short term exchange rate dynamics have been impacted by interest rate differentials



Sources: FactSet, WTW

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