

Global Markets Overview

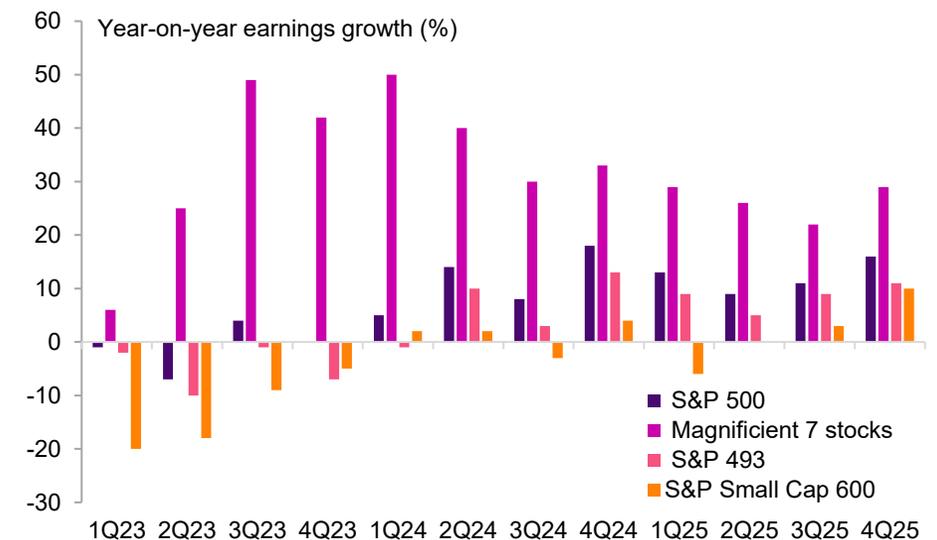
Asset Research Team

February 2026

Market resilience amid global developments

- **The start of 2026 saw a number of developments that moved risk appetite.** Discussions between the US and EU regarding Greenland triggered tariff threats that were later withdrawn, reducing near-term escalation risk. In Venezuela, ongoing tensions escalated after the US detained President Maduro. This followed months of tighter enforcement of oil-related sanctions. Iran experienced large-scale protests and a significant response from the authorities, including an internet shutdown. Across all three situations, what matters to markets relates more to the implications these and other events in aggregate mean for shifting global geopolitical forces, than to the specific events themselves
- **Equity markets remained broadly stable despite headline noise.** Developed-market equities started the year on relatively firm footing. Japan outperformed, supported by expectations of additional fiscal support after Prime Minister Takaichi called snap elections, which delivered a supermajority to the ruling party on 8 February. Global performance differed across sectors: companies linked to AI-related hardware, notably semiconductors, generally saw stronger gains supported by AI capex, whereas some software stocks lagged. These differences reflected shifts in earnings expectations, and an investor reassessment following recent upgrades in agentic coding tools, which raised disruption risks for some software models.
- **Currency markets experienced noticeable swings, led by the US dollar.** The DXY index fell more than 3% from its mid-January level before partially recovering. Policy signals from the US authorities, shifts in rate expectations, and ongoing reserve diversification contributed to the volatility. Gold also benefitted as an alternative store of value.
- **Early US earnings reports indicated a steady economic backdrop.** With around half of large US companies having reported Q4 2025 results so far, early data points to broad-based earnings growth, with technology-related firms showing momentum. Banks, which tend to reflect real-time economic conditions, reported results consistent with stable consumer spending and generally healthy credit conditions. Upcoming reports from technology, industrial, and consumer-focused companies will offer further insight into business investment trends and household demand as 2026 progresses.

US earnings growth has showed increasing breadth across the cap spectrum, with mega-cap tech still leading



Note: Q4 2025 earnings growth based on reporting as of 5 February 2026

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:

Ten-year government bond yields have been mixed across major markets year-to-date (as of 4 February). Japanese bonds saw the largest rise (+20bps), followed by Australia (+12bps), the US (+11bps) and UK (+8bps). Canadian yields were broadly unchanged (+2bps), whereas Euro area and Swiss yields fell by 2bps and 3bps, respectively.

Factors influencing market trends:

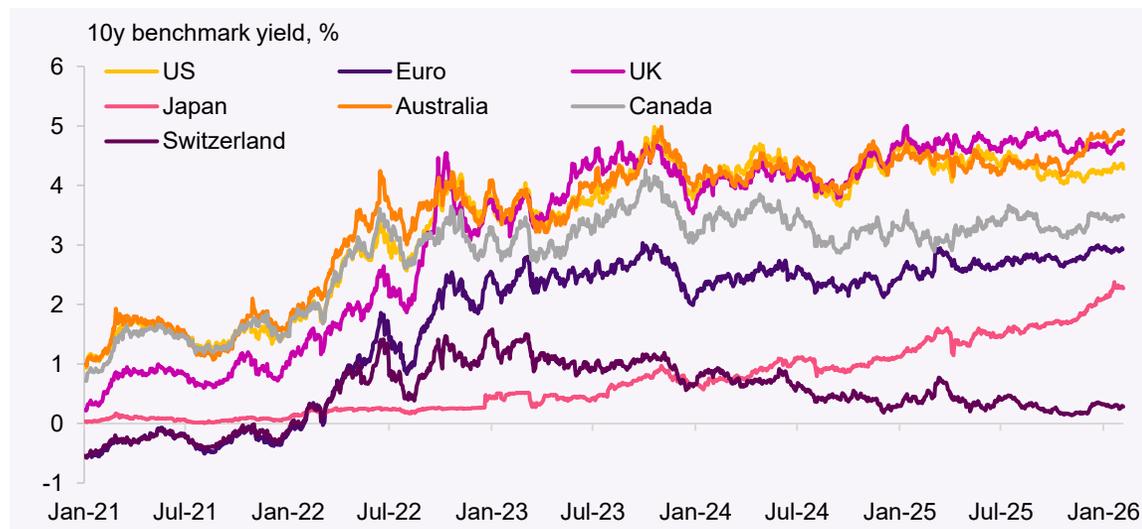
In Japan, bond yields have continued to trend higher following Prime Minister Takaichi's announcement of snap elections. Markets are pricing-in faster policy normalisation and a higher risk premium given her expansionary fiscal plans. The rise in Australian yields reflects stubborn inflation and firm domestic demand and was reinforced by the RBA's decision to hike rates during its first policy meeting of the year.

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 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.

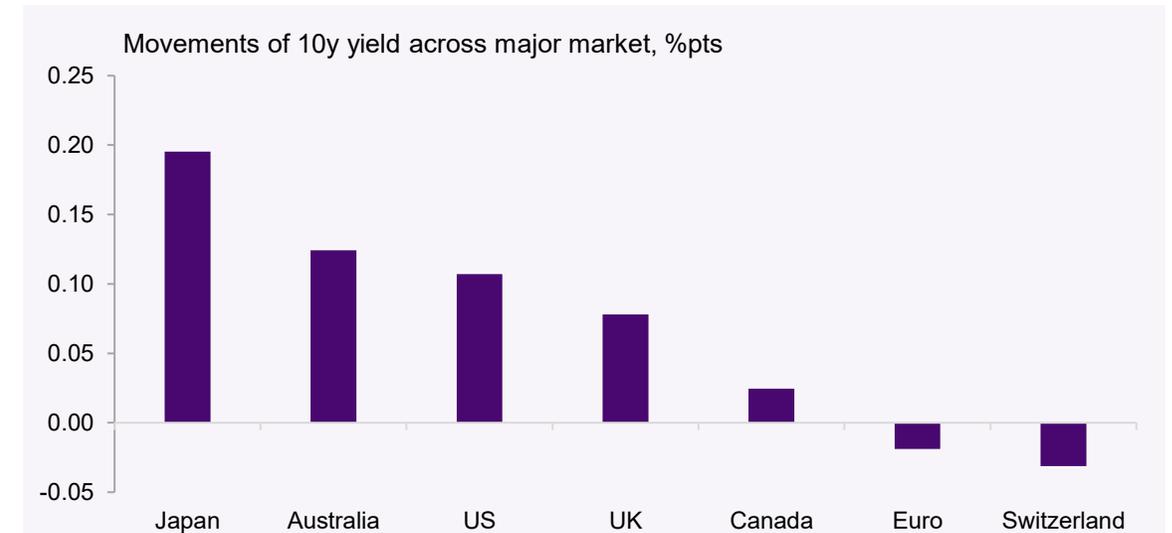
Overall, it remains appropriate to maintain bond exposure for liability hedges and downside protection. However, for some investors, the macro backdrop may suit moderating duration in downside-protection portfolios. Dynamic investors may also find opportunities to overweight select bond markets on a relative value basis. We encourage investors to discuss the portfolio implications with their advisers.

Global 10-year benchmark nominal bond yields



Sources: FactSet, WTW

Divergences in bond markets since the end of November (as of 04 February 2026)



Sources: FactSet, WTW

Credit

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

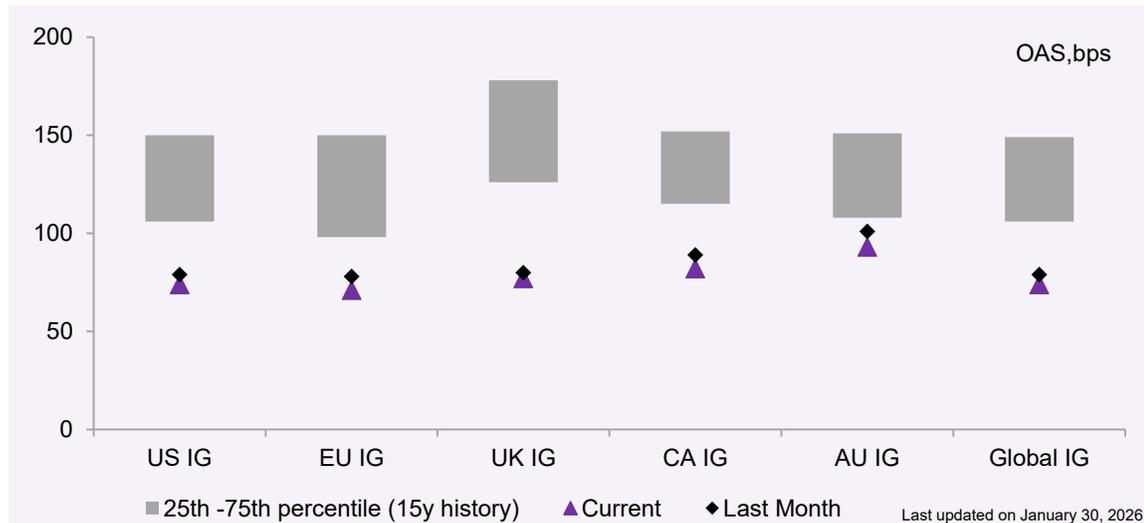
What happened over the past month:

Investment grade spreads tightened across major markets in January, with global IG (-5bps), US IG (-5bps), and EU IG (-7bps) compressing similarly and touching decadal tightness. Global high yield spreads also tightened, with global HY (-4bps) and EU HY (-7bps) tightening more than US HY (-1bps). Healthy demand supported spreads over the month, as the market absorbed robust US IG and HY issuance, with one of the strongest monthly US IG issuances on record.

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

Investment grade credit spreads relative to government bonds by country



Sources: FactSet, WTW

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.

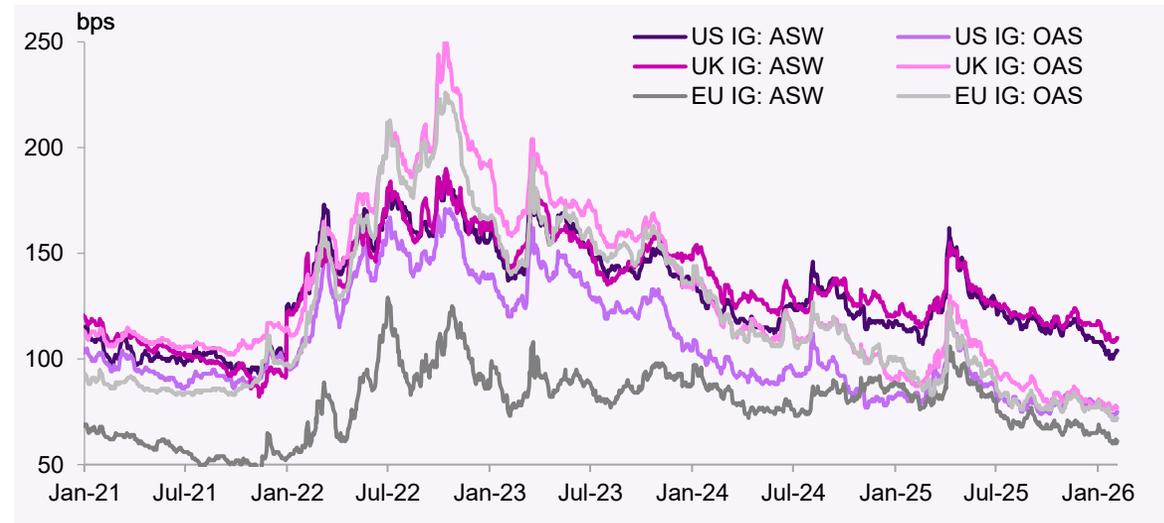
Looking ahead:

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.

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 on a one-year horizon

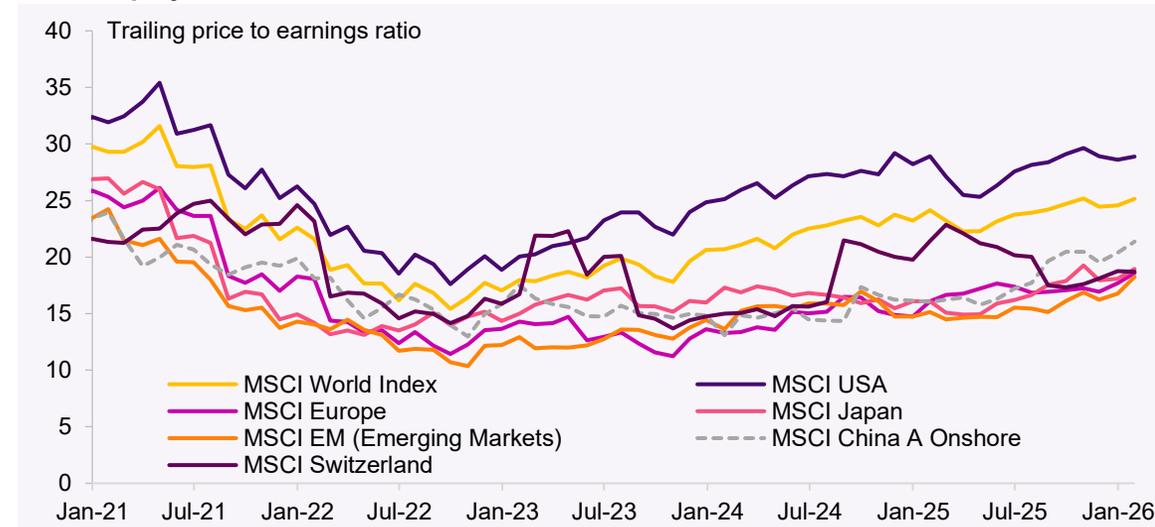
What happened over the past month:

Global equities delivered a firm start to the year, with the MSCI ACWI up 2.5% in January as upside surprises in activity data, softer inflation and a generally “Goldilocks” macro environment supported risk sentiment. Market performance continued to broaden beyond the US, with most major regions outpacing MSCI USA. Emerging markets led with an 8.8% gain, helped by macro improvement and a weaker US dollar, while developed markets saw more moderate advances: Japan rose 4.9% in total return terms, the Eurozone 2.9%, the UK 3.1% and the US 1.3%, with Australia up 1.5% and Canada (-0.1%) and Switzerland (-0.2%) lagging. Improving earnings momentum across regions, including upward revisions in emerging markets and Japan and stronger-than-expected US results, underpinned the rally.

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.

Global equity valuations



Sources: FactSet, WTW

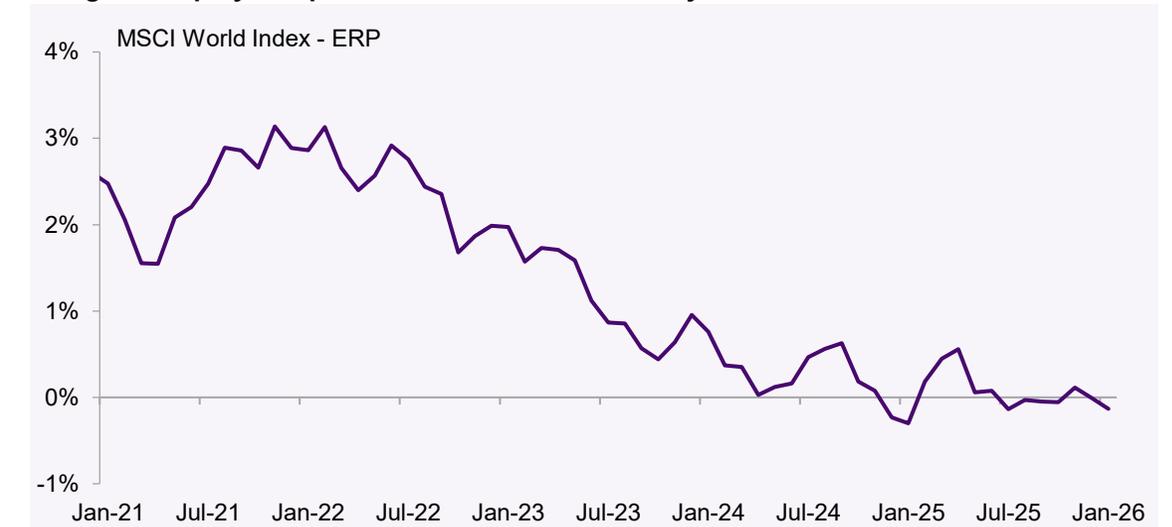
Second, tariffs and trade policy uncertainty still present some challenges to wider business investment and near-term earnings momentum. However, these factors highlight the benefits of active management and careful risk assessment, rather than a risk of a major drawdown in equity prices, in our view.

Third, we expect monetary and fiscal policy to remain supportive in the 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:

- Over the next 12 months equities should be supported by strong earnings (driven in part by significant AI capex) compounded by policy support on both the fiscal and monetary side.
- We hold a neutral view on equities over longer horizons, with the benefits of new technologies set to widen to broader market areas offset by pathway risks and high starting valuations.

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 2026. The Australian dollar has experienced the biggest gain, strengthening nearly 5% year-to-date. Other currencies have seen more modest moves, while the Japanese yen has depreciated slightly against the greenback, reflecting perceived domestic policy risks.

Broad market trends:

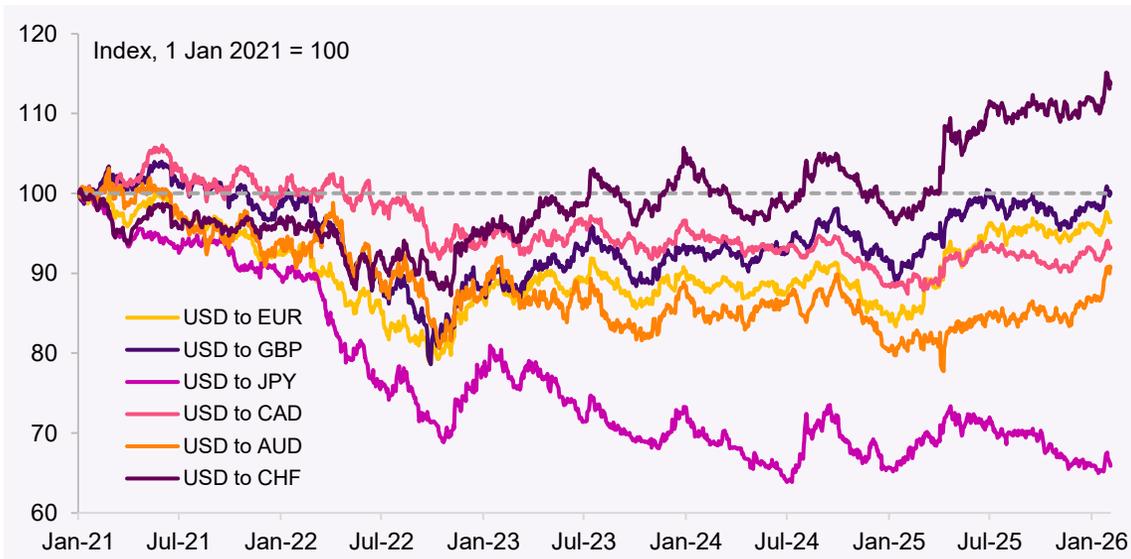
Over the past year, periods of heightened macro uncertainty and elevated equity volatility, which would typically favour the US dollar, have, instead, weighed on the currency. Investors have diversified their currency exposure given the US-centric nature of many policy risks. This move has been reinforced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

Longer term the US dollar has strengthened significantly versus most currencies, supported higher interest rates than other countries and economic and corporate earnings growth consistently above other economies.

Looking ahead:

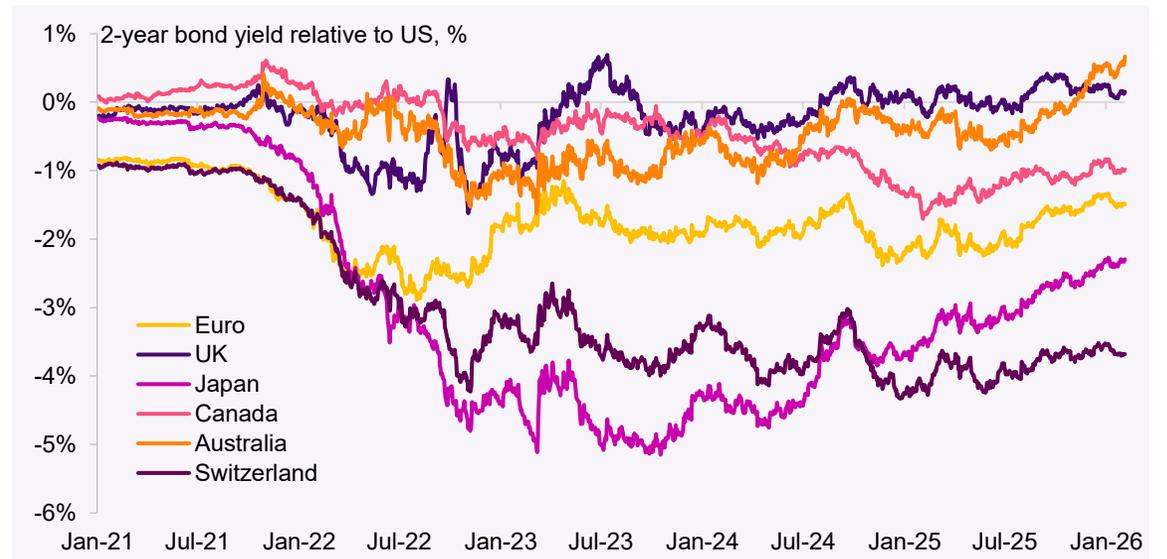
Following a sustained period of appreciation, the US dollar has become more expensive against most other major currencies on our medium-term fair value metrics. This suggests downward pressure over a 3-to-5-year horizon and a positive view for most developed market currencies against the dollar. Shorter-term,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



Sources: FactSet, WTW

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