

Global Markets Overview

Asset Research Team

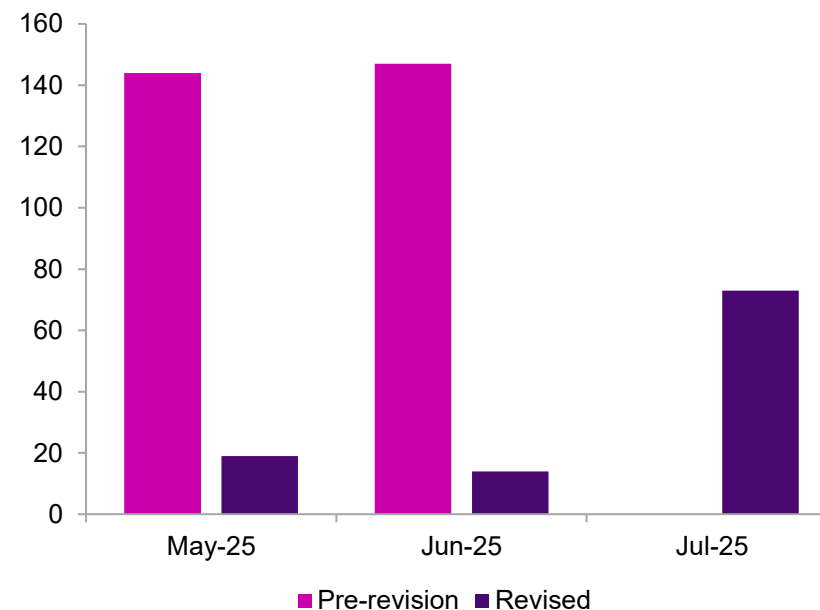
August 2025

The US labour market is weakening

- **The July US labour market report released on August 1 showed signs of a weakening labour market, especially in more cyclical sectors.** The key points were:
 - Nonfarm payroll growth for July was well below expectations, rising by only +73k compared to a consensus of +115k
 - May and June payroll growth was revised down heavily, reducing cumulative job gains over the last three months by 258k.
 - Despite weaker employment growth, the unemployment rate increased only slightly – rising to 4.2% from 4.1% in June. This is primarily because the US labour force participation rate – the proportion of the US working-age population either in work or actively seeking work – has also been falling in recent months.
- **The slowdown in hiring by US companies is consistent with a weakening of other recent US economic datapoints, e.g., slower consumer spending and businesses drawing down their inventories more quickly. This suggests the overall US economy is slowing.** It also means that the very strong GDP growth rate in the second quarter (+3% at an annualised rate) is already out of date – GDP is normally a lagging measure of activity anyway..
- **Switching to trade, the US administration has issued a revised list of country-specific tariff rates,** targeting most of the trading partners that it had not yet reached a deal with. Much remains unknown, given the deals announced so far lack the full details, making it difficult to gauge their longevity and impact. **One thing is clear, it will result in higher US inflation as we go through the rest of 2025, which will squeeze real incomes and spending, and reinforce the slowdown in US GDP growth.**
- **On balance, the stronger indication of slowing US growth in the data, and our *unchanged* view of the likely peak level of US core inflation (3% – 3.5%), mean it is more likely that the Federal Reserve will cut US interest rates in September.** Although, whether the Fed does cut or waits for more material signs of labour market weakness, e.g., rising unemployment, and/or signs of core inflation coming down, is finely balanced.
- Looking into 2026, the US government agreed its 2025 US Budget Reconciliation Bill, which extends a significant set of tax cuts for households and businesses, implements new tax cuts, increases government spending in defense and border security, and reduces spending on Medicaid and other areas. Overall, the positive effects on US economic growth from the governments fiscal package, should offset the drag on growth from higher trade tariffs in 2026. Therefore, while we expect US and global real GDP growth to slow moderately over the next six months, it is likely to reaccelerate in 2026 – a supportive environment for financial assets over the next 18 months in our view.

US economic activity and the labour market has been weakening in recent months. We expect this to continue in the second half of 2025

US non-farm payrolls, thousands



Sources: FactSet, WTW

Government bonds

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

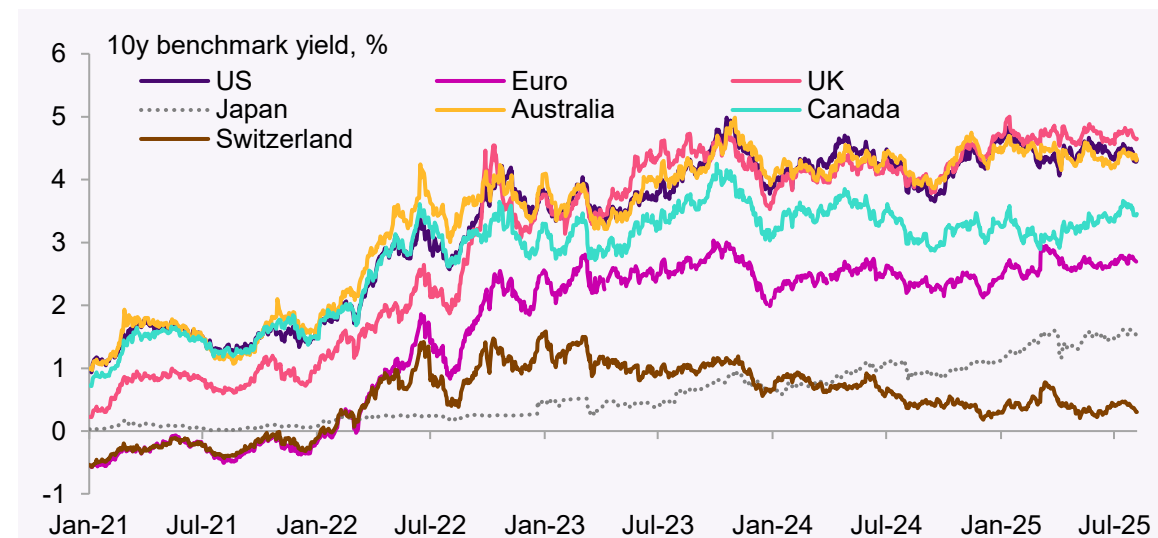
What happened over the past month:

Government bond yields have been volatile. After rising in July, bond yields have reversed course in August (as of August 5). The US has led the moves, with 10-year Treasury yields dipping 16bps since the end of July. 10-year bond yields in other major markets have also declined, albeit to a lesser extent, falling 5 to 10bps.

Factors influencing market trends:

Bond markets remain sensitive to economic data and policy. In the US, recent yield falls have been driven by weaker-than-expected labour market data and softening PMI activity data. This has led market participants to bring their expectations for Fed interest rate cuts forward, which is a key determinant of yields. Looking further back, the rise in European yields in recent months has been influenced by Germany's sizable defence and infrastructure spending package.

Global 10-year benchmark nominal bond yields



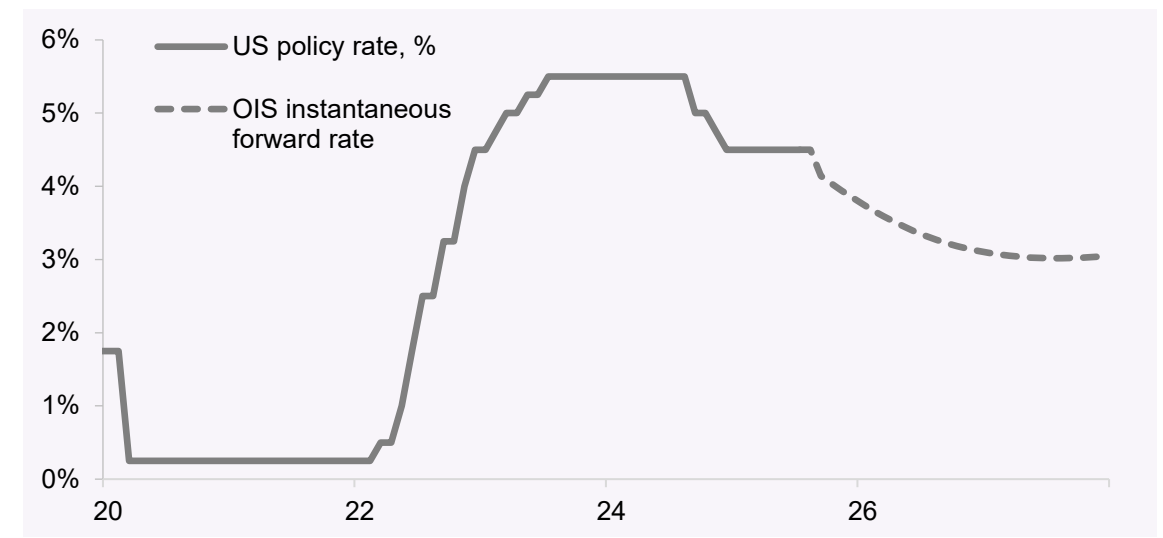
Sources: FactSet, WTW

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, although 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.

Markets now expect the Fed to implement its next rate cut in September



Sources: LSEG, WTW

Note: instantaneous forward rates indicate market expectations of Fed policy

Credit

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

What happened over the past month:

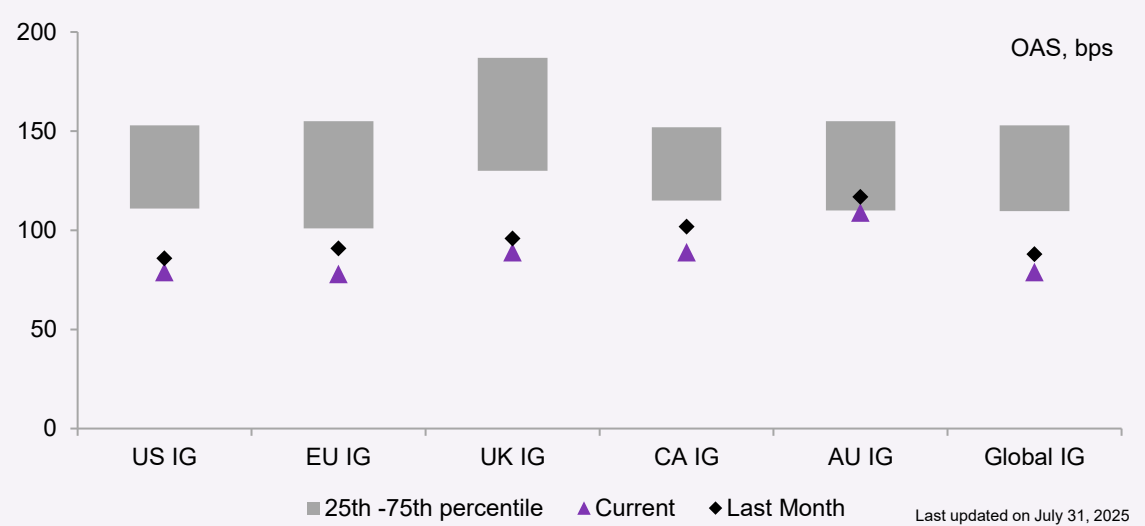
Corporate credit spreads tightened further in July across most regions and credit qualities, with global IG and HY spreads at or close to year-to-date lows. The US administration's framework trade agreements with several trading partners eased trade tensions and supported investor risk appetite. Credit demand also remained firm supported by elevated all-in yields relative to the past decade.

Global IG spreads narrowed by 9bps, with the Eurozone seeing greater spread compressions compared to the US. HY spreads tightened more sharply, falling 21bps globally, again led by the Eurozone.

However, early August saw a partial reversal of July's rally due to softer US macroeconomic data, particularly labour market indicators, and an uptick in trade uncertainty following the announcement of revised US tariff rates in the absence of formal trade agreements.

What has influenced recent market dynamics?

Investment grade spreads by country



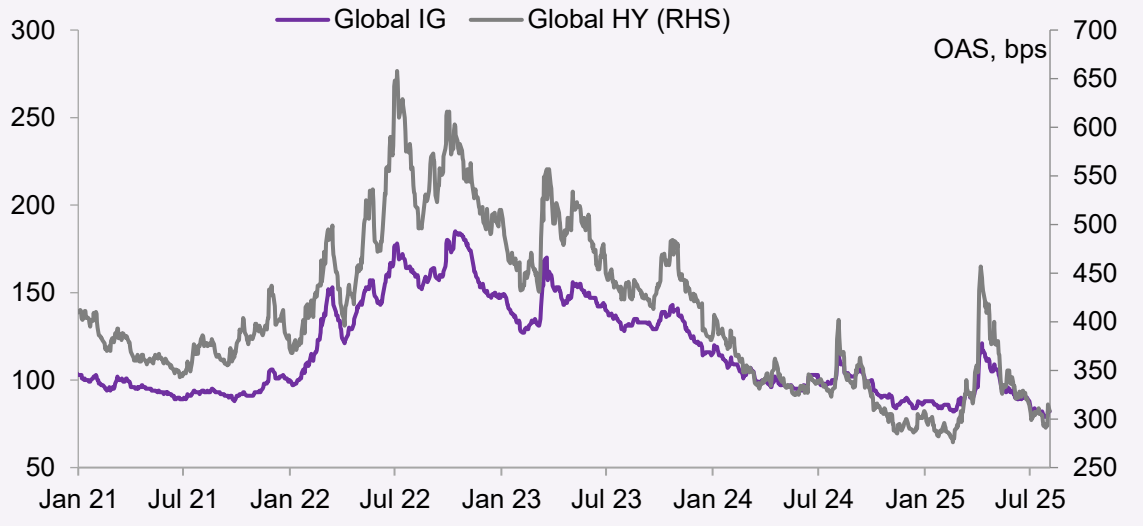
Sources: FactSet, WTW

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. Slowing US growth and US policy developments both 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.

Credit spreads, in lower credit ratings especially, have fallen over the last month and are at or close to year-to-date lows



Sources: FactSet, WTW

Equities

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

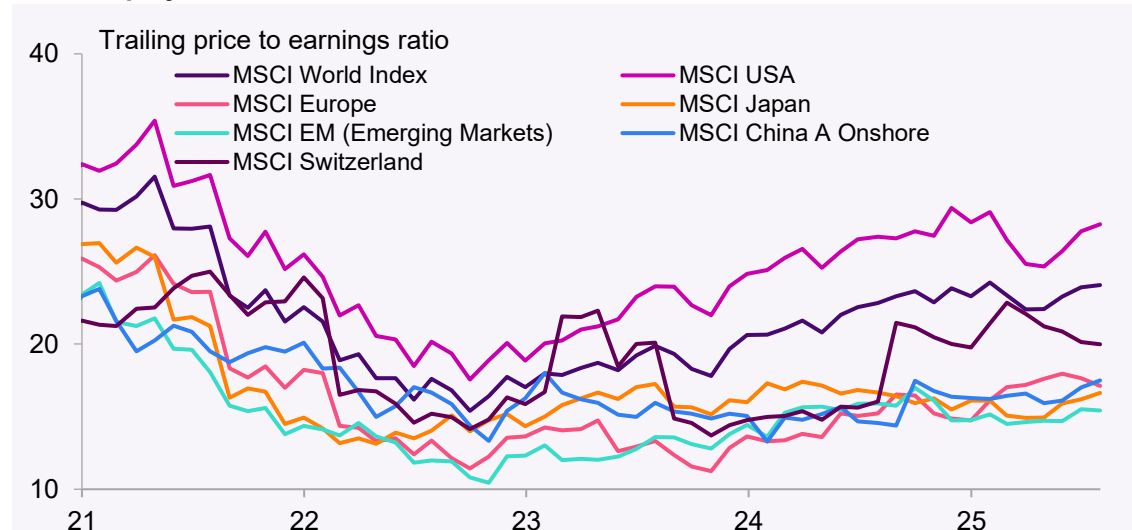
What happened over the past month:

In July, global equity markets gained 2.2% in total return terms. Market optimism around progress on trade negotiations and the lack of further escalation supported risk assets like equities, despite ongoing volatility. Separately, positive earnings – especially from tech firms focused on software and services – and sustained AI capex commitments also helped lift technology stocks, which had been among the hardest hit earlier in the year. Finally, the US government agreed its 2025 US Budget Reconciliation Bill, which extends a significant set of tax cuts for households and businesses, implements new tax cuts, increases government spending in defence and border security, but reduces spending on Medicaid and other areas.

Broad market trends:

The direct impacts of tariffs on corporate profitability and a headwind to business investment from some uncertainty, combined with moderately high US equity valuations, and high stock concentration in cap-weighted US equities, 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,

Global equity valuations



Sources: FactSet, WTW

importantly, we do not expect a US, aggregate advanced economy, or global recession.

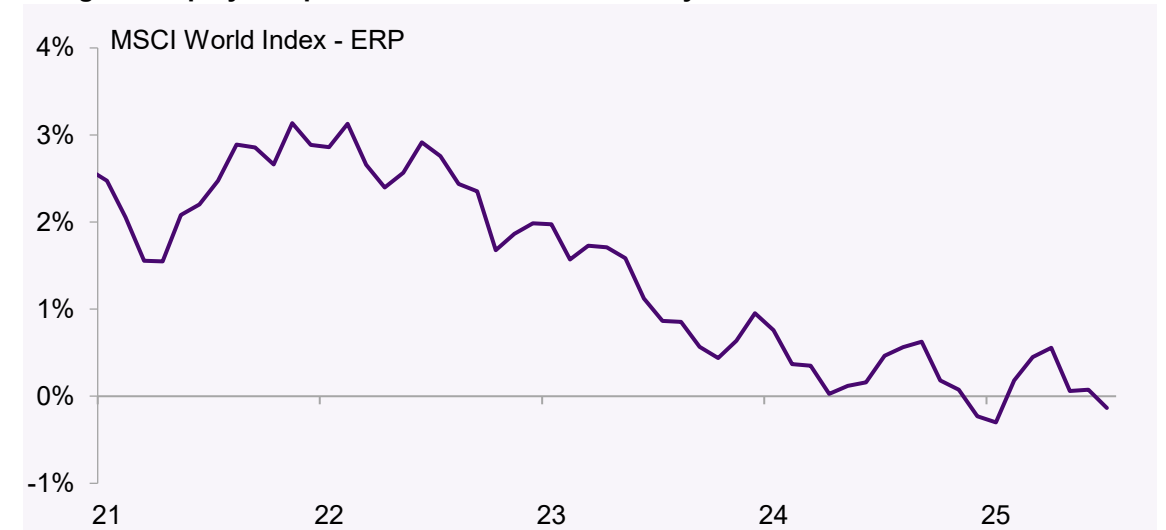
Overall, the positive effects on US economic growth from the governments fiscal package, should offset the drag on growth from higher trade tariffs in 2026. Therefore, while we expect US and global real GDP growth to slow moderately over the next six months, it is likely to reaccelerate in 2026 – a supportive environment for financial assets over the next 18 months in our view. 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 (25.7%), Communication Services (+18.6%) and Industrials (+14.0%).

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.

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:

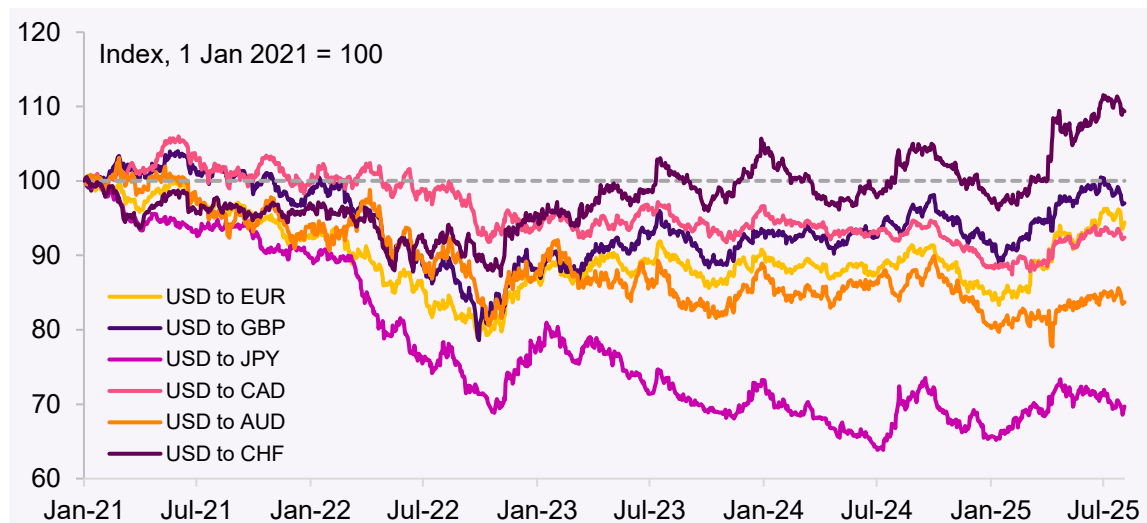
In July, most major developed market currencies weakened against the US dollar. The pound has seen the steepest decline, falling around 3% since the start of June (as of 05 August 2025). Other major currencies are down 1% to 2% over the same period. However, year-to-date, most major currencies have strengthened against the US dollar – notably the euro has gained around 12%.

Broad market trends:

Recent Events: In 2025, higher macro uncertainty and elevated equity volatility which would typically favour the US dollar have, instead, weighed on the currency - investors have been diversifying their currency exposure, given the US-centric nature of policy risks. However, trade deals with Japan and the EU in the past few weeks have reduced some trade-related uncertainty, helping the dollar regain ground.

Longer term: the US dollar has strengthened significantly versus most currencies over the past 15 years.

Developed exchange rates versus the US dollar



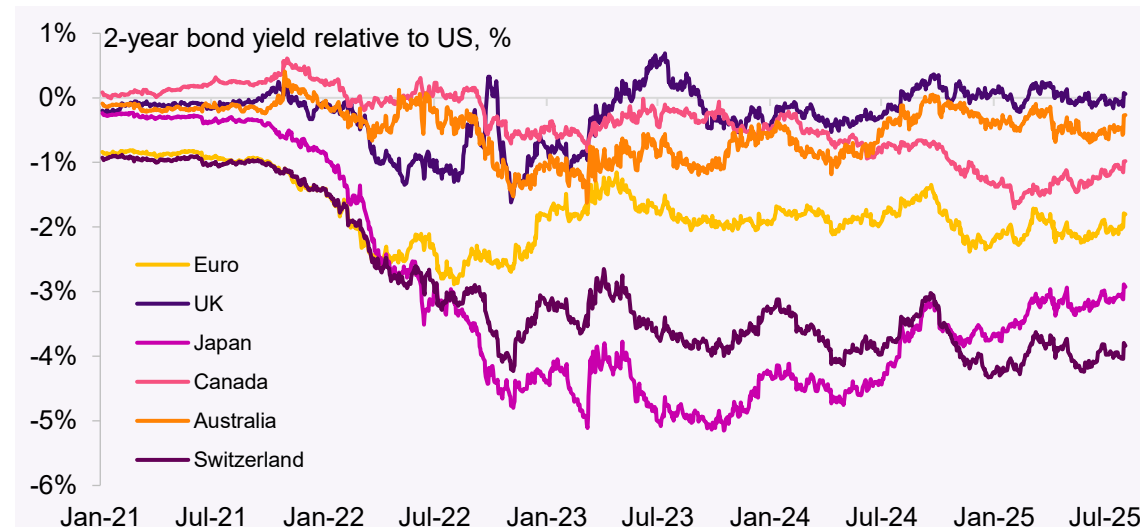
Sources: FactSet, WTW

Over this longer horizon, US interest rates have generally been higher than other countries. Additionally, economic and corporate earnings 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 most 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 short run, however, the US dollar's continued safe-haven status combined with the likelihood of a slowdown in US GDP growth over the second half of 2025 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.

2-year interest rate differentials



Sources: FactSet, WTW

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