

Global Markets Overview

Asset Research Team

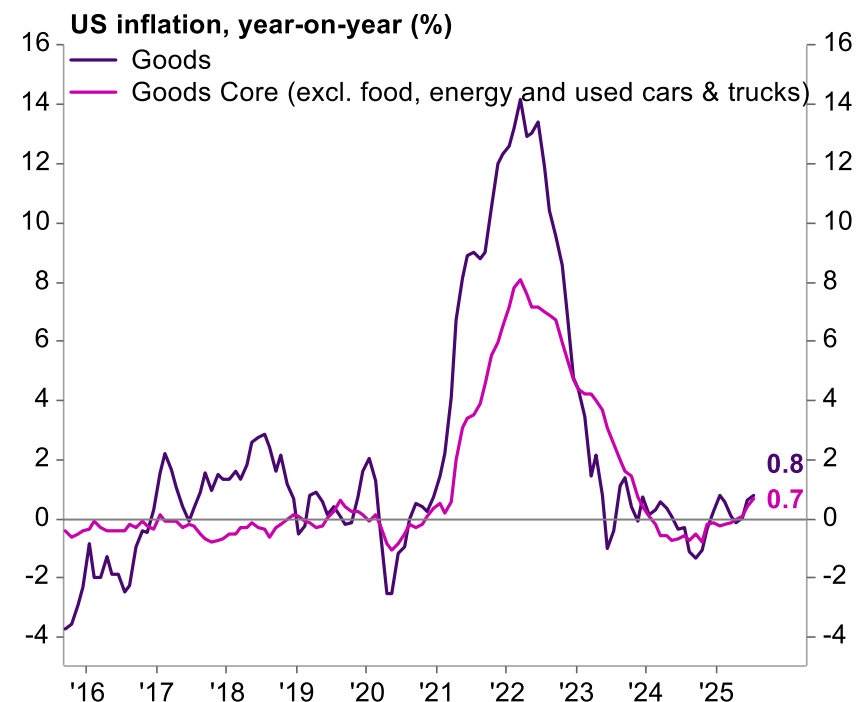
September 2025

US inflation: Tariff pass-through adds to price pressures

- **July US inflation data, released in August, confirmed a modest reacceleration in price pressures.**
 - Headline CPI rose 0.2% m/m (2.7% y/y), while core CPI increased 0.3% m/m (3.1% y/y). Goods prices, which had been a disinflationary force for much of the past year, firmed noticeably. Core PCE, the Federal Reserve's preferred inflation gauge, climbed to 2.9% y/y, marking the fourth consecutive monthly increase and remaining above the central bank's inflation target.
 - **Tariff pass-through is increasingly evident**, with a clear divergence between tariff-exposed and non-tariff categories. Prices for apparel, furniture, household furnishings, and motor vehicles – all subject to higher duties – rose sharply, while non-tariffed goods were little changed.
 - **Upstream cost pressures are also visible:** July PPI surprised sharply to the upside, with both headline and core up 0.9% m/m – the largest monthly gain since March 2022. This aligns with the Federal Reserve's September Beige Book (a qualitative review of key regional economic conditions), which also cited widespread input cost pressures.
- **Further tariff-related effects on inflation are likely in the near term.** The effective tariff rate paid on dutiable goods remains below the announced tariff rate but is quickly catching up. The Beige Book also noted that businesses are cautiously raising prices, with more likely in the months ahead.
- **We expect US core inflation to peak** (around 3.0%-3.5%), with slowing economic growth and a cooling labour market limiting second-round effects. As a result, the Federal Reserve is likely to resume cutting policy interest rates to support economic activity. Chair Powell's Jackson Hole remarks were consistent with this, emphasising stable inflation expectations and a labour market not tight enough to drive wage inflation.
- **Markets currently price in 25–50 bps of cuts by year-end and around 100 bps over the next 12 months**, which we view as reasonable. Whilst we expect inflation to continue to increase this year in the US, the Fed is increasingly of the view this is a one-off price increase, so is focusing more on offsetting weakening growth and labour markets. US and global growth looks likely to moderate over the second half of 2025, but the combination of monetary easing and supportive US and German fiscal spending should aid a rebound in economic activity into 2026. In our view, this sets up a constructive backdrop for financial assets as we move into 2026.

US goods inflation edges higher as tariff pressures emerge

Annual inflation



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 over the past month, with the most notable shifts occurring in the US and UK markets. US 10-year Treasury yields declined 18 basis points over August, whilst UK equivalents rose 20 basis points. Other markets have shown mixed trends. Canadian and Swiss yields moved lower; Australian yields rose; German yields were broadly unchanged.

Factors influencing market trends:

In the UK, recent movements have been driven by fiscal concerns ahead of the Autumn Budget, along with upside surprises in inflation data. In contrast, US yields came under downward pressure amid signs of labour market softening – such as downward revisions to payrolls and fewer job openings – and a relatively dovish speech by Fed chairman Powell at the Jackson Hole Symposium. Looking further back, the rise in European yields since March has been significantly driven by Germany’s sizable defence and infrastructure

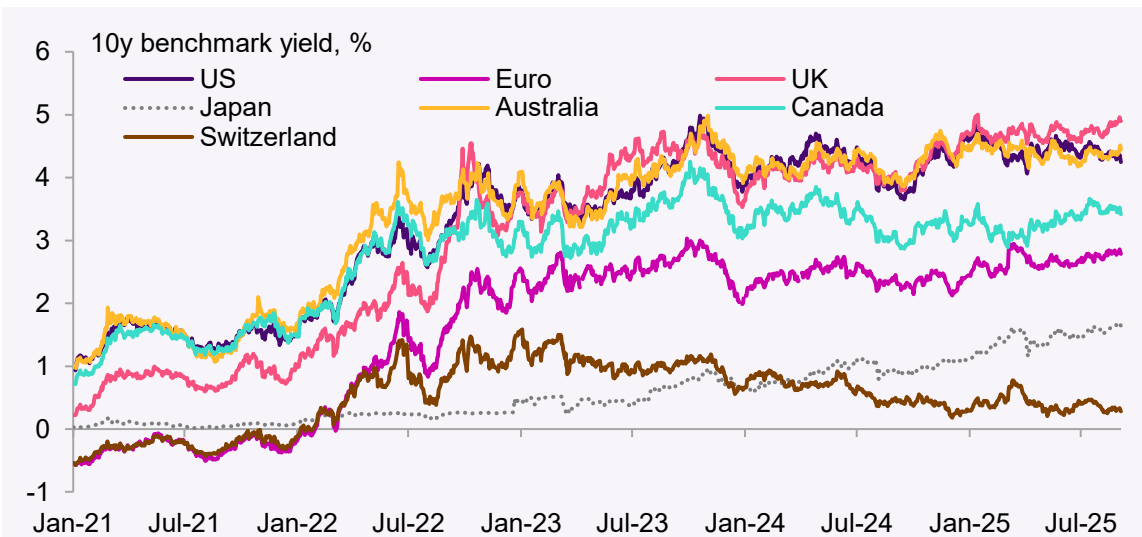
spending package, which is expected to boost growth.

Looking ahead:

US and global bond markets remain sensitive to US policy shifts, and track the emerging impact on inflation and growth outcomes. Our base case for the remainder of 2025 is for most central banks to continue to ease policy, with the speed and depth of that easing cycle varying by country. 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.

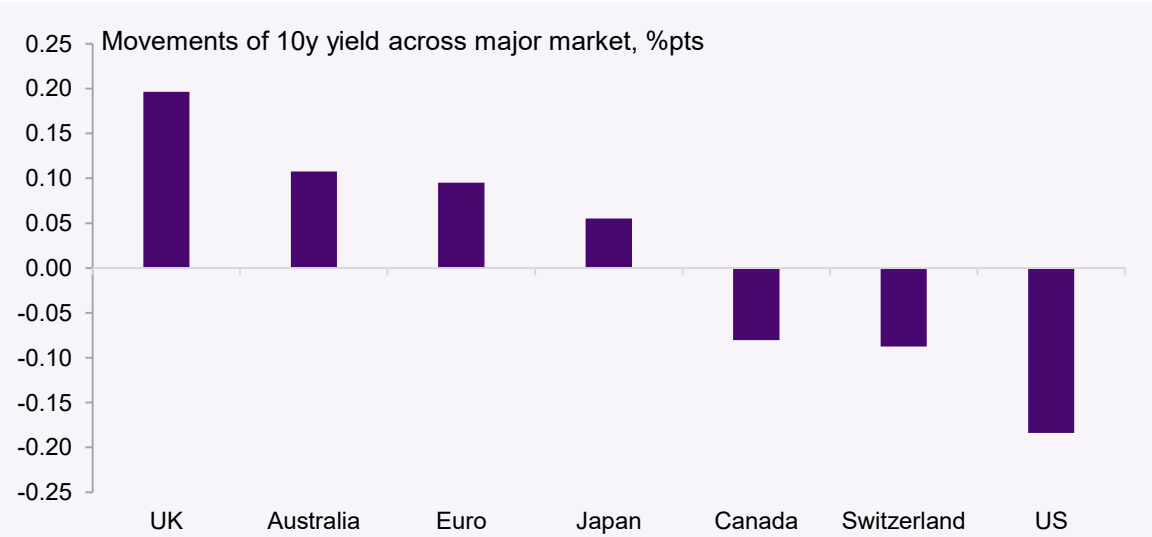
Overall, it remains appropriate to maintain bond exposure for liability hedges, downside protection strategies or – for dynamic investors only – an overweight to select bond markets. However, the devil lies in the detail of wider portfolio context, starting points, and available opportunity sets, so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

Global 10-year benchmark nominal bond yields



Sources: FactSet, WTW

Divergences in bond markets since the beginning of August (as of 04 September 2025)



Sources: FactSet, WTW

Credit

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

What happened over the past month:

Global credit spreads widened a little over August, albeit with differential experience across regions. Global investment grade (IG) spreads widened modestly, with most regions, including the US, experiencing slight increases. Despite this, Investor sentiment remained firm in US markets, as US high yield (HY) spreads tightened by 2bps, also supported by a stronger-than-expected Q2 corporate earnings season. In contrast, European HY spreads widened (+16bps), underperforming both European IG and US HY markets.

What has influenced recent market dynamics?

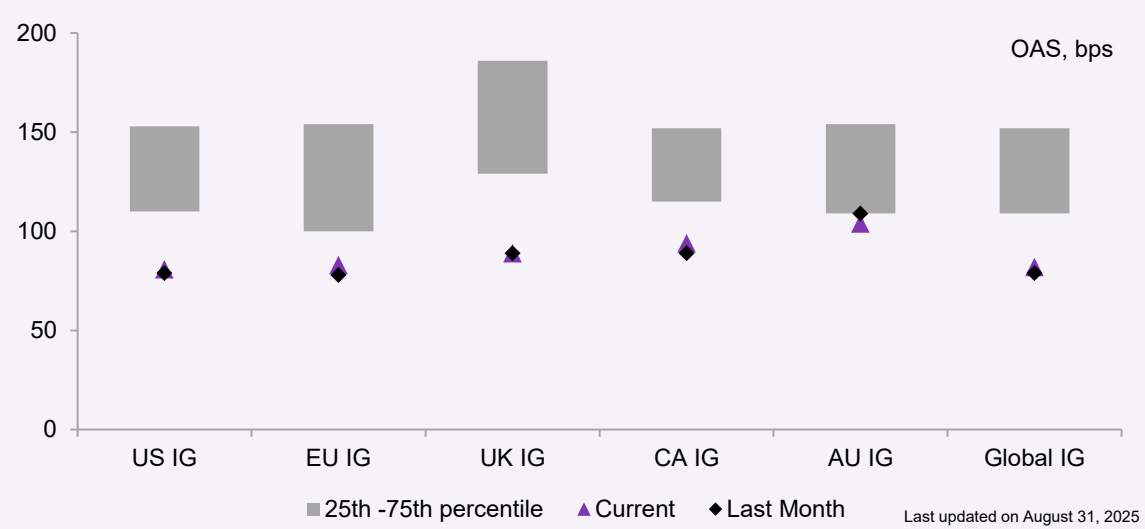
Spreads remain at the lower end of their historical ranges. Relatively **healthy interest coverage ratios** and **a notable phase of corporate issuers terming out their debt maturities** prior to

the recent rate hiking cycle have helped cushion corporate credit markets, somewhat, from the recent bouts of risk aversion. 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 which is likely to remain relatively benign**. **Additionally, demand for corporate credit should remain supportive given high all-in yields**. Recent widening in Europe was likely influenced in part by political uncertainty in France, which intensified concerns around fiscal sustainability issues and weighed on French issuers.

Looking ahead:

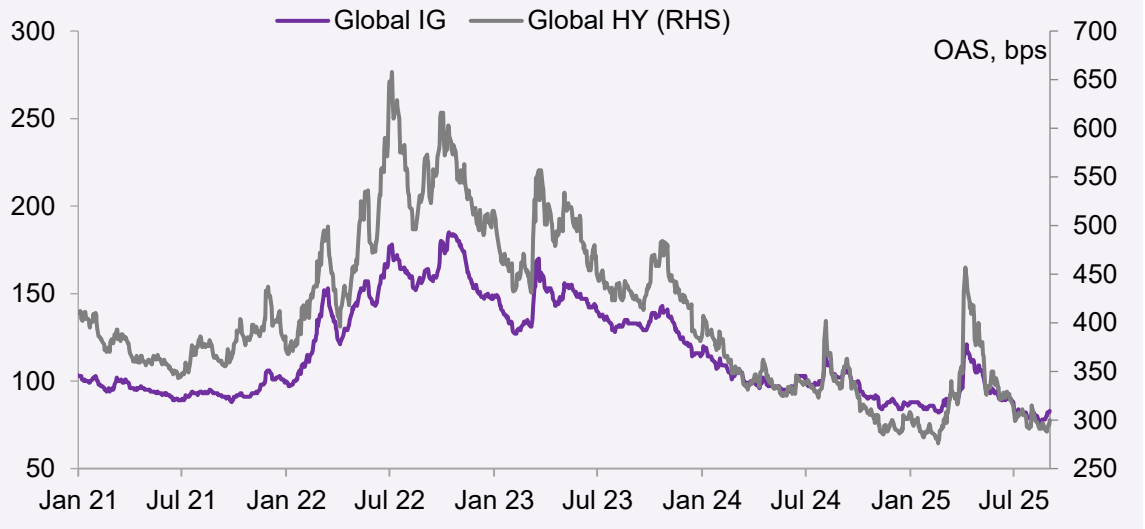
Over a three-to-five-year horizon, we expect global investment grade corporate credit to provide reasonable returns above government bonds. Similarly, we expect global high yield credit to outperform government bonds and investment grade credit over the medium-term.

Investment grade spreads by country



Sources: FactSet, WTW

Global credit spreads widened slightly over the past month, but remain near YTD lows



Sources: FactSet, WTW

Equities

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

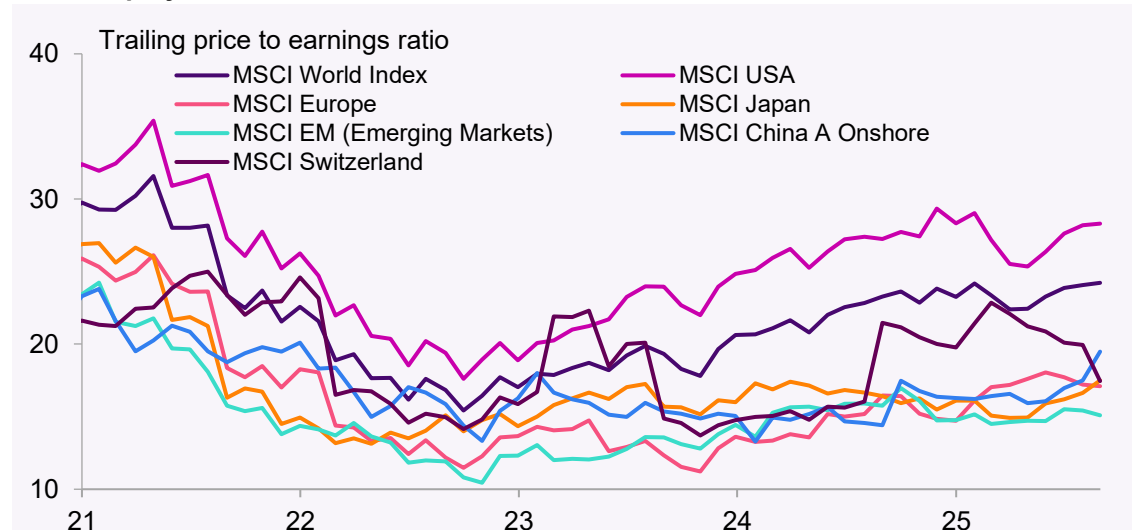
What happened over the past month:

In August, global equities posted solid gains, supported by resilient economic activity and broadly positive corporate earnings. Developed markets outperformed, with the MSCI World Index rising 2.1% in total return terms, with emerging markets rising 1.6%. US equities rose 2.0% despite evidence of a cooling labour market, driven by strong earnings and expectations of imminent monetary policy support. In Asia, Japan led performance with a 4.3% gain on the back of robust GDP growth and trade developments, while China also delivered strong performance.

Broad market trends:

The direct impacts of tariffs on growth and profitability, plus headwinds to business investment from heightened uncertainty, create headwinds to corporate earnings growth. Moderately high US equity valuations relative to history, and high stock concentration in cap-weighted US equities, suggest downward pressure on equity prices and/or higher equity volatility. However, importantly, we do not expect a US, aggregate advanced economy, or global recession and expect monetary and fiscal stimulus to mitigate the

Global equity valuations



Sources: FactSet, WTW

decline in growth conditions, allowing the market to “look through” weakening near term growth.

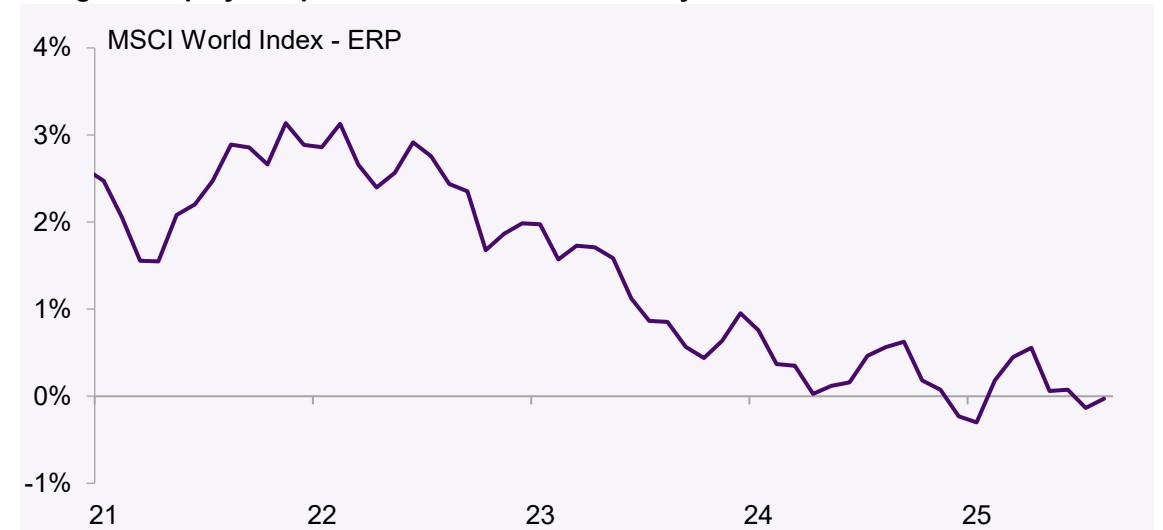
Importantly, we do not currently see evidence of a bubble in large-cap US technology companies, given much of the strong performance of recent years – and consequent high weight to those stocks in most equity portfolios – has been driven by exceptional earnings performance, instead of valuation optimism. To be sure, risks exist to the continued delivery of those exceptional earnings, but those risks are two-sided in our view given US megacaps remain well positioned to monetise AI and better positioned than many global peers.

Overall, whilst growth is likely to slow, if we do see any moderate equity price falls from here, they are likely to be short-lived and dynamic buying opportunities.

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.

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

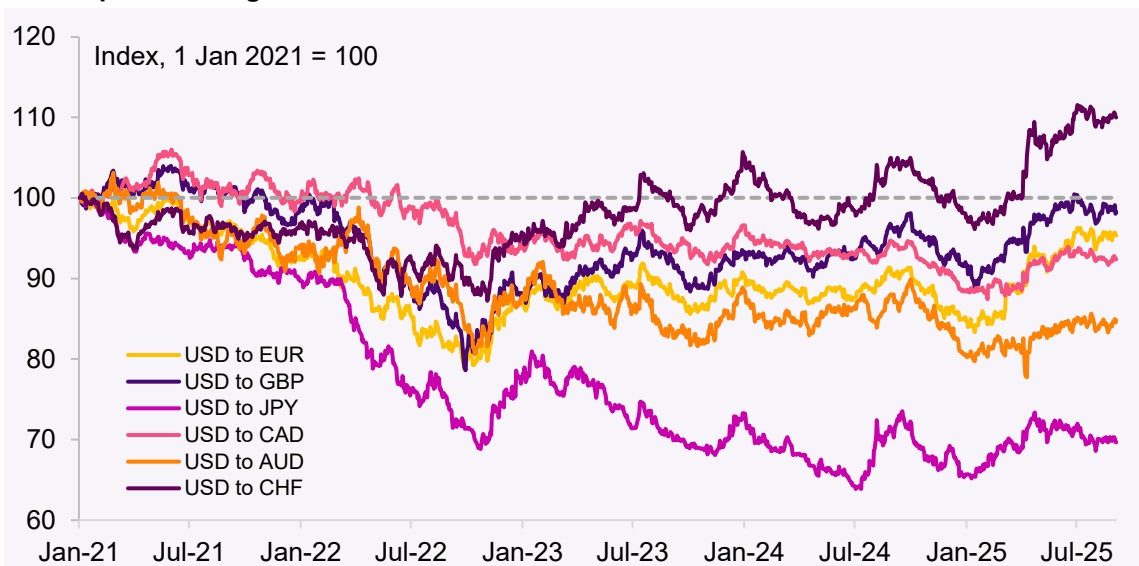
What happened over the past month:

Most major currencies have appreciated against the US dollar since the start of August (as of 04 September 2025). The euro, British pound, Japanese yen and Australian dollar have all strengthened between 1 and 2 percent, whereas the Canadian dollar has been roughly flat. Year-to-date, all major currencies have gained versus the greenback with the euro leading the way – up 12.4%.

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. It is clear investors have been diversifying their currency exposure, given the US-centric nature of many policy risks. However, trade deals with Japan and the EU have reduced some trade-related uncertainty, helping the dollar recover ground from its 2025 lows.

Developed exchange rates versus the US dollar



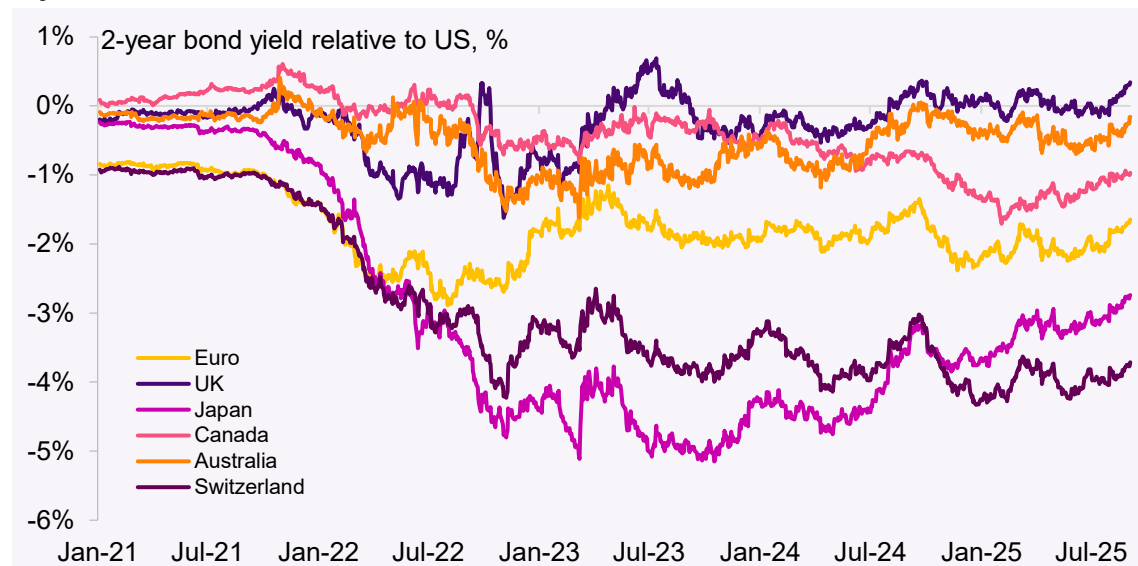
Sources: FactSet, WTW

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 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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