

Global Markets Overview

Asset Research Team

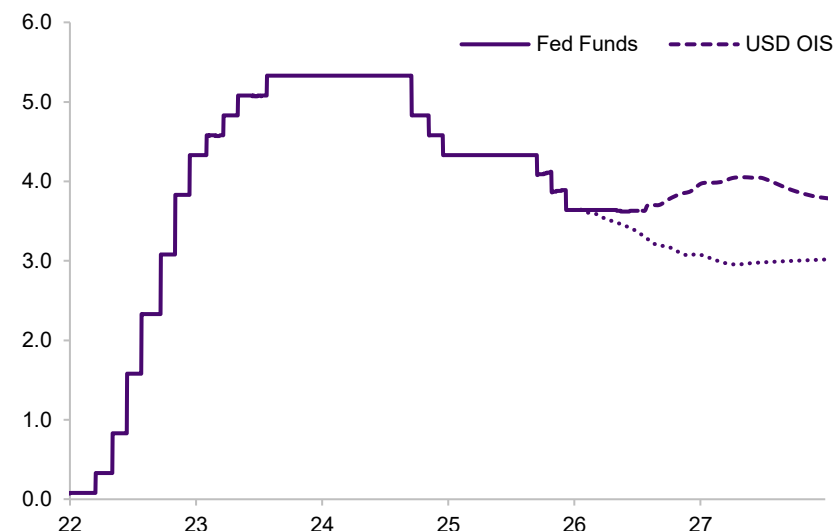
July 2026

Observations on recent central bank actions

- Over the first half of 2026, global interest rate expectations have undergone a meaningful shift. In the wake of the US-Iran conflict and the associated volatility in energy and commodity markets, investors have moved from expecting a policy interest rate cutting cycle from central banks towards pricing-in a greater risk that policy rates remain higher for longer. This transition reflects a renewed concern among central banks on inflation persistence, even as growth dynamics remain uneven across regions.
- In the United States, the June FOMC meeting, the first chaired by Kevin Warsh, marked an important turning point in market perception. While the Federal Reserve left its policy rate unchanged, the tone of communication was interpreted as more in-line with the potential for rate hikes than cuts. Policymakers highlighted ongoing inflation risks and updated projections revealed a broader dispersion of views, with several officials indicating the potential for rate increases before year-end. This shift has contributed to the market repricing the expected path of US policy rates higher, even as oil prices retraced following the interim US-Iran agreement.
- Elsewhere, central banks are navigating similarly complex trade-offs. The Bank of England held the Bank Rate at 3.75% in a 7-2 split decision, with two members voting for a hike, underscoring concerns that elevated energy costs could feed into broader inflation expectations despite weak underlying growth. Political developments in the UK have so far had a limited market impact, although fiscal credibility remains a key sensitivity for gilt and sterling markets.
- In the Eurozone, the European Central Bank raised rates by 25 basis points in June, citing persistent inflation pressures while acknowledging a relatively subdued growth outlook.
- Meanwhile, the Bank of Japan continued its gradual normalisation, lifting its policy rate to 1%, the highest level since the mid-1990s, as it steadily exits decades of ultra-accommodative policy.

What Federal Reserve policy rate is the interest rate market pricing in?

We compare market expectations for the path for US interest rates at the start of the year with the expected path now



The future Overnight Index Swap (OIS) rate is a measure of the interest rate markets expectation for central bank policy rate setting in the future. The dashed lines are as at 07/07/2026, dotted lines are as at 01/01/2026

Sources: FactSet, WTW

Government bonds

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

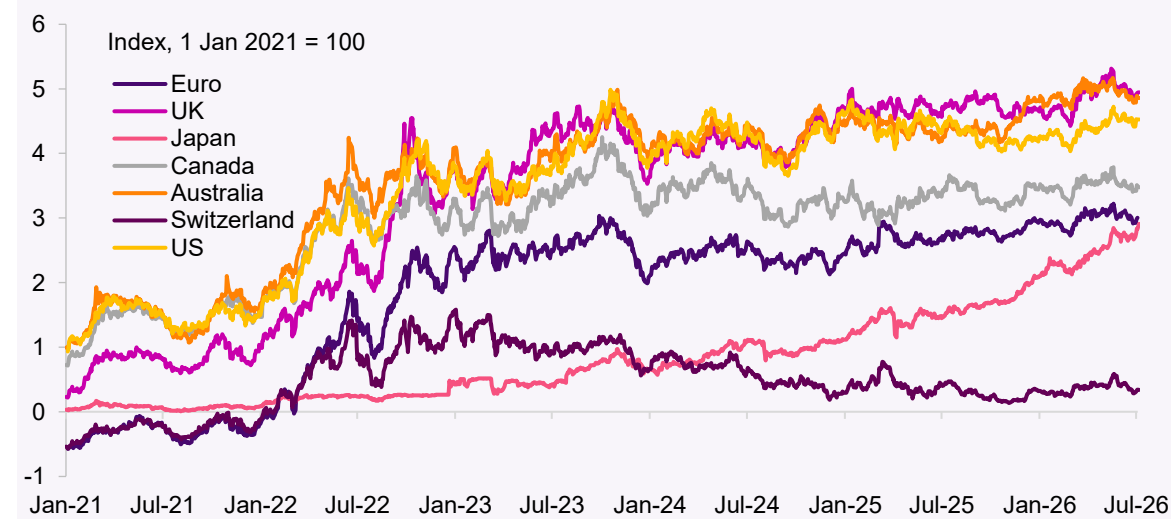
What happened over the past month:

Rate moves have been contained across most regions since May. As of 3 July 2026, US 10-year yields increased slightly (+3bps), while Canada (-1bps), the UK (-1bps), and the euro area (-1bps) experienced marginal declines. Japan (+11bps) and Switzerland (-7bps) saw larger moves versus other bond markets.

Factors influencing market trends:

Earlier in the year, bond yields declined notably, with a backdrop of softer economic data (e.g., a weakening US labour market) 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 contributed to a reversal since March, with yields generally rising. Oil and gas prices have been volatile but, on average, higher, adding upward pressure to headline inflation and raising the risk of second-round effects. Domestic factors have also been key. In Japan, stronger wage growth and persistent inflation pressures have reinforced the BoJ's tightening stance, while UK gilts remain sensitive to fiscal policy news.

Global 10-year benchmark nominal bond yields



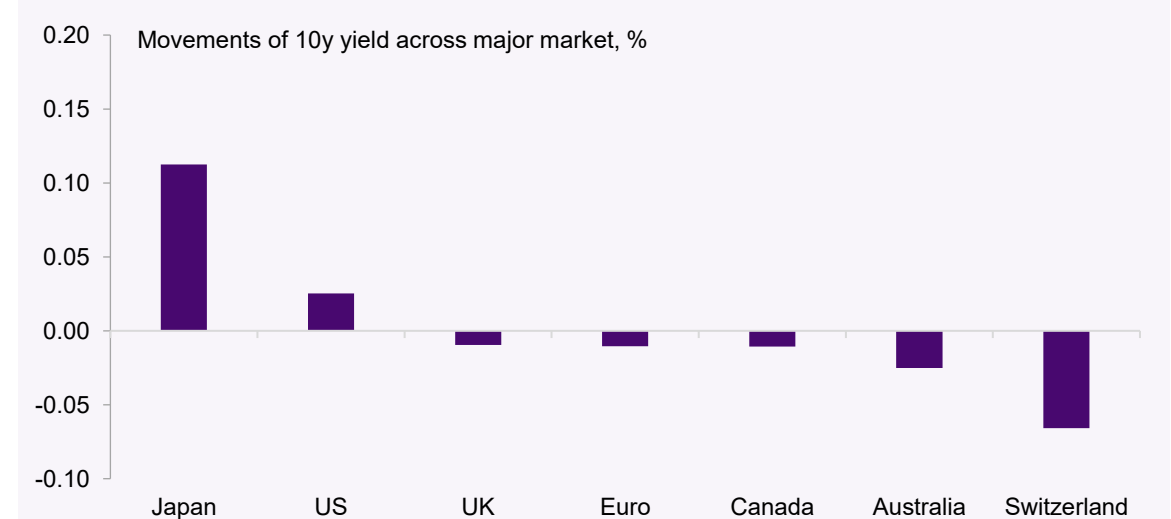
Sources: FactSet, WTW

Looking ahead:

While we are monitoring developments closely, and expect volatility to remain elevated, our base case is that the recent energy-price shock does not become a persistent inflation shock. In the US, a combination of supportive fiscal policy and strong business capex suggests GDP growth will still be strong in 2026/27, putting some upward pressure on core inflation. Consequently, in our view, the rise in US bond yields this year is 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 medium-term 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 03 July 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:

Corporate credit spreads remained within a tight range, with low volatility, over the month. Investment grade spreads were broadly unchanged at the global level (+2bps), with little difference by region – US (+2bps), Euro are (+1bp) and the UK (+1bp). In high yield, spreads widened with global HY at +9bps, led by the US at +12bps, with the move in European spreads more limited at +2bps.

Current 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.

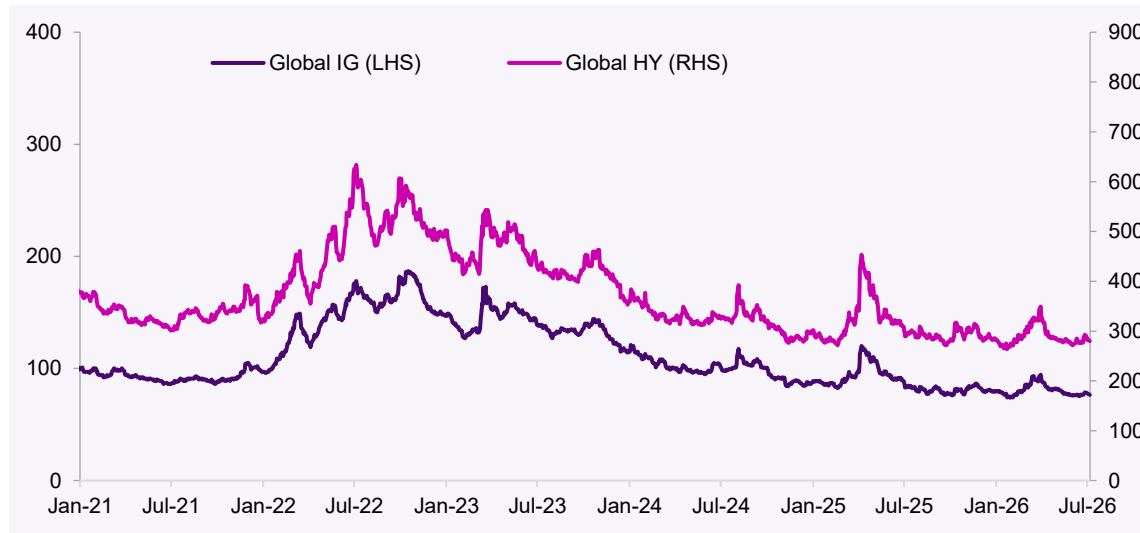
We think this is an important consideration when evaluating compensation for credit risk, particularly in US and UK IG markets, where divergence between OAS and ASW based spreads is more pronounced. This

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:

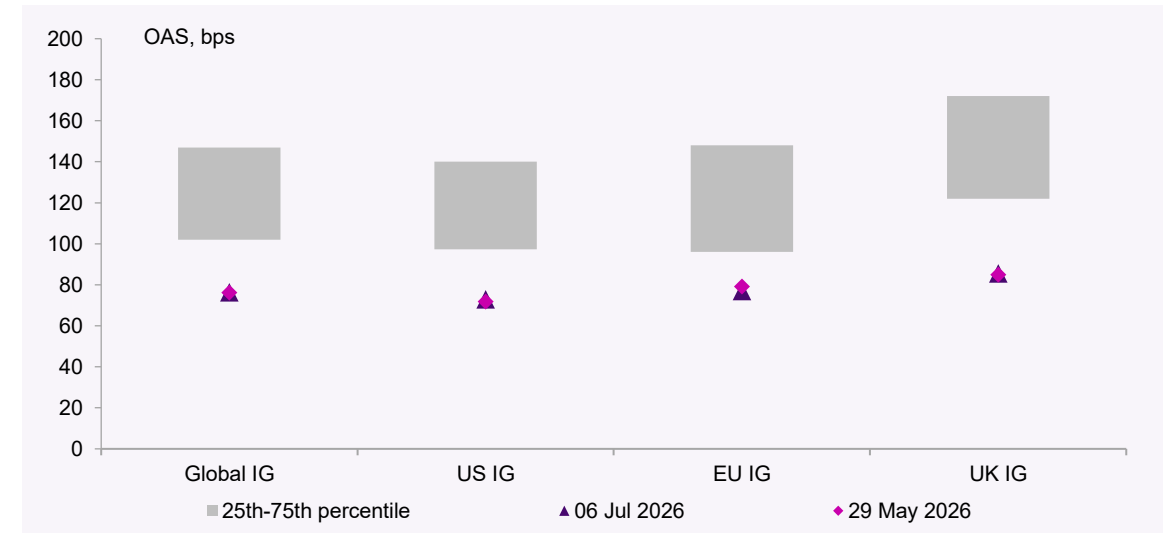
Over a three-to-five-year horizon, we expect global investment grade corporate credit to provide reasonable returns above government bonds. Similarly, we expect global high yield credit to outperform government bonds and investment grade credit over the medium-term.

Global spreads relative to government bonds



Sources: FactSet, WTW

Investment grade credit spreads relative to government bonds, by country



Sources: FactSet, WTW

Equities

Overall, we are neutral on equities over a three to five-year horizon

What happened over the past month:

Equity market performance across regions was mixed. While global total return indices were flat over June, at the regional level, Eurozone (+4.6%) and Switzerland (+5.0%) posted high returns, while Japan (+1.8%) also rose. Equity returns in Canada (+1.1%), Australia (+0.9%), and the UK (+0.7%) were also positive, while the US (-0.9%) was the only major market to fall as of the end of June.

Broad market trends:

First, mega-cap US technology stocks continue to deliver strong earnings growth, underpinned by the AI investment cycle. While US firms remain at the forefront of innovation, the benefits of AI spending have extended across global semiconductor, hardware, and infrastructure supply chains.

Second, tariffs and trade policy uncertainty still present some challenges to broader 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.

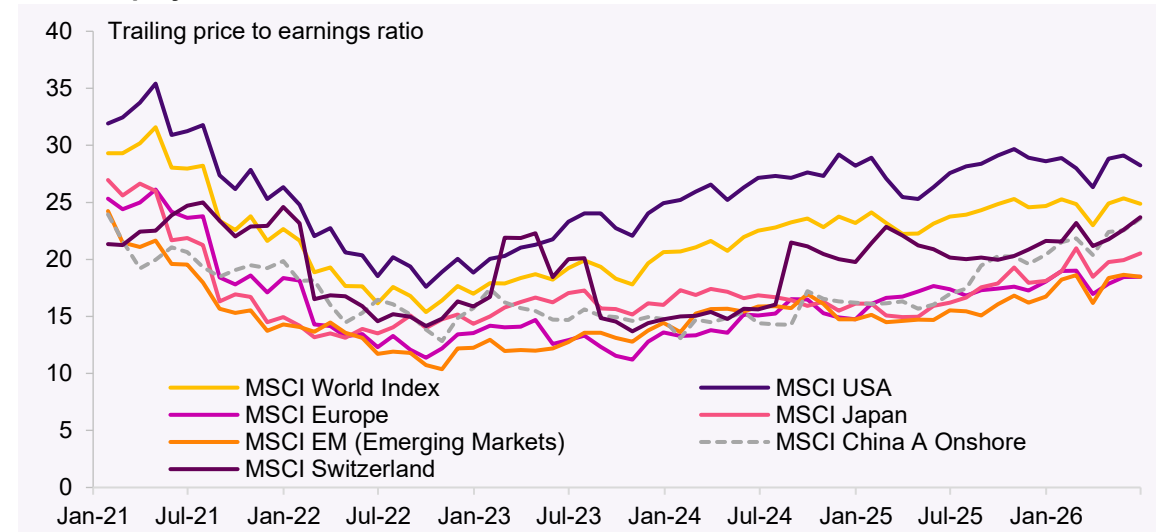
Third, the US-Iran conflict continues to be a risk for parts of the global equity market, with an impact on country dispersion. Nevertheless, US equities have repeatedly hit new index highs, with investors focusing more on the strength of earnings and the long-term potential impacts of innovation-led growth – which we expect to both continue and be very significant.

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

Looking ahead:

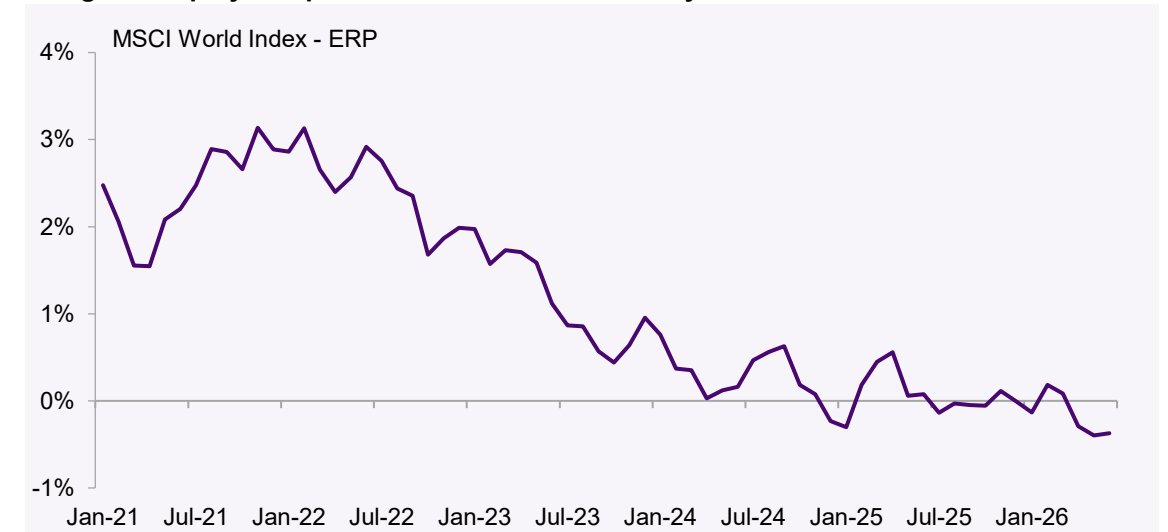
- Over the next 12 months, equities should be supported by strong earnings – driven in part by significant AI capex – compounded by policy support, especially from government spending.
- We hold a neutral view on equities over longer horizons.

Global equity valuations



Sources: FactSet, WTW

The global equity risk premium remains low currently



Sources: FactSet, WTW

Foreign Exchange

We hold a positive long-term view on most developed currencies relative to the US dollar

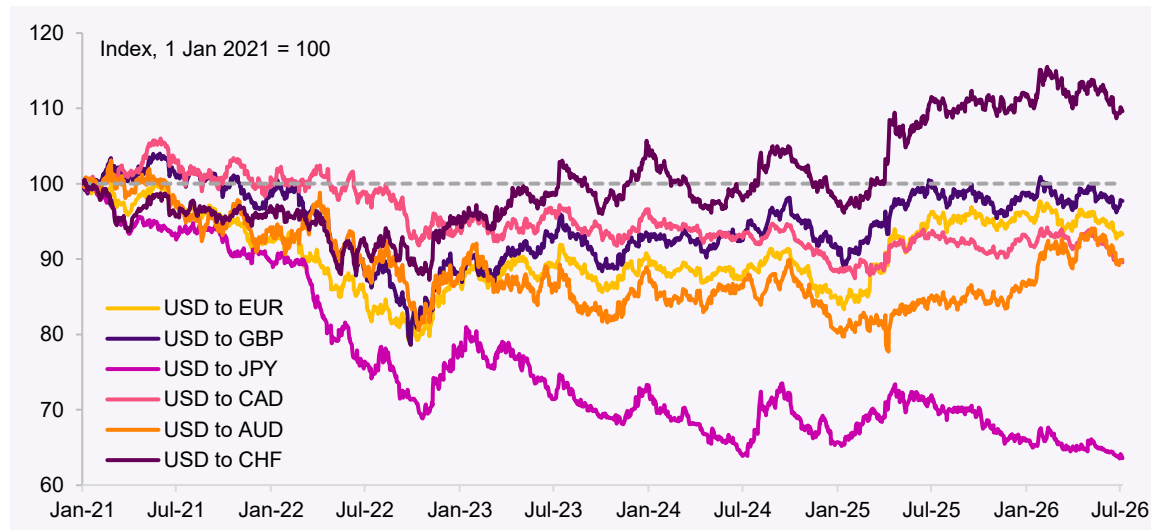
What happened over the past month:

The US dollar strengthened against most major currencies as markets repriced a slightly higher relative path for US interest rates. As of 3 July, Sterling had depreciated by -0.9% since the beginning of June, while the euro declined by -2.0% and the Swiss franc by -2.7%. Commodity-linked currencies weakened more notably, with CAD at -3.0% and AUD at -3.6%. The US dollar also rose +1.3% against the Japanese yen.

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 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 decline 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



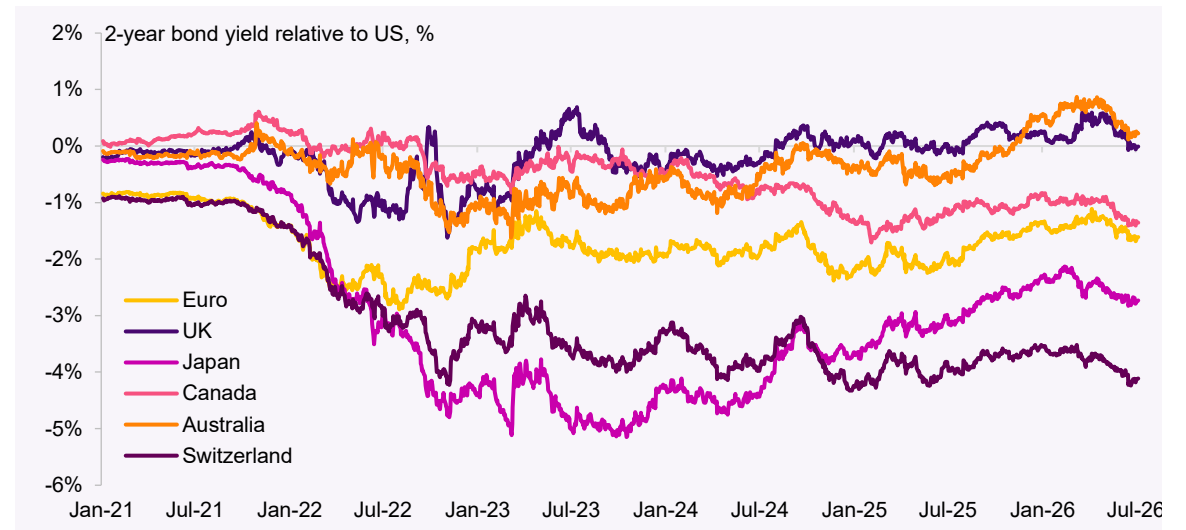
Sources: FactSet, WTW

Over the 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 scope for downward pressure over a 3-to-5-year horizon, supporting a positive outlook for most developed market currencies against the dollar. In the 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.

2-year interest rate differentials



Sources: FactSet, WTW

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