# Global Markets Overview

**Asset Research Team**

July 2025

## US trade policy: the four big macro questions

**Q. What are the main priorities of the US government when it comes to trade?**

A. First, increasing national and economic security, which can be partially achieved through trade restrictions on goods ranging from aluminium and batteries, through to technology products and transportation. Second, encouraging production operations to move to the US. Third, reducing or eliminating US trade deficits with various countries. Fourth, raising tax revenues from tariffs to pay for the One, Big Beautiful Bill tax cuts and spending changes. What do these mean? A US "tariff wall" will be sustained throughout the current US administration and most likely beyond it.

**Q. The 90-day pause on high "reciprocal" tariffs for many countries was due to expire on July 9, what has happened?**

A. The "reciprocal" tariff deadline has been extended to August 1. President Trump has issued letters to 20+ countries – most importantly Japan, South Korea, and Brazil – stating the US would impose tariffs from 25% to 50% unless those countries make concessions. Separately, a 50% copper tariff will come into effect on August 1 and we expect announcements of industry tariffs, especially pharma and semiconductors/electronics) soon. The overall outcome is becoming clearer: a 10% baseline tariff on all countries, higher rates for some (mostly smaller) countries, targeted sectoral tariffs, and the US trying to stop China exports being re-routed through other countries. This leads to: a c. 16% US effective tariff rate, challenges for comprehensive US-China and US-EU deals, and a headwind to business confidence, capex, and trade.

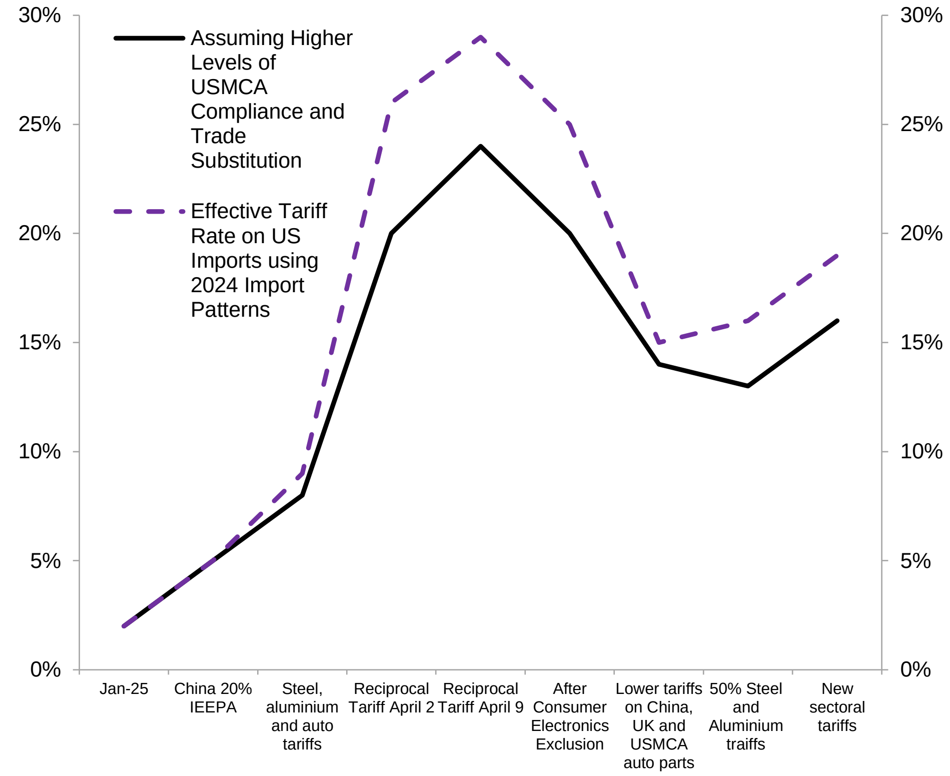
**Q. You expect US and global growth to slow in the second half of 2025, but it has been resilient so far. And you expect US inflation to rise, but it hasn't risen much so far. Are you sure you are right?**

A. US GDP for the 2nd quarter will be released in a couple of weeks and is likely to be strong, but it is a lagging number. US core PCE inflation was 2.7% in May (vs. 2.6% in April). The largest tariff increases were only in early April, the front loading of purchases and imports before tariffs came into effect, and businesses waiting to see what tariffs would stick, all explain the moderate growth and price impacts so far. However, the latest statistics indicate household spending is slowing, business are drawing down inventories, and companies are likely to pass through price increases gradually. We still expect US real GDP growth to slow to around 1% – below trend growth but above recessionary conditions – and US core inflation to rise to around 3-3.5% by the 4th quarter.

**Q. What does this mean for your outlook for financial assets?**

A. In summary: we are negative on the US dollar, neutral on equities and credit, and positive on selective government bonds.

**The evolution of the estimated tariff rate on US imports**




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:

**Government bond moves have been mixed.** While intermediate yields generally declined through June, they have edged higher so far in July (as of 9 July 2025). Most markets remain within 10 basis points of their early June levels, except for European and Canadian yields, which have shifted higher.

### Factors influencing market trends:

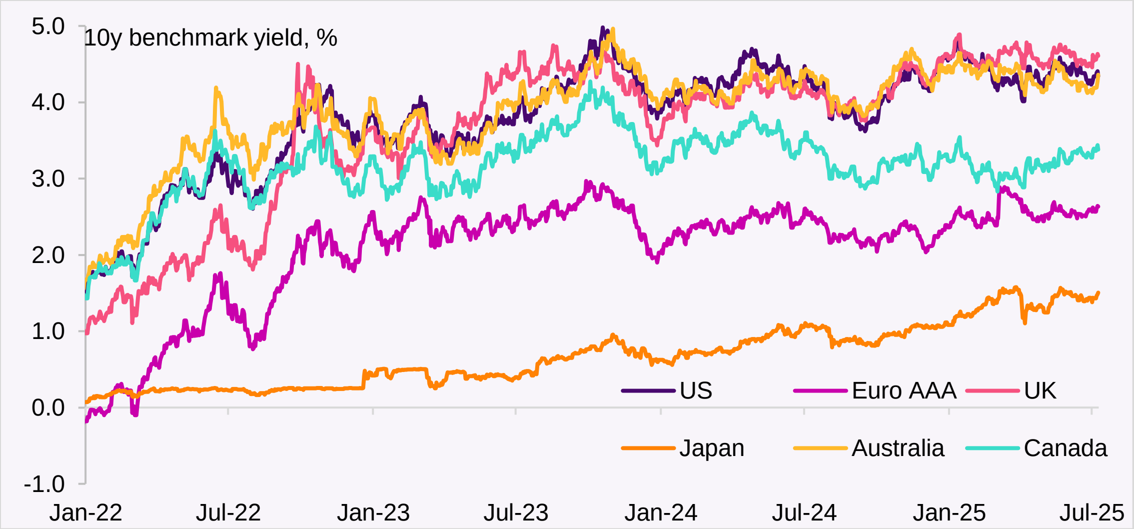
**Bond markets remain sensitive to economic data and policy.** In June, lower US yields were supported by steady inflation and dovish comments from Fed officials. In contrast, July has seen yields rise partly due to stronger-than-expected labour-market data. News flow around trade and fiscal policy has also remained a key source of market volatility. In Europe, recent yield rises have been driven by Germany's sizable defence and infrastructure spending package. In Canada, concerns about the size of debt issuance, and a postponement of the budget, have pushed yields higher in recent weeks.

### Looking ahead:

US and global bond markets will remain focused on updated policies from President Trump, with the impact on growth, inflation, and bond 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 in a neutral range, though we continue to think that select bond markets (e.g., UK gilts) offer value over a three-year horizon.

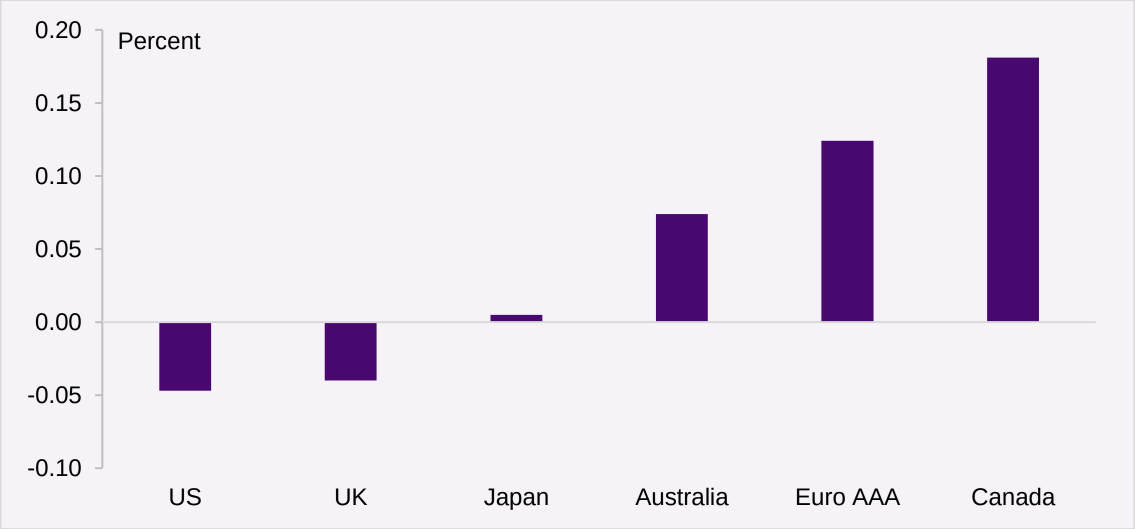
Overall, it remains appropriate to maintain bond exposure for liability hedges, downside protection strategies or – for dynamic investors only – an overweight to select bond markets. However, the devil lies in the detail of wider portfolio context, starting points, and available opportunity sets, so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

**Global 10-year benchmark nominal bond yields**




Sources: LSEG Datastream, WTW

**Global 10-year benchmark yield moves since start of June (as of 9 July 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 tightened further in June across most regions and credit qualities, ending the quarter generally narrower despite intermittent bouts of uncertainty.** A marginal easing in trade tensions over the month supported investor risk appetite. Demand for credit remained firm, as all-in yields (a combination of government bond yields and corporate spreads) stayed elevated relative to the last decade.

Global investment grade (IG) spreads narrowed by 6 basis points (bps), with the US and Eurozone seeing similar levels of compression. High yield (HY) spreads saw more pronounced tightening, falling by 29bps globally. The US led the move in HY, tightening by 36bps, while Eurozone HY spreads contracted by 17bps. Spreads have continued to narrow a little in IG and HY markets up to 9 July.

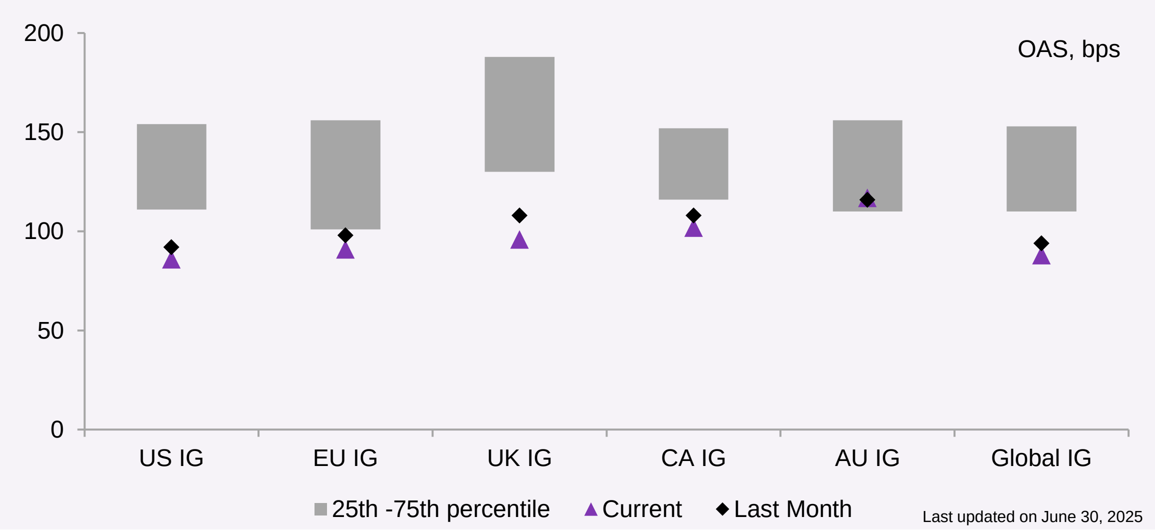
### What has influenced recent market dynamics?

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 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 is likely to remain relatively benign. Additionally, demand for corporate credit should remain supportive given high all-in yields.**

### Looking ahead:

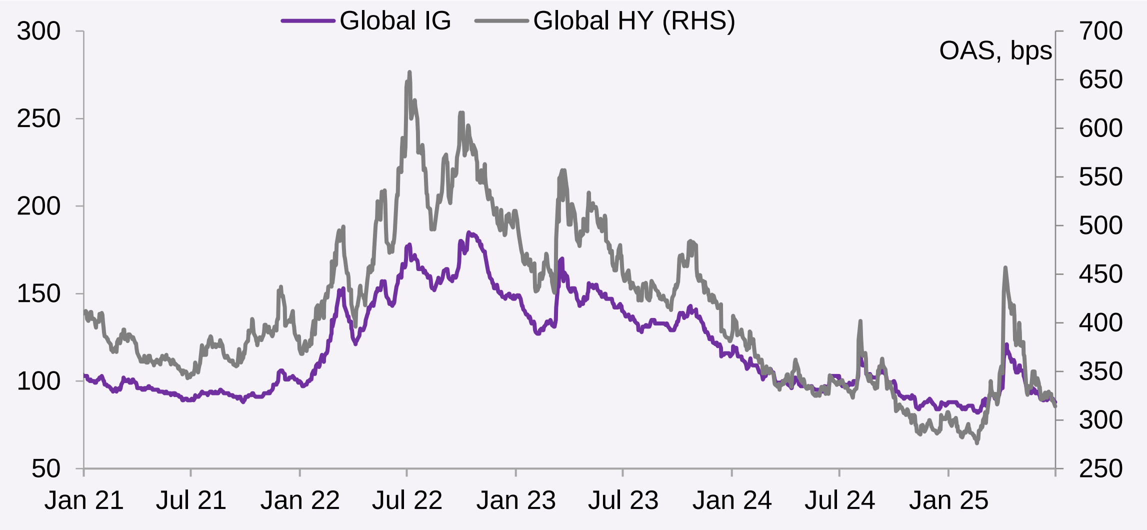
**Over a three-to-five-year horizon, we expect global investment grade corporate credit to provide reasonable returns above government bonds**. Similarly, we expect global high yield credit to outperform government bonds and investment grade credit over the medium-term.

**Investment grade spreads by country**




Sources: FactSet, WTW

**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:

Global equities rose in June, driven by dovish Fed signals and improving earnings. **Emerging markets outperformed developed markets, with gains of 5.0% vs 3.8%**. Emerging markets benefited from improving Chinese economic data, strong Taiwanese tech performance, and Korean market reforms. In developed markets, US equities were the clear leader with a 5.1% total return, driven by tech and AI stocks. Euro area equities declined modestly perhaps due to political risks and apparent limited progress in their trade negotiations with the US. Japanese equities rose 1.8%.

### Broad market trends:

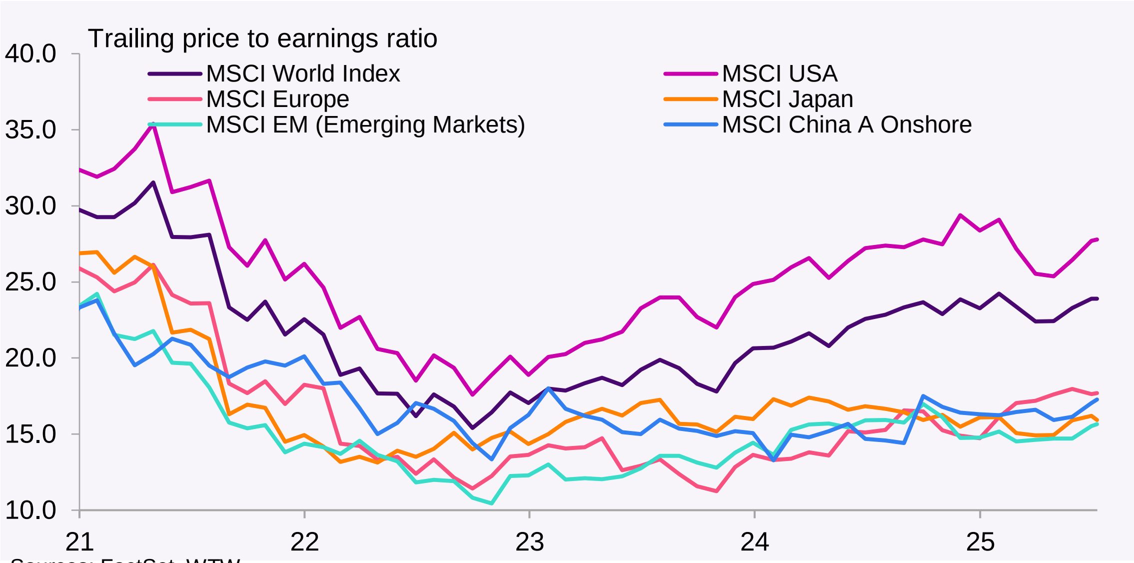
The direct impacts of tariffs on corporate profitability and a headwind to business investment from high uncertainty, combined with moderately high US equity valuations and high stock concentration in cap-weighted US equities, all suggest that economic and earnings growth will be weaker over the next two quarters, with the potential for downward pressure on equity prices and/or higher equity volatility. However, importantly, we do not expect a US, aggregate advanced economy, or global recession. Additionally, US economic and earnings growth will be supported in 2026 by the stimulative tax and spend "One, Big Beautiful Bill". This is important for equity prices – if we do see any moderate equity price falls from here, they are likely to be short-lived and dynamic buying opportunities..

Over the last three months, the top performing global sectors are Information Technology (20.6%), Communication Services (+16.7%) and Industrials (+13.8%).

### Looking ahead:

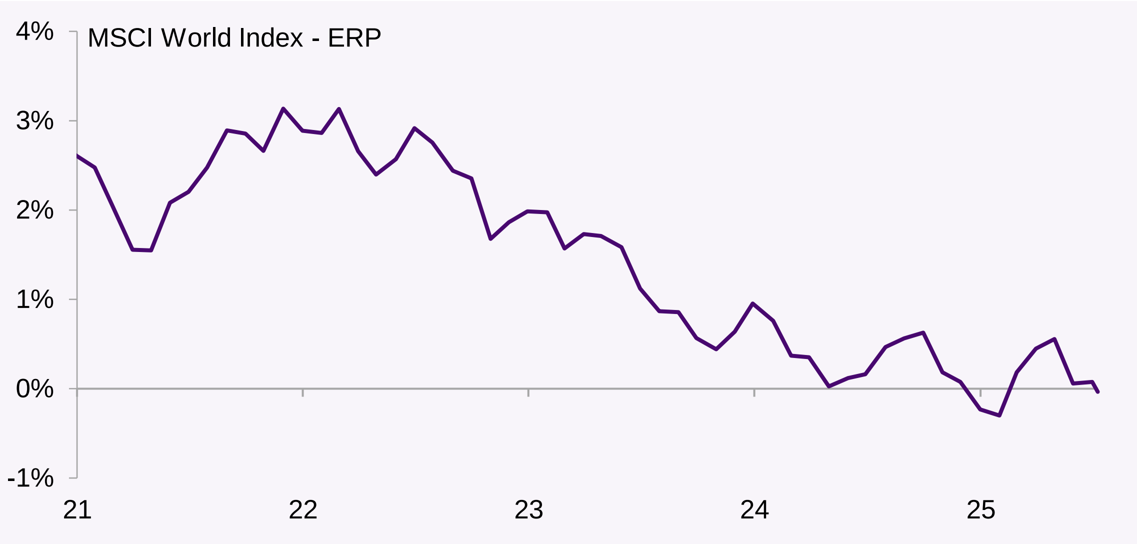
Overall, we retain a neutral view on equities over a five-year horizon. Over one-to-two years, we continue to see value in Japanese equity.

**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:

**In June, most major currencies extended their gains against the US dollar.** The most significant move was the euro which appreciated over 3% versus the US dollar, taking its year-to-date appreciation to 13% (as of 9 July 2025). Other major currencies are up 5% -10% versus the dollar over the same period.

### Broad market trends:

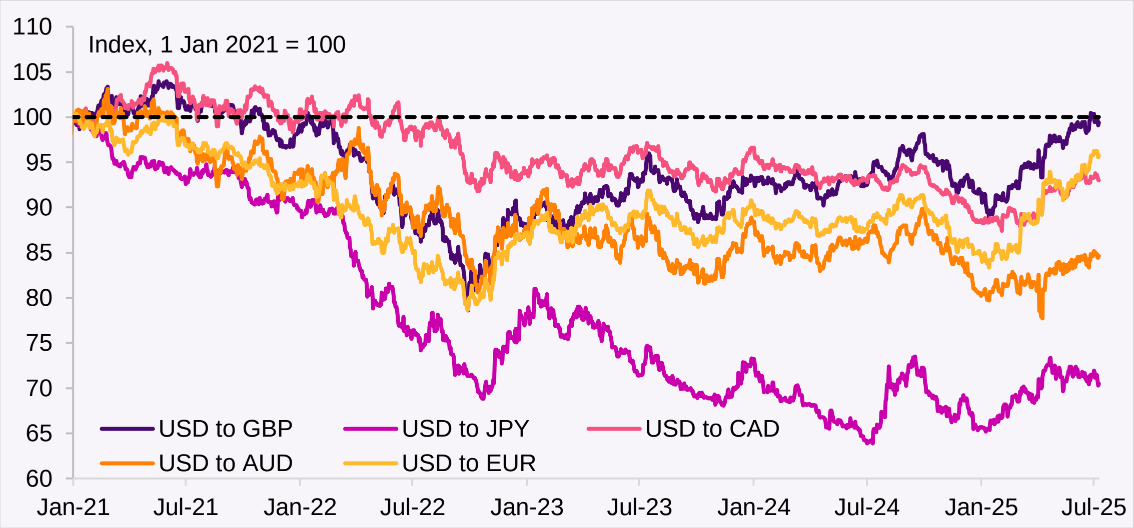
**Recent Events:** US dollar weakening has occurred despite interest rate differentials worsening for most major countries (vs. the US) over the course of Q2. Increased uncertainty and elevated volatility, which would typically favour the US dollar, instead appears to be weighing on the currency versus other “safe-haven” peers, with investors diversifying their currency exposures.

**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:

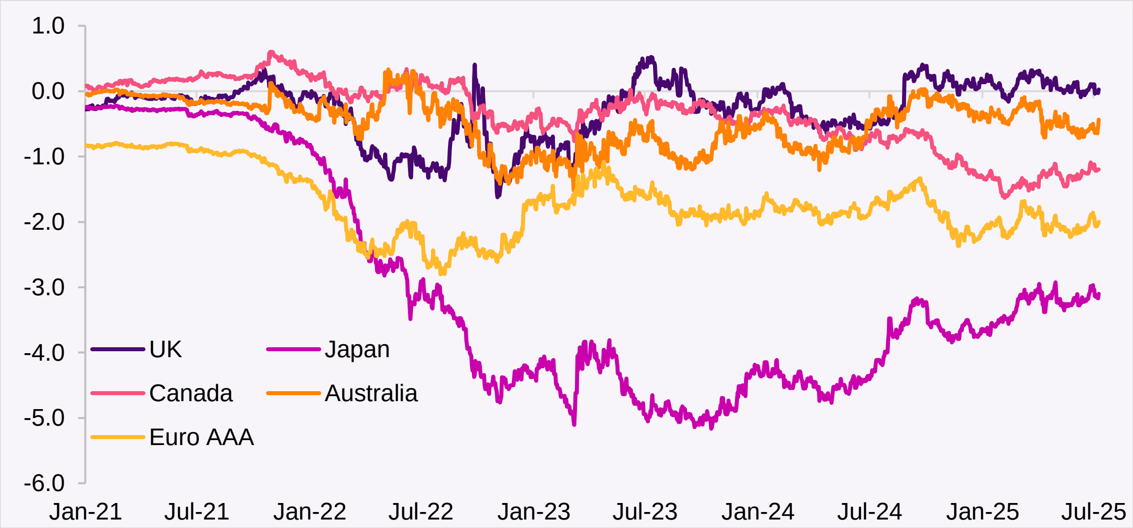
Following a sustained period of appreciation, the US dollar has become more expensive against other major currencies on our preferred medium-term fair value metrics. This suggests downward pressure over a 3-to-5-year horizon and **a positive view on most developed market currencies against the dollar**.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