Global Markets Overview

Asset Research Team

March 2026

How are markets reacting to developments in the Middle East?

Key recent developments

- The conflict remains ongoing, with continued military activity and heightened geopolitical tensions across the region.
- The United States and Israel have launched fresh waves of airstrikes across Iran, targeting multiple sites including oil depots and other strategic infrastructure.
- Iran has continued missile and drone strikes targeting US and allied assets across the region.
- Iran has named Ayatollah Mojtaba Khamenei as successor to his father, Ayatollah Ali Khamenei.
- The Strait of Hormuz remains at a standstill, with only Iran-linked vessels able to make the crucial crossing. Gulf states have begun to cut oil production.

What has happened in markets (as of approximately 9.00am GMT 9 March)

- **Oil:** Brent crude has continued to increase rapidly to approximately US$110 per barrel, having been in a $66-$72 per barrel range prior to the conflict.
- **Equities:** Moves have been less pronounced in US equities, with the S&P 500 down around 2.0% month-to-date, European equities falling 5.6%, and Japan down 9.8% month-to-date.
- **Currencies and bonds:** The US dollar is up 0.8% on safe-haven demand. Ten-year government bond yields have risen: UK +36bps, CAN +26bps, EUR and AUS +20bps, US +18bps.
- **Gold:** Gold spiked above US$5,400/oz before retreating below US$5,100 on a stronger USD and fading Fed cut expectations.

What does it mean?

- Predicting short-term market outcomes in an uncertain geopolitical environment is extremely challenging. We continue to observe developments closely and will provide updates as the situation evolves. Importantly, we are not currently recommending portfolio changes. As part of our monitoring process, we are considering a set of scenarios to frame potential market outcomes, which are summarised below:
  - **Scenario 1 – Contained retaliation (base case)**: In this scenario, tensions stabilise after a period of military conflict and volatility. Oil prices ease back as fears of a sustained supply disruption fade, and markets treat the conflict as a temporary geopolitical risk event rather than a structural economic shock. The broader macroeconomic impact in this case would likely be limited, though the episode reinforces the longer-term shift toward a more fragmented and geopolitically uncertain global environment.
  - **Scenario 2 – Material disruption to the Strait of Hormuz (a material and growing risk)**: This scenario involves a more sustained disruption to oil flows through the Strait of Hormuz or surrounding energy infrastructure. Oil prices could remain elevated for an extended period, in the US$90–110 range or higher, placing more sustained upward pressure on global inflation. Higher energy costs would weigh on household incomes and corporate margins, particularly in energy-intensive sectors, and could delay central bank rate cuts.
  - **Scenario 3 – Further escalation (less likely)**: A lower probability but more severe outcome would involve a broader regional escalation affecting key trade routes or energy infrastructure. In this case, oil prices and inflation could move well above current levels and trigger a stronger global risk-off move across markets, with equities falling more sharply and growth slowing more materially.

Government bonds

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

What happened over the past month:

On average, 10-year bond yields are lower since end-January, with the US (-14bps), Japan (-8bps), the UK (-6bps), Canada (-5bps), the euro area (-2bps) and Australia (-2bps) all declining, as of 05 March. Swiss bonds bucked the trend, with yields rising by 12bps. These cumulative moves mask considerable volatility.

Factors influencing market trends:

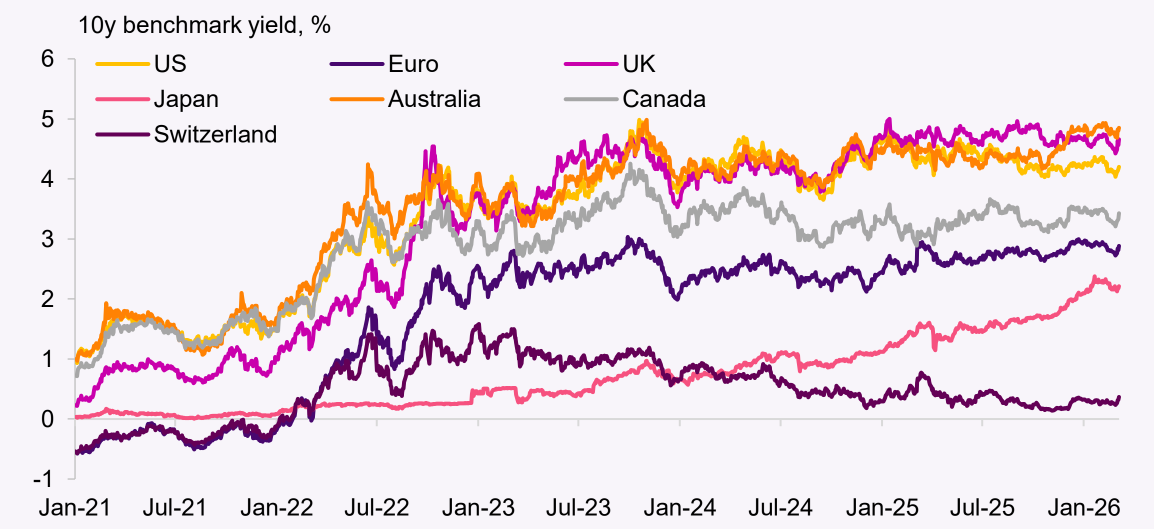
Bond yields fell notably in February, with a backdrop of softer economic data (e.g., US unemployment) and lower inflation (especially in Europe), which increased expectations for central-bank easing. UK bonds also benefited from a record budget surplus. Conflict in the Middle East has unwound some of these moves recently, with yields rising. Oil and gas prices have jumped notably on the back of the US-Iran military action and disruption to the Strait of Hormuz. If sustained this risks higher inflation, especially for energy importers – bond yields have risen the most in these countries.

Looking ahead:

While we are monitoring developments closely, our base case is for the recent energy price spike to be temporary. 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 the bond risk premium – the excess yield for holding longer-dated bonds – appear high relative to fundamentals.

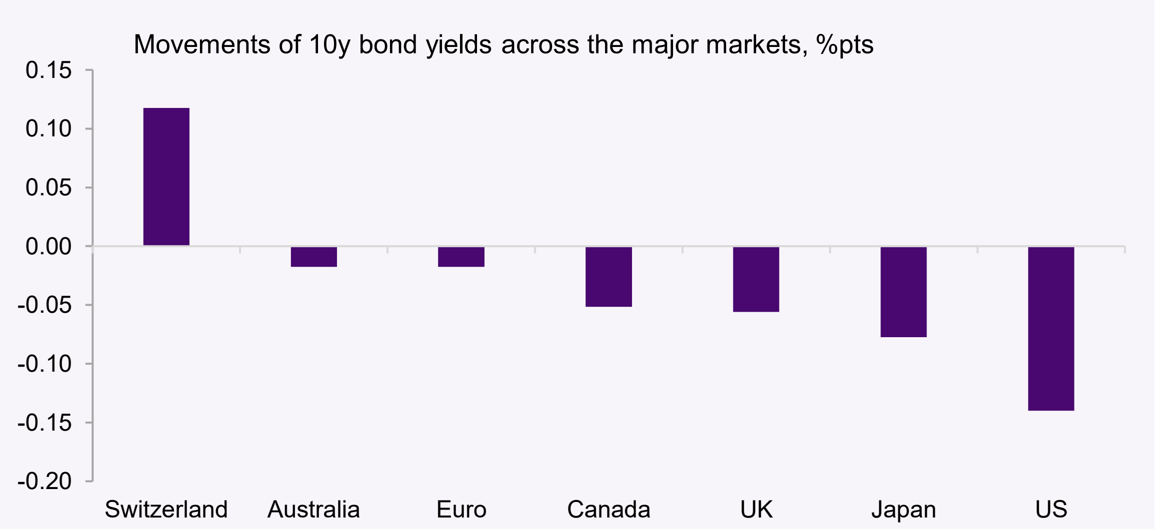
Overall, it remains appropriate to maintain bond exposure for liability hedges and downside protection. However, for some investors, the macro backdrop may suit moderating duration in downside-protection portfolios. Dynamic investors may also find opportunities to overweight select bond markets on a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

Global 10-year benchmark nominal bond yields



Sources: FactSet, WTW

10-year yield moves since end-January 2026 (as of 05 March 2026)



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 widened in February after starting the month at tight levels. Global investment-grade (IG) spreads widened by around 10bps, with US and Eurozone IG moving by similar magnitudes. Divergence was more pronounced in high yield (HY) markets. Global HY spreads widened 21bps, driven by a much larger move in the US (+30bps) versus Europe (+6bps). AI-related disruption risks weighed on financial and technology sectors, while US issuance remained strong over the month.

Following recent developments in the Middle East, global IG and HY spreads narrowed modestly (-2bps and -3bps) by 05 March, with markets currently pricing the US-Iran conflict as a geopolitical rather than a credit event. A longer-lasting or broader conflict could challenge this view and may have uneven regional impacts.

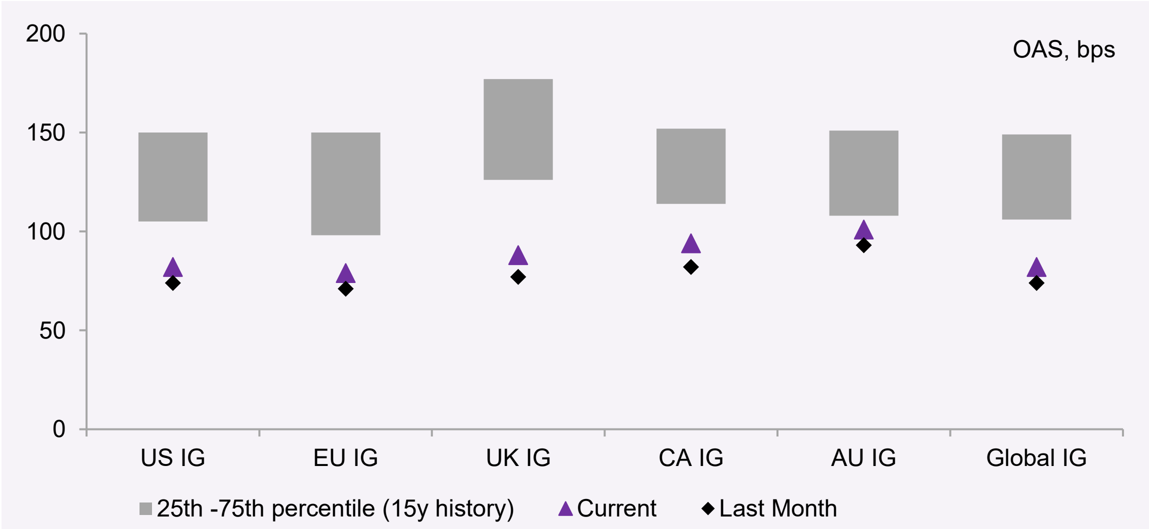
What has influenced recent market dynamics?

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 still pricing-in expectations of a low default and downgrade environment.

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.

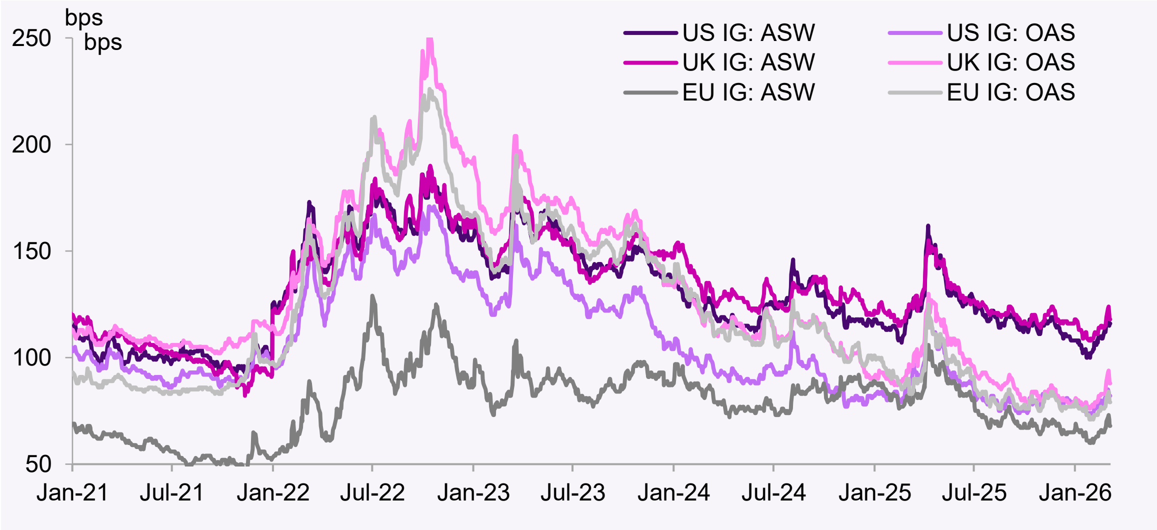
Investment grade credit spreads relative to government bonds by country



Sources: FactSet, WTW

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

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:

In February, equity performance was driven by markets outside of the US, driven by a rotation away from mega-cap US technology stocks and towards value and more cyclically exposed markets. Global equities posted modest gains of 0.9% in total return terms, while the US underperformed (-1.5%) as concerns over the size of AI capex weighted on large-cap growth despite solid earnings. Emerging markets outperformed (+3.5%), with growth increasingly broad-based and demand for asset-heavy sectors boosting returns. In developed markets there were strong gains in Japan (+11.0%), UK (+8.1%), Switzerland (+7.0%) and Australia (5.7%), supported by favourable sector compositions.

Broad market trends:

First, mega-cap US technology stocks continue to deliver strong earnings growth, supported by and supporting the AI boom. This profit 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.

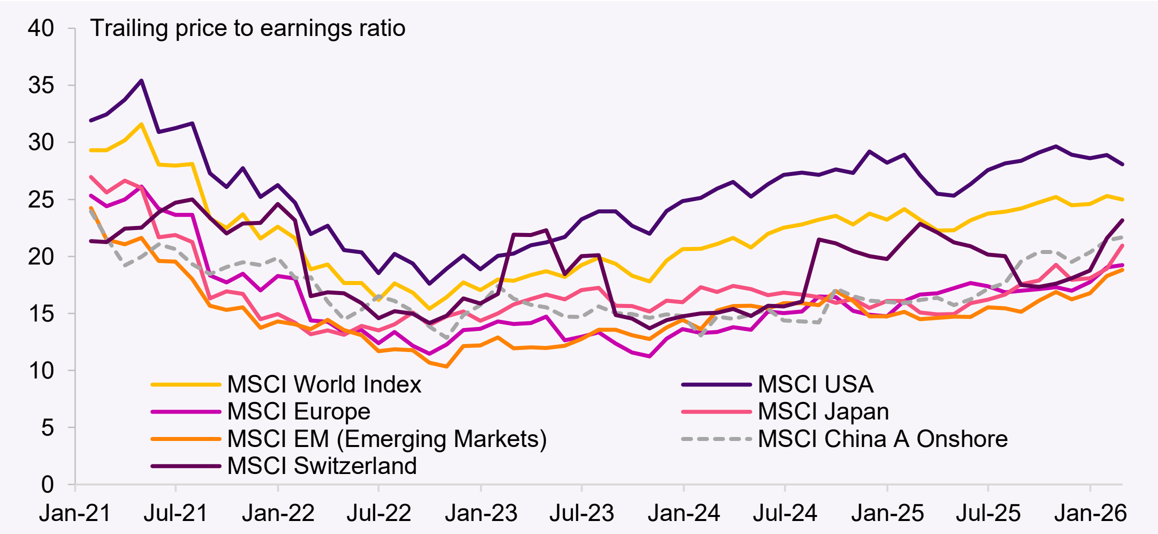
Third, the US-Iran conflict has weakened aggregate global equity returns moderately in March, with country dispersion increasing. So far, the moves have been a cautious repricing of risk rather than a major and broad-based sell-off. Markets appear to be focusing on the durability of earnings and the longer-term potential of innovation-led growth – which we expect to continue.

Third, we expect monetary and fiscal policy to remain supportive in the near term, helping to underpin growth conditions and reinforce investor confidence.

Looking ahead:

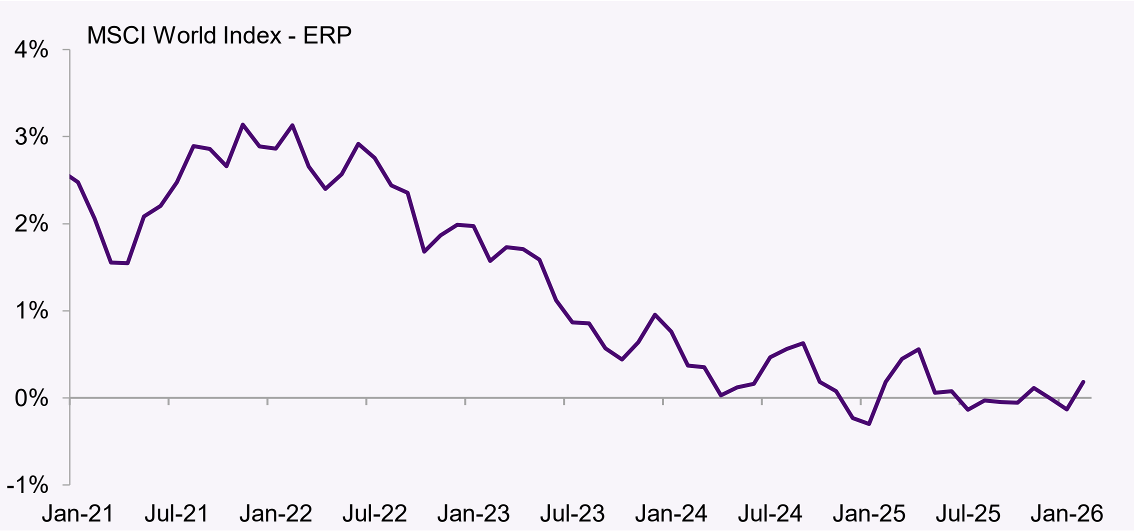
- Over the next 12 months equities should be supported by strong earnings (driven in part by significant AI capex) compounded by policy support on both the fiscal and monetary side.
- We hold a neutral view on equities over longer horizons, with the benefits of new technologies set to widen to broader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

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:

Most major currencies weakened against the US dollar over the month: Sterling (-3.1%), Euro (-2.7%), Japanese yen (-2.3%), Canadian dollar (-1.2%) and Australian dollar (-0.1%) all depreciated versus the USD. Safe-haven flows into the USD have accelerated following heightened geopolitical tensions in the Middle East. The Chinese Yuan Renminbi was the exception, appreciating by 0.7%.

Broad market trends:

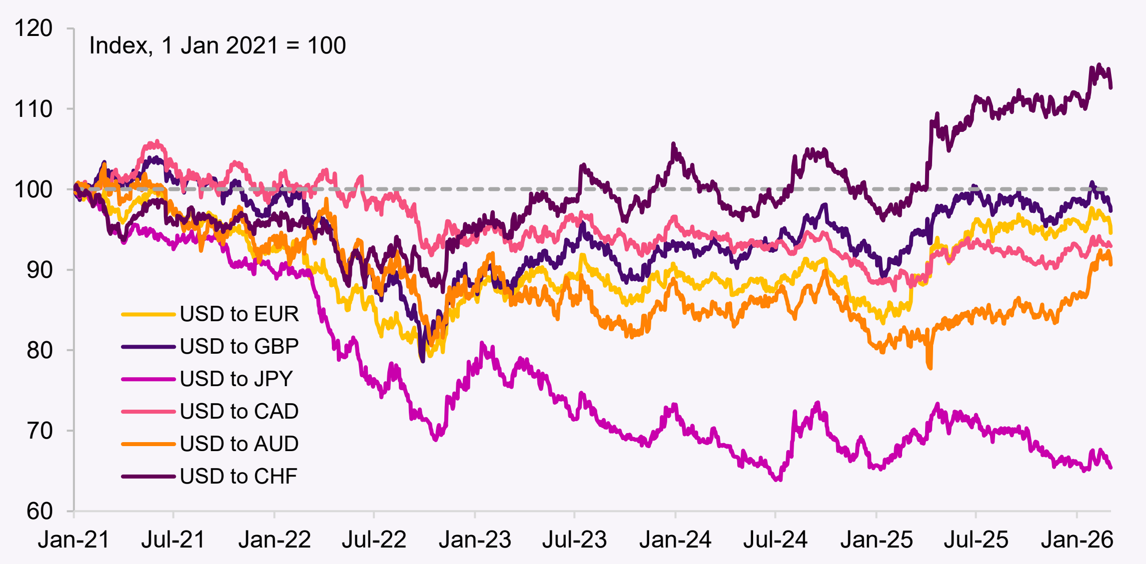
Outside of the recent geopolitical developments, periods of heightened macro uncertainty and elevated equity volatility over the past year, which would typically favour the US dollar, have generally weighed on the currency. Investors have diversified their currency exposure given the US-centric nature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

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

Looking ahead:

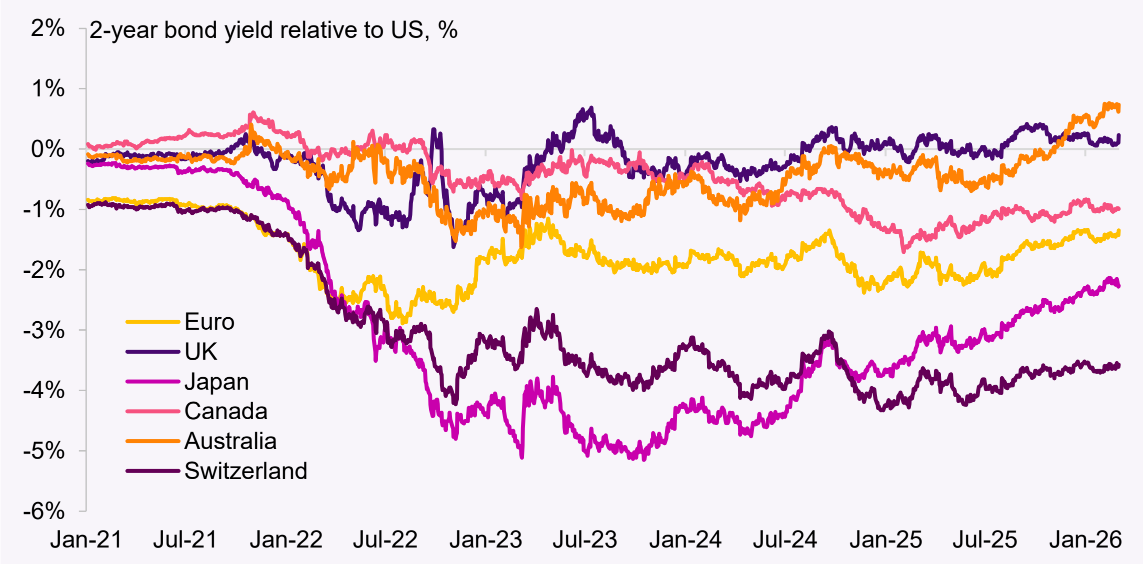
Following a sustained period of appreciation, the US dollar has become more expensive against most other major currencies on our medium-term fair value metrics. This suggests downward pressure over a 3 to 5-year horizon and a positive outlook for most developed market currencies against the dollar. Shorter-term,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