

Global Markets Overview

Asset Research Team

April 2026

How are we reacting to developments in the Middle East?

Our views given the two-week ceasefire announced on 7 April but ongoing uncertainty over the flow of energy through the Strait of Hormuz

Scenario	Illustrative strategic risk management actions	Illustrative dynamic potential return opps. and risk management actions	2026 and '27 indicators	Illustrative macro impacts	WTW est. likelihood
1. Contained retaliation	None; short time horizon of impacts	Overweight (o/w) global equity; (o/w) diversified alternative credit vs. investment grade; underweight (u/w) nominal government bonds; o/w inflation-linked bonds; u/w US dollar	- US-Iran military conflict ends in early April; no new impacts on energy export capacity - Energy flows through Strait of Hormuz recover in April	- Low impacts to growth, core inflation, and asset prices at <u>end-2026</u> as shock is short-lived - Oil price falls to c.\$70/bbl by end-2026	Most likely
2. Material disruption	None; short time horizon of impacts	- Reduce o/w to global equity; increase u/w to nominal government bonds; increase o/w to inflation-linked bonds; reduce u/w to US dollar - Understand crucial regional market differences - Understand policy responses – govt. support lowers growth risk and raises inflation risk	- Economic conditions / asset prices materially different at <u>end-2026</u> - Military conflict runs through April; or additional energy infrastructure damage; or energy flows through Strait remain very low in April / May	- Materially weaker growth and / or higher core inflation at end-2026; weak sentiment; conditions normalize in 2027 - Major regional differences - Oil at c.\$90-100/bbl at end-2026	Material likelihood
3. Further escalation	Reduce equity/credit assets; reduce govt. duration; add inflation-linked assets, add US dollar exposure	Strategic risk management is highest priority Our view: the risk of a multi-year high inflation and low growth outcome remains low - no strategic risk management action	- Economic conditions / asset prices materially different at <u>end-2027 / '28</u> - Long-run multi-year disruption to energy supply	- Recession; much higher core inflation, higher real interest rates - Oil at c.\$110/bbl at end-2027	Unlikely

Government bonds

At current yield levels we believe select bond markets offer value in the shorter-term

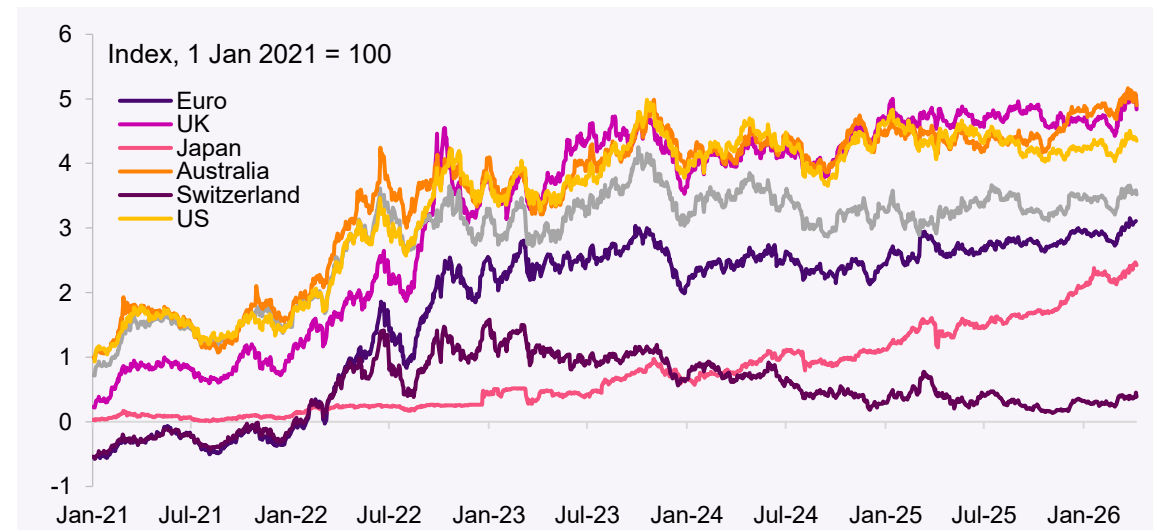
What happened over the past month:

Global bond yields have risen sharply across the major markets since the beginning of March. The UK and Euro area led the moves, with 10-year yields rising by 41bps and 38bps, respectively. Other markets also saw notable increases, with US and Canadian 10-year yields each up more than 30bps.

Factors influencing market trends:

Earlier in the year, bond yields declined notably, 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. However, conflict in the Middle East has reversed 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, these pressures raise the risk of higher inflation (March headline CPI prints have already increased), particularly for energy-importing economies, where bond yields have risen the most.

Global 10-year benchmark nominal bond yields



Sources: FactSet, WTW

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 business capex suggests GDP growth will still be strong in 2026/27, putting upward pressure on core inflation. Consequently, in our view, the recent rise in US bond yields was warranted. 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.

10-year yield moves since end-February 2026 (as of 08 April 2026)



Sources: FactSet, WTW

Credit

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

What happened over the past month:

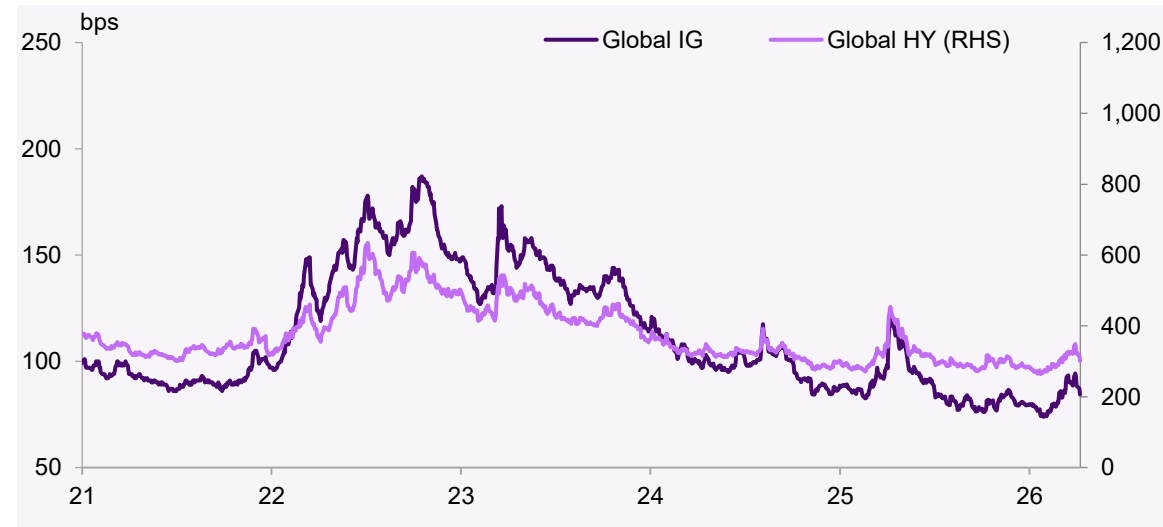
Credit spreads widened moderately through March as the US conflict with Iran escalated and energy prices surged, before retracing almost entirely by 8 April. Global investment grade (IG) spreads ended the period broadly flat at 84bps, from 85bps at end-February. US and UK IG markets tightened marginally to 81bps and 91bps, respectively, while EU IG ended largely unchanged at 84bps. Global high yield (HY) told a similar story as spreads ended close to flat at 301bps relative to end-February levels, but regional moves varied. US HY tightened 12bps to 279bps, while European HY widened 22bps to 318bps, reflecting the region's greater energy import sensitivity.

Current spreads have so far largely looked through the geopolitical shock and spreads remain below their 15-year historical ranges across key IG and HY markets.

What has influenced recent market dynamics?

IG credit spreads, measured over government bond yields (OAS), are still low relative to history. In

Global spreads relative to government bonds



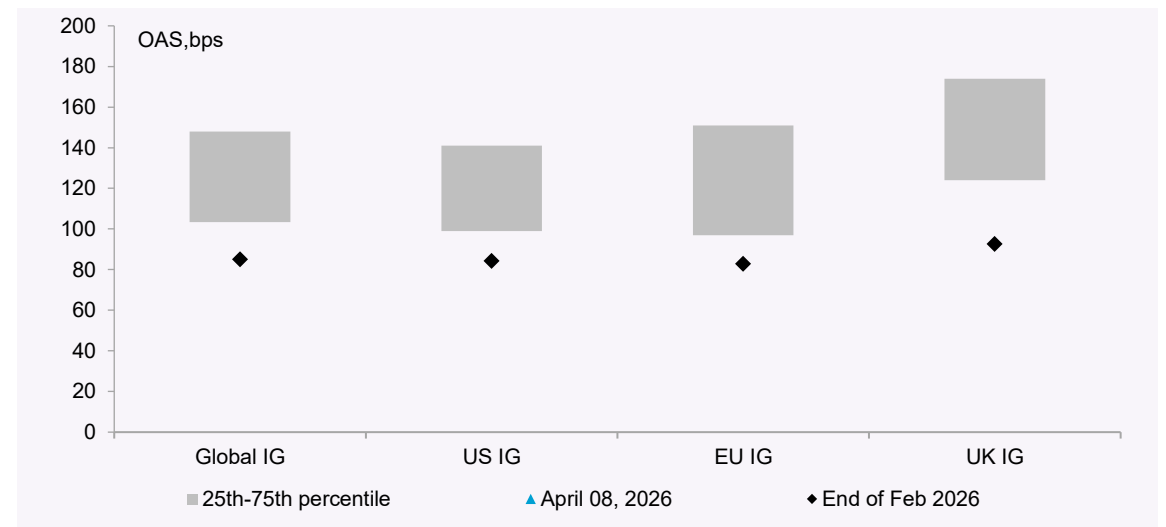
Sources: FactSet, WTW

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

Equities

Overall, we are positive on equities on a one-year horizon

What happened over the past month:

From the end of February to the end of March 2026, global equities declined materially amid heightened geopolitical tensions, with the MSCI All Country World Index (ACWI) down 6.2%. Losses were broad-based across regions, led by Japan (-10.6%), Emerging Markets (-10.5%), and the Eurozone (-8.9%), with the US falling less (-4.9%). From end-March to 9 April, markets rebounded as tensions in the Middle East eased somewhat, supporting a recovery in risk appetite. MSCI ACWI rose 4.8%, with stronger gains in Emerging Markets (+8.4%), Japan (+8.1%), and the Eurozone (+6.6%), alongside a 3.9% rise in US equities.

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.

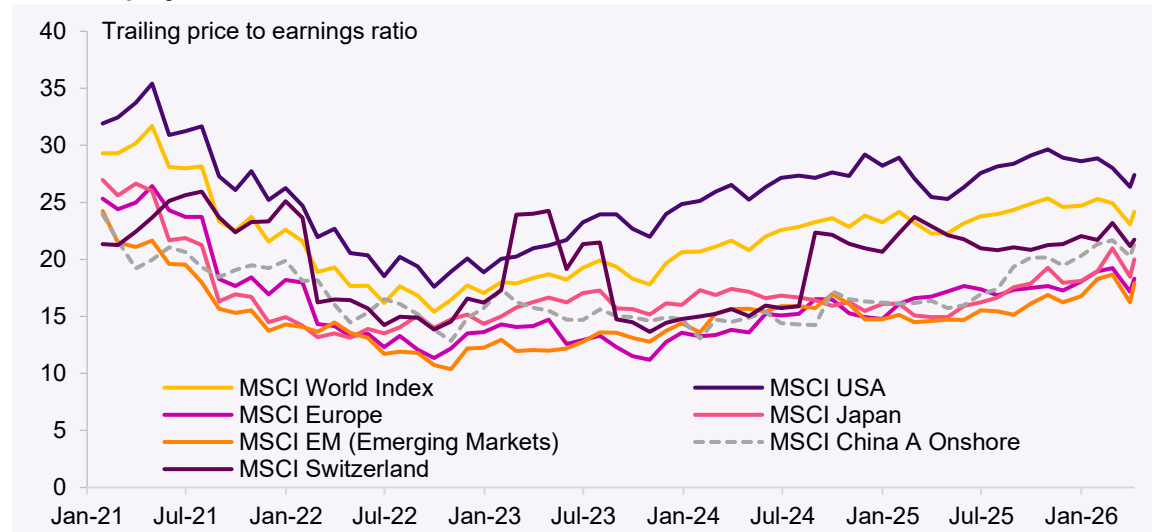
Third, the US-Iran conflict has weakened aggregate global equity returns moderately in the last five weeks, with country dispersion increasing. So far, the moves have been a cautious repricing of risk rather than a major sell-off. Markets appear to be focusing on the durability of earnings and the longer-term 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:

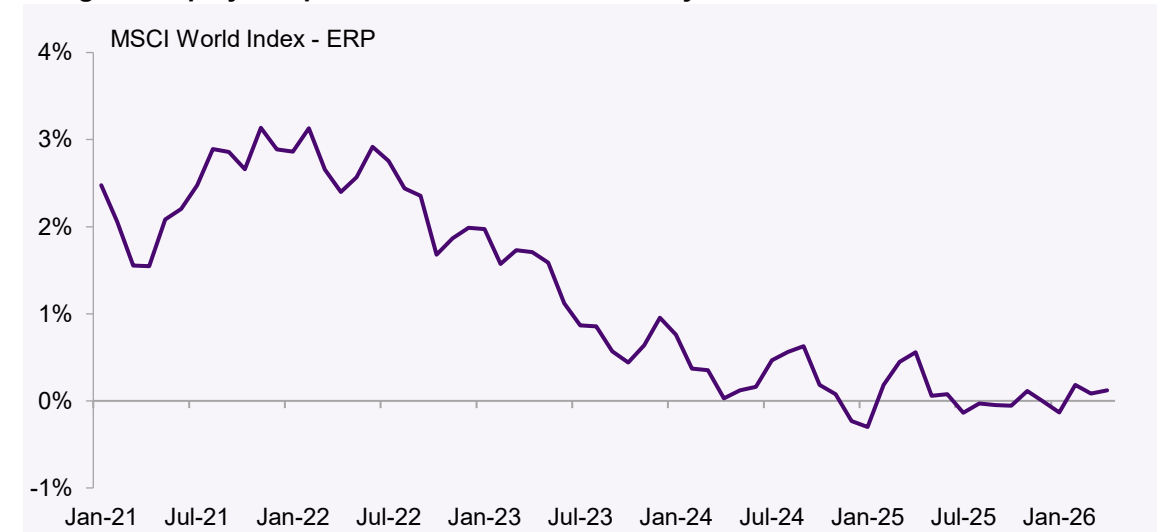
- Over the next 12 months equities should be supported by strong earnings (driven in part by significant AI capex) compounded by policy support on both the fiscal and monetary side.
- We hold a neutral view on equities over longer horizons.

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

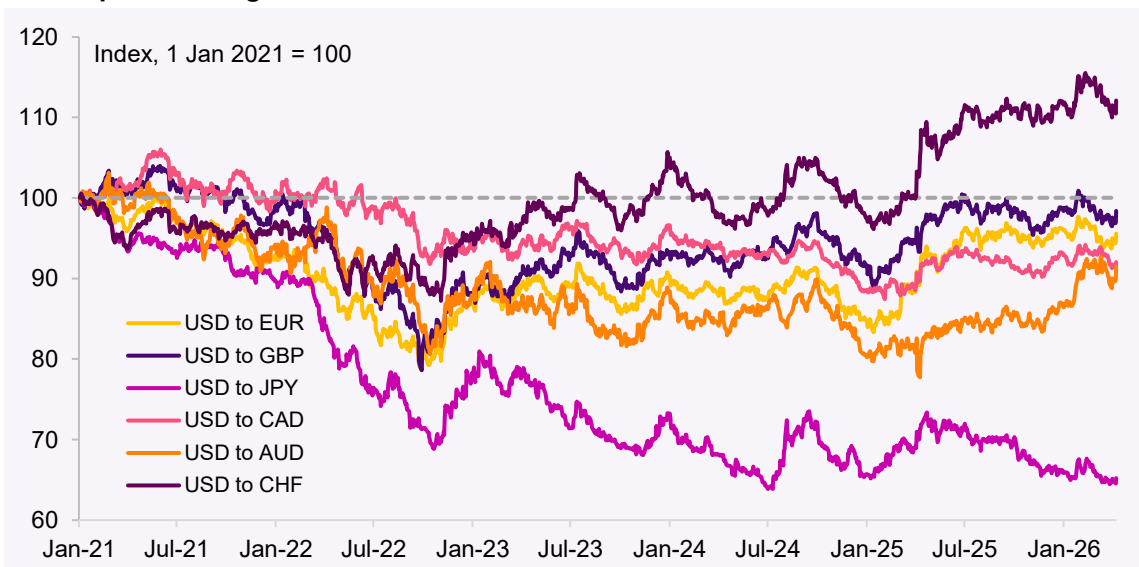
What happened over the past month:

Most major currencies have weakened against the US dollar since end-February: the Japanese yen (-1.4%), Canadian dollar (-1.5%), Australian dollar (-1.0%) and euro (-0.9%) all depreciated versus the USD (as of 8 April 2026). Safe-haven flows into the USD have accelerated following heightened geopolitical tensions in the Middle East. The Chinese Yuan Renminbi was an exception, appreciating by 0.4%.

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.

Developed exchange rates versus the US dollar



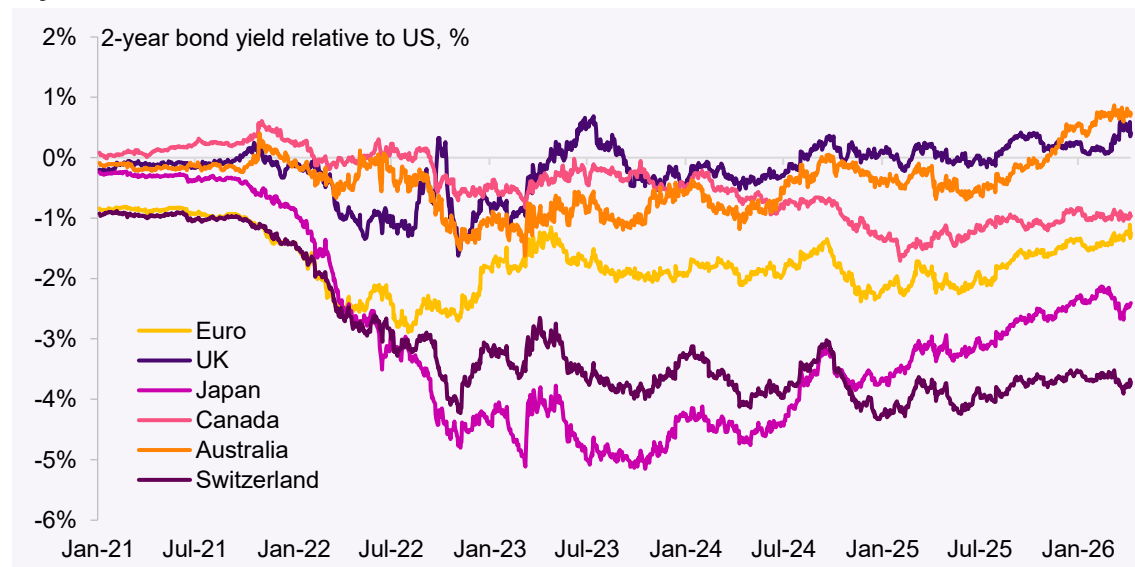
Sources: FactSet, WTW

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.

2-year interest rate differentials



Sources: FactSet, WTW

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