

Global Markets Overview

Asset Research Team

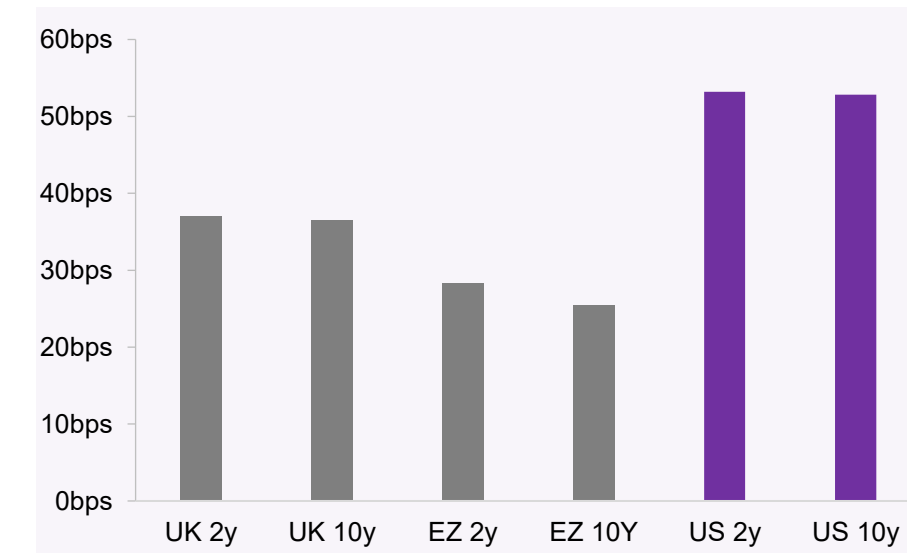
October 2026

From cuts to hikes: interest-rate expectations have shifted sharply over 2026

In the US, over the course of 2026, strong economic growth, persistent core inflation, and higher headline inflation from rising energy prices have caused investors to move from expecting US interest-rate cuts to pricing-in further increases. This continued over September, driving a sharp rise in US government bond yields. US policy interest rates and bond yields are a bellwether for global interest rates. Consequently, while different countries are facing different domestic drivers of their interest rates, rising US interest rates are also having an important global ripple effect.

- **In the US, economic strength has flowed into stubbornly high core inflation – key drivers of the shift from expected rate cuts to hikes over 2026, in addition to the US-Iran conflict.** At the start of the year, markets expected the Federal Reserve to cut rates two or three times. Instead, we have seen strong US real economic activity – stronger than consensus US GDP growth, supported by AI-related investment, fiscal spending, a resilient consumer, and a robust labour market. These have contributed to US core inflation remaining elevated. At the same time, higher energy prices from the ongoing conflict in the Middle East have also added to both US core and especially headline inflation. These have led to the Federal Reserve raising rates in September for the first time in more than three years. Elsewhere, the European Central Bank and Bank of Japan have both raised interest rates twice this year.
- **In September, government bond yields rose sharply, while global equities proved resilient.** US Treasury yields moved the most, with the 10-year yield rising by around half a percentage point. At the headline level, US equities weathered the increase in interest rates well, supported by continued AI investment and strong earnings expectations. Beneath the surface, sectors sensitive to borrowing costs and energy prices struggled, while returns outside the US were generally weaker.

Government bond yields moved higher at all maturities in September, led by increases in US yields



Sources: FactSet, WTW

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 sharply across all major markets during the month as investors priced in a higher-for-longer interest rate environment. The increase was led by the US (+53bps), while yields in the UK (+27bps), Australia (+26bps), Canada (+24bps) and the Eurozone (+24bps) also moved materially higher. Japan (+11bps) and Switzerland (+15bps) saw more modest increases.

Factors influencing market trends:

Bond yields have moved higher in recent months. The Middle East conflict has contributed to higher energy prices and renewed inflation concerns, while strong US GDP growth has underpinned 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, 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.

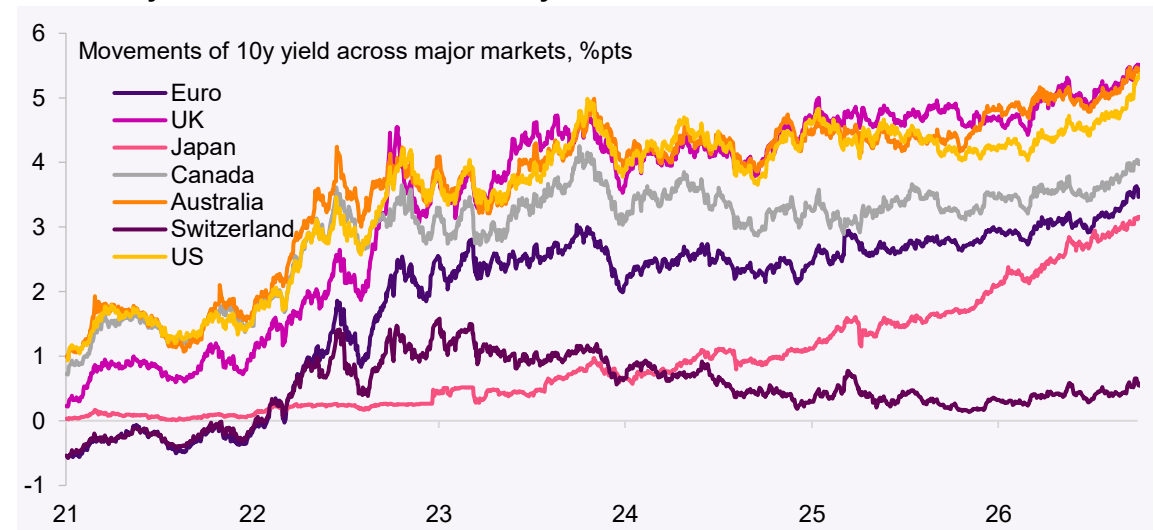
Looking ahead:

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. The main risk to this baseline is that inflation is higher than we expect over the next 12 months.

In the US, high business capex suggests US GDP growth will still be strong over 2027, which is likely to continue to keep core inflation above the Fed's target. Consequently, in our view, the Fed is likely to increase interest rates further (moderately), which is now broadly priced into US government bond yields. 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.

Global 10-year benchmark nominal bond yields



Sources: FactSet, WTW

Moves since end-August (as of 30 September 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 widened across all major markets during the month, with the largest moves in high yield (HY). US, European, and global HY spreads widened by 50bps, 44bps, and 45bps, respectively. Investment grade (IG) widening was more modest, led by the Euro area (+12bps), while Global IG, UK IG and US IG spreads widened by 5bps, 5bps and 2bps, respectively. Despite the move wider, spreads remain well below long-term median levels across most markets.

What has influenced recent market dynamics?

Credit spreads widened across both IG and HY markets during the month, driven by (1) concerns about the impact of higher central bank policy rates, government bond yields, and French government spending, on corporate fundamentals, (2) high debt supply by governments and, more directly for credit markets, by companies issuing IG or HY bonds to fund high levels of AI-related investment, and (3) the greater

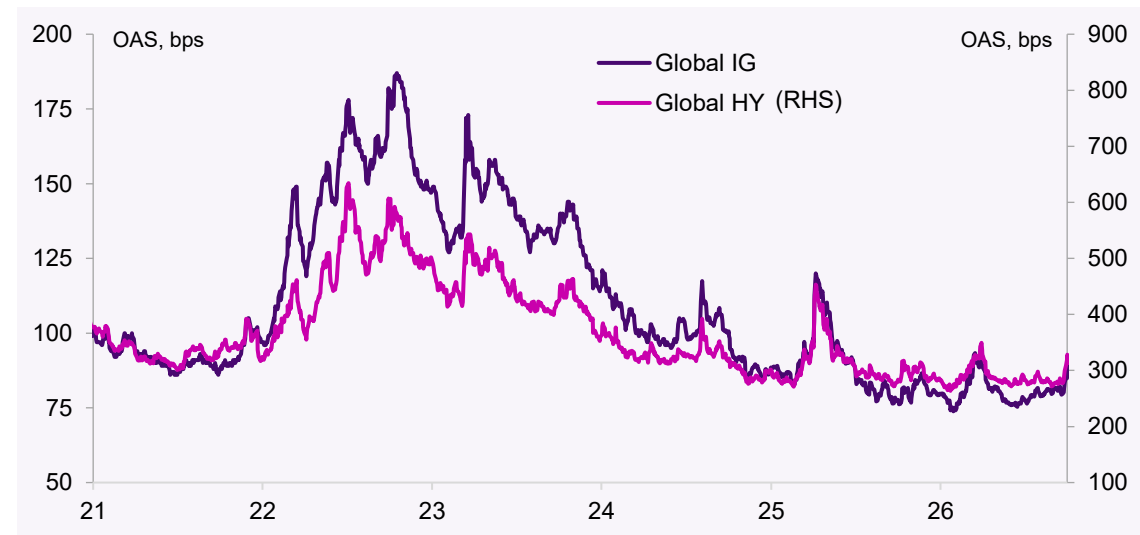
sensitivity of the European economy to higher gas, oil, and energy product prices. This increases the risks of an energy-led growth slowdown in Europe over the next 12 months.

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. 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:

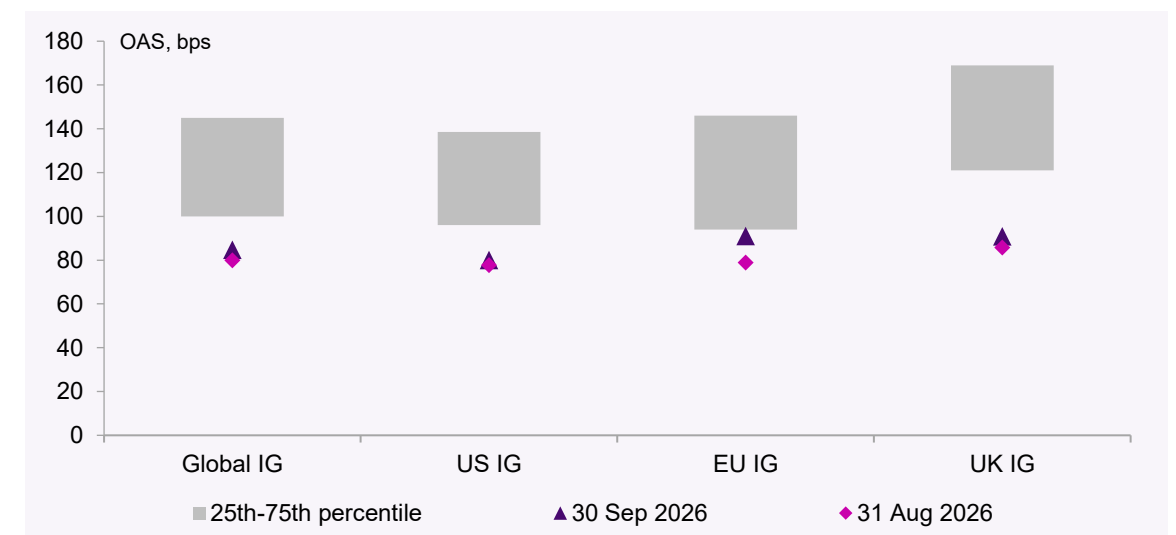
Over a three-to-five-year horizon, we expect global investment grade corporate credit to provide reasonable returns above government bonds. Similarly, we expect global high yield credit to outperform government bonds and investment grade credit over the medium-term.

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

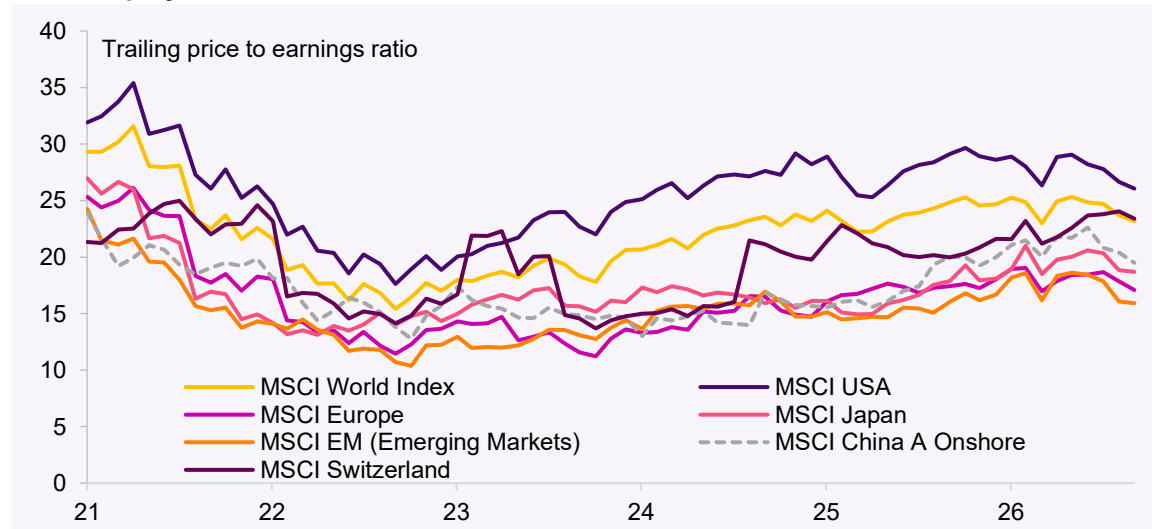
What happened over the past month:

Global equities weakened over the month, with the MSCI ACWI declining 1.0% and the MSCI World falling 1.1%, as higher bond yields and continued geopolitical uncertainty weighed on sentiment. Losses were broadly distributed across regions, with Japan (+0.2%) the only major market to generate a positive return. In developed markets, the US fell 0.7%, while the UK (-2.0%), Australia (-2.2%), the Euro area (-2.9%), Canada (-3.2%), and Switzerland (-3.4%) all posted larger declines, reflecting concerns around slowing growth, elevated interest rates, and pressure on equity valuations.

Broad market trends:

Despite a weaker September, global equities posted modest gains over the third quarter, supported by strong economic earnings growth despite a more challenging operating backdrop. Higher interest rates, elevated energy prices, and geopolitical tensions remained key headwinds, but these were offset by stronger corporate fundamentals.

Global equity valuations



Sources: FactSet, WTW

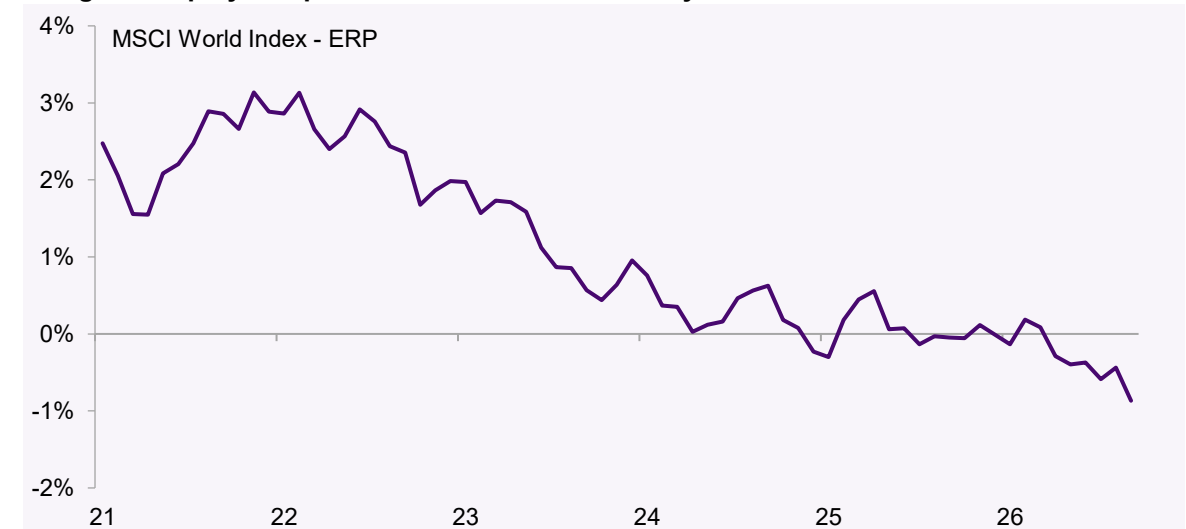
Performance was mixed across regions. Japan and the US led developed markets, benefiting from stronger earnings momentum, while the UK also delivered positive returns. In contrast, the Eurozone and emerging markets lagged as investors navigated tighter monetary policy expectations and weaker sentiment. Overall, regional performance was largely driven by differences in earnings growth and sector exposure rather than broad changes in the overall global economic outlook.

A notable feature of the quarter was the divergence between earnings and valuations. While corporate earnings generally improved, equity valuations declined as higher bond yields weighed on multiples. As a result, returns were supported by underlying earnings growth rather than valuation expansion, underpinning modest gains despite a more challenging backdrop.

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 some developed currencies relative to the US dollar

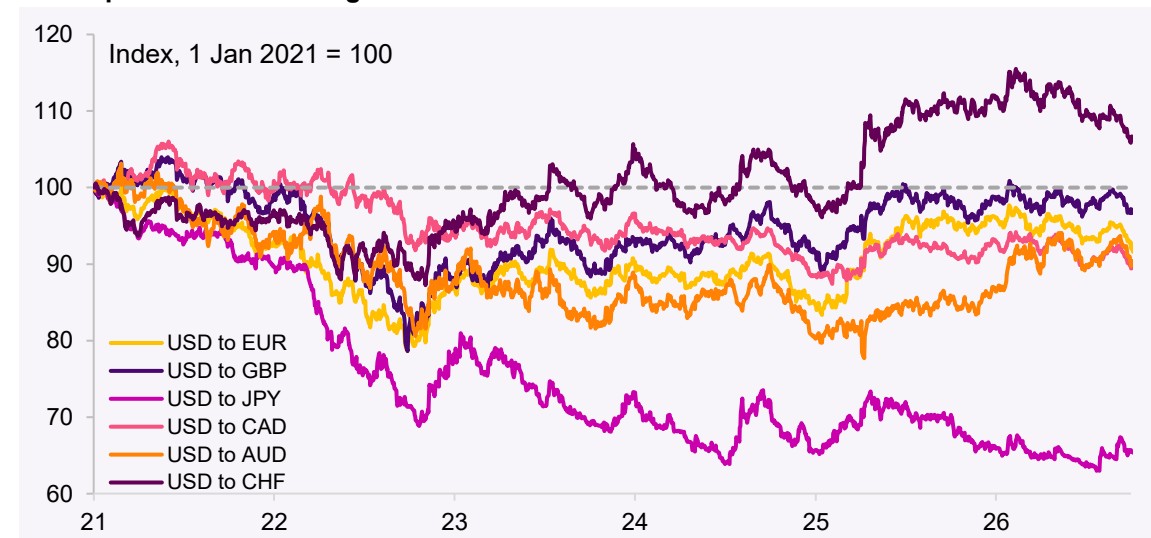
What happened over the past month:

Currency performance was mixed against the US dollar over the month. The Japanese yen (+1.6%) appreciated, while most other major developed market currencies weakened against the dollar, including the Swiss Franc (-3.2%), Australian dollar (-2.9%), Canadian dollar (-2.4%), euro (-2.2%), and British pound (-2.0%).

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 market exchange rates versus the US dollar



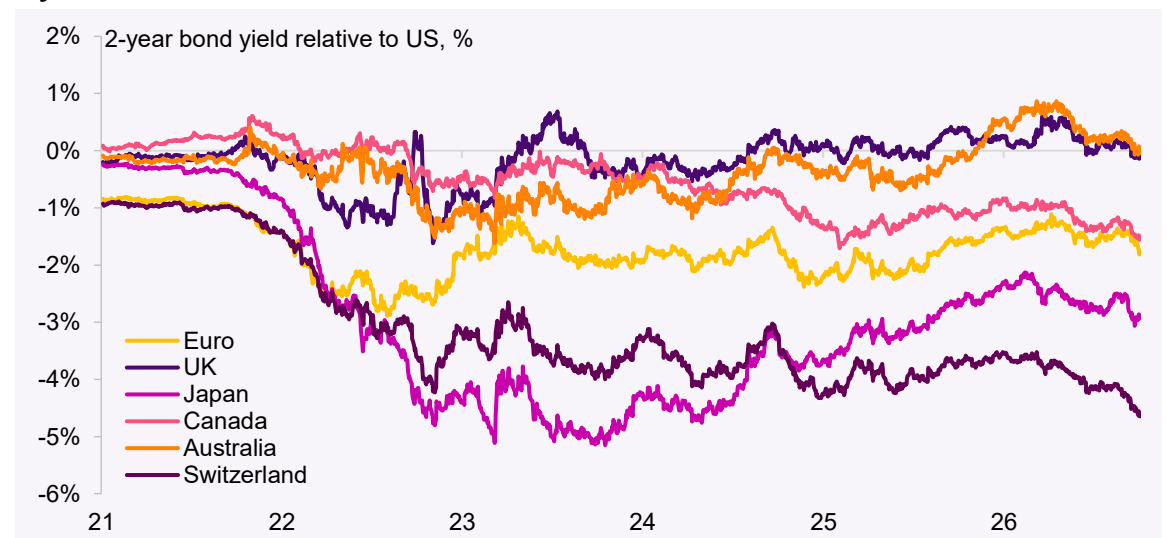
Sources: FactSet, WTW

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 other major currencies on our medium-term fair value metrics. This suggests scope for some downward pressure over a 3-to-5-year horizon, supporting a moderately positive outlook for the currencies of those countries that currently have large trade surpluses (e.g. the Euro area). In the shorter term, we hold a neutral US 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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