

Global Markets Overview

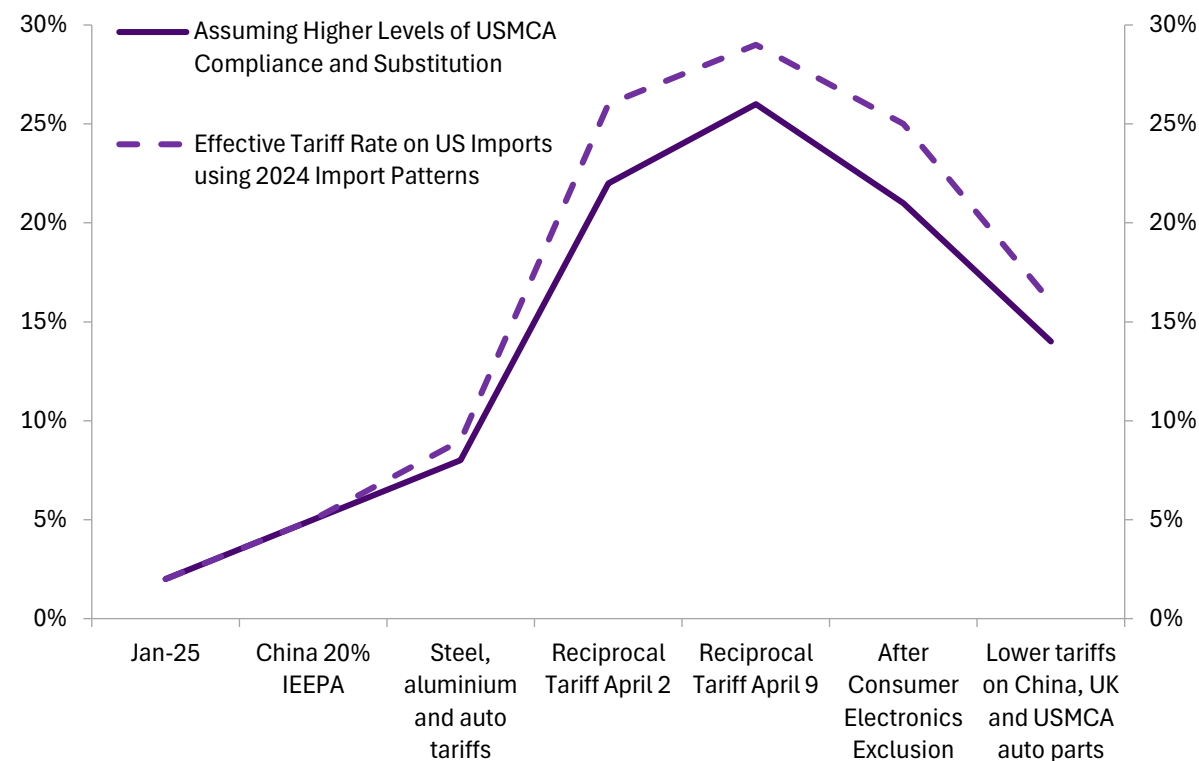
Asset Research Team

June 2025

Chart of the month

- The latest development in US trade policy was on June 4, when the Trump administration doubled the tariffs on steel and aluminum imports from 25% to 50%.
- We expect additional sectoral tariffs in other areas to be utilised by the US administration throughout 2025, with a “tariff wall” likely to be sustained for many years.
- The next key date is July 9, when the deadline for new US trade deals with most countries is hit or higher “reciprocal tariffs” will be re-implemented.
- A recent US Court of International Trade ruling – blocking the Trump administration’s use of the International Emergency Economic Powers Act (IEEPA) to impose broad-based tariffs – is, ultimately, likely to have little impact.
 - In principle, the decision voids 6.7pp of tariff increases implemented this year — including both the 10% baseline tariff implemented against all countries and some of the country-specific measures targeting Canada, China, and Mexico — while leaving sectoral tariffs unaffected.
 - However, the US administration still has multiple alternative tariff channels, including Section 122 (temporary tariffs up to 15% for 150 days), Section 301 (retaliation for unfair trade practices), and Section 232 (sector-specific national security tariffs). We expect the White House to pivot toward these alternative tools to preserve its trade positioning and negotiating power.
- Consequently, we still expect the overall US tariff rate to settle at around 14% - 15%. This is significantly less than the levels reached in early April but still materially higher than the beginning of the year. In May, equity and credit markets benefited from a rebound in risk appetite, driven by a substantial (albeit temporary) de-escalation in US-China trade tensions, which in turn meaningfully reduced near-term recession risks in the US and globally. Bond yields also rose, most notably in the US.

The uncertainty of trade policy based on the changing overall US effective tariff rate



Sources: Morgan Stanley, WTW

Government bonds

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

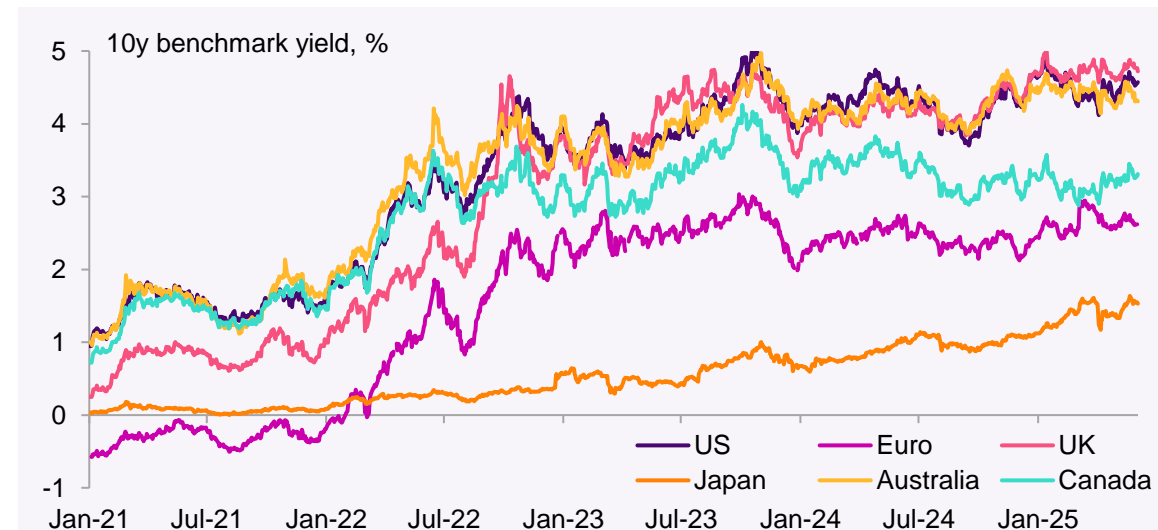
What happened over the past month:

Global bond yields have risen significantly over the past month, led by the US. As of June 3, U.S. 10-year bond yields are trading around 446bps, c. 30bps above the start of May. Yield moves in other markets have been less stark jumping c. 15-20bps in the UK, Japan, Canada and Australia, and 6bps in Germany.

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. In May, de-escalation in the ongoing trade conflict led markets to lower their recession odds and expect fewer rate cuts. Bond risk premia remain elevated, however. The direction of trade policy remains uncertain, and the US deficit-boosting 'One Big Beautiful Bill' has raised concerns about fiscal sustainability. Moody's became the last major ratings agency to strip the US of its AAA rating last month.

Global 10-year benchmark nominal bond yields



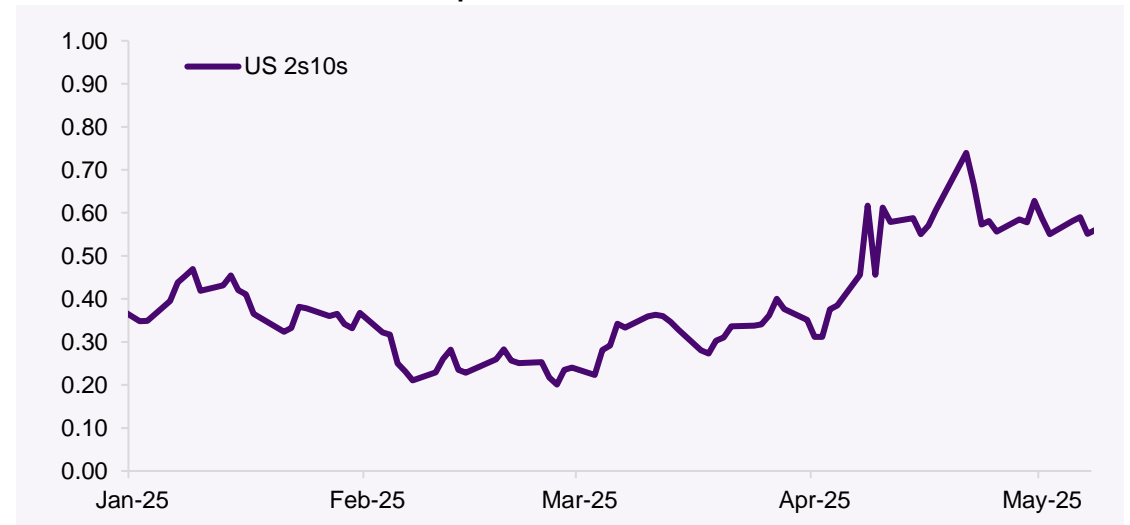
Sources: LSEG Datastream, WTW

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 has remained wide despite 2y rates rising, indicative of an elevated bond risk premium



Sources: LSEG Datastream, WTW

Credit

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

What happened over the past month:

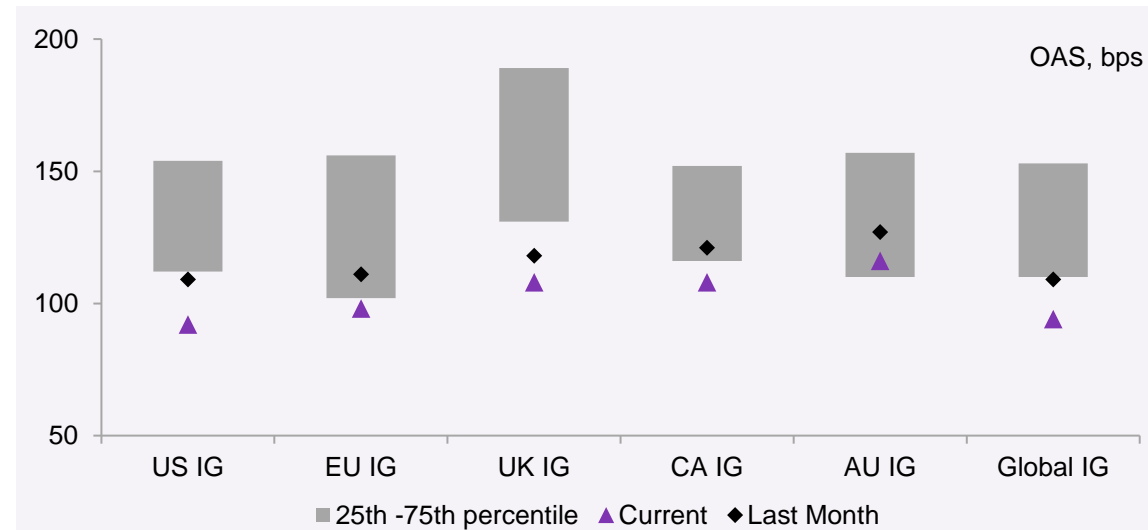
Corporate credit spreads tightened across regions and credit qualities in May, reversing much of the widening seen during the early April sell-off. Like equities, credit markets benefited from a rebound in risk appetite, driven by a substantial (albeit temporary) de-escalation in US-China trade tensions, which in turn meaningfully reduced near-term recession risks in the US.

Global investment grade (IG) spreads narrowed by 15 basis points (bps), with the US seeing a slightly larger compression of 17bps compared to 13bps in the Eurozone. High yield (HY) spreads experienced a more notable tightening, narrowing by 57bps globally. As with IG, the US led the move in HY, tightening by 62bps, while Eurozone HY spreads contracted by 43bps.

What has influenced recent market dynamics?

Spreads 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

Investment grade spreads by country



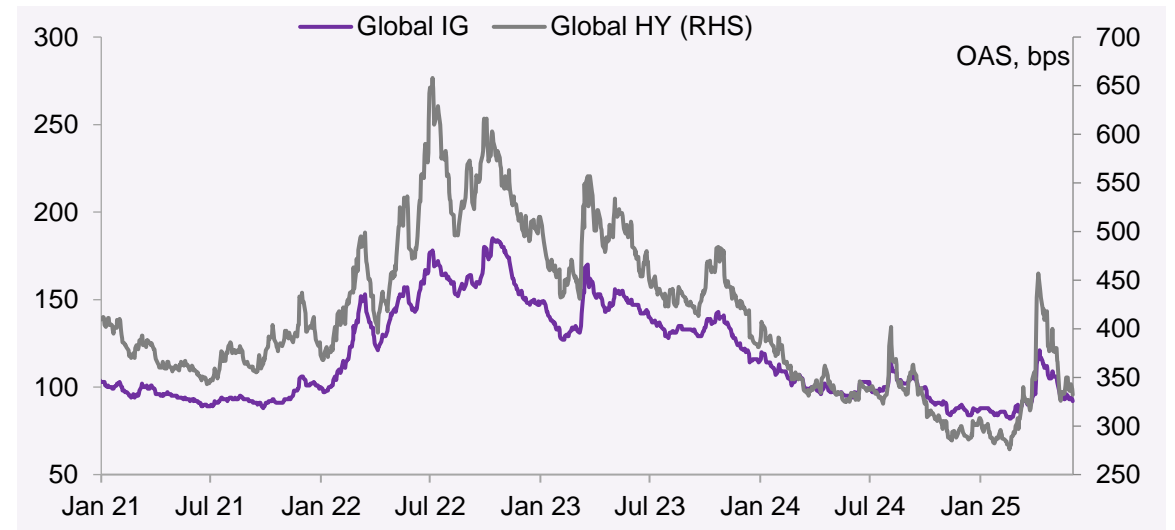
Sources: FactSet, WTW

cycle have helped cushion corporate credit markets, somewhat, from the recent bouts of 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:

Over May, **global equities saw an increase in risk appetite, primarily driven by optimism over the path of global trade policy.** Developed market equities ended the month **up 6.0%**, while emerging markets increased by **3.2%** on a total return basis. In the U.S., equities advanced **6.5%**, led by large-cap tech and AI-related names, helping the S&P 500 to move closer to its all-time high. Euro area equities rose **5.3%**, partially buoyed by an improvement in economic sentiment. UK equities increased by **3.4%**. **Japanese equities increased by 5.3%**. Emerging markets were bolstered by strong performance in Chinese equities, which rose by **3.6%**.

Broad market trends:

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

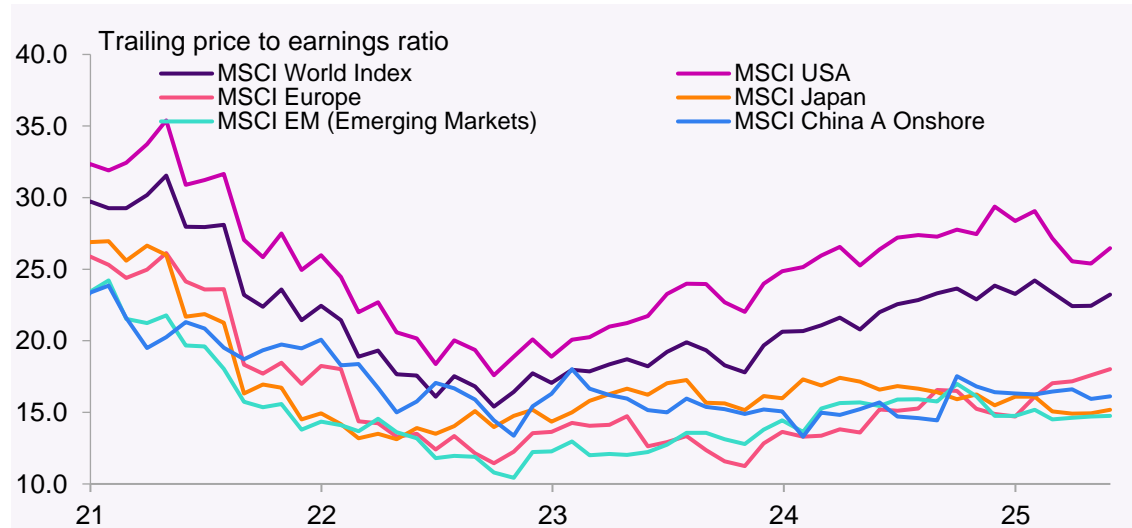
for downward pressure on equity prices and/or higher equity volatility. *If we see recessions, we expect them to be shallow and short-lived.* This is important for equity prices - while this would likely mean further equity price falls from here, importantly, the average time taken for prices to then recover and regain their previous highs is short, typically only 4 – 13 months.

Over the last three months, the top performing global sectors are Utilities (9.6%), Industrials (+9.1%) and Consumer Staples (+4.7%).

Looking ahead:

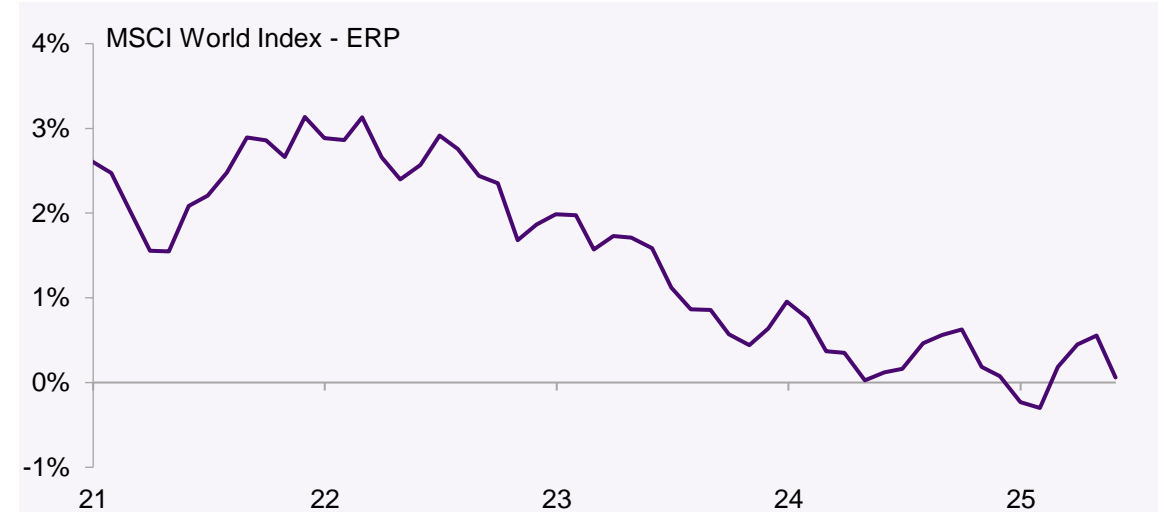
Overall, we retain a neutral view on equities over a five-year horizon. Over one-to-two years, we continue to see value in Japanese equity – while we have revised down the likely rate of earnings growth in Japan in 2025, we think this has been more than offset by the recent fall in price.

Global equity valuations



Sources: FactSet, WTW

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 April most major currencies are relatively flat versus the US dollar, maintaining their appreciation from recent months. Year-to-date, the euro, yen and pound are up 8 to 10 percent versus the US dollar, and the Canadian and Australian dollar have both risen 4 to 5 percent.

Broad market trends:

Recent Events: US dollar weakening has occurred despite interest rate differentials worsening for most major countries (vs. the US) over the course of Q2. Increased uncertainty and elevated volatility, which would typically favour the US dollar, instead appears to be weighing on the currency versus other “safe-haven” peers, likely due to the perceived risks stemming from volatile US policy.

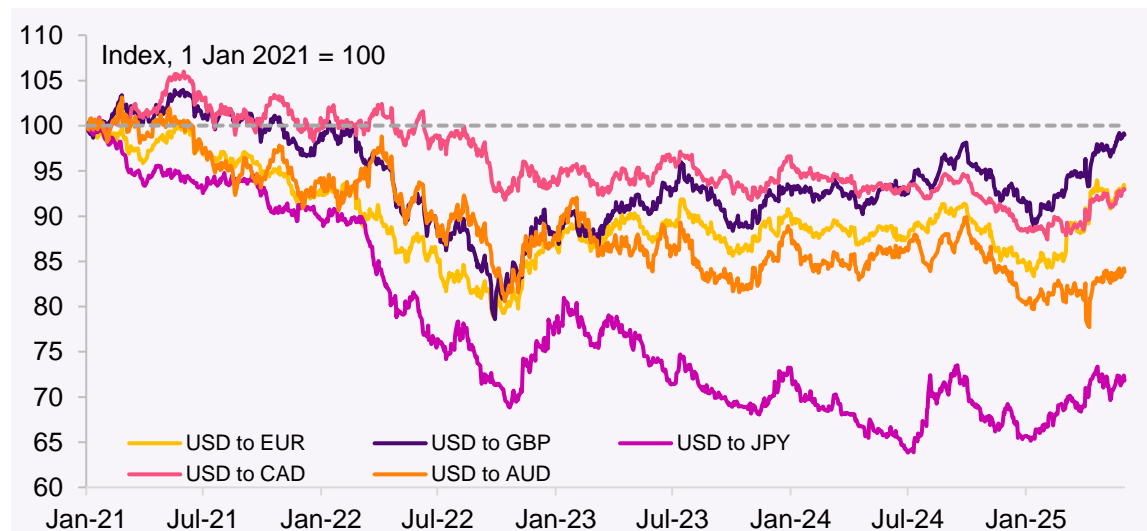
Longer term: the US dollar has strengthened significantly versus most currencies over the past 15 years. Over this longer horizon, US interest rates have generally been higher than peers. Growth and innovation

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

Looking ahead:

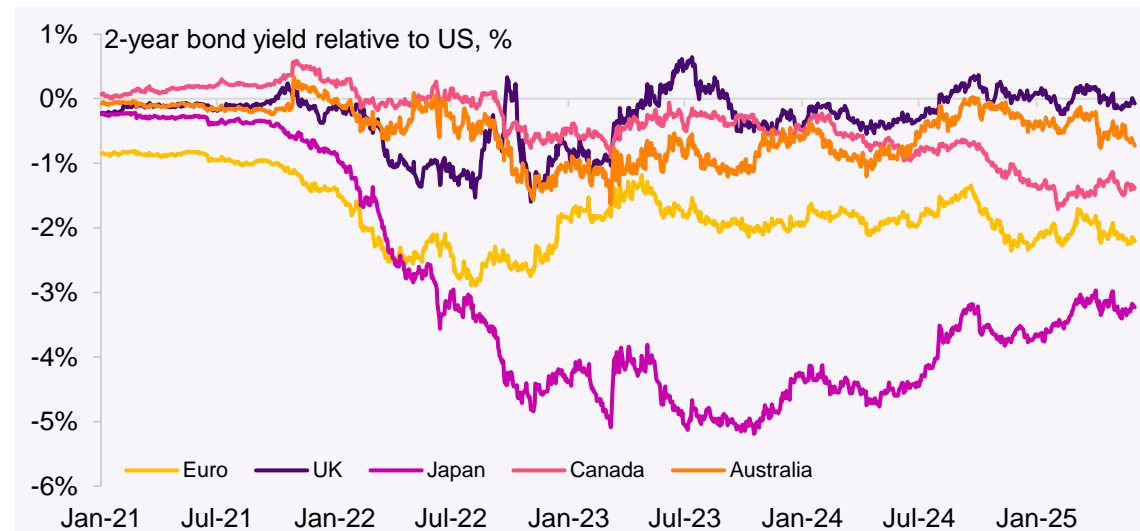
Following a sustained period of appreciation, the US dollar has become more expensive against other major currencies on our preferred medium-term fair value metrics. This suggests downward pressure over a 3-to-5-year horizon and **a positive view on most developed market currencies against the dollar**. This view of expensiveness appears to be shared by senior members of the Trump administration, who want to weaken the dollar to boost manufacturing competitiveness. In the short run, however, the US dollar's continued safe-haven status combined with an above average likelihood of a global recession could lead to further appreciation. We hold a neutral view short-term against most currencies for now, 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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