

Global Markets Overview

Asset Research Team

August 2026

While there has been volatility beneath the surface, broad markets have remained resilient

- July provided another reminder that headline market performance does not always tell the full story. While there were significant movements beneath the surface in individual company stock prices, investment styles, and regional markets, broad global and US equity indices remained relatively resilient. Strong company earnings helped support overall market performance despite the increased company volatility.
- Company volatility and differences in stock performance were driven by two main factors:
 1. First, renewed tensions between the US and Iran led to heightened volatility in oil prices;
 2. Second, investors weighing the balance between high company investment spending on artificial intelligence (AI) and their likely returns on this investment.
- Together, these factors created a more volatile underlying environment.
- **US-Iran tensions return:** July began with cautious optimism that the interim agreement reached between the US and Iran in June might lead to a more lasting reduction in tensions. Shipping through the Strait of Hormuz (SoH), one of the world's most important energy routes, had started to recover. However, renewed hostilities and restrictions on Iranian oil exports caused shipping activity through the SoH to fall sharply, pushing oil prices higher and increasing volatility. Towards the end of the month, a pause in military strikes offered some relief, although no formal settlement had been agreed and shipping remained well below normal levels.
- **Strong earnings offset AI-related volatility:** Reported US earnings growth for the second-quarter was particularly strong. Nevertheless, there were sharp moves – down and up – in some of the companies and markets that had previously benefited most from enthusiasm around AI. This volatility reflects several related dynamics: many AI-related shares entered July after exceptionally strong gains, leaving them sensitive to even modest changes in expectations; investors are constantly trying to assess how quickly heavy spending on AI infrastructure will translate into profits; and concerns around increasing competition within parts of the semiconductor industry, alongside questions about future AI-related demand, added to pressure on some major Asian companies. The sharp moves under the surface illustrate that major technological transitions rarely progress in a straight line and that the eventual winners can change as a technology develops. Despite these large moves beneath the surface, broader global and US equity indices were considerably more stable, reinforcing the potential benefits from diversification.

Government bonds

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

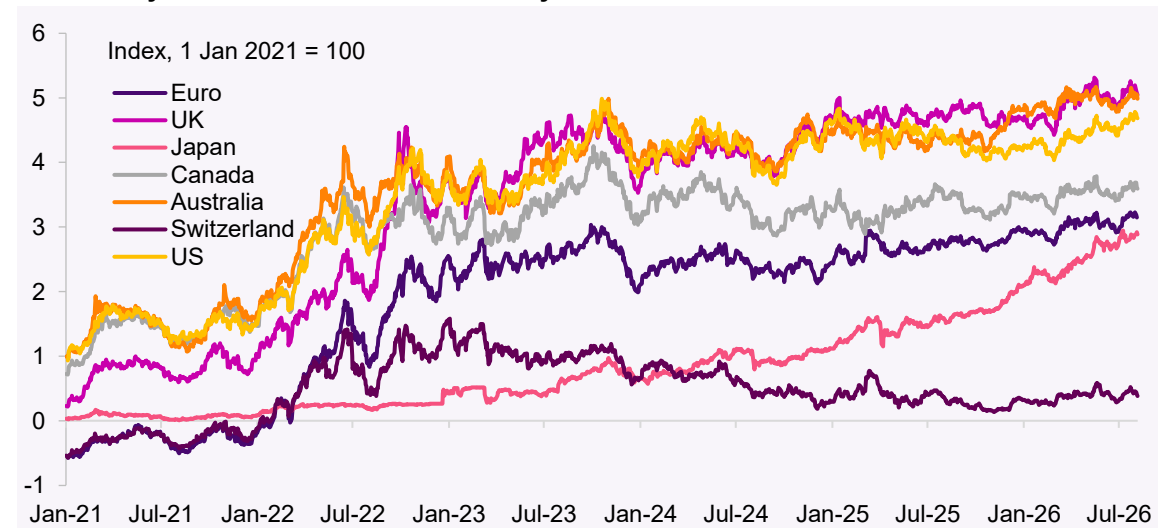
What happened over the past month:

Government bond yields rose across all major markets from 30 June to 5 August, with the largest increases in the euro area (+22bps), Australia (+20bps), the US (+19bps) and Canada (+17bps). The UK, Japan, and Switzerland also saw yields move higher by +13bps, +14bps and +8bps, respectively.

Factors influencing market trends:

Earlier in the year, bond yields declined notably, against a backdrop of softer economic data and lower inflation concerns, which increased expectations for central-bank easing. UK bonds also benefited from improved fiscal news at the time. However, conflict in the Middle East has contributed to a reversal since March, with yields generally rising since. 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



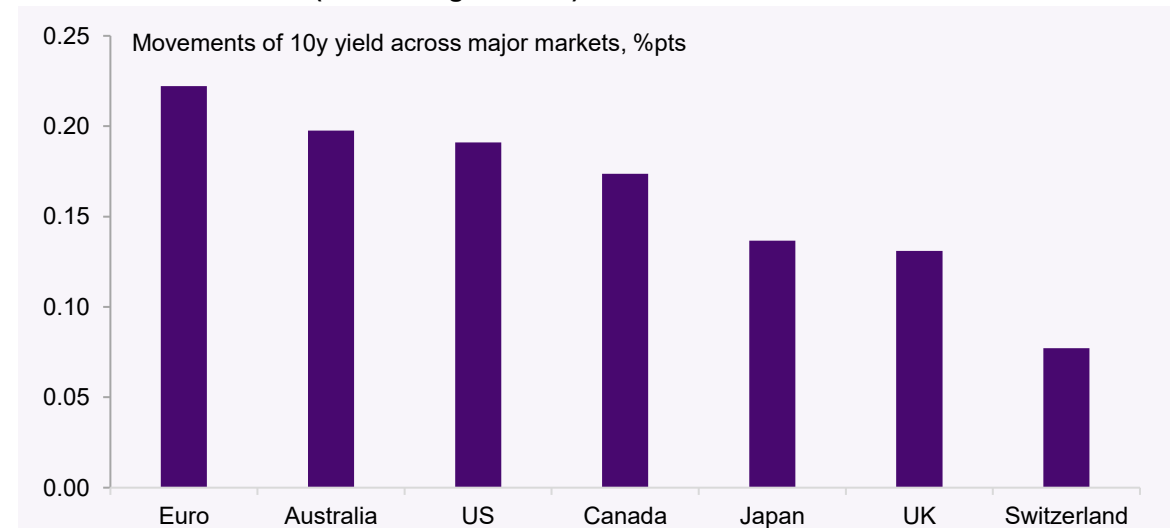
Sources: FactSet, WTW

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 largely warranted. We continue to see select opportunities in 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, even accounting for risks.

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.

Moves since end-June (as of 5 August 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 between 30 June and 5 August. Investment grade spreads were broadly unchanged at the global level (+1bp), with little difference across regions, with US spreads widening modestly (+2bps), Euroland spreads tightening slightly (-2bps) and UK spreads unchanged. In high yield, global spreads were unchanged at 283bps, with US spreads narrowing marginally (-3bps) and European spreads widening slightly (+4bps). Current spreads remain well below their 15-year historical ranges across key investment grade and high yield markets.

What has influenced recent market dynamics?

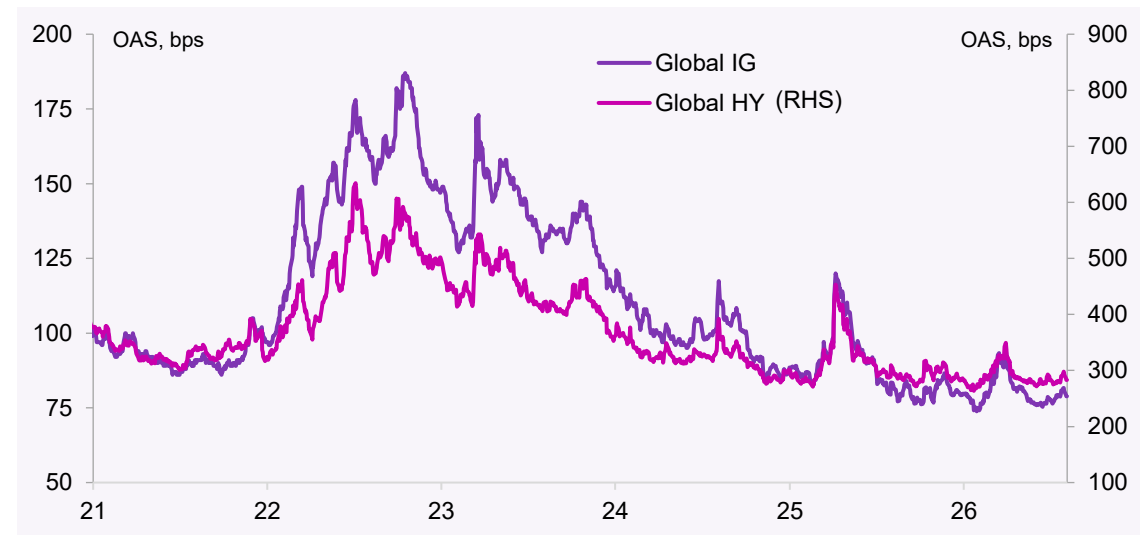
IG credit spreads, measured over government bond yields (OAS), are still low relative to history. In contrast, spreads which are measured relative to swap rates (ASW) are not as compressed versus history. We think this is an important consideration when evaluating compensation for credit risk, particularly 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:

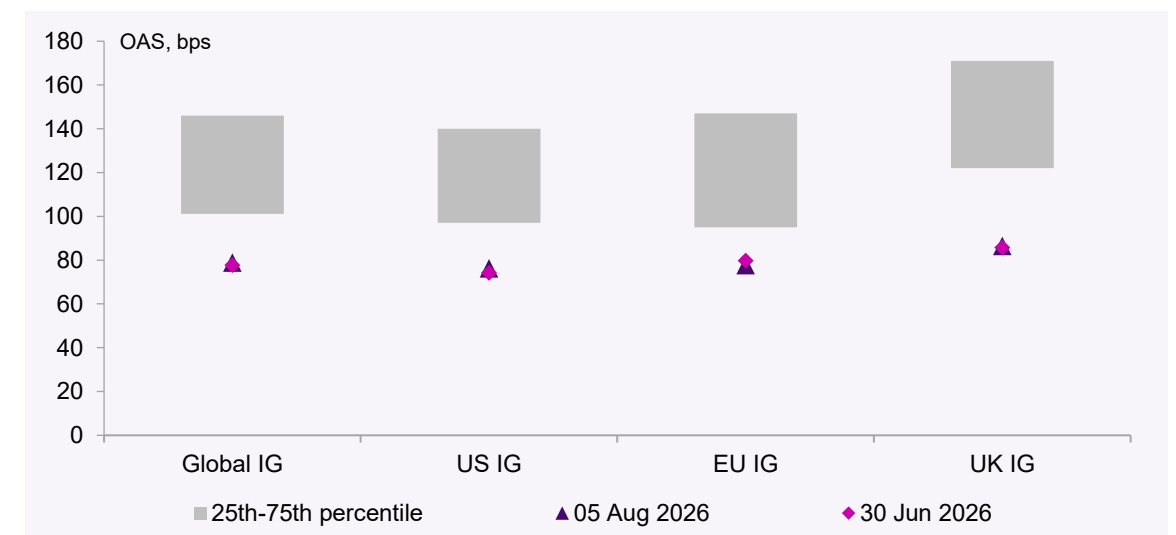
Over a three-to-five-year horizon, we expect global investment grade corporate credit to provide reasonable returns above government bonds. Similarly, we expect global high yield credit to outperform government bonds and investment grade credit over the medium-term.

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

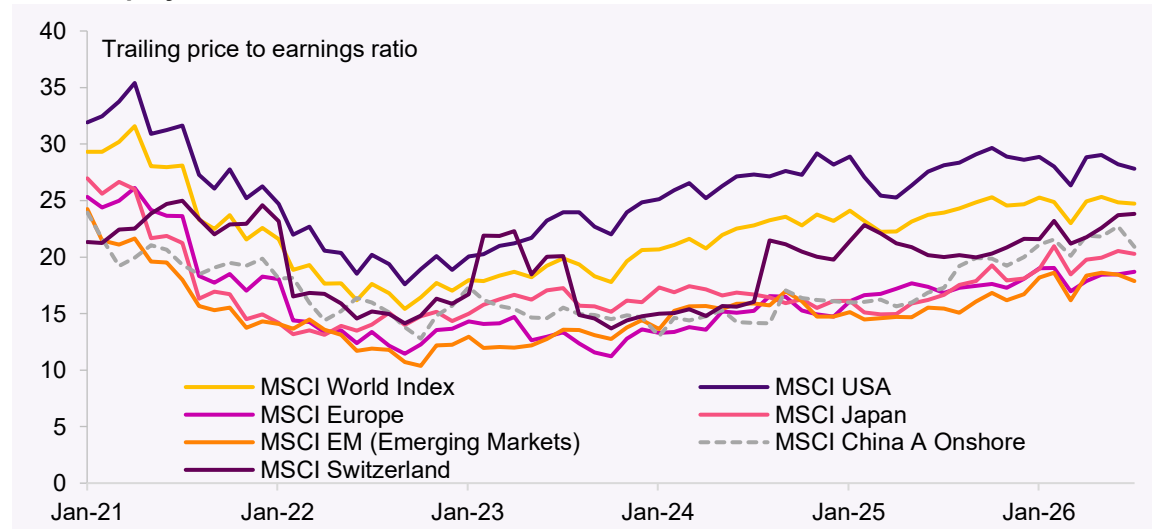
What happened over the past month:

Global equities were broadly flat over July. Company earnings remained an important source of price support, offsetting other short-term headwinds, e.g., temporary escalation of the US-Iran conflict and AI stock volatility. The second-quarter US earnings season was particularly strong. By the end of July, just over 60% of S&P 500 companies had reported, with 86% delivering profits above analysts' expectations. The combined year-on-year earnings growth rate was tracking at more than 45%, although a few unusually large company contributions boosted the headline figure.

Broad market trends:

In our view, technology company earnings results continued to support the longer-term AI theme. Companies are still investing heavily in AI compute capacity, with several indicating that elevated spending is likely to continue into 2027. However, Investor attention is increasingly shifting, from how much is being spent on investment to the returns that this investment will ultimately produce.

Global equity valuations



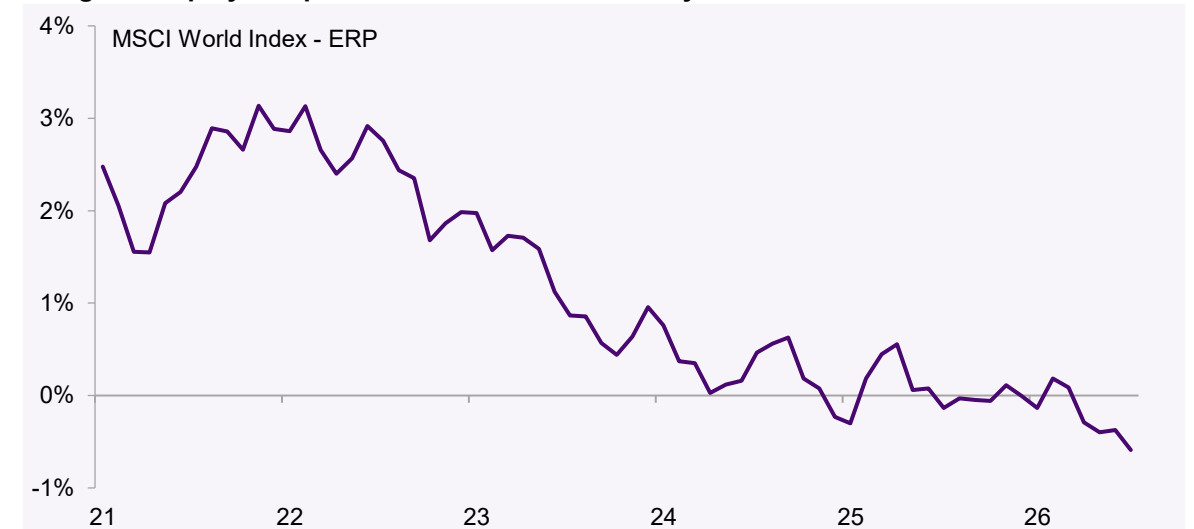
Sources: FactSet, WTW

When companies are growing very quickly (like much of the AI value chain), their share prices are often more volatile, and even small shifts in expectations about the economy, interest rates, or the company's future growth can cause their share prices to move sharply. This played out over July, with the ongoing reassessment of future expectations leading to large moves in the prices of some of the companies and markets that had previously benefited most from enthusiasm around AI. Semiconductor shares and several Asian markets fell materially from their June highs. The sharp moves under the surface illustrate that major technological transitions rarely progress in a straight line and that the eventual winners can change as a technology develops. Despite these large moves beneath the surface, broader global and US equity indices were considerably more stable, reinforcing the potential benefits from diversification.

Looking ahead:

- We have an overweight view on equities over 1-2 years and a neutral view over longer horizons.

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

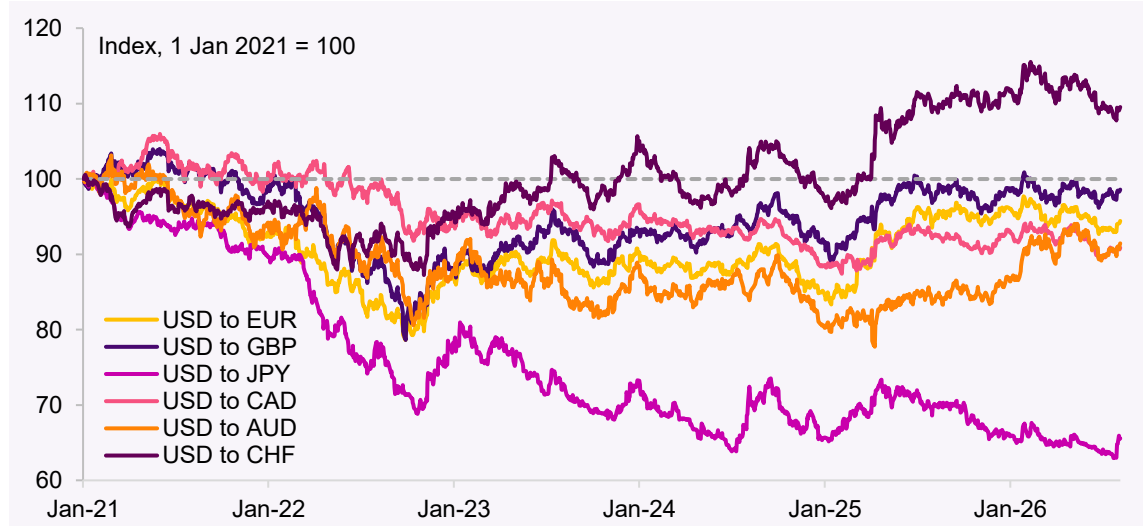
What happened over the past month:

Most developed market currencies strengthened against the US dollar from 30 June to 5 August, partly reversing the prior month's dollar strength. The Japanese yen rose the most (+3.2%), aided by currency intervention, followed by the Australian dollar (+1.9%), sterling (+1.6%), the Canadian dollar (+1.2%) and the euro (+1.0%), while the Swiss franc was broadly flat.

Broad market trends:

Outside of recent geopolitical developments, periods of heightened macro uncertainty and elevated equity volatility over the past 18-24 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 since late 2024, with US 2-year Treasury yields falling notably relative to Japan, Australia and Europe.

Developed exchange rates versus the US dollar



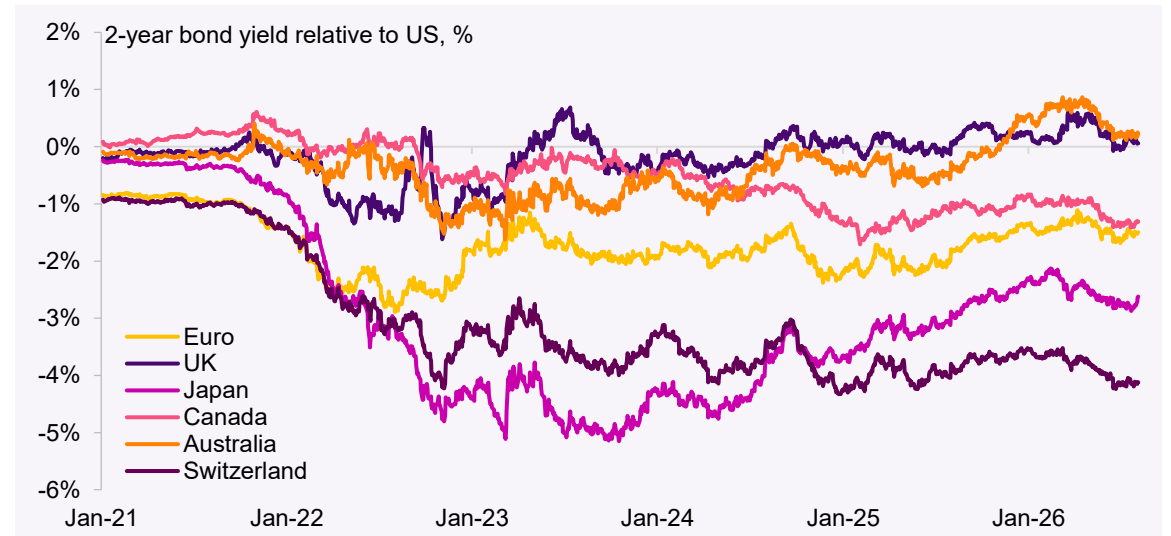
Sources: FactSet, WTW

Over the longer term (10-15 years), 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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