Global Markets Overview

Asset Research Team

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A review of markets in 2025 – what led and what lagged?

Overview: 2025 was a good year for financial asset performance relative to cash. Markets delivered positive returns across most of the major asset classes over the year, continuing the risk-on trend from late 2024. Equities led performance, with emerging markets significantly outperforming developed markets. US fixed income also posted gains, supported by the Fed rate cutting cycle and a softer US dollar. Overall, investor sentiment remained broadly constructive, while volatility stayed contained on average, despite the large global tariff and trade shock that occurred in April.

Equities: Emerging markets were the strongest performer, particularly in China, Taiwan, and Korea, which benefited from the AI capex boom and wider AI-related developments, and Latin America. Developed markets delivered good but comparatively lower returns.

Fixed income: Fixed income sectors benefited from global rate cuts and narrowing credit spreads, with sovereign and credit markets delivering mid-single-digit gains.

Commodities: Gold was the standout asset, posting exceptional returns and driving overall commodity performance. Oil and industrial metals also contributed positively.

Outlook: Performance was shaped by post-trade shock policy support, AI-related growth, currency dynamics, and continued investor interest in diversification beyond US assets. Looking ahead, we expect fiscal stimulus, AI and wider technological innovations, and geopolitics to remain influential themes in 2026 and beyond.

The returns of the major and some smaller markets in recent years

2019	2020	2021	2022	2023	2024	2025
MSCI World, 28.1%	Gold, 24.6%	Commodities, 40.4%	Commodities, 26%	MSCI World, 23.7%	Gold, 27.5%	Gold, 64.5%
Listed infra., 26.2%	MSCI EM, 19.5%	REITs, 36.9%	USD, 6.4%	US HY credit, 13.5%	MSCI World, 21.6%	MSCI EM, 32.1%
REITs, 25.3%	MSCI World, 14.1%	MSCI World, 24.7%	Gold, -0.4%	Gold, 13.3%	MSCI EM, 13.7%	MSCI World, 18.9%
Gold, 18.9%	US 10y TIPS, 13.1%	Listed infra., 15.9%	Listed infra., -5%	Local EMD, 11.4%	Listed infra., 10.3%	Local EMD, 16%
MSCI EM, 18.5%	US 10y treasury, 12.1%	US 10y TIPS, 6%	EM FX (vs. USD), -5%	MSCI EM, 10.3%	Commodities, 9.2%	Listed infra., 15.5%
Commodities, 17.6%	US IG credit, 9.8%	US HY credit, 5.4%	Local EMD, -10.3%	US IG credit, 8.4%	REITs, 8.8%	US 10y treasury, 9.9%
US HY credit, 14.4%	US HY credit, 6.2%	USD, 3.3%	US HY credit, -11.2%	REITs, 7.1%	US HY credit, 8.2%	US 10y TIPS, 8.9%
US IG credit, 14.2%	Local EMD, 4.8%	MSCI EM, 0.1%	US IG credit, -15.4%	US 10y treasury, 4.8%	USD, 7.8%	US HY credit, 8.5%
Local EMD, 12.2%	EM FX (vs. USD), -0.1%	US IG credit, -1%	MSCI EM, -15.2%	US 10y TIPS, 3.5%	EM FX (vs. USD), -4.9%	US IG credit, 7.8%
US 10y TIPS, 10.6%	Listed infra., -3%	EM FX (vs. USD), -2.2%	MSCI World, -15.6%	Listed infra., 3.2%	US IG credit, 2.8%	Commodities, 7.1%
US 10y treasury, 10.4%	USD, -3.1%	US 10y treasury, -3.1%	US 10y TIPS, -16%	EM FX (vs. USD), 0.2%	US 10y TIPS, -0.2%	EM FX (vs. USD), 2%
EM FX (vs. USD), 0.5%	REITs, -15.8%	Gold, -3.5%	US 10y treasury, -18.6%	USD, -0.9%	Local EMD, -2.2%	REITs, -2.4%
USD, -0.5%	Commodities, -23.7%	Local EMD, -7.8%	REITs, -19.5%	Commodities, -4.3%	US 10y treasury, -3%	USD, -7.1%

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:

In December 2025, 10-year government bond yields rose across most major markets, reflecting a broad-based repricing of interest rate expectations amid resilient economic activity and ongoing inflation pressures. As of 6 January, the largest increases were recorded in Japan (+31bps), Australia (+27bps), and Canada (+27bps), followed by the United States (+16bps), and Switzerland (+12bps). Eurozone yields climbed by 7bps, while the UK saw a more modest rise of 5bps.

Factors influencing market trends:

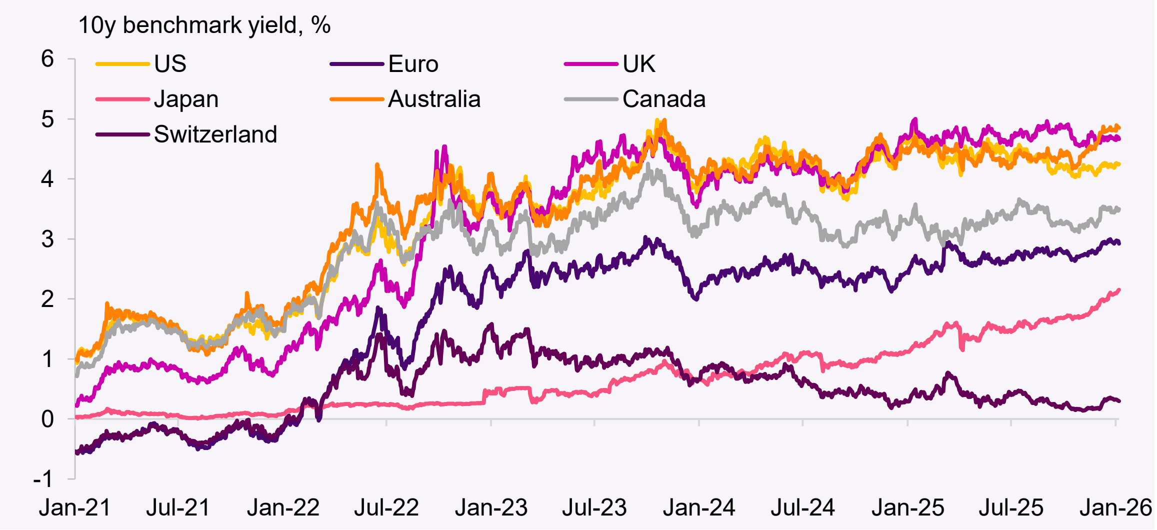
The sharp rise in Australian yields reflects firm domestic demand and inflation above the RBA's 2-3% inflation target, keeping policy rate expectations tilted to further tightening. In Japan, yields have continued to move higher following December's rate hike, with markets pricing further policy normalisation amid persistent inflation and expansionary fiscal dynamics. Meanwhile, Canadian yields were lifted by an unexpected improvement in unemployment.

Looking ahead:

Global bond markets remain highly sensitive to policy and its impact on inflation and growth. In the US, a combination of easier fiscal policy and strong capex 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.

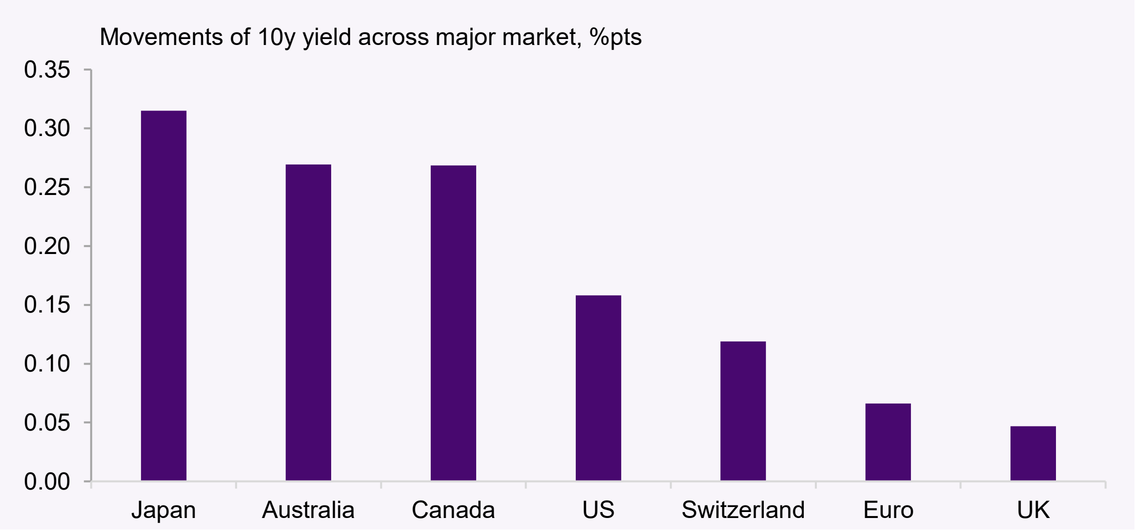
Overall, it remains appropriate to maintain bond exposure for liability hedges, downside protection strategies or – for dynamic investors only – an overweight to select bond markets. However, the devil lies in the detail of wider portfolio context, starting points, and available opportunity sets, so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

Global 10-year benchmark nominal bond yields



Sources: FactSet, WTW

Divergences in bond markets since the end of November (as of 06 January 2026)



Sources: FactSet, WTW

Credit

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

What happened over the past month:

In December 2025, credit markets saw broad-based spread tightening, consistent with improved risk sentiment and stable macro conditions. Global high yield (HY) markets led the move, with EU HY tightening by 17bps, Global HY by 12bps, and US HY by 11bps. Investment grade (IG) spreads also tightened modestly across most regions: EU, Canada, and Australia by 4bps, US and global IG by 3bps, UK and longer-maturity US IG by 2bps, while Japan IG remained flat.

What has influenced recent market dynamics?

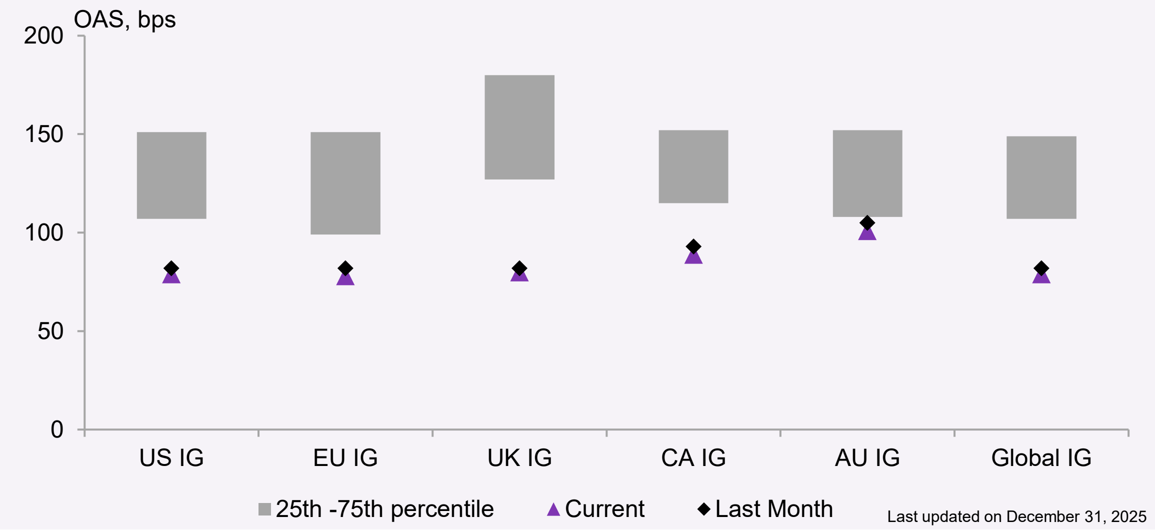
IG credit spreads, measured over government bond yields (OAS), are low relative to history. In contrast, spreads which are measured relative to swap rates (ASW) are not as compressed versus history. We think this is an important consideration when evaluating compensation for credit risk, particularly 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 bonds more attractive. That said, IG spreads on both a government bond and a swap basis are pricing-in expectations of a low default and downgrade environment.

Looking ahead:

Over 2026, we are moderately negative on investment grade credit. We think the upward pressure on spreads from high net new debt supply in 2026/27 due to AI-related capex will outweigh the downward pressure from a positive global growth outlook for 2026, relatively healthy interest coverage ratios, and corporate issuers terming out their debt maturities.

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.

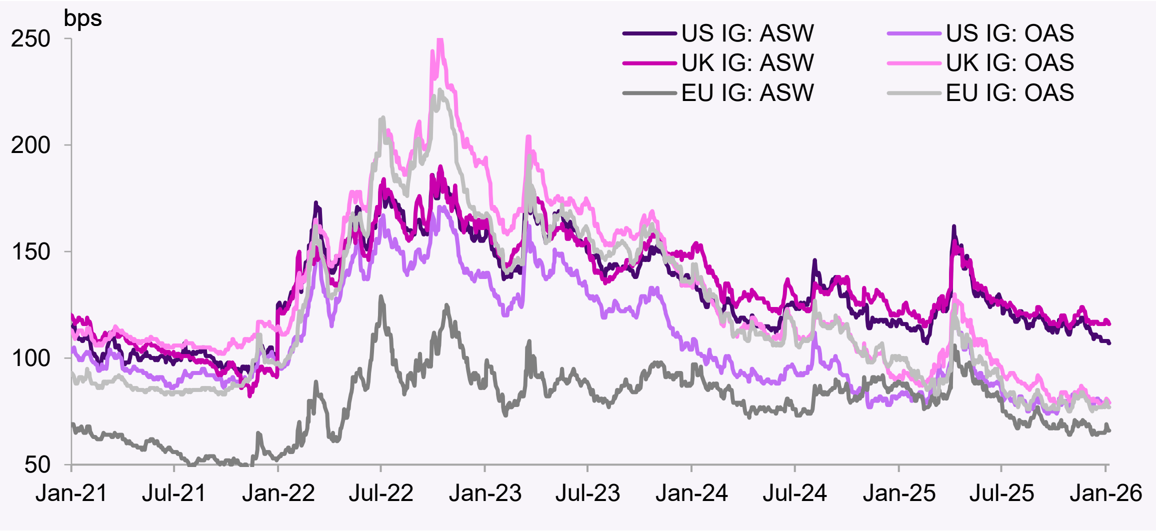
Investment grade credit spreads relative to government bonds by country



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 are positive on equities over one-year and neutral over five-years

What happened over the past month:

In December 2025, global equities rose modestly (MSCI ACWI +0.8%) amid diverging central bank actions and inflation pressures. The US market was flat despite a cut in interest rates by the Federal Reserve. This was due, in part, to Fed commentary striking a cautious tone about the likely pace of future rate cuts over the next year. Elsewhere, the Bank of England eased policy and the ECB held steady, supporting Eurozone (+2.4%) and UK (+2.2%) equities. Emerging markets outperformed (MSCI EM +2.6%) on a weaker dollar and AI-driven demand in Asia.

Broad market trends:

First, mega-cap US technology stocks continue to deliver strong earnings growth, supported by and supporting the AI boom. This profit and stock price growth continues to support a large, concentrated presence in equity indices, reflecting ongoing US leadership in innovation.

Second, tariffs and trade 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 in our view.

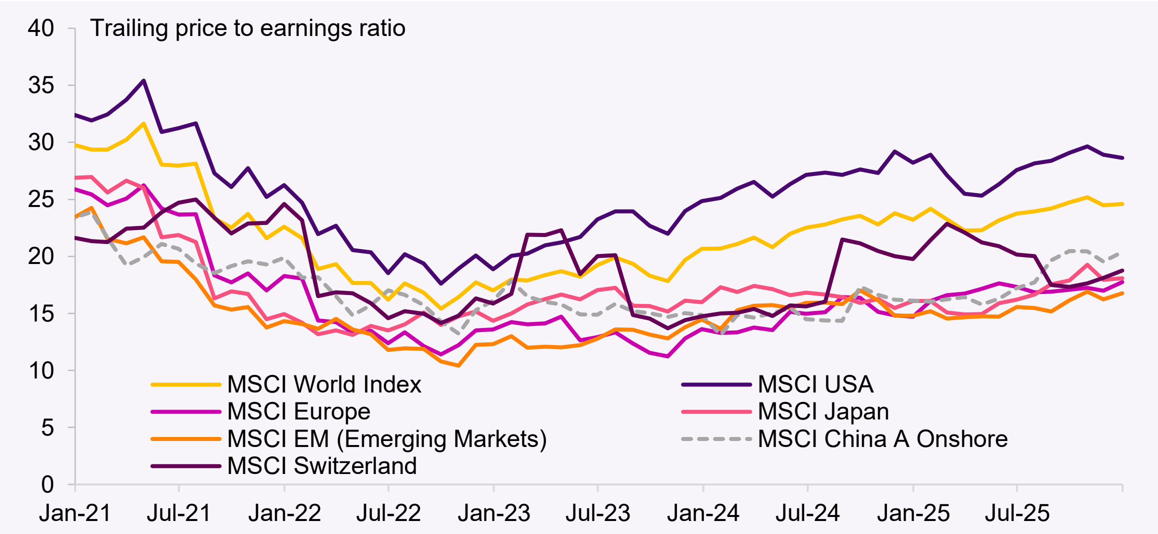
Third, we expect monetary and fiscal policy to remain supportive near term, helping to underpin growth conditions and reinforce investor confidence. Rather than overreacting to any short-term softness in economic data, markets appear to be focusing on the durability of earnings and the longer-term potential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

Looking ahead:

Our outlook for global equities is differentiated by time horizon:

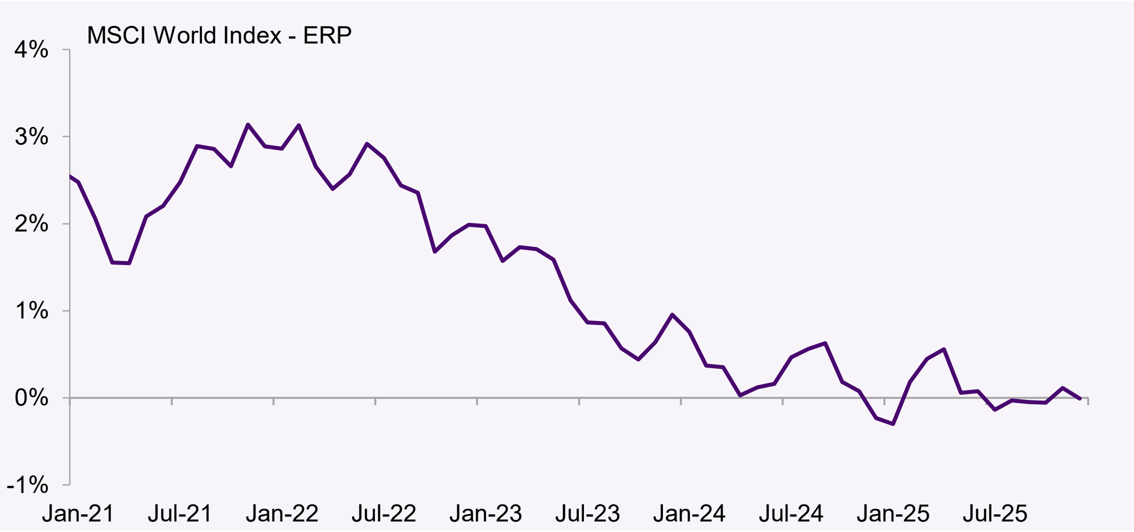
- Over the next 12 months, we have a positive view on equities – strong earnings, policy support, and innovation continue to underpin a constructive investment environment..
- Over a five-year horizon, we have a neutral view on equities – the range of outcomes is exceptionally wide because uncertainties around the transformative impacts of AI are exceptionally high

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 US dollar has weakened against most major currencies since end-November. The Australian dollar led gains, rising 2.6%, while sterling advanced 1.9% (as of 06 January). The Canadian dollar, Swiss franc, and euro posted more modest appreciation of 1.1%, 1.0%, and 0.8%, respectively. The Japanese yen was the only major currency to slip (-0.3%).

Broad market trends:

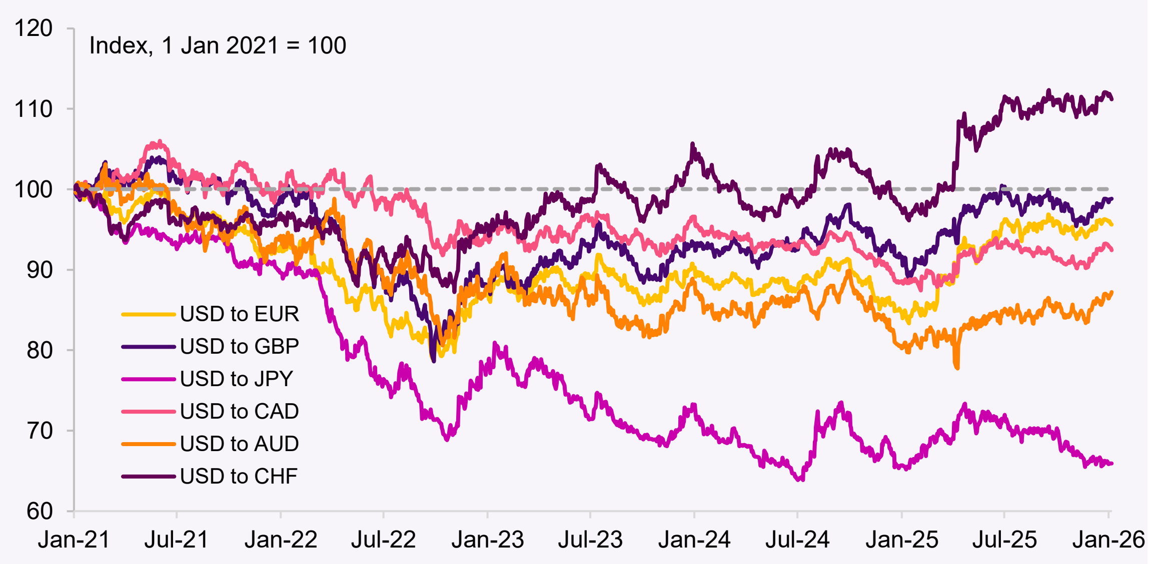
Recent Events: Over the past year, periods of heightened macro uncertainty and elevated equity volatility, which would typically favour the US dollar, have, instead, weighed on the currency. Investors have diversified their currency exposure given the US-centric nature of many policy risks. This move has been reinforced by a narrowing of US interest rate differentials, with US 2-year yields falling sharply relative to Japan, Australia and Europe since late 2024.

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 have also been consistently better than other economies, attracting investment and supporting dollar strength.

Looking ahead:

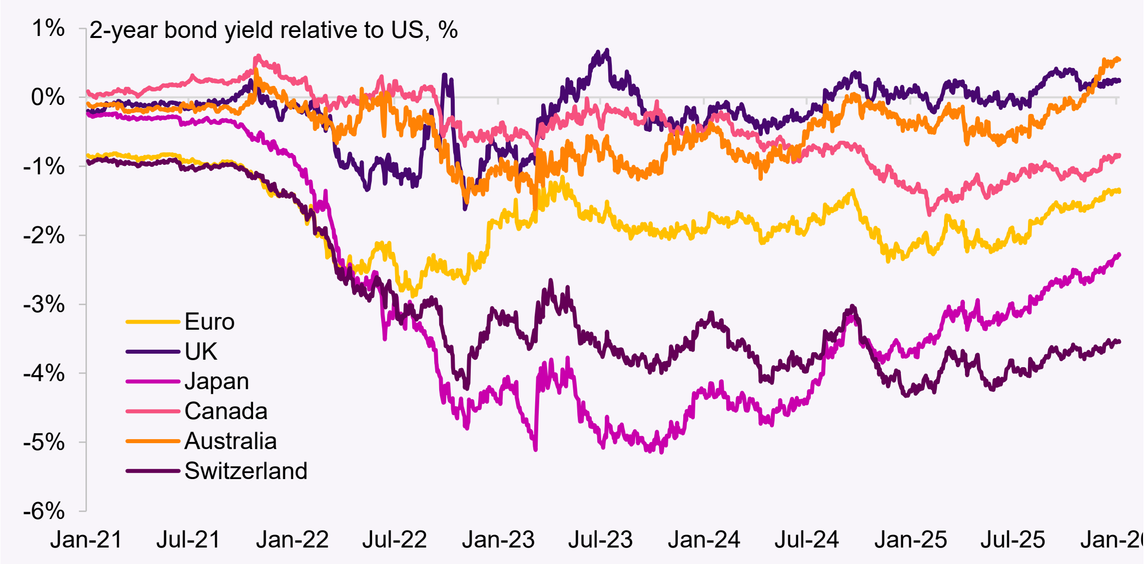
Following a sustained period of appreciation, the US dollar has become more expensive against most other major currencies on our medium-term fair value metrics. This suggests downward pressure over a 3-to-5-year horizon and a positive view for most developed market currencies against the dollar. Shorter-term,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

Developed exchange rates versus the US dollar



Sources: FactSet, WTW

2-year interest rate differentials



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