

Global Markets Overview

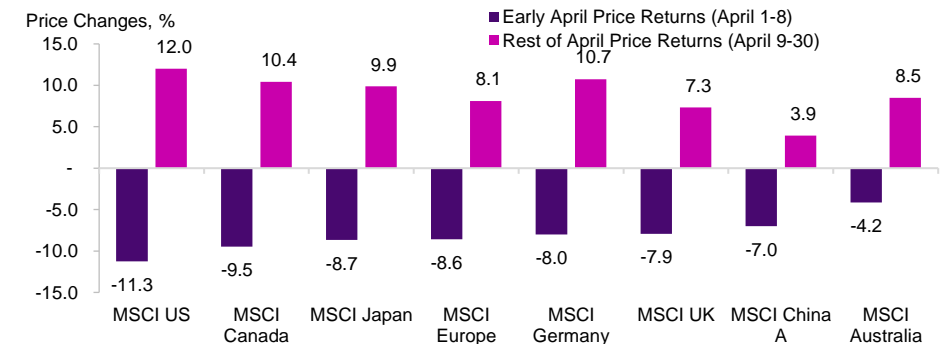
Asset Research Team

May 2025

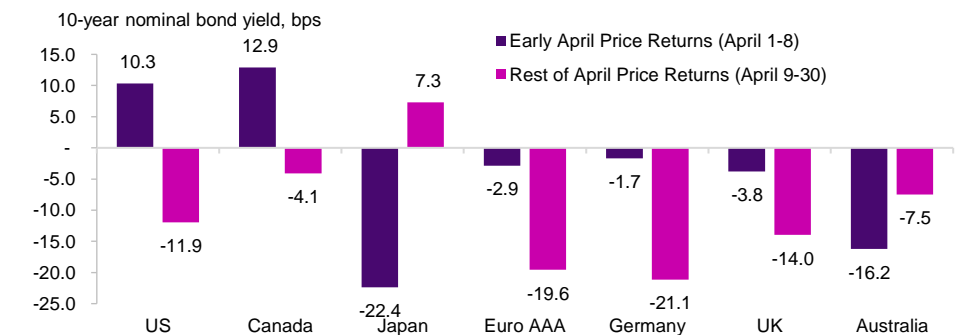
Chart of the month

- The first 100 days of the Trump presidency capped a highly volatile month for financial markets.** By the end of April, US and global equities were flat to modestly higher, while US government bond yields — both short-term (3-month) and longer-term (10-year) — were little changed, despite persistent and high uncertainty. The US dollar fell 4.3% over April. While start-of-month to end-of-month moves were generally small, performance over April was very volatile and unfolded in two distinct phases:
 - Early April saw a wave of risk aversion** following President Trump's April 2 tariff announcement and subsequent retaliatory measures from China. Investor concern over US and global growth prospects rose, and risk premiums widened across asset classes. At one point, US equities had fallen over 20% from their February 19 peak. Unusually, US long-dated bonds and the dollar also sold off, raising concerns about their traditional diversification benefits amidst equity market declines.
 - The second phase began after Trump's April 9 announcement of a 90-day pause on all reciprocal tariffs** above a 10% baseline (ex-China). Imminent recession fears eased, triggering a sharp equity rebound. In recent weeks, optimism around trade negotiations and the lack of further escalation have supported risk assets like equities, despite ongoing intraday volatility. Positive earnings — especially from large-cap tech firms focused on software and services — and sustained AI capex commitments helped lift technology stocks, which had been among the hardest hit earlier in the year. Separately, 10-year US Treasury yields fell from their April highs and recent US Treasury auctions cleared smoothly, as concerns over Treasuries' defensive role in portfolios eased.
- While near-term investor risk aversion and acute market risk has subsided for now, we think investors should be prepared for the possibility of renewed financial market volatility and risks of new declines in growth sensitive assets, as near-term risks of recessions in the US and other economies have risen.** However, in the event of an economic downturn, we anticipate that any sharp market selloffs would be followed by swift rebounds, as central banks retain substantial policy space to cut interest rates and support growth. We also continue to see US Treasuries and other country sovereign bonds as effective short-term hedges.

Equity markets saw sharp declines in early April, but recovered most of the losses by month-end



European and Australian bond yields (prices) fell (rose) the most by month-end



Government bonds

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

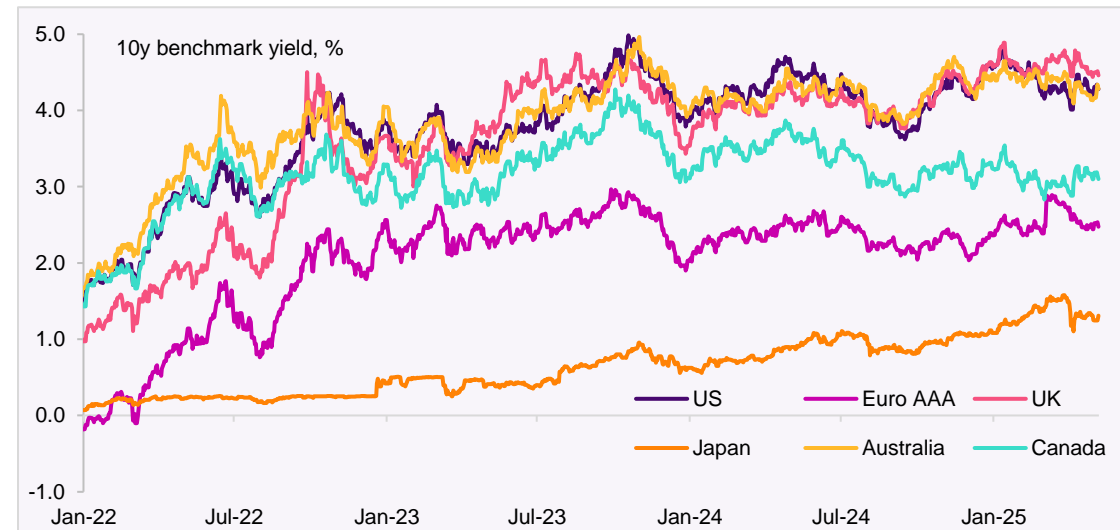
What happened over the past month:

Global bond yields dipped in early April following Trump's "Liberation Day" tariff announcements but ended the month mixed. As of May 7, U.S. 10-year bond yields are trading around 428bps, 7bps higher than the beginning of April, but 30bps below end-December levels. Canadian 10-year yields have risen 13bps since the beginning of April, while Japanese, Australian and European yields have all fallen.

Factors influencing market trends:

Bond markets remain sensitive to economic data and policy. Yield moves have coincided with news flow around the trajectory of tariffs. Tariffs lead to weaker growth for most countries but higher inflation in the US. The resulting uncertainty seems to have lifted US risk premia, with 2-year rates falling despite the rise in 10-year yields. In Japan and Europe, where yields have dipped since the end of March, the tariff surprise was notable. These regions have also experienced some softer-than-expected economic data.

Global 10-year benchmark nominal bond yields



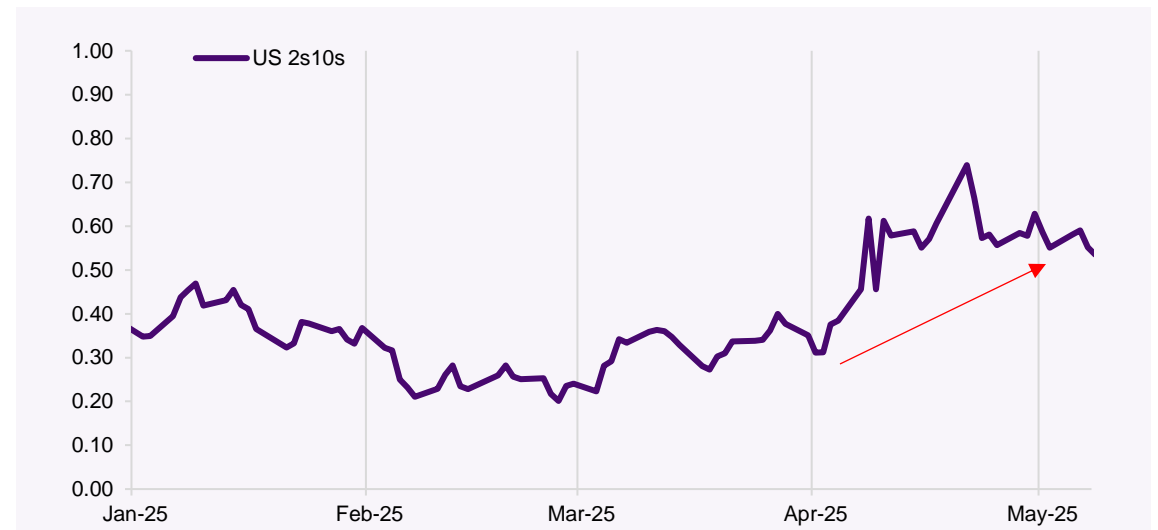
Sources: LSEG Datastream, WTW

Looking ahead:

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.

The spread between 10-year and 2-year US rates has widened



Sources: LSEG Datastream, WTW

Credit

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

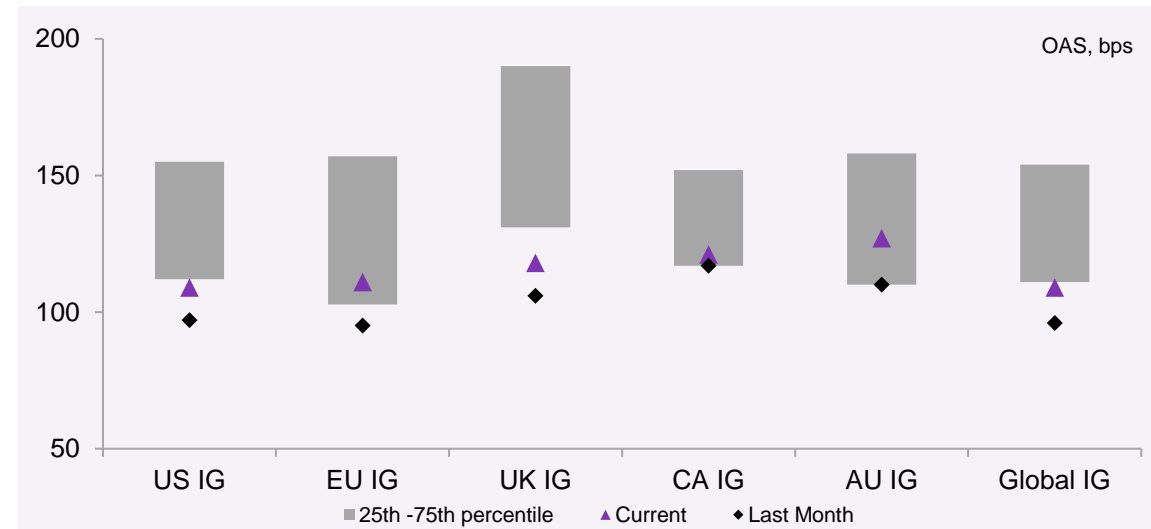
What happened over the past month:

Corporate credit spreads widened across countries and credit qualities in April, with the bulk of the widening occurring in early April in-line with the sharp equity market sell-off. The spread widening reflected the broader risk-off sentiment, albeit at lower volatility than equities, before partially retracing as investor concerns eased later in the month. In the U.S., investment grade (IG) and high yield (HY) spreads widened by 24 basis points (bps) and 82 bps, respectively, by April 9, but then recovered about half of that by month-end. In Europe, IG and HY spreads widened even more – by 30 bps and 101 bps, respectively, by April 9 – before similarly retracting about half of the move by the end of April.

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



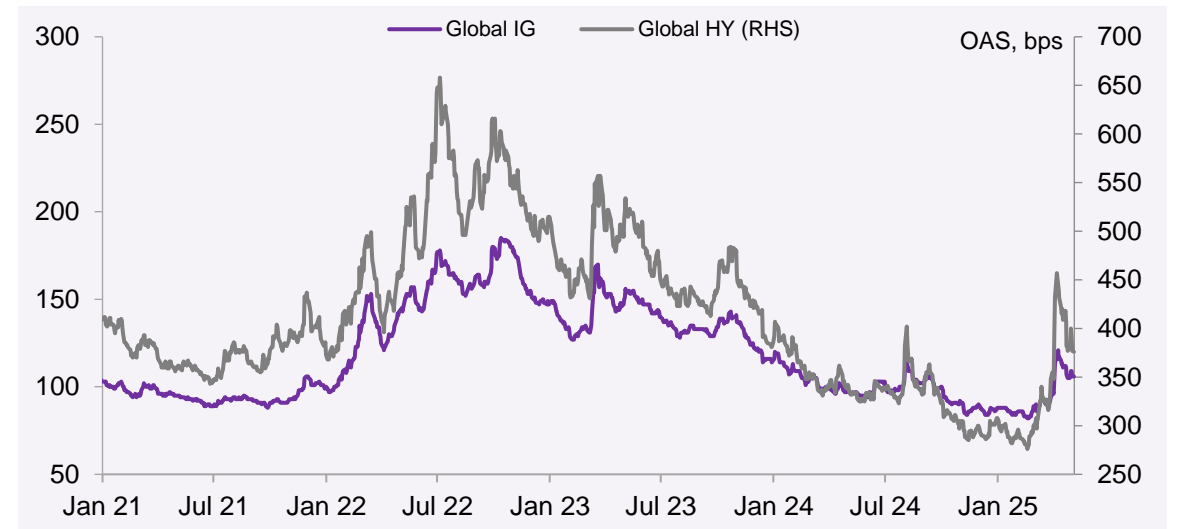
Sources: FactSet, WTW

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, in lower credit ratings especially, have risen but remain short of pricing in recessions



Sources: FactSet, WTW

Equities

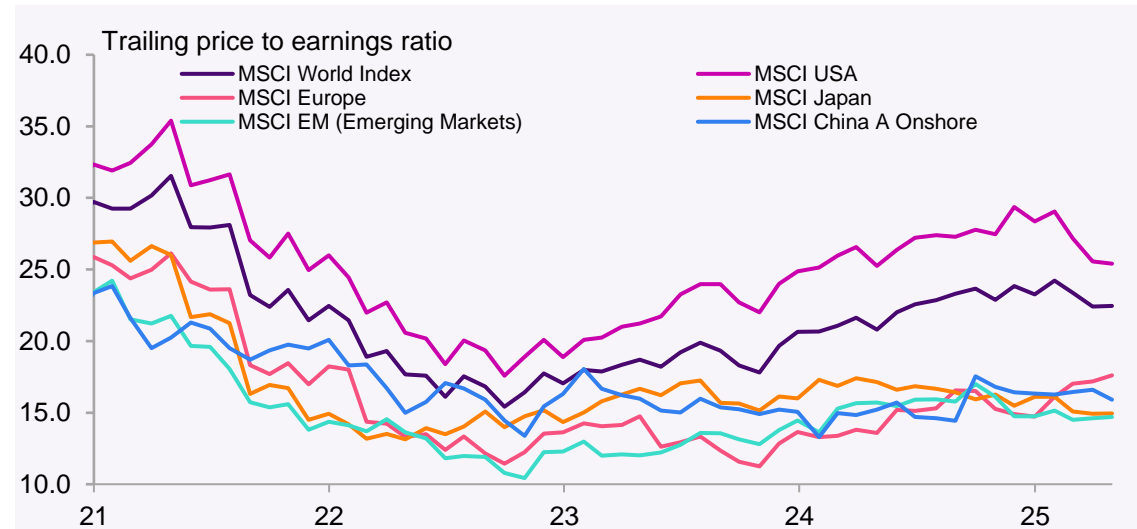
Overall, we retain a neutral view on equities over a five-year horizon

What happened over the past month:

As of April 30, **global equities remained volatile, primarily driven by continued uncertainty surrounding U.S. trade policy.** Developed market equities ended the month down 0.4%, while emerging markets declined by 1.9% on a total return basis. Euro area and UK equities fell by 1.7% and 1.6%, respectively, pressured by weakening sentiment and persistent trade tensions. **Japanese equities declined by 3.4%, despite some support from a rebound in services.** Emerging markets were bolstered by strong performance in Latin America and a late-month recovery in Chinese equities following a softening in U.S. trade rhetoric and stronger-than-expected GDP data. In early April, U.S. tariffs on Chinese goods surged to 145%, prompting retaliation. However, tensions slightly eased after the U.S. and China both announced the removal of levies on select products. Trade talks between the two countries have also just started. **Despite the rebound, Chinese equities closed the month down 5.9%.**

Broad market trends:

Global equity valuations



Sources: FactSet, WTW

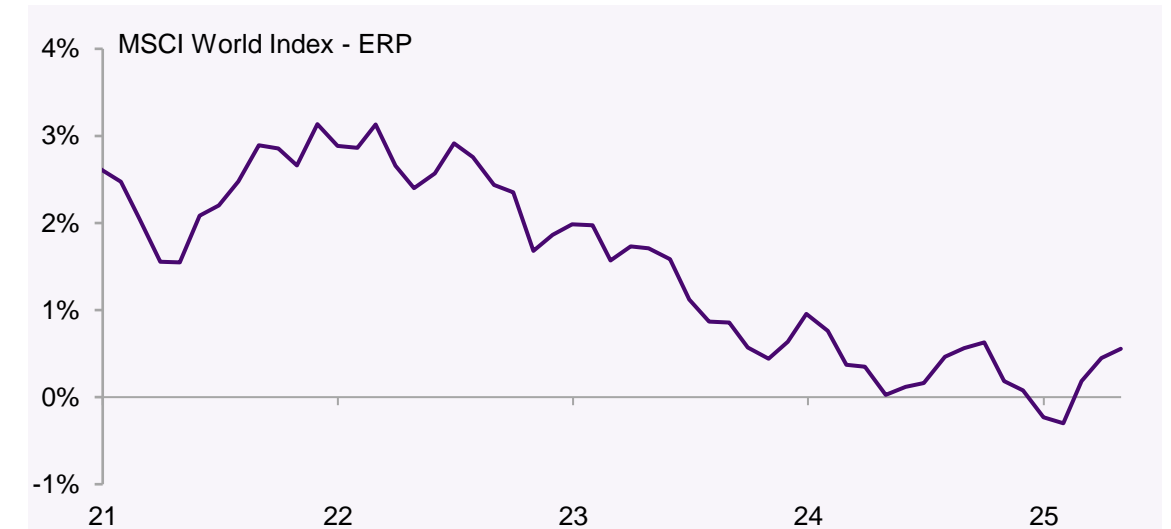
Moderately high US equity valuations, very high stock concentration in cap-weighted US equities, the direct impacts of tariffs on corporate profitability, and a headwind to business investment from high uncertainty, all suggest that economic and earnings growth will be weaker over the next three quarters, with the potential for downward pressure on equity prices and/or higher equity volatility. *If we see recessions, we expect them to be shallow and short-lived.* This is important for equity prices - while this would likely mean further equity price falls from here, importantly, the average time taken for prices to then recover and regain their previous highs is short, typically only 4 – 13 months.

Over the last three months, the top performing global sectors have been defensives – Utilities (+8.2%) and Consumer Staples (+7.2%).

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 equity – while we have revised down the likely rate of earnings growth in 2025, we think this has been more than offset by the recent fall in price.

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 March most major currencies have appreciated materially against the US dollar. As of 7 May, the euro had risen 5.2% versus the dollar, with a 3.5% to 4.5% appreciation for other key currencies against the dollar.

Broad market trends:

Recent Events: US dollar weakening continued over April, despite interest rate differentials worsening for most major countries (vs. the US) over the course of the month. Increased uncertainty and elevated volatility, which would typically favour the US dollar, instead appear to be weighing on the currency relative to other “safe-haven” peers, following the US-centric “Liberation Day” tariffs.

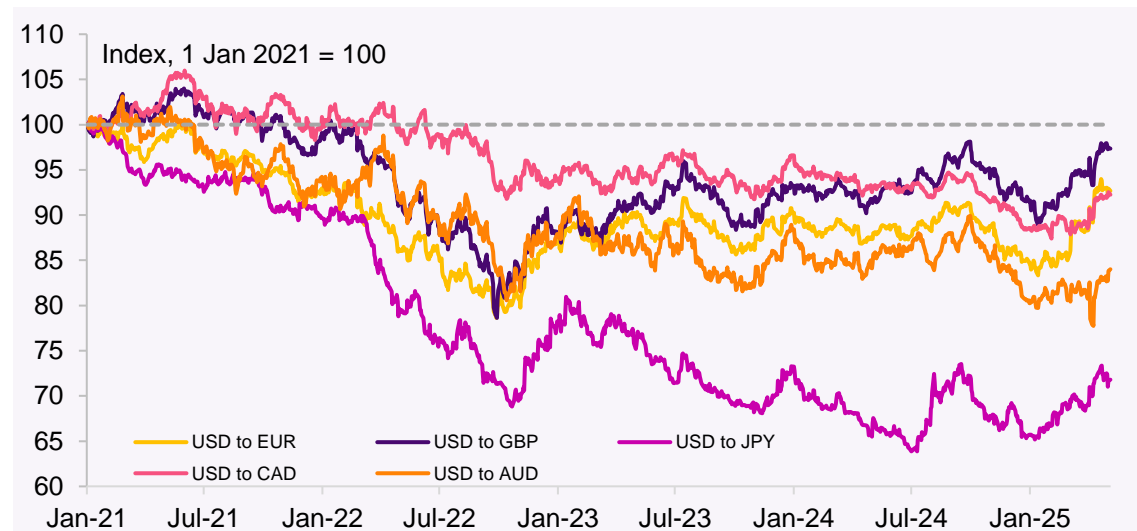
Longer term: the US dollar has strengthened significantly versus most currencies over the past few years. Over this longer horizon, US interest rates have generally risen vs. peers. Growth and innovation have also

been consistently better than other economies, attracting investment and supporting dollar strength.

Looking ahead:

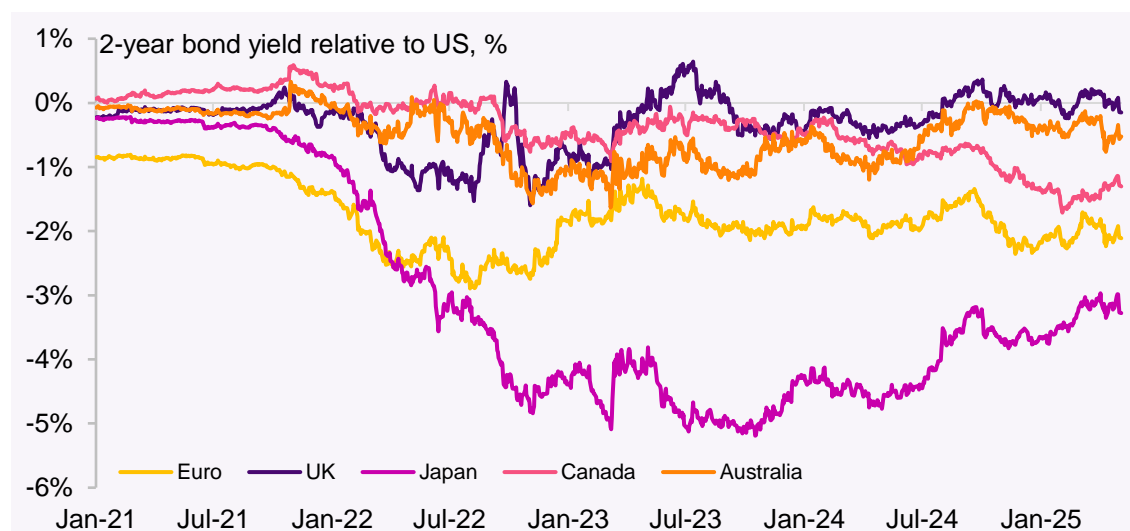
Following a sustained period of appreciation, the US dollar has become more expensive against other major currencies on our preferred medium-term fair value metrics. This suggests downward pressure over a 3-to-5-year horizon and a **positive view on most developed market currencies against the dollar**. 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.

Developed exchange rates versus the US dollar



Sources: FactSet, WTW

2-year interest rate differentials



Sources: FactSet, WTW

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