Global Markets Overview

Asset Research Team

March 2025

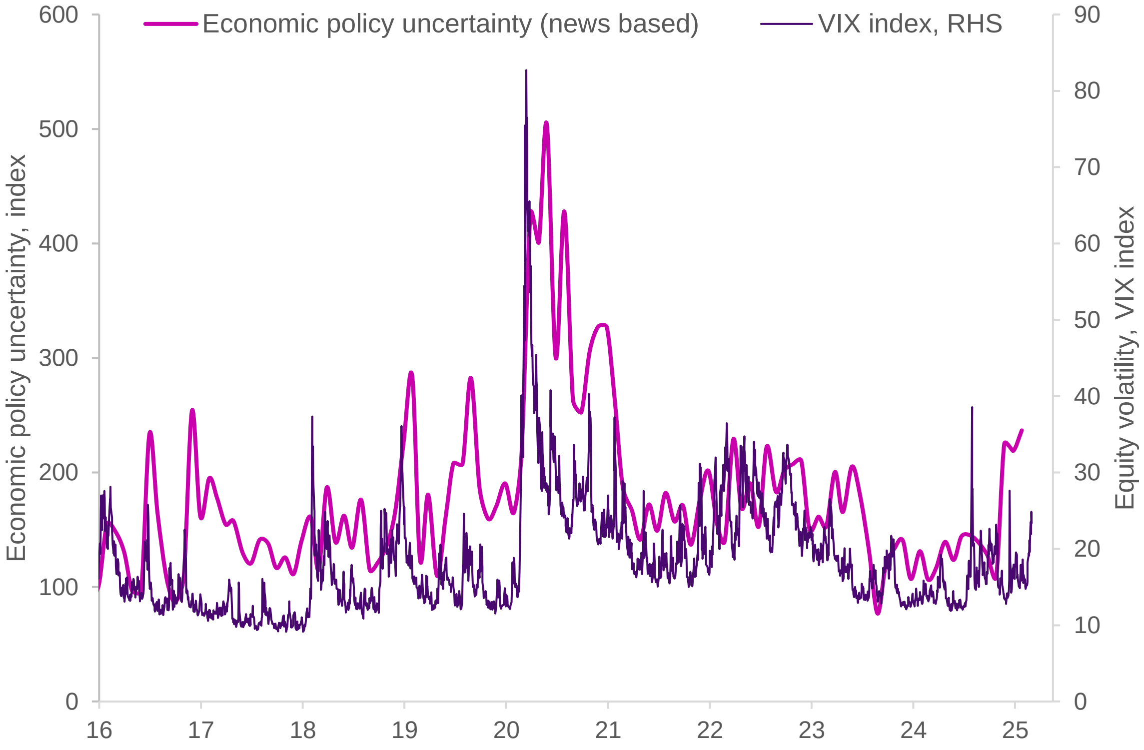
Chart of the month

The most important events of the last month have been government policy rather than economic-data related. This also helps to highlight why economic policy uncertainty – as measured by the number of news articles discussing it – has also jumped materially in recent months. Equity volatility has started to rise too, as this political, geopolitical, and policy uncertainty looks increasingly likely to persist for the next few months and through 2025.

It's important to emphasise that the impact of economic policy uncertainty on financial markets can be two-sided. That is, it can create new positive surprises and opportunities for financial assets as well as downside risks. Three of the big policy surprises we have been tracking over the last month have been:

- **First**, the new German coalition government leaders have already announced plans for a surprisingly big government spending package. If approved within the next week, it would materially boost German real GDP growth in 2025 and 2026, e.g., it could add between 0.2% to 0.5% to growth this year and more in 2026, relative to our expectations at the start of the year. This would be an important positive factor to help offset downside risks to German growth from likely US tariffs.
- **Second**, on March 4, an additional 10% tariff on US imports from China came into effect, bringing the total additional tariff rate for imports from China to 20%. This was in-line with our baseline forecast at the start of the year. However, macro uncertainty and associated market volatility linked to US trade policy with Canada and Mexico has continued. 25% tariffs against many goods from Canada and Mexico – larger than our baseline expectations – were implemented but then rapidly postponed to April 2, having already had a month's suspension from February. We expect a wide-ranging set of US tariffs on various industries and countries to be announced on April 2.
- **Third**, the Chinese government has set a 2025 growth target of around 5%, with a record 9.9% fiscal deficit to support this target, counter US tariffs, and offset deflationary pressures. This is broadly in-line to a little above our expectations.

Economic policy uncertainty and its linkages to financial market volatility



Sources: Economic Policy Uncertainty, FactSet

Government bonds

At current yield levels we believe the major bond markets offer value on a three-year horizon

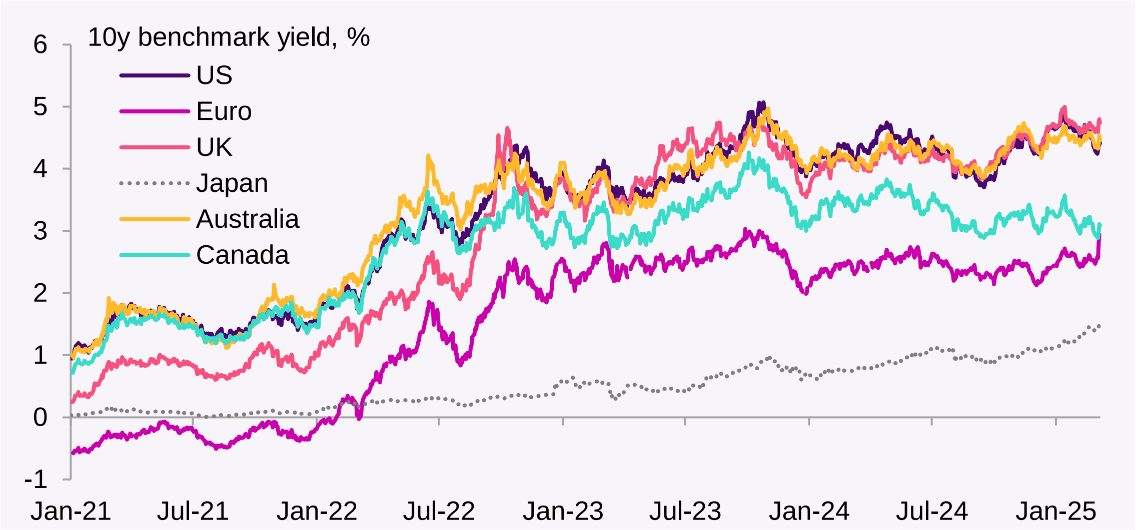
What happened over the past month:

Global bond moves have been volatile since the end of January, with considerable dispersion amongst markets. As of 06 March 2025, the yield on US 10-year bonds has fallen by 26 basis points to 4.29%. Conversely, Japanese and Euro area equivalent yields have risen, jumping 28 basis points and 43 basis points, respectively. UK 10-year gilt yields also rose by 13bps, and are currently trading at 4.68%, the highest amongst the major markets.

Factors influencing market trends

Bond markets remain sensitive to economic data and policy. The US moves were driven, in part, by weakness in certain survey-based measures of consumer confidence and business conditions in the US, likely reflecting household and business caution over the potential impact of tariffs and Federal spending cuts. The spike in euro bond yields was due to the announcement of a big fiscal stimulus plan in Germany. This included 500 billion euros in infrastructure investment over the decade and a change in the constitutional debt break to allow for higher defence spending, which should provide a boost to GDP.

Global 10-year benchmark nominal bond yields



Sources: FactSet, WTW

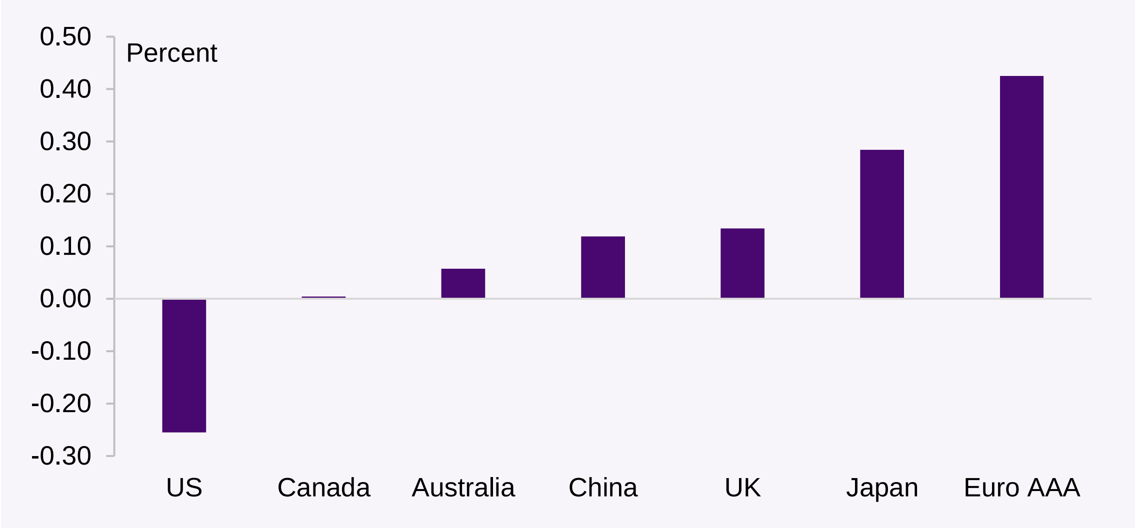
Looking ahead:

We expect bond yields to continue to fluctuate in the near term. US and global bond markets will remain focused on updated policy proposals from President Trump, with the impact on growth, inflation, and financial markets, ultimately, depending on the actual policies that are implemented.

In 2025, our base case is for central banks to continue to ease policy, with the speed and depth of that easing cycle varying by country. Although, there are two-sided risks around this outlook from policy and geopolitical uncertainty. **Current bond pricing seems appropriate following recent moves, though we continue to think that select bond markets (e.g. UK gilts) offer value over a three-year horizon**.

Overall, it remains appropriate to build and maintain bond exposure for liability hedges, downside protection strategies or – for highly agile investors only – a dynamic overweight to select bond markets. However, the devil lies in the detail of wider portfolio context, starting points, and available opportunity sets, so we encourage investors to discuss the implication of this for their portfolio with their advisers.

10-year nominal bond yield moves since the end of January (as of: 06 March)



Sources: LSEG Datastream, WTW

Credit

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

What happened over the past month:

Corporate credit market performance largely mirrored the relative country moves in equities over February. Over the month, US IG credit spreads rose 6bps, with US high yield credit spreads rising by 19bps, as US policy uncertainty has risen and some short-term US activity data has come in slightly weaker than expected. In Europe, IG spreads were flat, while high yield spreads fell by 13bps, as the German fiscal package surprised materially to the upside.

What has influenced recent market dynamics?

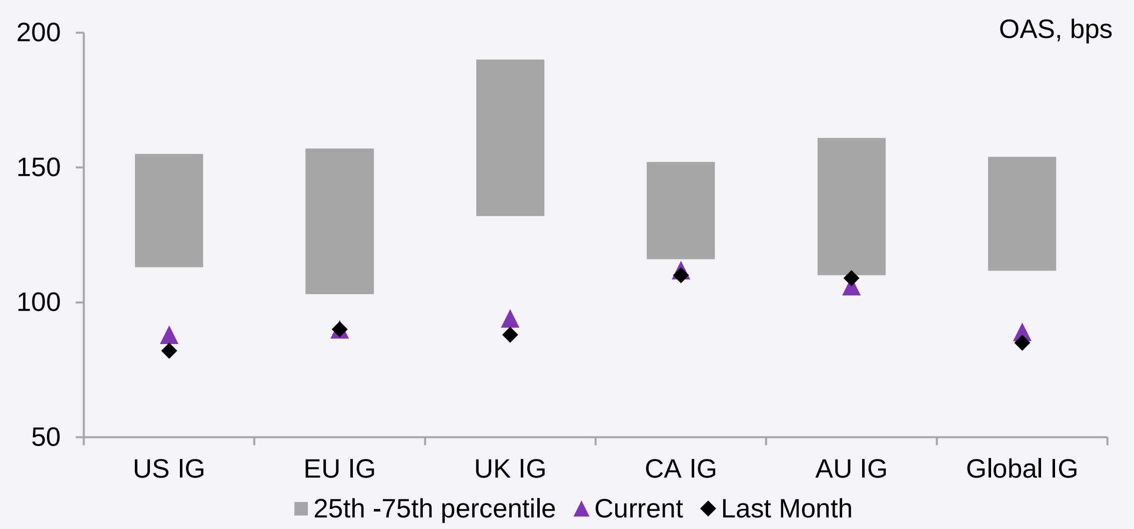
Relatively **healthy interest coverage ratios** and **a notable phase of corporate issuers terming out their debt maturities** prior to the recent rate hiking cycle has cushioned corporate credit markets from the slowdown in economic growth in some advanced economies, in Europe especially. The exceptional strength of the US economy has also been a notable support. Our outlook is for US growth to continue to provide support to credit markets throughout 2025, with the **benign non-financial corporate downgrade and default cycle likely to continue through 2025. Additionally, demand for corporate credit should remain supportive given high all-in yields.**

Looking ahead:

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

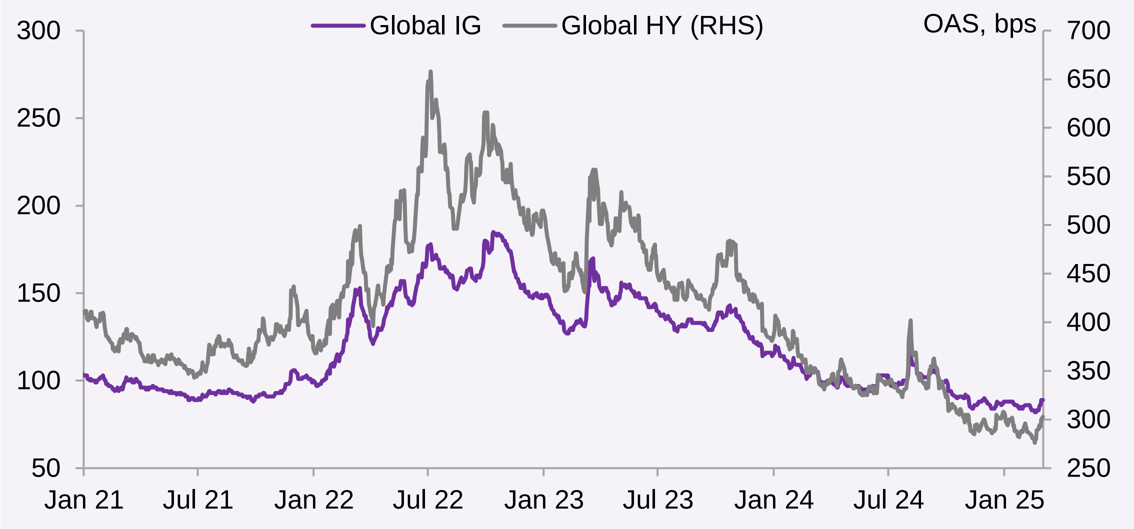
We are balanced over 2025, given good underlying macro and earnings conditions, in the US especially, which nets off against the narrowing of corporate credit spreads in 2024 and their low levels currently.

Investment grade spreads by country



Sources: FactSet, WTW

Both credit spreads and company debt measures show little sign of corporate stress



Sources: FactSet, WTW

Equities

Overall, we retain a neutral view on equities over a five-year horizon

What happened over the past month:

Last month, global equities declined by -0.7% on a total return basis, with the return in emerging markets (1.3%) outpacing developed markets (-0.9%).

Within developed markets, US equities declined by -1.9% on a total return basis, driven by uncertainty about the US administration's trade policies and slightly weaker labour market and confidence datapoints. Euro area equities led with a 5.1% total return, driven in part by good performance from the financials and defence sectors. MSCI Japan, however, fell -3.8% as the yen strengthened against the dollar.

In emerging markets, China rallied by 11.6%, driven by strong performance from technology stocks, a weaker US dollar, and positive sentiment around DeepSeek and regulatory developments.

Broad market trends:

Looking to forward earnings, analysts forecast good earnings growth in 2025, particularly in the US.

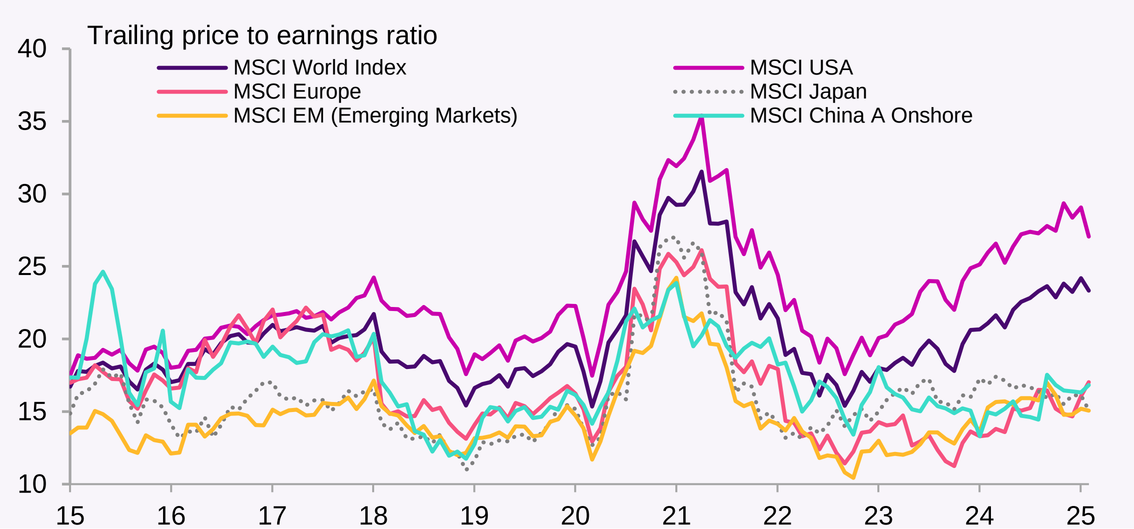
We have a similar outlook, with continued good economic growth in the US, a likely ongoing gradual easing of monetary policy in advanced economies, and inflation remaining close to or above central bank targets, likely to support corporate earnings growth and stock returns. We remain moderately positive in our outlook for equity returns over 2025, although we continue to monitor new government policies as they evolve.

Over the last three months, the top performing sectors have been Communication Services (6.0%), Financials (4.5%), and Consumer Staples (2.6%).

Looking ahead:

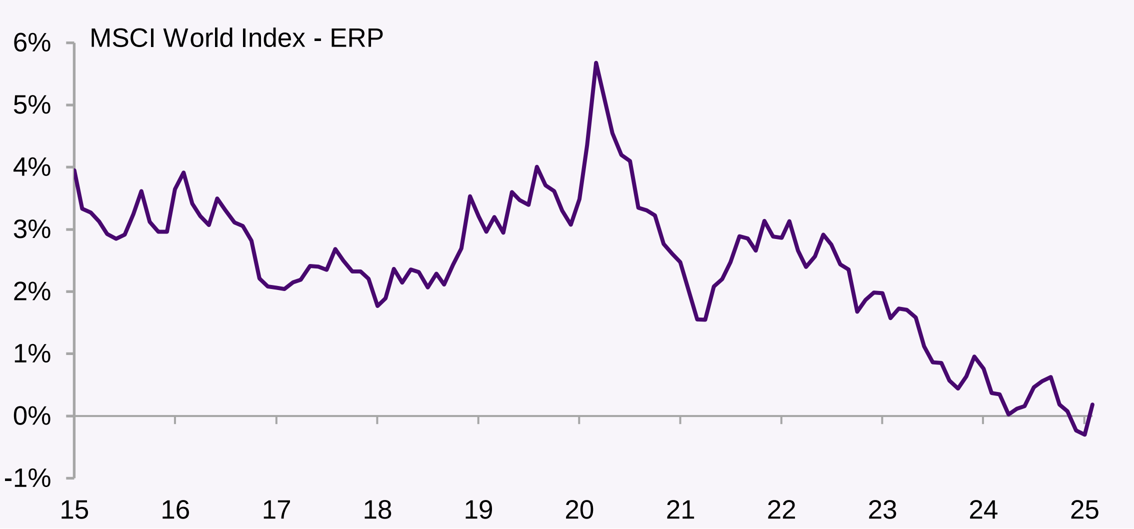
Overall, we retain a neutral view on equities over a five-year horizon. We continue to see value in Japanese equities and US small caps given the positive impact on fundamentals of stimulative monetary policy and good cyclical economic growth conditions.

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 US dollar over the long term

What happened over the past month:

Since the beginning of February most major currencies have witnessed notable gains against the US dollar. As of 06 March, the Japanese yen has risen 4.5% versus the dollar, the euro 4.1%, and the British pound 3.6%. The Canadian dollar and Australian dollar have also appreciated.

Broad market trends:

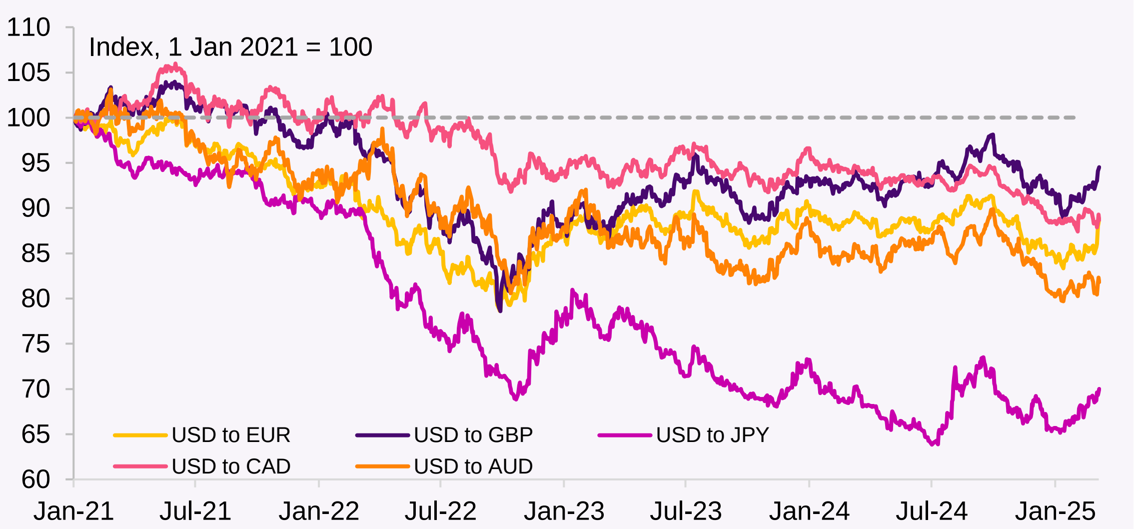
Recent Events: this US dollar weakening has coincided with a fall in US short interest rates versus other markets, which deters capital inflows. US rates have declined due to rising growth concerns, with investors now expecting the Fed to cut three times this year. By contrast Eurozone and Japanese short rates have risen – in the case of Europe, on the back of significant German fiscal stimulus that promises to lift growth and, in the case of Japan, increased confidence in the country durably lifting inflation.

Longer term: the US dollar has strengthened significantly versus most currencies over the past few years. Over this longer horizon, US interest rates have generally risen vs. peers. Growth and innovation have also been consistently better than other economies, attracting investment and supporting dollar strength.

Looking ahead:

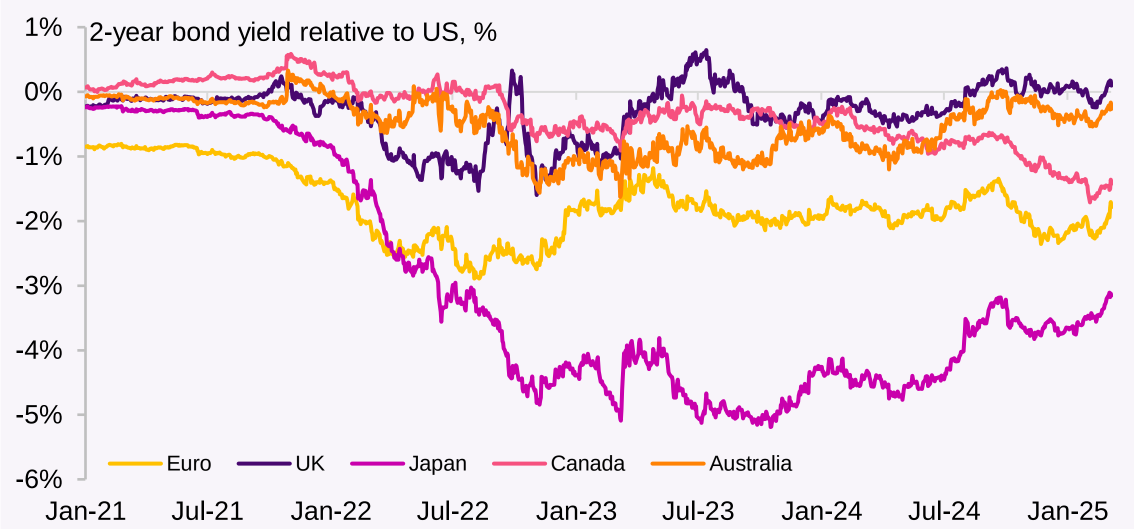
Following a sustained period of appreciation, the US dollar has become more expensive against other major currencies on our preferred medium-term fair value metrics. This suggests downward pressure over a 3-to-5-year horizon and **a positive view on most developed market currencies against the dollar**. In the near term, however, the relative strength of the US economy, its safe-haven status, and the potential for additional trade tariffs by President Trump could lead to further appreciation. In the shorter term, we are neutral on most currencies, except for a positive view on the Japanese yen, where we expect virtuous growth-inflation dynamics to continue.

Developed exchange rates versus the US dollar



Sources: FactSet, WTW

Short term exchange rate dynamics have been impacted by interest rate differentials



Sources: FactSet, WTW

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