Global Markets Overview

Asset Research Team

October 2025

Monitoring politics and geopolitics remains important

Republican and Democrat lawmakers have failed to agree on a deal on how the government should be funded for the upcoming fiscal year, which has led to a suspension of some government services and 750,000 federal employees put on unpaid leave. For a new bill to pass in the Senate, 60% of votes are required, which means there will need to be some cross-party support.

- What are we monitoring? The potential economic impact. Similar historical episodes provide a useful guide, with previous shutdowns suggesting that the permanent economic drag is limited, even if the shutdown lasts for a month. This has been reflected in the asset price reaction so far, with moves in US equities, US equity volatility, bonds, and the US dollar all relatively limited. Gold has been a notable beneficiary with the gold price at $4,065 (8 Oct).

Japan's political transition marks a shift in policy direction. The Liberal Democratic Party's selection of Sanae Takaichi as leader introduces a platform that favours fiscal expansion and resists premature monetary tightening. Markets have repriced their outlook for the Bank of Japan's rate path a little lower, with the yen weakening, and long-end government bond yields rising.

- What are we monitoring? First, Takaichi's pro-growth stance may support domestic risk assets, particularly equities and infrastructure-linked sectors. Second, with inflation running above target, an acceleration in fiscal stimulus may still require higher interest rates, which would attract capital inflows, and support the yen.

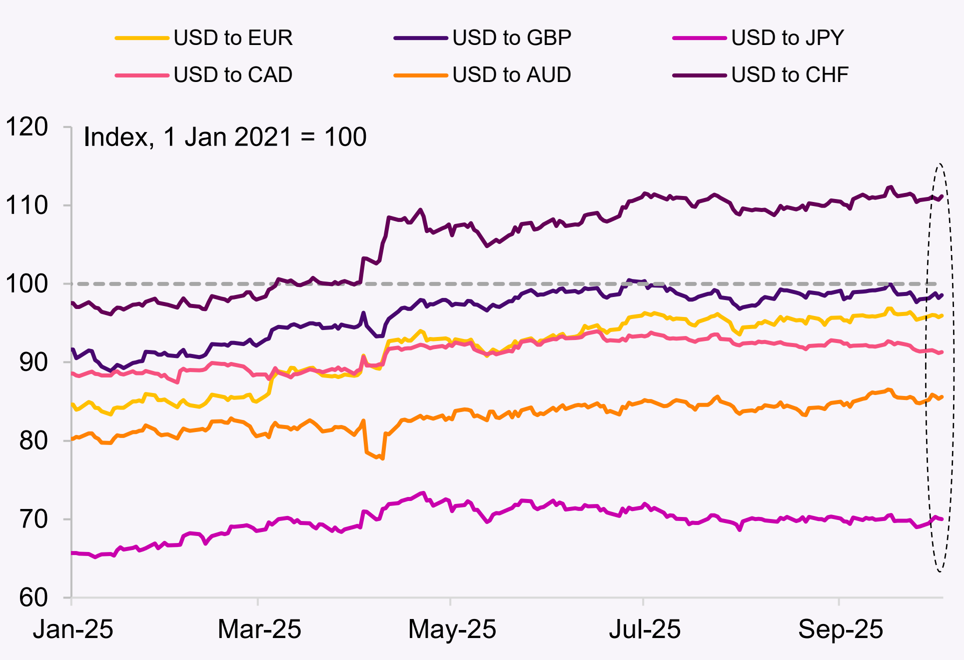
France continues to grapple with political instability. Prime Minister Sébastien Lecornu's resignation - less than a month into his tenure - underscores the institutional instability facing President Macron's administration. With no clear parliamentary majority, Macron must choose between dissolving parliament or negotiating a fragile coalition. Investors have responded by pricing-in a higher French government bond yield spread over German bonds, reflecting concerns over the future management of France's high government deficit.

- What are we monitoring? French budget negotiations – we expect France's bond risk premium to rise further.

The European Commission has proposed significant changes to its steel import policy, cutting tariff-free quotas and raising duties to 50% on excess volumes.

- What are we monitoring? The ripple effects from US protectionist policy on other countries, e.g., countries protecting themselves from global overcapacity, new industrial strategies, etc.

Limited reaction in currency markets to the US government shutdown at the end of September



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 were mixed over the past month. Canada saw the sharpest move, with 10-year yields falling 18 basis points. US bonds saw a12bps decline, while Switzerland and UK 10-year yields edged lower by 7bps and 2bps, respectively. Conversely, yields ticked up in Japan (+5bps), Australia (+4bps), and the Euro area (+2bps). Year-to-date, moves have been uneven across regions, with US yields down around 45bps, Japan up about 57bps, and Eurozone bond yields also seeing notable rises.

Factors influencing market trends:

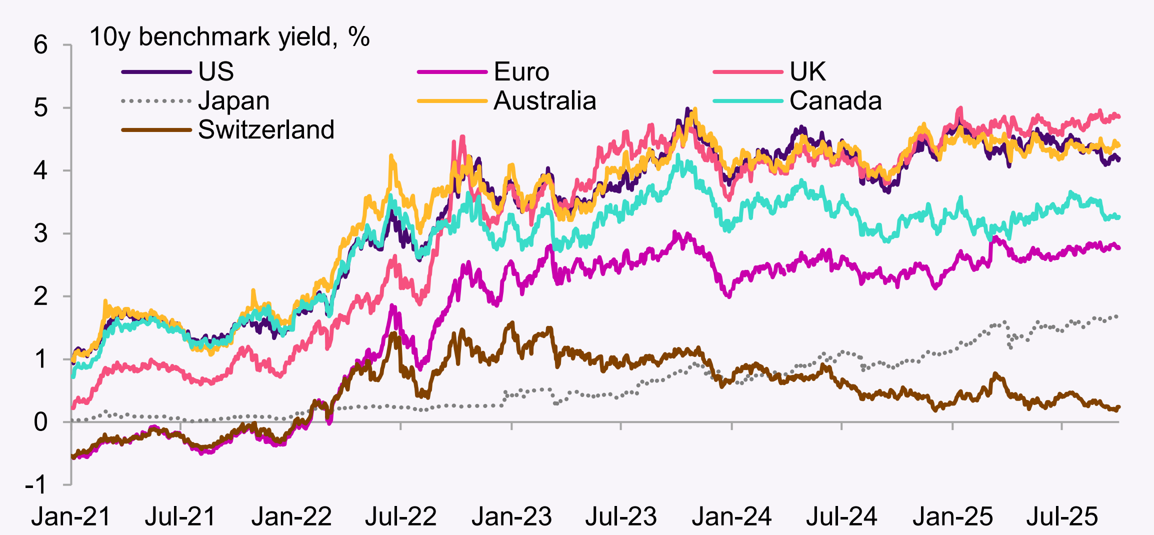
In the UK, where yields remain the highest, recent moves reflect fiscal concerns ahead of the Autumn Budget, alongside high inflation (c. 3.8%). In contrast, US yields have eased as labour market data has cooled – with payroll revisions lower and unemployment edging up – while Powell's Jackson Hole speech reinforced expectations of cuts. In Europe, yield rises have been significantly driven by Germany's sizable defence and infrastructure spending package, marking a structural fiscal shift. Meanwhile, Takaichi's recent leadership win in Japan has revived expectations of additional fiscal stimulus and delayed tightening.

Looking ahead:

US and global bond markets remain highly sensitive to US policy shifts and their 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.

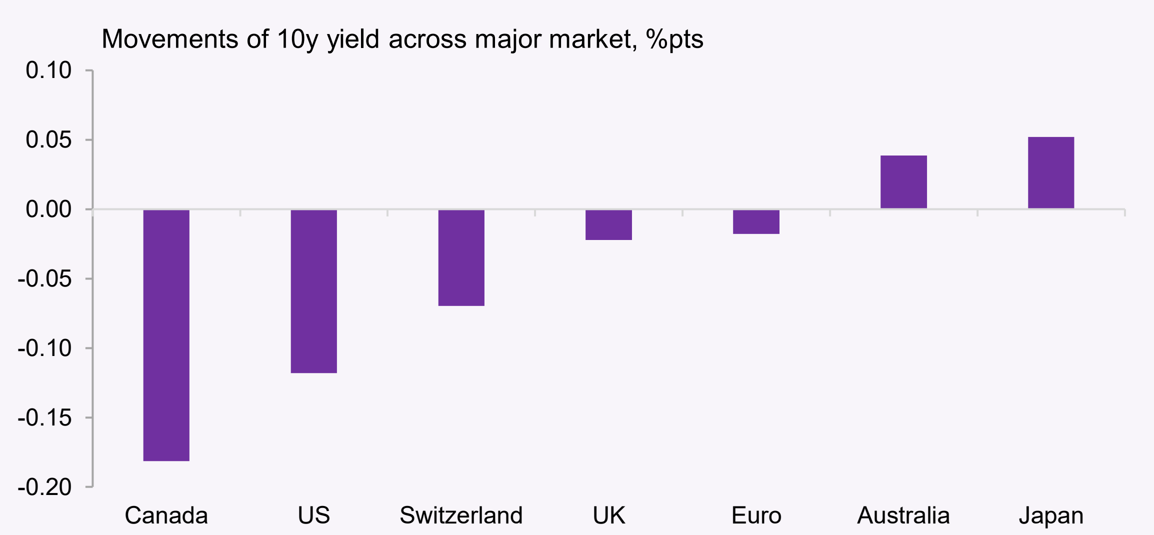
Overall, it remains appropriate to maintain bond exposure for liability hedges, downside protection strategies or – for dynamic investors only – an overweight to select bond markets. However, the devil lies in the detail of wider portfolio context, starting points, and available opportunity sets, so 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 September (as of 03 October 2025)



Sources: FactSet, WTW

Credit

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

What happened over the past month:

Credit spreads tightened globally in September. In the US, investment-grade (IG) and high-yield (HY) spreads narrowed by 5bps and 4bps, respectively, edging closer to historic lows. Moves were supported by resilient corporate fundamentals and optimism around potential monetary policy easing, even as the macro backdrop softened. EU IG (-5bps) and HY spreads (-16bps) also tightened.

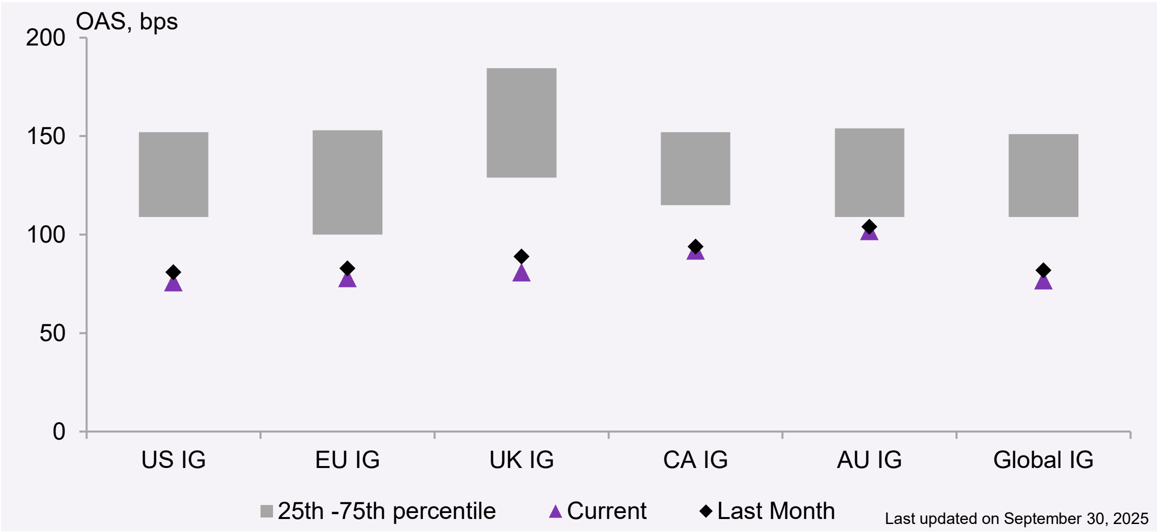
What has influenced recent market dynamics?

IG credit spreads, measured over government bond yields (OAS), are low relative to history. In contrast, spreads which are measured relative to swap rates (ASW) – another lens for assessing credit risk – are not as compressed versus history. We think this is an important consideration when evaluating compensation for credit risk, particularly in US and UK IG markets, where divergence between OAS and ASW based spreads is more pronounced. This means: (1) corporate credit is not as expensive as it might appear; and (2) high government deficits and sales of government bonds by central banks have increased the risk premium and yield on government bonds, compared with swap rates, making government bonds more attractive. That said, IG spread levels on both a government bond and a swap basis are discounting expectations of a low default and downgrade environment. We think this outlook is supported by relatively **healthy interest coverage ratios** and **a notable phase of corporate issuers terming out their debt maturities** prior to the recent rate hiking cycle. Slowing US growth presents some near-term risk of a widening of 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 decent 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.

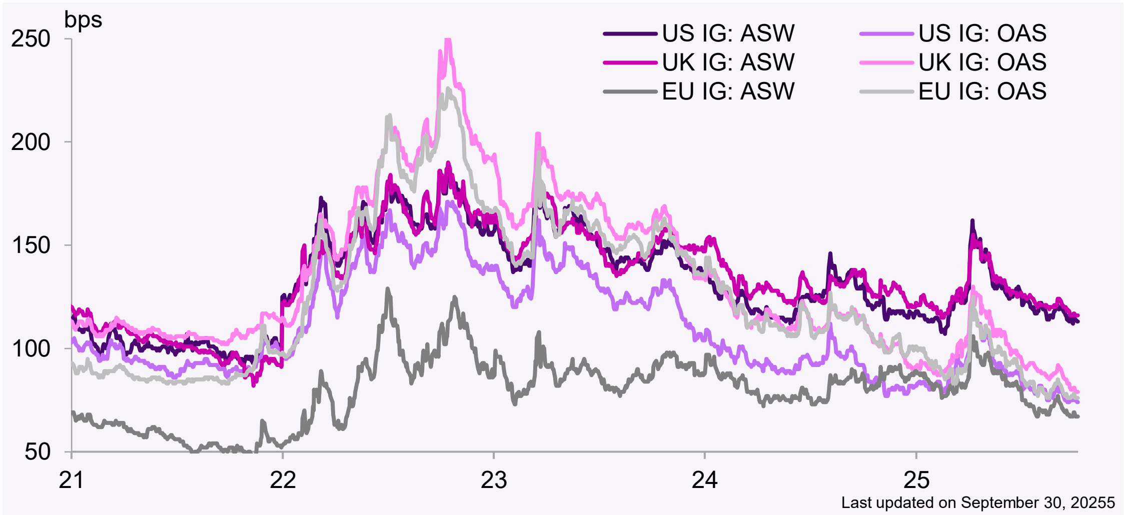
Investment grade credit spreads over government bonds by country



Sources: FactSet, WTW

US and UK investment grade spreads over government bonds and swaps have diverged

Investment grade spreads: OAS (to government bonds) and ASW (to swaps)



Sources: FactSet, WTW

Equities

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

What happened over the past month:

Global equities posted strong gains in September, supported by improving risk sentiment and easing macro concerns. The MSCI All Country World Index rose 3.7%, with emerging markets (+7.1%) outperforming developed markets (+3.3%). US equities matched the global average with a 3.7% gain, while Europe and Japan delivered solid returns of 3.3% and 3.2%, respectively. Asia led regional performance, driven by tech-fuelled growth mixed with policy-driven volatility – China rose 9.6%, Taiwan 9.1%, and Korea 11.6%.

Broad market trends:

Mega-cap US technology stocks continue to deliver strong earnings growth, supported by solid fundamentals and strategic exposure to high-growth themes such as A.I. and digital infrastructure. This growth continues to support a large, concentrated presence in equity indices, reflecting ongoing US leadership in innovation.

Tariffs and policy uncertainty still present challenges to wider business investment and near-term earnings momentum. However, these factors highlight the benefits from active management and careful risk assessment, rather than a risk of a major drawdown in equity prices.

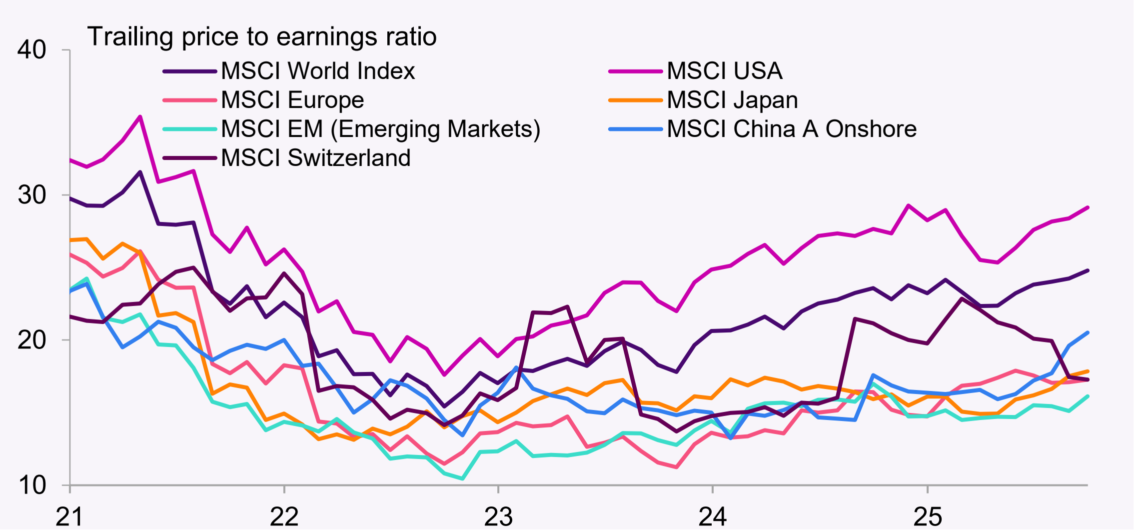
We expect monetary and fiscal policy to remain supportive near term, helping to stabilise growth conditions and reinforce investor confidence. Rather than reacting to short-term softness in economic data, markets appear to be focusing on the durability of earnings and the longer-term potential of innovation-led growth – which we expect to continue.

Although economic growth may slow a little, our base case for any equity market corrections in the next two quarters is that they are likely to be limited and may present selective opportunities for dynamic investors. Strong earnings, policy support, and innovation continue to shape a constructive investment environment.

Looking ahead:

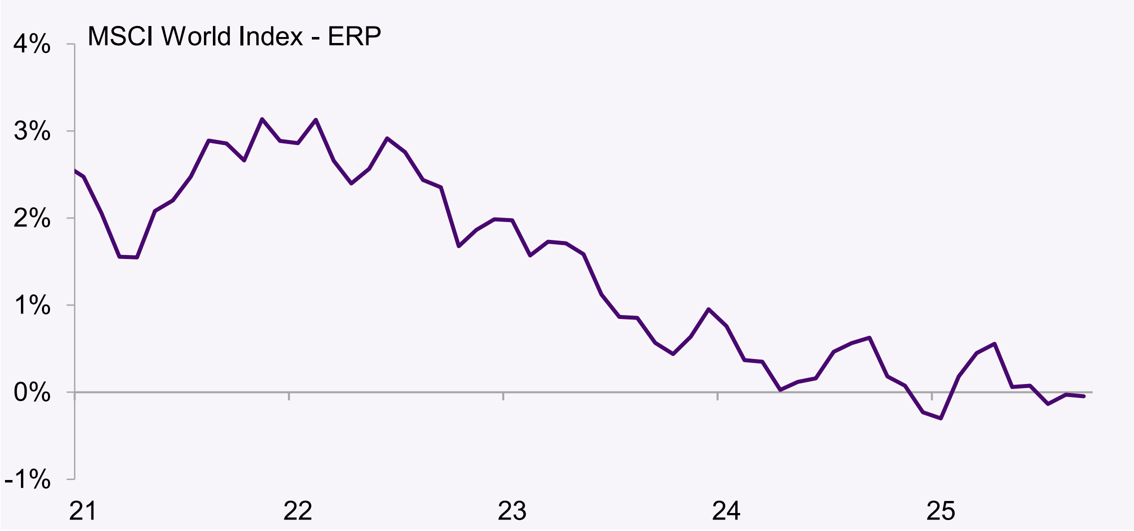
Overall, we retain a neutral view on equities over a five-year horizon. Over one-to-two years, we continue to see value in Japanese equities.

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:

The major currencies diverged in September. The Canadian dollar and Japanese yen posted the largest declines, depreciating 1.5% and 2.1% against the US dollar, respectively (as of 06 October 2025), while the Australian dollar appreciated by 1%. Most other major currencies were relatively flat versus the dollar.

Broad market trends:

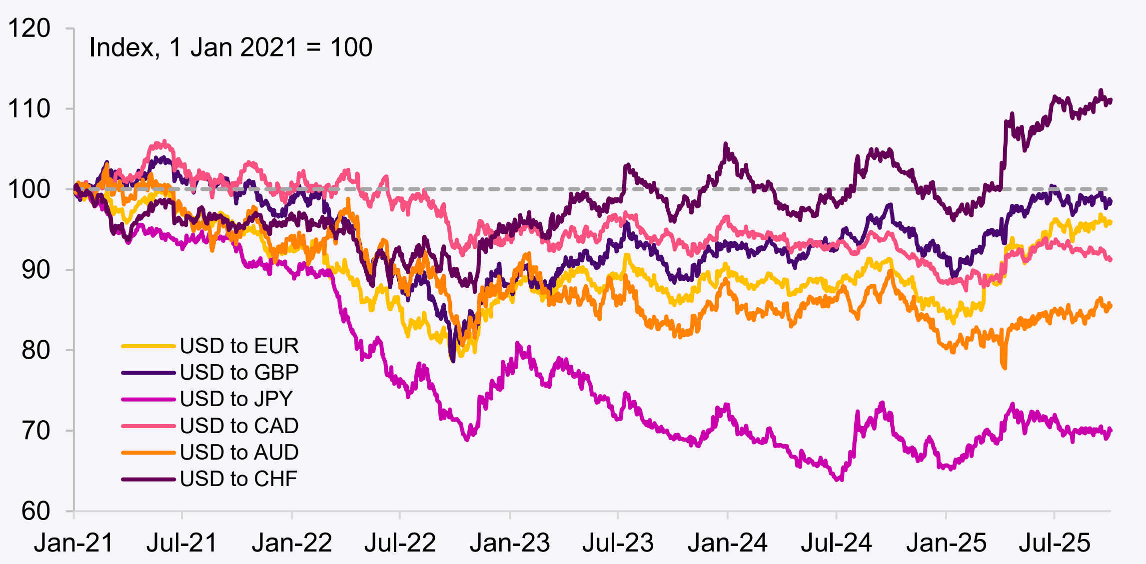
Recent Events: In 2025, higher macro uncertainty and elevated equity volatility, which would typically favour the US dollar have, instead, weighed on the currency. It is clear investors have been diversifying their currency exposure, given the US-centric nature of many policy risks, albeit some of these have alleviated following recent trade deals. The US dollar's interest rate advantage has also eroded, with US 2-year yields dropping roughly 55bps versus the Eurozone and over 90bps versus Japan, year-to-date.

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:

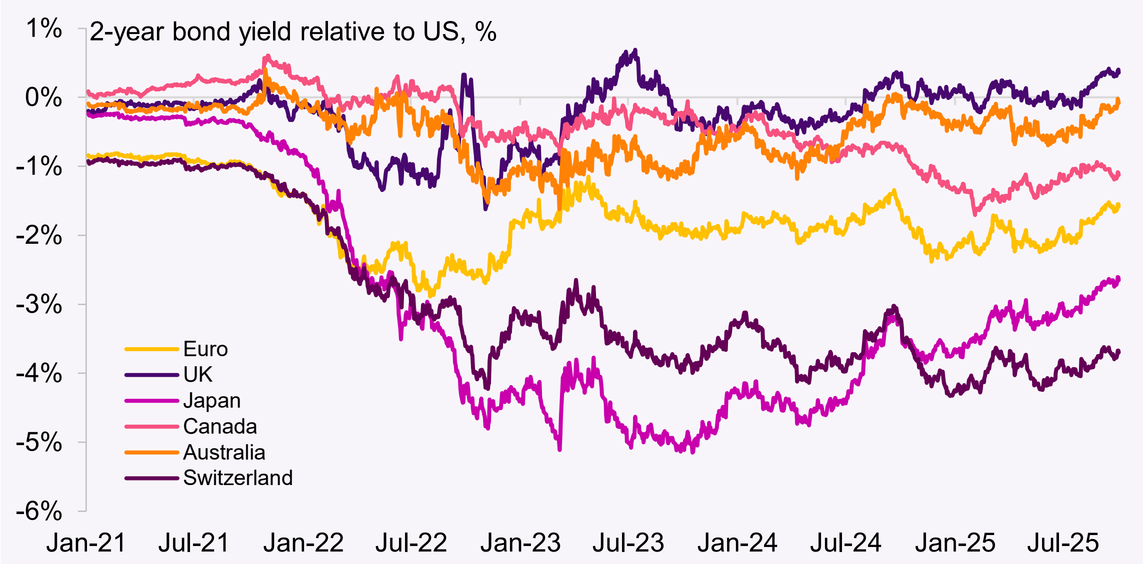
Following a sustained period of appreciation, the US dollar has become more expensive against most other major currencies on our preferred medium-term fair value metrics. This suggests downward pressure over a 3-to-5-year horizon and **a positive view on most developed market currencies against the dollar**.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



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