

Global Markets Overview

Asset Research Team

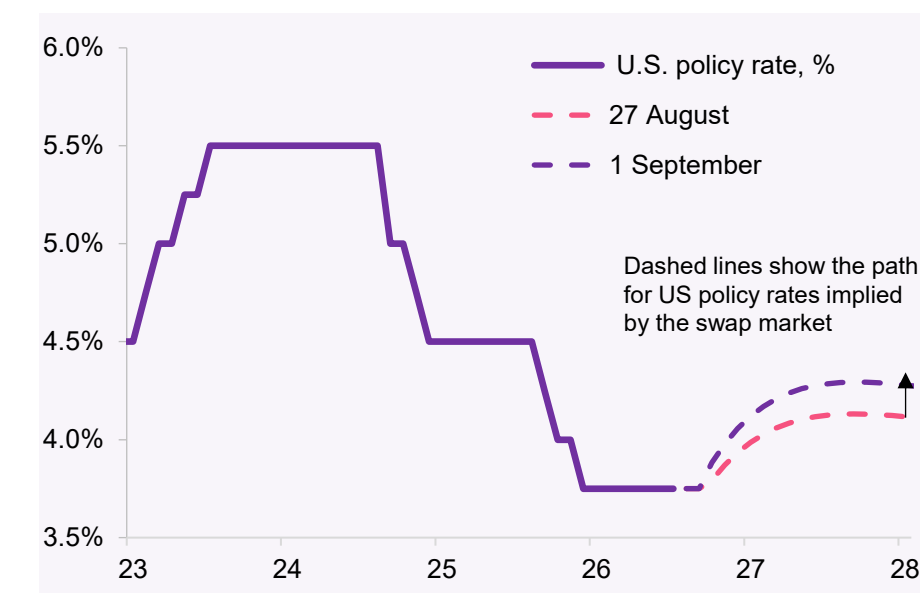
September 2026

Bond yields move higher amid shifting policy signals and volatile oil prices

Global financial markets experienced notable shifts in August 2026, driven by central bank and government policy announcements, changing energy dynamics, and corporate profits.

- **Government bonds saw material changes in pricing during August**, with government bond yields rising to near multi-year highs in most major markets. The increase in US bond yields accelerated late in the month following stronger, anti-inflation policy statements from the Federal Reserve. The U.S. dollar weakened slightly over the course of the month against a broad basket of currencies. Global stocks broadly advanced and are up materially year-to-date.
- **The annual Jackson Hole conference in the US allowed Fed Chair, Kevin Warsh, to give a much clearer explanation of how he views the US economy and what could happen to interest rates.** His main message was that the US economy is growing strongly. Business investment is exceptionally high, company profits are healthy, consumers continue to spend, and unemployment remains low at around 4.1%. However, Warsh emphasised that inflation has not slowed sufficiently and reaffirmed the Fed's 2% target. His comments increased expectations of further policy rate tightening, putting upward pressure on shorter-dated bond yields.
- **Our 12-month outlook remains for continued strength in US growth and inflation remaining somewhat above target.** A small number of additional US interest rate increases may be required if core inflation remains close to 3%. Importantly, this is unlikely to threaten the current expansion in economic and business activity. After the recent rise in US government bond yields, US bonds are now better reflecting this outlook. Higher starting yields have improved prospective returns, although inflation and policy uncertainty continue to favour careful bond selection across markets and maturities.

Market-implied US policy rates moved higher around Jackson Hole



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 most major markets in August, led by Australia (+14bps), Japan (+13bps), the Eurozone (+11bps) and Canada (+11bps). More modest increases were recorded in the UK (+3bps) and US (+2bps), while Swiss yields declined slightly (-2bps).

Factors influencing market trends:

Bond yields have generally trended higher in recent months. The Middle East conflict has contributed to higher energy prices and renewed inflation concerns, while strong US GDP growth has supported expectations that US policy rates – a bellwether for global rates – need to remain restrictive for longer. Long-term yields have also faced pressure from fiscal and wider issuance concerns. In the US, expanded Treasury buybacks temporarily supported longer-dated bonds last month, while the Fed's continued focus on returning inflation to target has put upward pressure on expected policy rates. In Japan, rising wages and inflation have strengthened expectations of further policy tightening. In the euro area, persistent

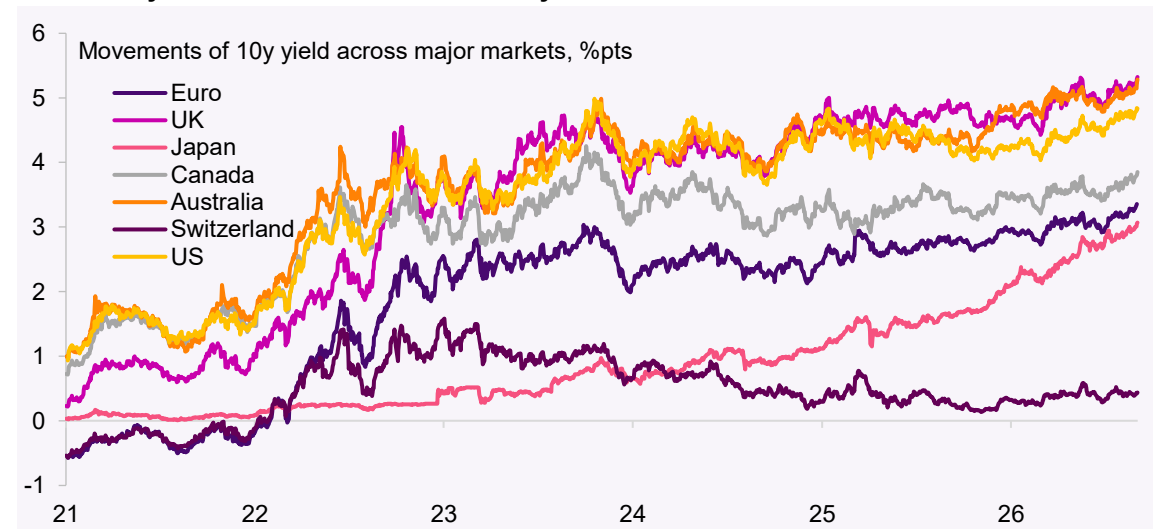
inflation, and expectations of additional ECB tightening, have also pushed yields up.

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, US bond yields are broadly consistent with the macroeconomic outlook. 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.

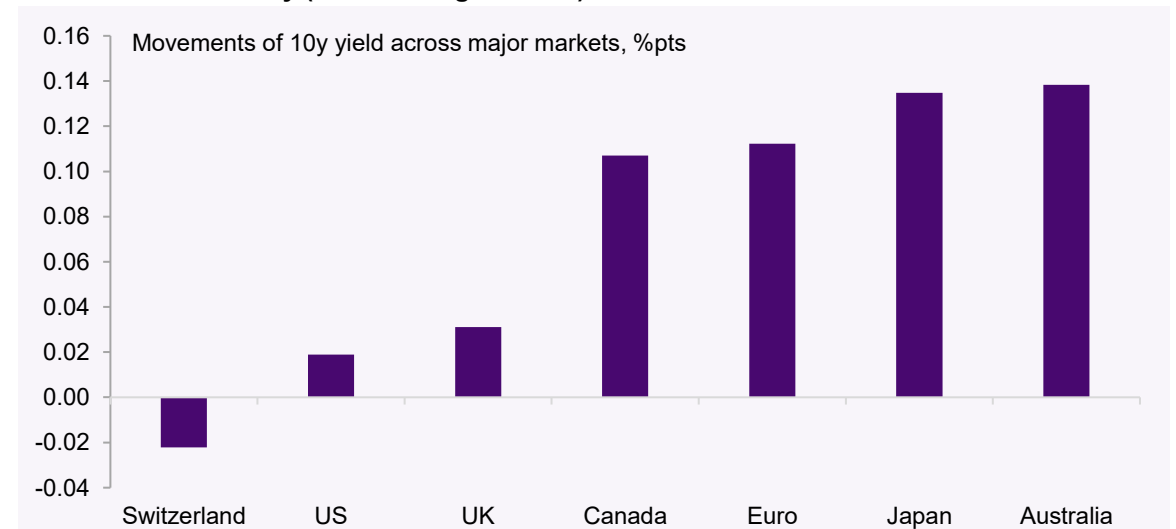
Overall, it remains appropriate to maintain bond exposure for liability hedges and downside protection. Dynamic investors may also find opportunities to overweight select bond markets on a relative-value basis. We encourage investors to discuss the portfolio implications with their advisers.

Global 10-year benchmark nominal bond yields



Sources: FactSet, WTW

Moves since end-July (as of 31 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:

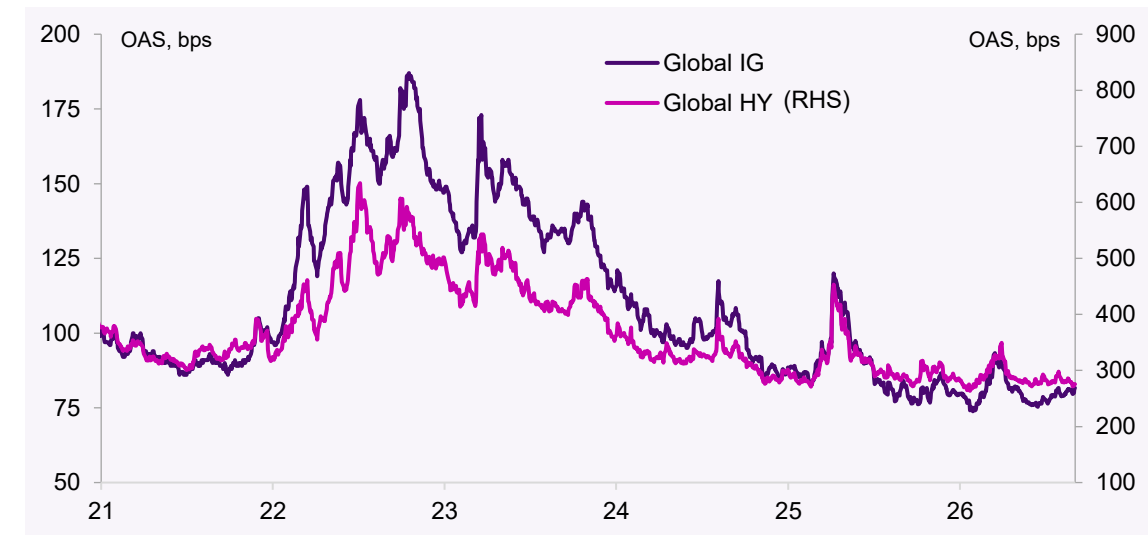
Credit spreads were broadly unchanged in both US and Euroland markets in August. The more material price action was in high yield (HY) markets with global HY spreads falling from 291bps at end-July to 273 bps at end-August. US HY spreads fell the most (-18bps), while European spreads fell by a still notable 10bps.

What has influenced recent market dynamics?

Credit markets have remained low in recent months, supported by a broadly positive economic backdrop and healthy corporate fundamentals. Investment grade spreads have remained stable despite elevated issuance from US companies funding AI and data centre investment, while high yield bonds have benefited from improving investor sentiment.

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



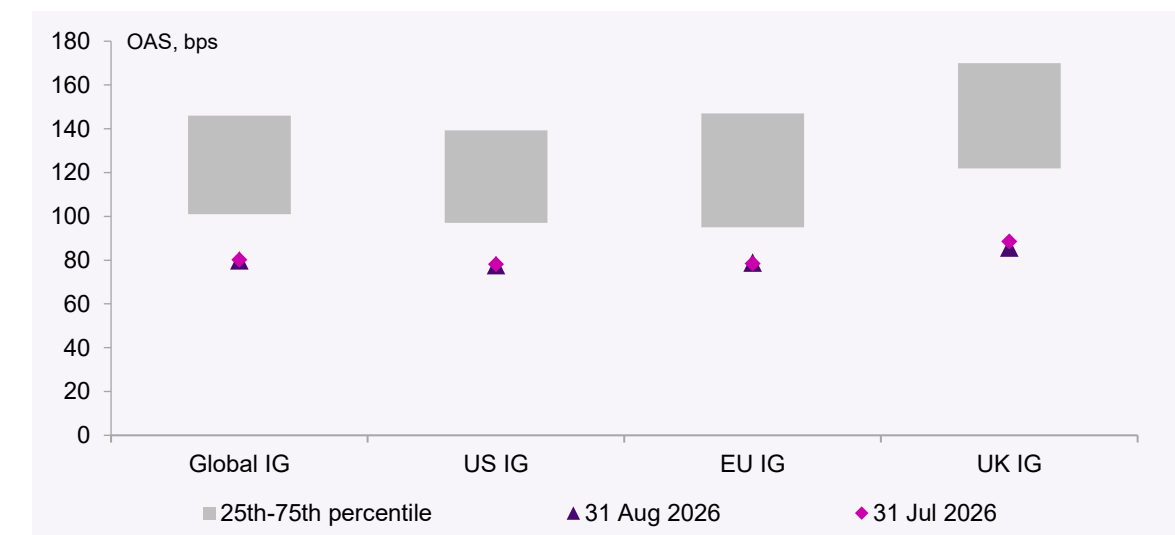
Sources: FactSet, WTW

We think this is an important consideration when evaluating compensation for credit risk, particularly in 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 neutral on equities over a three to five-year horizon

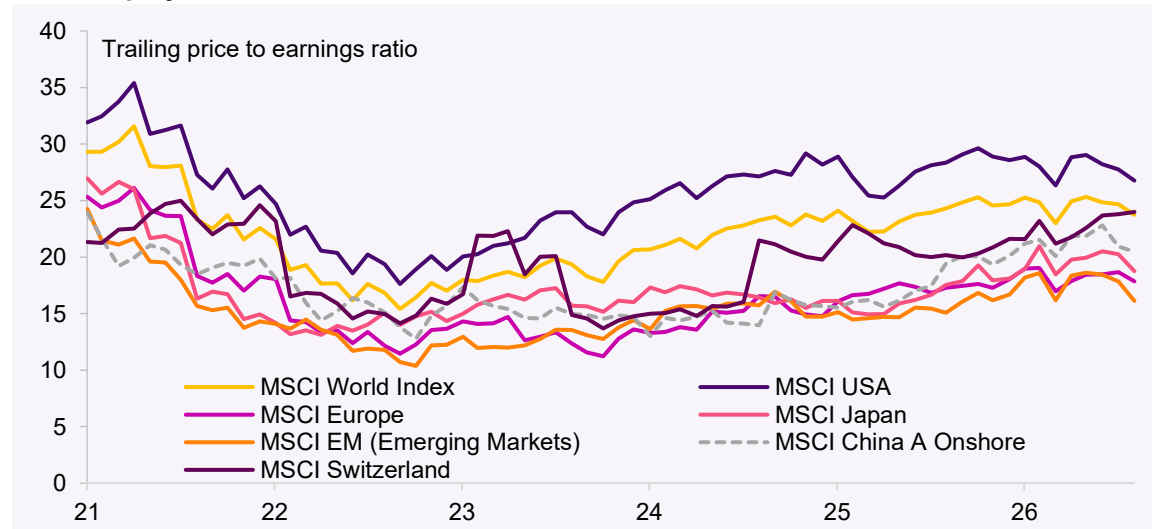
What happened over the past month:

Global equities delivered positive returns over August, led by Japan (+3.7%), the US (+2.8%) and Canada (+2.5%), while returns were lower in the Eurozone (+0.9%) and Australia (+0.4%), with the UK broadly flat and Switzerland slightly negative (-0.3%). Equity markets continued to be supported by very healthy corporate earnings growth. In the US and parts of Asia, ongoing investment in artificial intelligence and data-centre infrastructure remained an important driver of returns, while Japanese equities also benefited from a weaker yen and a more supportive domestic policy backdrop.

Broad market trends:

The second quarter earnings season was exceptionally strong for U.S. companies. S&P 500 total earnings-per-share for the quarter grew 56% over last year, heavily influenced by outsized growth for the largest constituents. Profit growth was also better than expected, with 86% of S&P 500 companies beating earnings forecasts. Importantly, strong earnings are no longer coming from just a handful of large technology companies – a much wider range of businesses are now reporting healthy growth.

Global equity valuations



Sources: FactSet, WTW

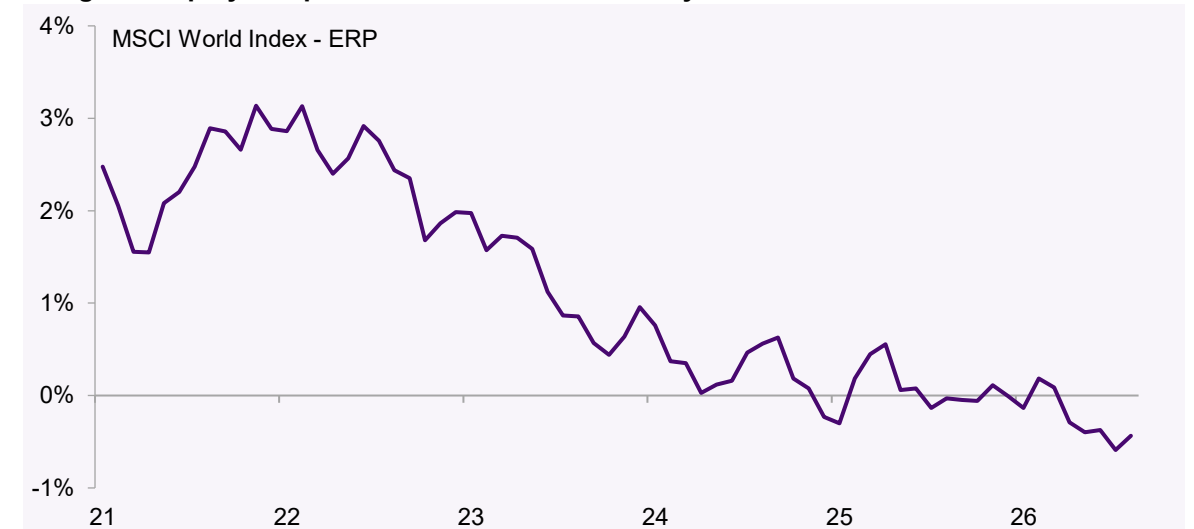
Management teams are also becoming more confident. A record number of companies raised their forward guidance, meaning they expect business conditions and profits to improve further over the coming quarters. Overall, the earnings recovery appears to be broadening across the market, making the outlook more robust than if growth were concentrated in only a few companies.

The biggest driver of earnings growth remains the artificial intelligence (AI) investment boom. Companies continue to spend heavily on AI infrastructure, including data centres, computing power, and energy supply. This investment is creating significant revenues throughout the technology supply chain. However, other sectors have also contributed. Energy companies benefited from higher oil prices, while banks enjoyed strong trading activity and active capital markets. Outside the AI-related sectors, earnings growth remains healthy, although less spectacular.

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 over August. The Australian dollar rose the most (+2.0%), followed by the Canadian dollar (+1.2%), the euro (+1.0%) sterling (+0.7%), and Chinese yuan (+0.4%), while the Japanese yen fell slightly (-0.3%).

Broad market trends:

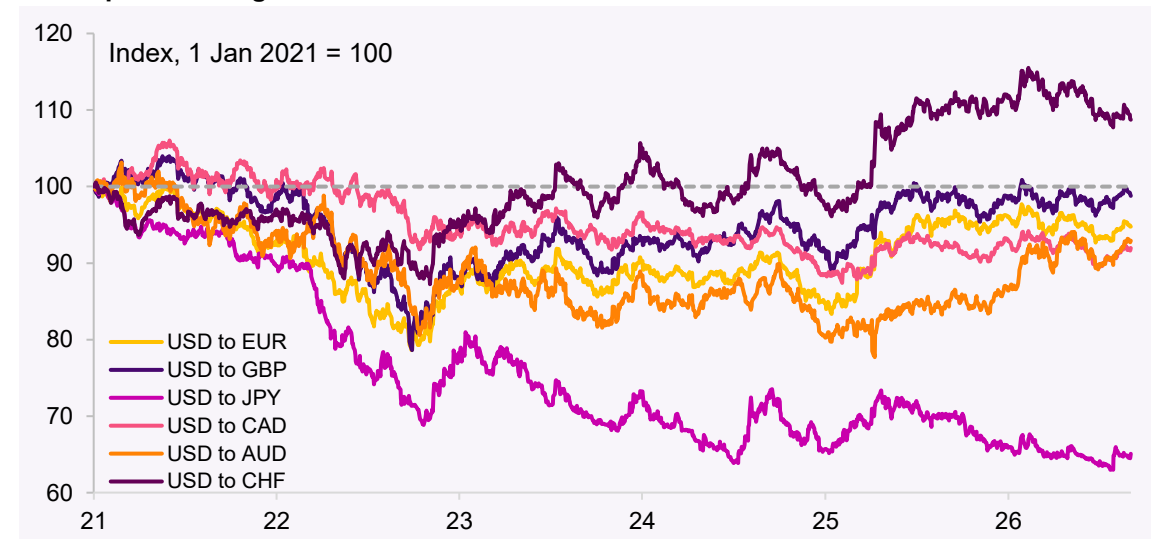
Outside of recent geopolitical developments, periods of heightened macro uncertainty and elevated equity volatility over the past 18-24 months, which would typically favour the US dollar, have generally weighed on the currency. Investors have diversified their currency exposure given the US-centric nature 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.

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:

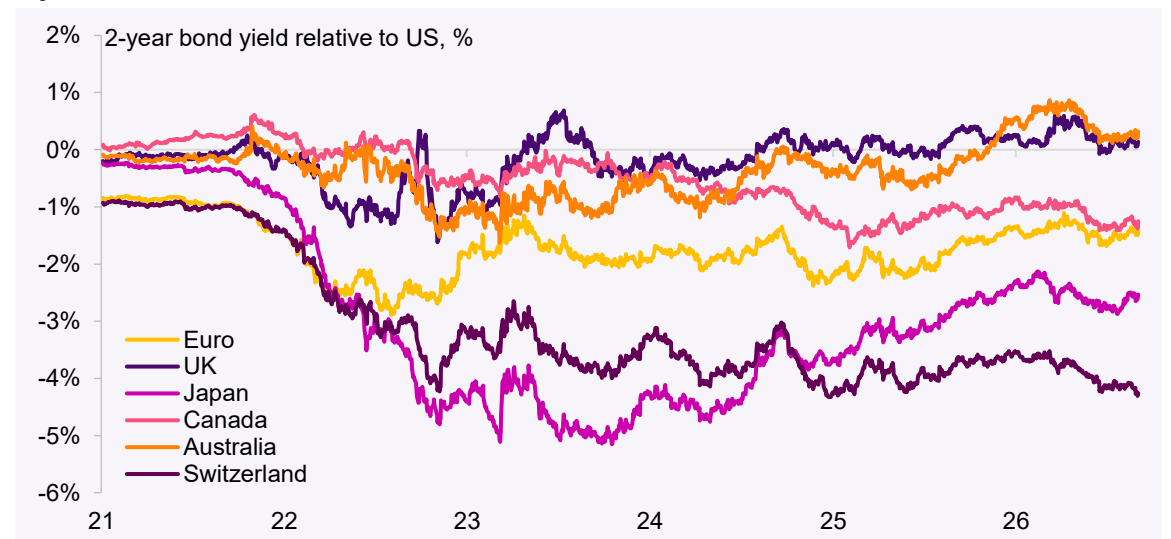
Following a sustained period of appreciation, the US dollar has become more expensive against most other major currencies on our medium-term fair value metrics. This suggests scope for downward pressure over a 3-to-5-year horizon, supporting a positive outlook for most developed market currencies against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

Developed exchange rates versus the US dollar



Sources: FactSet, WTW

2-year interest rate differentials



Sources: FactSet, WTW

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