

Global Markets Overview

Asset Research Team

June 2026

Equity returns have been good, despite the volatile geopolitical backdrop. Why?

Why equities have remained resilient

In recent months, investors have navigated a volatile geopolitical backdrop, with ongoing uncertainty surrounding the Middle East, marked by stop-start progress towards a potential U.S.-Iran agreement, with periods of renewed tension and disruption to energy markets. Energy markets have been volatile, with oil prices rising during periods of uncertainty before easing as prospects for a resolution improve.

Despite this, equity markets have been performing well. In general, this reflects the forward-looking nature of markets, which weigh near-term risks against the longer-term, broader, and resilient economic and corporate outlook. More specifically, while the geopolitics have influenced near-term inflation expectations, markets continue to distinguish between the inevitable short-term increases in inflation and more persistent pressures. So far, recent developments are being treated as temporary rather than structural.

Strong corporate earnings: the factor underpinning markets

A key driver of recent equity returns has been strong corporate earnings, especially in the U.S. This has supported solid equity market returns over May and the last three months, e.g., the MSCI World equity index has risen 4.8% and 7.7% respectively, although performance has varied materially across regions. U.S. equities have led the way, supported by strong and broad-based earnings growth and continued high investment across data centres, semiconductors and cloud infrastructure. Asian markets linked to semiconductors have also performed very well. Euro area equities have lagged due to their greater sensitivity to the energy price shock and a more moderate earnings outlook but have still risen over the last three months.

In summary, earnings strength and improving earnings expectations have underpinned equity market resilience – the equity markets with strong current and expected earnings growth are the ones that have largely looked through the geopolitical noise.

What this means for investors

Investors continue to balance ongoing geopolitical risks against, in our view, a resilient backdrop for global economic growth and corporate earnings. To date, company fundamentals have remained the dominant driver of markets. This reinforces the importance of focusing on long-term fundamentals, maintaining diversification, and avoiding over-reaction to short-term headlines.

Government bonds

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

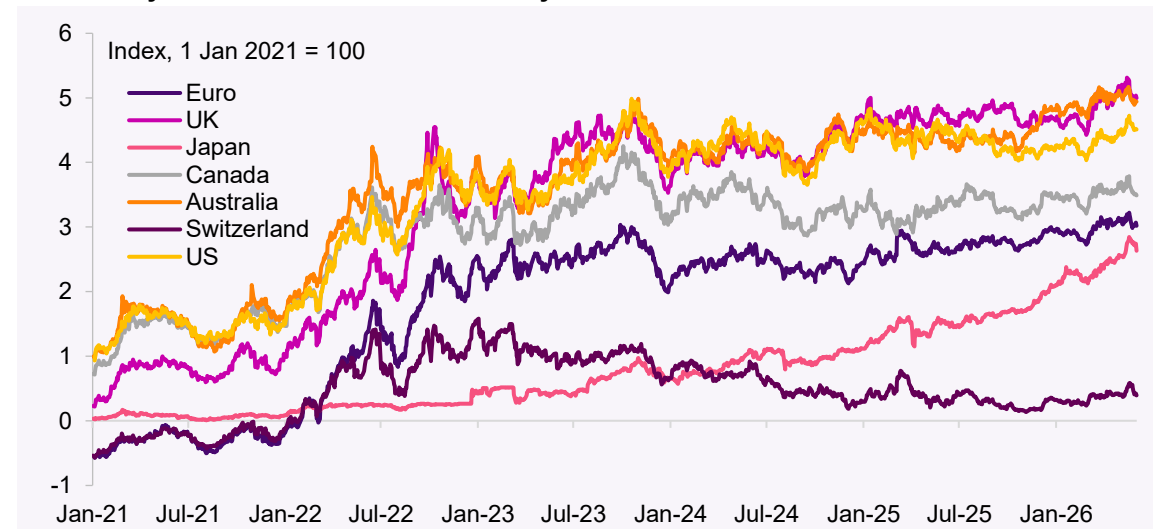
What happened over the past month:

Since the end of April, moves in 10-year bond yields (to 2nd June) have been mixed. The largest shifts were in Australia (-17bps), the U.K. (-16bps), and Canada (-15bps). Euro area rates also moved lower (-7bps), while Swiss bonds were unchanged. In contrast, the U.S. (+4bps) and Japanese (+7bps) markets saw yield increases.

Factors influencing market trends:

Earlier in the year, bond yields declined notably, with a backdrop of softer economic data (e.g., a weakening U.S. labour market) and lower inflation (especially in Europe), which increased expectations for central-bank easing. U.K. 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 conflict and disruption to the Strait of Hormuz. If sustained, these pressures raise the risk of higher inflation – headline CPI has already increased.

Global 10-year benchmark nominal bond yields



Sources: FactSet, WTW

Looking ahead:

While we are monitoring developments closely, our base case is for the energy price rise to be temporary. In the U.S., 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 U.S. bond yields was warranted. We continue to see select opportunities in certain markets, such as U.K. 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 government bond yield moves since end-April 2026 (as of 02 June 2026)



Sources: FactSet, WTW

Corporate credit

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

What happened over the past month:

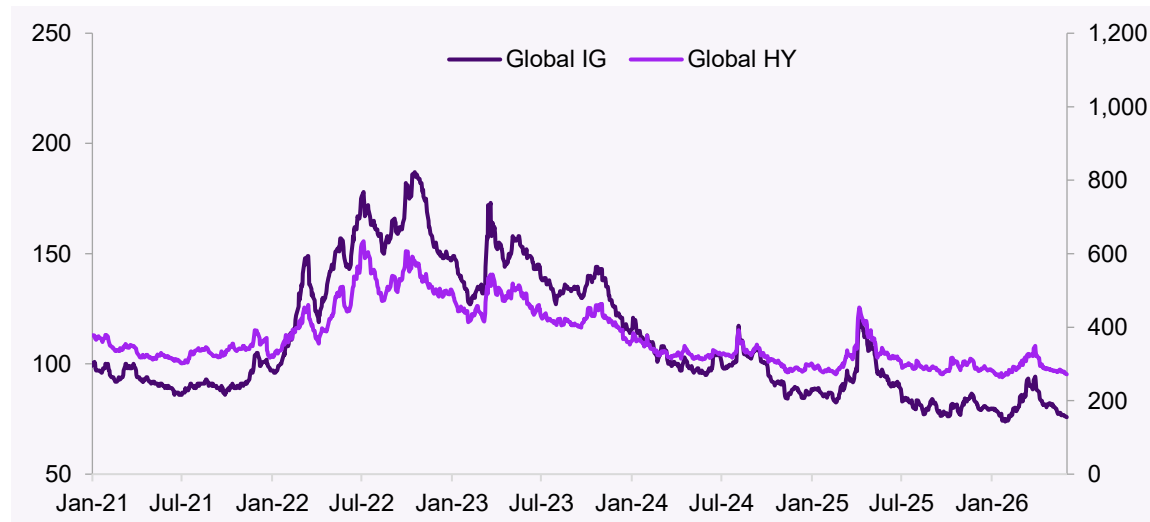
Credit spreads have tightened across both investment grade and high yield markets since the end of April (to 2nd June), underpinned by solid corporate fundamentals which helped offset energy-related risks. High yield marginally outperformed, with global spreads tightening by 13bps versus 5bps in investment grade. European high yield led the moves (-27bps), significantly ahead of the U.S. (-11bps). In investment grade markets the tightening was led by the U.K. (-8bps) and U.S. (-6bps).

Current spreads continue to look through the current energy shock and spreads remain well 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 contrast, spreads which are measured relative to swap rates (ASW) are not as compressed versus history.

Global spreads relative to government bonds



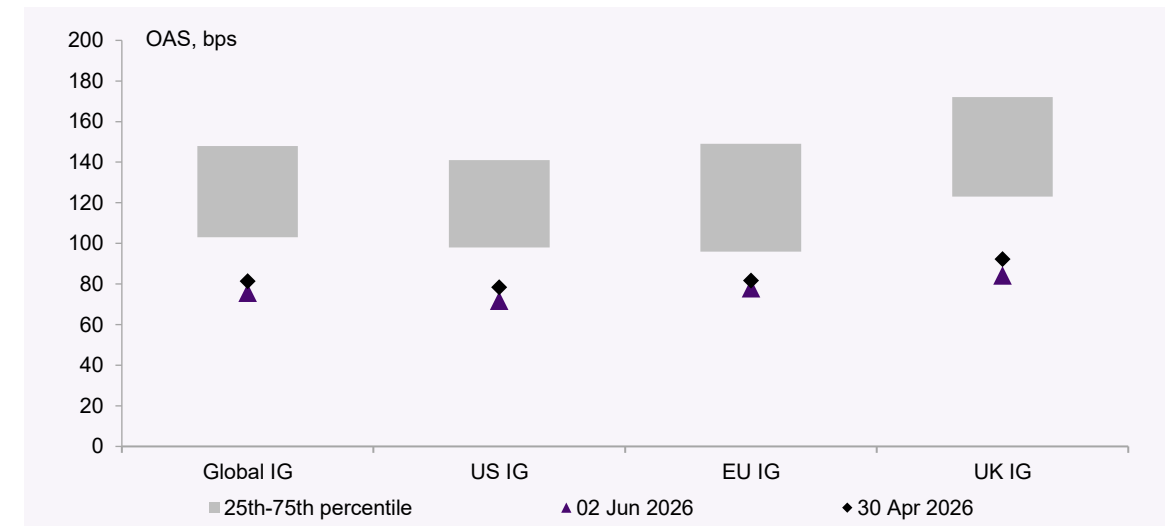
Sources: FactSet, WTW

We think this is an important consideration when evaluating compensation for credit risk, particularly in U.S. and U.K. 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:

High equity returns in May were underpinned by solid earnings momentum, particularly in the U.S. and Asia, with strong gains in MSCI EM (+9.7%), MSCI World (+4.8%) and MSCI USA (+5.3%). AI supply chain exposure was the dominant theme again. In Asia, the semiconductor heavy Korea and Taiwan indices returned 37.5% and 15.2% respectively. Japan also rose materially (+6.6%). In general, equity returns were good across the major advanced economies: Europe (+4.5%), Switzerland (+3.5%), Canada (+2.3%), Australia (+0.9%), and the U.K. (+0.5%).

Broad market trends:

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

Second, tariffs and trade policy uncertainty still present some challenges to wider business investment and near-term earnings momentum in specific countries. 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.

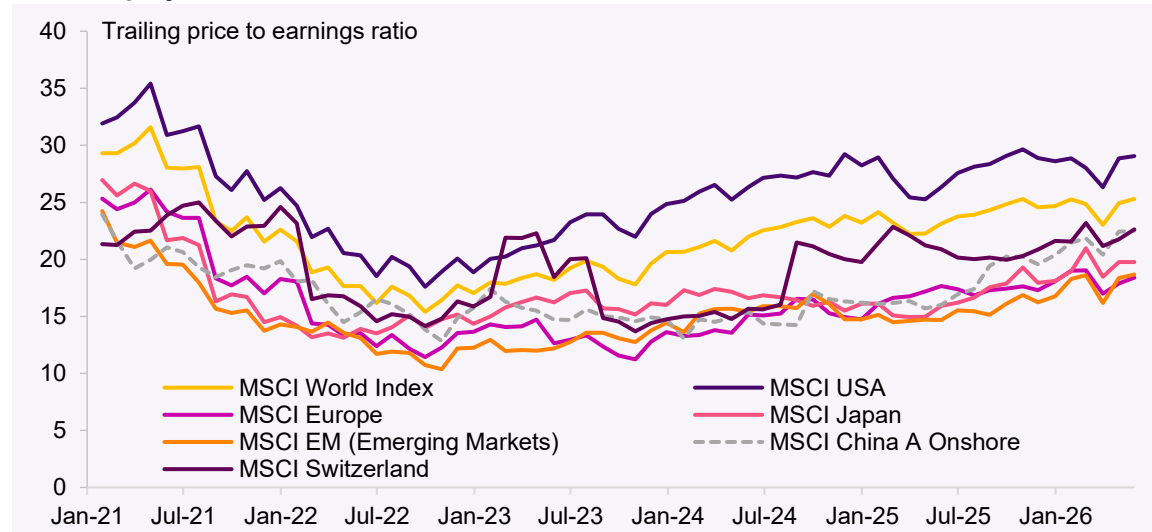
Third, the US-Iran conflict has been a headwind to parts of the global equity market in the last three months, with country dispersion increasing. Nevertheless, U.S. equities have repeatedly hit new index highs, with investors focusing more on the strength of earnings and the longer-term potential impacts of innovation-led growth – which we expect to both continue and be very significant.

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

Looking ahead:

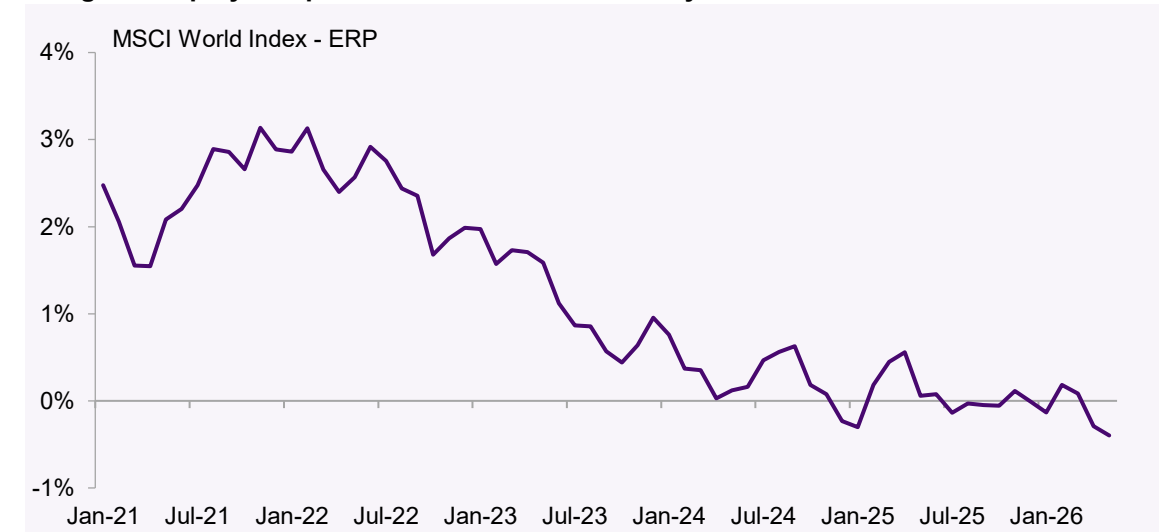
- Over the next 12 months, equities should be supported by strong earnings – driven in part by significant AI capex – compounded by policy support, especially from government spending.
- We hold a neutral view on equities over longer horizons.

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 U.S. dollar over the long term

What happened over the past month:

The major developed market currencies have depreciated against the U.S. dollar since the end of April (to 2nd June). The yen (-2.0%) and Canadian dollar (-1.6%) have led the declines, followed by sterling (-0.9%) and the euro (-0.7%). The Australian dollar was broadly flat (-0.1%).

Broad market trends:

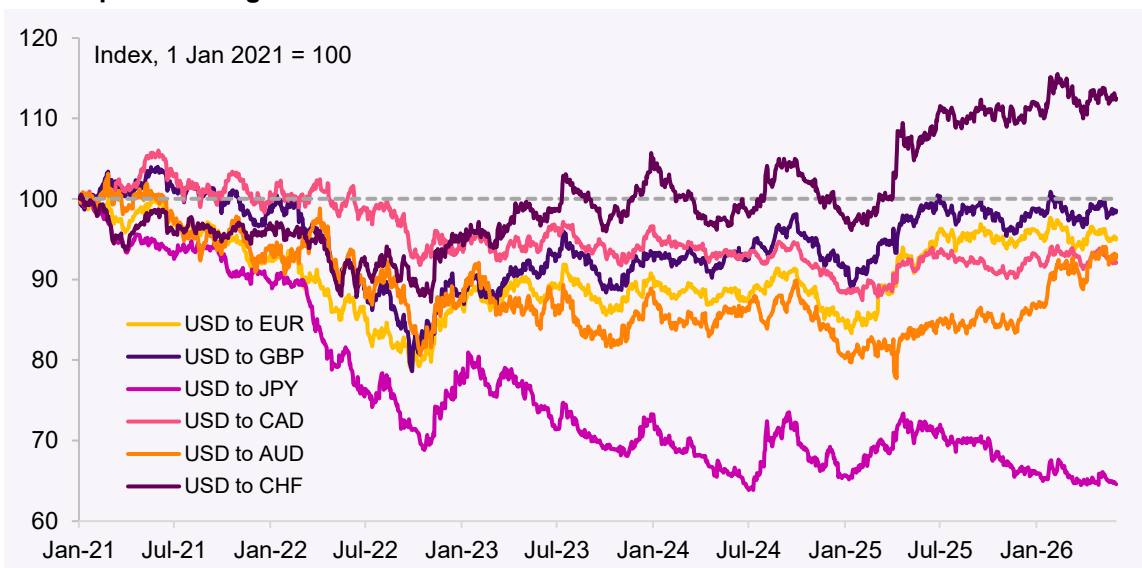
Outside of recent geopolitical developments, periods of heightened macro uncertainty and elevated equity volatility over the past 18 months, which would typically favour the U.S. dollar, have generally weighed on the currency. Investors have diversified their currency exposure given the US-centric nature of many policy risks. This move has been reinforced by a decline in U.S. interest rate differentials, with U.S. 2-year treasury yields falling materially relative to Japan, Australia and Europe since late 2024.

Longer term, the U.S. 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:

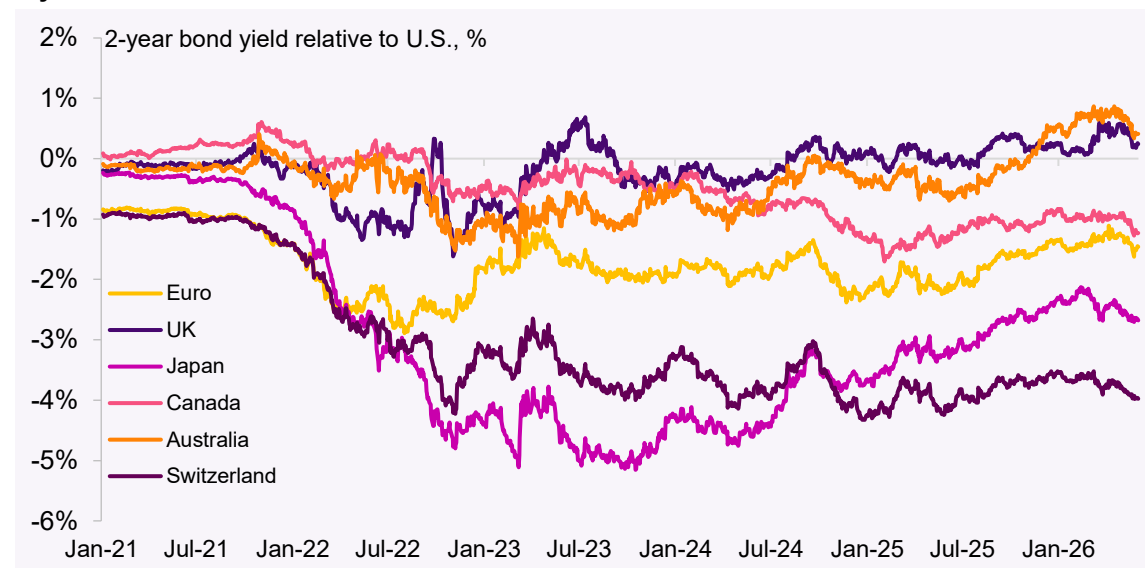
Following a sustained period of appreciation, the U.S. dollar has become more expensive against most other major currencies on our medium-term fair value metrics. This suggests downward pressure over a 3- to 5-year horizon and a positive outlook for most developed market currencies against the dollar. Shorter-term, we hold a neutral dollar view against most currencies, except for a more positive view on the Japanese yen. Japan is a net trade surplus currency with significant holdings of dollar-denominated assets that stand to benefit from shifts in global capital flows.

Developed exchange rates versus the U.S. dollar



Sources: FactSet, WTW

2-year interest rate differentials



Sources: FactSet, WTW

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