

Global Markets Overview

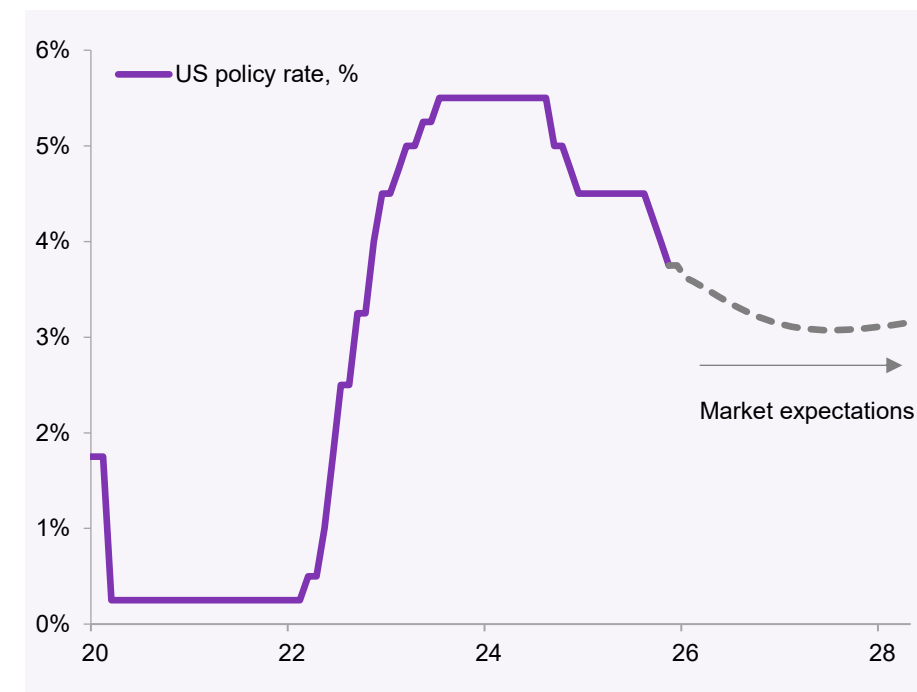
Asset Research Team

December 2025

Markets expect significant US easing in 2026 – is this credible?

- **Markets have leaned into expecting the Federal Reserve to lower interest rates materially over the next year.** Short-dated US Treasury yields have moved lower and investors expect the Fed to cut 25bps at its December meeting with near certainty (as of 4 December 2025). Further out, markets anticipate two to three additional cuts, with the effective Fed funds rate settling near 3% by end-2026.
- **Current US labour market signals support near-term easing by the Fed.** Before the government shutdown-related data blackout, there were signs of a softening in the labour market, e.g., fewer job vacancies. Other jobs indicators also remain weak, with the latest US ADP survey pointing towards 32,000 jobs lost in November. That said, not all US activity data has been negative, with the latest S&P Global services PMI data – a measure of business spending intentions – surprising to the upside.
- **Fiscal policy is set to expand.** While the shutdown likely weighed on Q4 growth a little, this should reverse in Q1 2026 as delayed spending resumes. Impacts from President Trump's budget reconciliation bill are expected to flow through in 2026, while trade policy – previously a headwind – will become less of a drag. Outside the US, other economies like Japan and Germany have also turned more expansionary. Even in the UK, where the Chancellor tightened fiscal policy to raise the fiscal headroom, most of the drag will be felt later in the budget horizon. Overall, the global growth backdrop looks positive for 2026.
- **AI-related capex should continue to surge.** The big US hyperscalers – Amazon, Alphabet, Meta, and Microsoft – have spent hundreds of billions of dollars on AI infrastructure in 2025 and have continued to raise their investment guidance for next year. The ultimate economic impact of this massive spending could be much larger as multiplier effects ripple through the broader economy.
- **Implications for US growth, inflation and rates?** We believe risks tilt toward the Fed easing less than markets are pricing-in, which could put upwards pressure on short to intermediate Treasury yields in 2026. Near-term monetary easing, fiscal support, and a booming AI-led capex cycle could push US growth above expectations. Inflation may also not fall as quickly as forecast, given stronger demand and supply-chain strains from the capex surge, limiting the Fed's scope to cut.

Expected pathway of Fed policy according to US OIS rates markets



Sources: LSEG, WTW

Government bonds

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

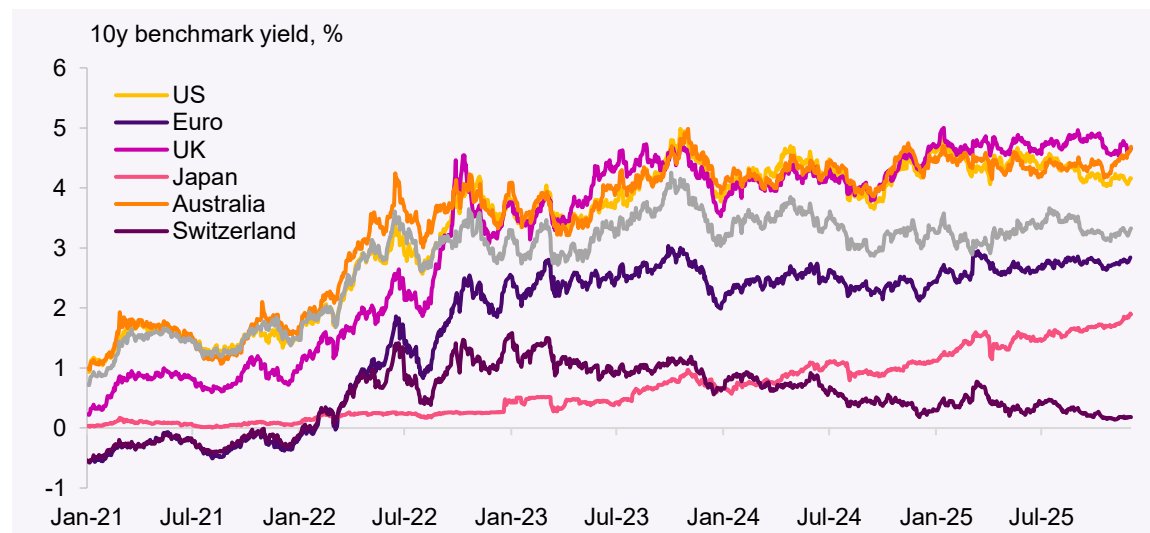
What happened over the past month:

10-year government bond yields have moved higher across most major developed economies since the start of November, led by Australia (+38bps) and Japan (+28bps). Eurozone and Canadian yields also rose moderately (+10-15bps), while US, UK and Swiss yields were relatively flat.

Factors influencing market trends:

The sharp rise in Australian yields reflects strengthening demand and inflation above the RBA's 2-3% inflation target. In October, CPI inflation jumped to 3.8%, above consensus forecasts of 3.6%, prompting markets to price-in a high probability of a rate hike next year. In Japan, yields have climbed as Prime Minister Takaichi announced a significant ¥18 trillion supplementary budget which is expected to lead to higher bond issuance. Meanwhile, UK gilt yields initially rose ahead of the Autumn Budget but eased after details signalled expanded fiscal headroom.

Global 10-year benchmark nominal bond yields



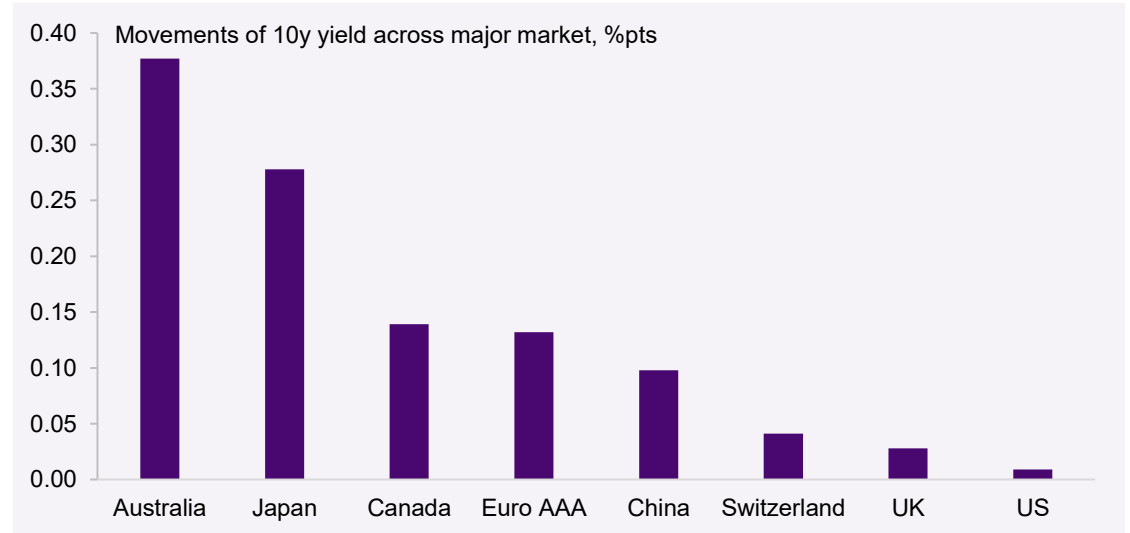
Sources: FactSet, WTW

Looking ahead:

Global bond markets remain highly sensitive to policy and its impact on inflation and growth. In the US, a combination of easier policy and strong capex spending suggests risks to GDP growth, inflation and yields are tilted somewhat to the upside in 2026, even as we remain neutral on a three-year horizon. We continue to see select opportunities in certain markets, such as UK gilts, where the expected path for the policy rate and term premia – the excess yield for holding longer-dated bonds – appear high relative to fundamentals.

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.

Divergences in bond markets since the end of October (as of 04 December 2025)



Sources: LSEG, WTW

Credit

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

What happened over the past month:

Credit spreads were largely stable in November. Europe saw the biggest widening with investment grade and high yield spreads up 6 bps. US investment grade spreads rose 2 bps while high yield tightened 2 bps. UK and Australia spreads widened slightly, Canada was unchanged.

What has influenced recent market dynamics?

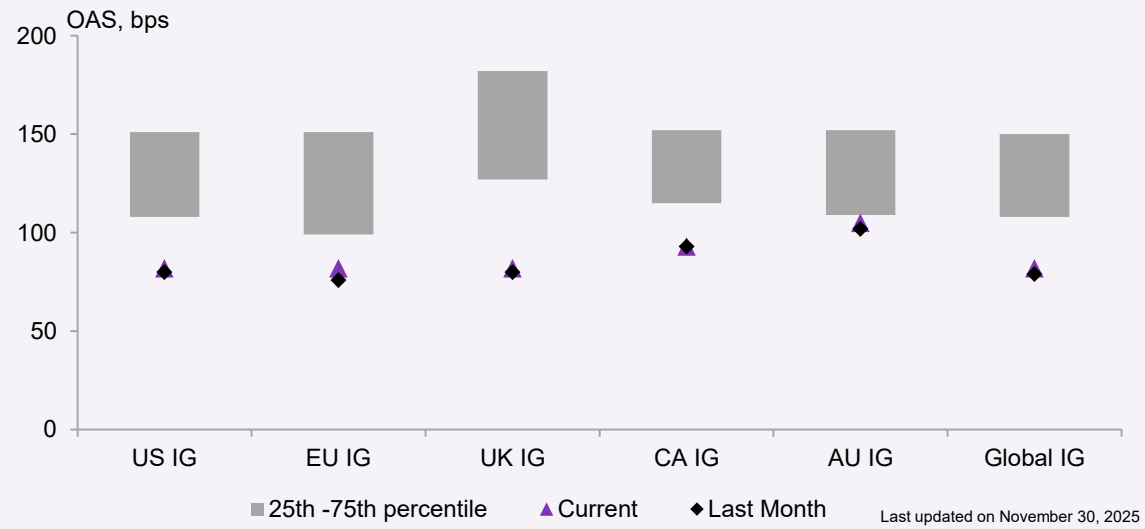
IG credit spreads, measured over government bond yields (OAS), are low relative to history. In contrast, spreads which are measured relative to swap rates (ASW) are not as compressed versus history. We think this is an important consideration when evaluating compensation for credit risk, particularly 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 a positive global growth outlook for 2026, relatively healthy interest coverage ratios, and a notable phase of corporate issuers terming out their debt maturities prior to the recent rate hiking cycle. Although, we are monitoring the AI capex plans of many companies carefully, to evaluate the scale of net new debt supply in 2026/27 and any potential upward pressure this may put on credit spreads.

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.

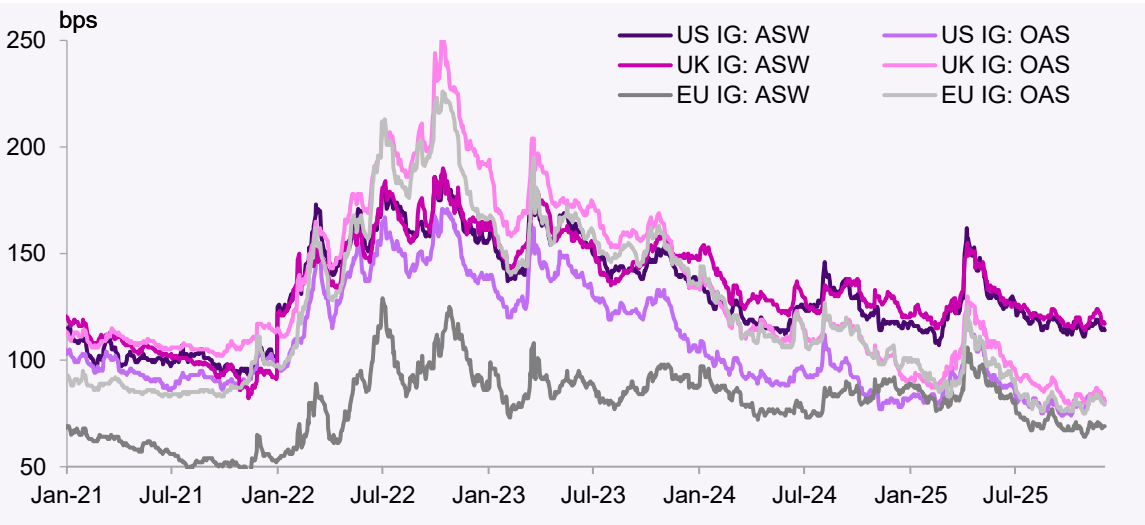
Investment grade credit spreads relative to government bonds by country



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

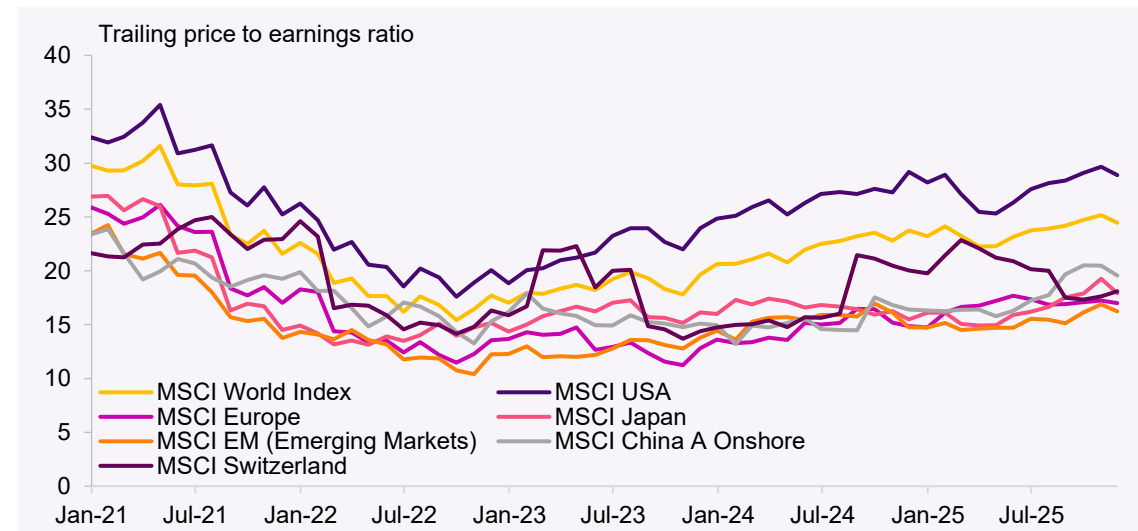
What happened over the past month:

Global equities were broadly stable in November, with MSCI ACWI up 0.2%. Developed markets outperformed, as MSCI World gained 0.5% while MSCI EM fell 2.3%. Sentiment in advanced economies was supported by strong Q3 earnings results, although technology stock volatility weighed on performance with a backdrop of big AI capex announcements and valuation and AI monetisation concerns. US equities rose 0.4%. Japan gained 1.7% on yen weakness and export strength. Canada (+4.0%) and Switzerland (+3.8%) led developed markets, while the Eurozone (-0.3%) and Australia (-3.8%) lagged. Emerging markets were weaker, with China (-4.1%), Korea (-4.0%) and Taiwan (-3.3%) key detractors.

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 AI. This growth continues to support a large, concentrated presence in equity indices, reflecting ongoing US leadership in innovation.

Global equity valuations



Sources: FactSet, WTW

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

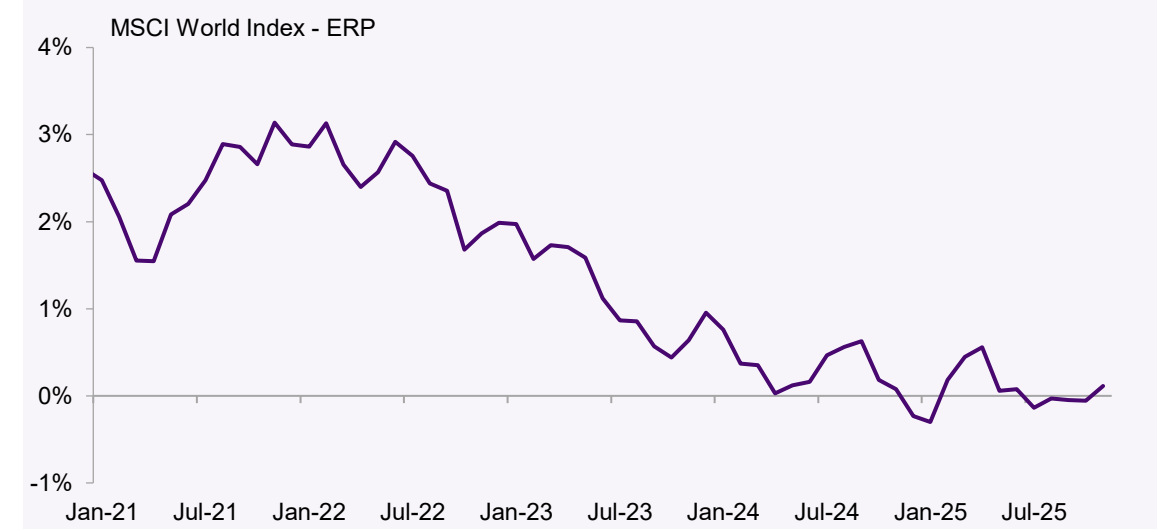
We expect monetary and fiscal policy to remain supportive near term, helping to underpin growth conditions and reinforce investor confidence. Rather than reacting to any short-term softness in economic data, markets appear to be focusing on the durability of earnings and the longer-term potential of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

Our base case for any equity market corrections in the next 12 months is that they are likely to be limited and 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.

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

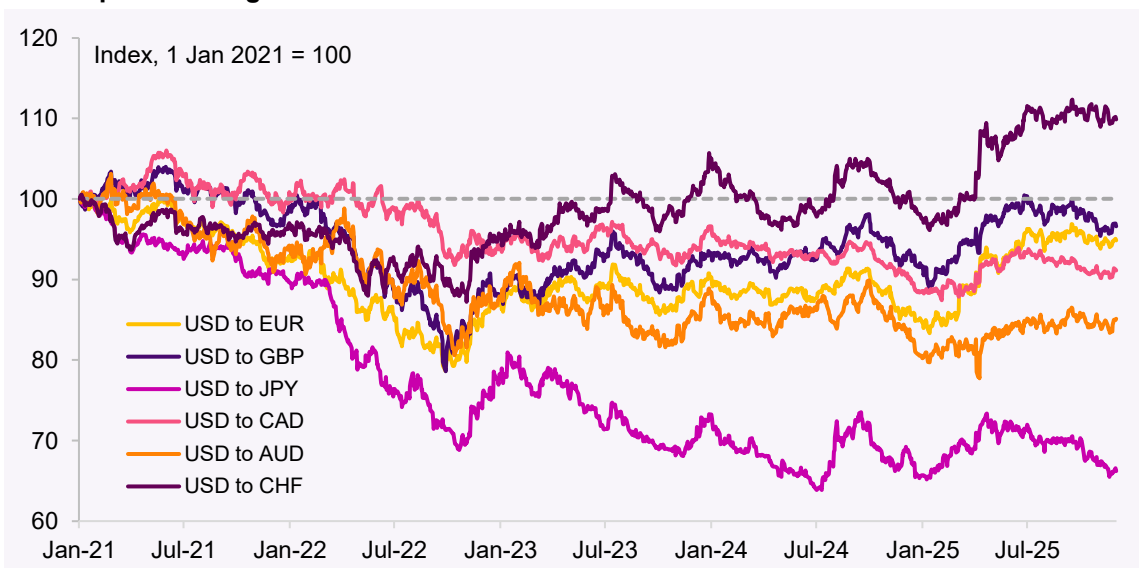
What happened over the past month:

The US dollar has weakened against most major developed currencies since end-October, depreciating between -0.5% and -1.8% against the GBP, EUR, CAD and AUD (as of 4 December). The JPY was the only major currency to weaken against the dollar – it fell slightly (-0.4%).

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, 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 70 bps versus the Eurozone and around 114 bps versus Japan, year-to-date.

Developed exchange rates versus the US dollar



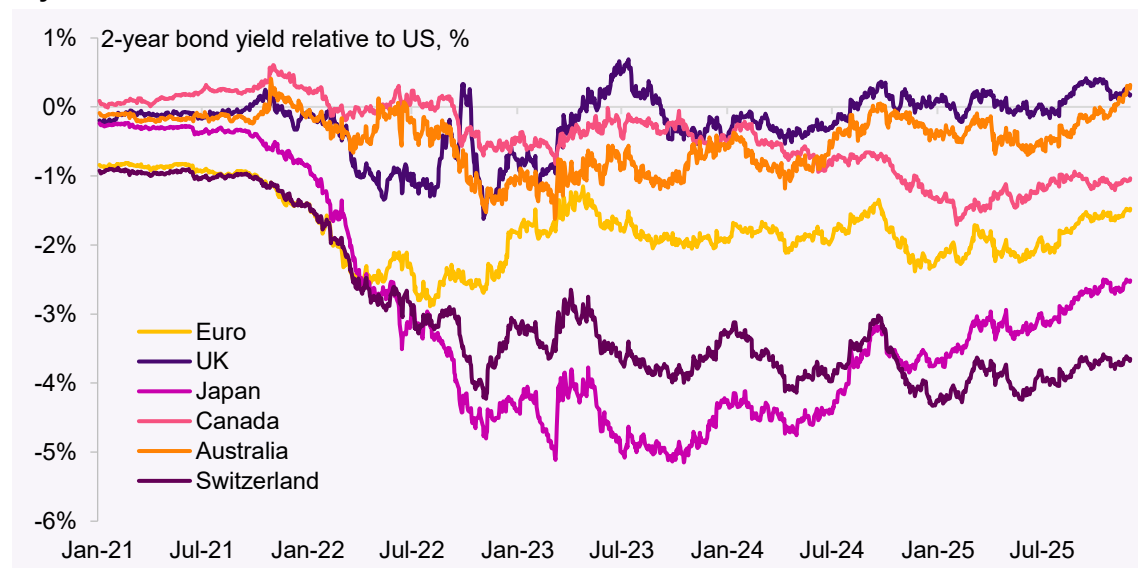
Sources: FactSet, WTW

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. Shorter-term, we hold a neutral dollar view against most currencies, except for a more positive view on the euro and the Japanese yen. Both are net trade surplus currencies with significant holdings of dollar-denominated assets that stand to benefit from shifts in global capital flows.

2-year interest rate differentials



Sources: FactSet, WTW

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