# Global Markets Overview

**Asset Research Team**

October 2024

## Chart of the month

**China**

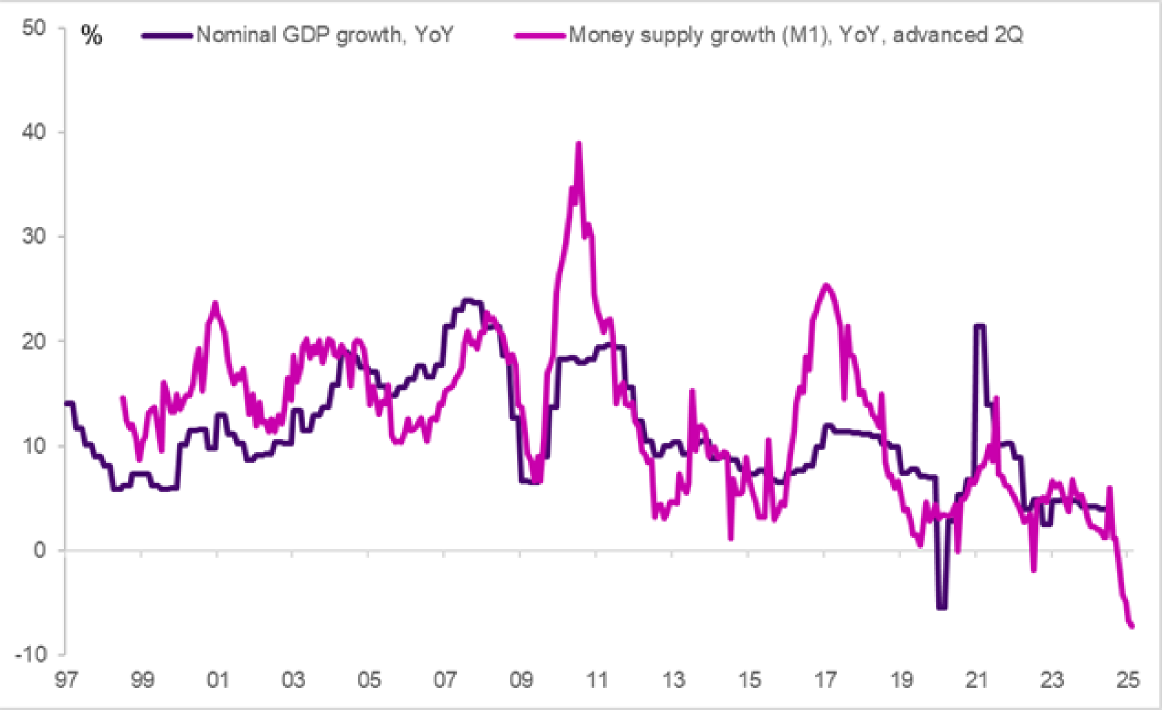
- Our chart of the month illustrates the decline in China's nominal GDP growth alongside declines in M1 growth.

- M1 growth is a measure of money supply, e.g., cash and other types of deposits that can be used as cash. Money supply can provide some information about the short-term direction of an economy and the level of prices. Weak M1 growth in China is one signal of the importance of more stimulus to invigorate economic growth and inflation. The Chinese economy has until recently continued to surprise to the downside on growth.

- In response, the People's Bank of China and Chinese government have launched stimulus measures. From cuts in reserve requirements and lending rates to fiscal injections aimed at boosting both the equity and housing markets, these initiatives provide an impetus for demand to stimulate economic activity. Notably, these measures are not just about making credit cheaper but are aimed at addressing the deeper issue of insufficient demand.

- These developments impact China but also the broader global economy. In the first instance, this has sharply boosted Chinese equities – but we could also potentially see positive implications for the global manufacturing sector and, therefore, global markets, and global risk sentiment.

**The need for China to stimulate: China nominal GDP growth vs. M1 growth***




* M1 is a measure of money supply that is composed of currency, demand deposits, and other liquid deposits such as savings deposits.

Sources: FactSet, WTW

# Government bonds

## At current yield levels we believe most bond markets are neutrally priced

### What happened over the past month:

**Global bond yields have jumped over the past few weeks, led by the US.** US 10-year Treasury yields are now trading at around 400bps, over 40bps above their year-to-date lows in mid-September. However, they remain considerably below the levels hit earlier this year.

### Factors influencing market trends

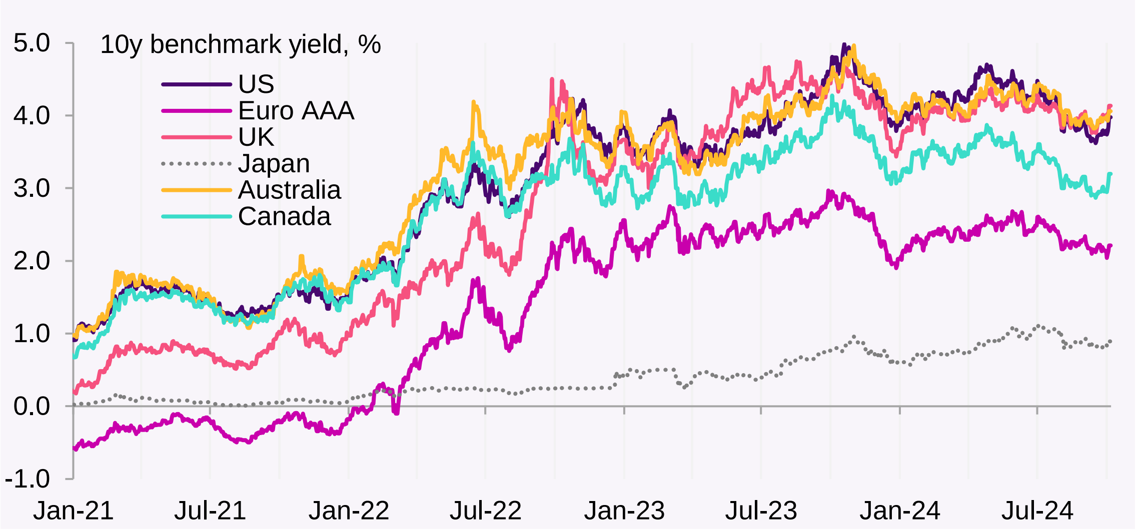
**Bond markets remain highly sensitive to economic data and policy news**. The rise in bond yields earlier in the year coincided with hotter-than-expected US economic outcomes. The subsequent decline occurred amid signs of slowing economic activity, inflation, and employment growth. Over the past few weeks strong jobs numbers have led to a partial reversal of the decline. The latest releases of job openings, non-farm payrolls and average hourly earnings beat expectations, while the unemployment rate ticked down. Markets now expect five to six more Fed policy rate cuts over the next 12 months.

### Looking ahead:

**Yield volatility is likely to continue for the next few months**. While policy rates have begun to fall, consumers and businesses continue to face high borrowing costs. We expect global economic growth to track a little below trend and inflation to fall towards central bank targets. This will allow central banks to ease policy. However, the speed and depth of that easing cycle will vary by country.

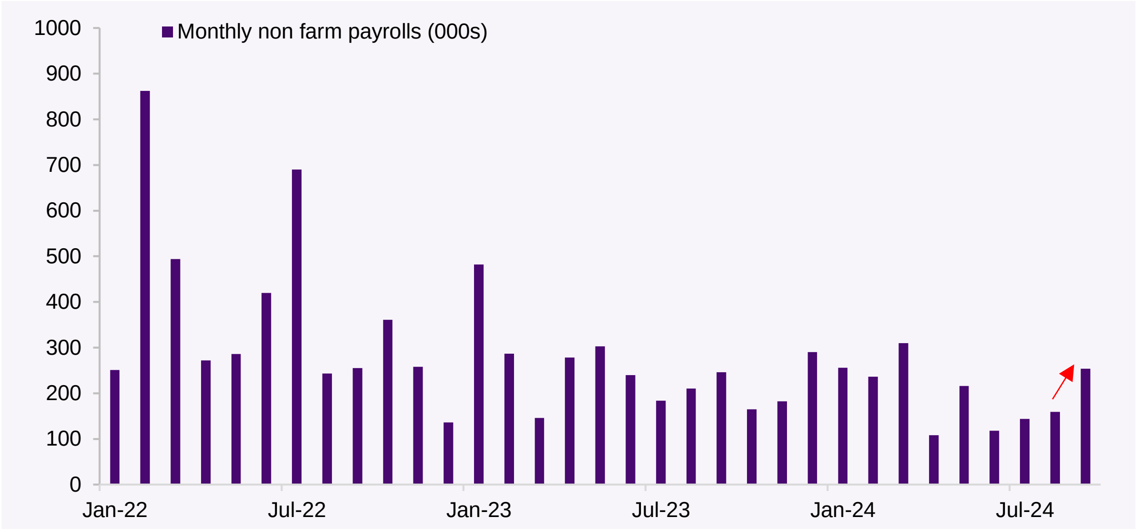
**We think that most bond markets are neutrally priced over a one to three-year horizon**. Although, they continue to have a valuable role in protecting return-seeking portfolios. **For under-hedged liability-driven-investment portfolios, current pricing remains reasonable to return towards target levels**.

**Global 10-year benchmark nominal bond yields**




Sources: LSEG Datastream, WTW

**A more supportive US growth environment – a resurgence in US non-farm payrolls in September**




Sources: LSEG Eikon, WTW

# Credit

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

### What happened over the past month:

**Global corporate credit spreads fell over September, driven primarily by falling credit spreads in North America.** Global investment grade spreads declined by 2bps, with US spreads 4bps lower over the month and Canadian spreads falling by 7bps. Moves in high yield bonds were larger, with global markets narrowing by 11bps and US spreads coming in by 14bps.

### What has influenced recent market dynamics?

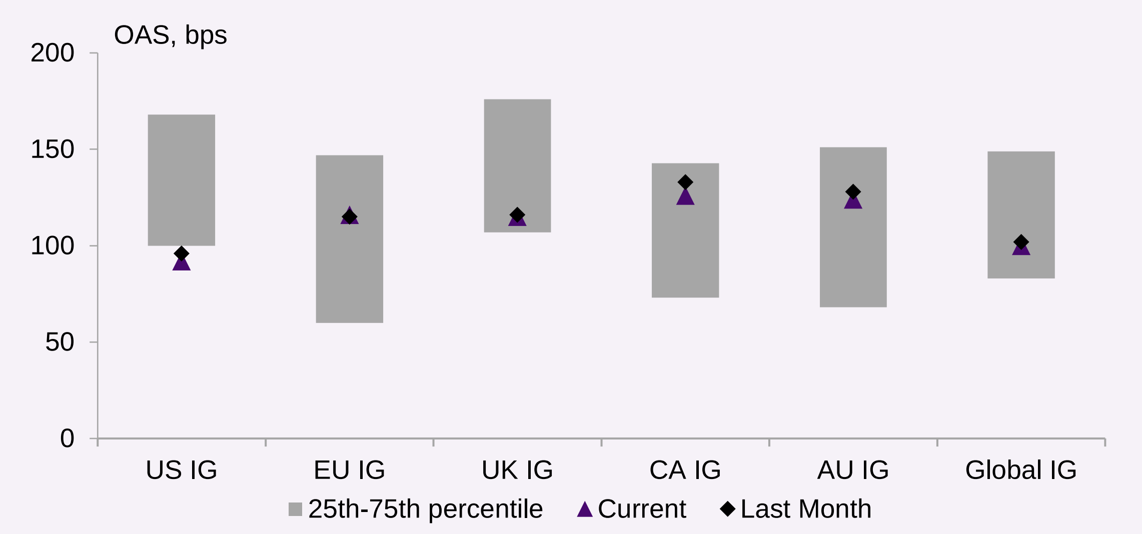
Relatively **healthy interest coverage ratios** and **a notable phase of corporate issuers terming out their debt maturities** prior to the recent rate hiking cycle has cushioned corporate credit markets from the slowdown in economic growth in various advanced economies. The exceptional resilience of the US economy has also been a notable support. As a result, the **non-financial corporate downgrade and default cycle has been relatively benign throughout 2023 and 2024**.

### Looking ahead:

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

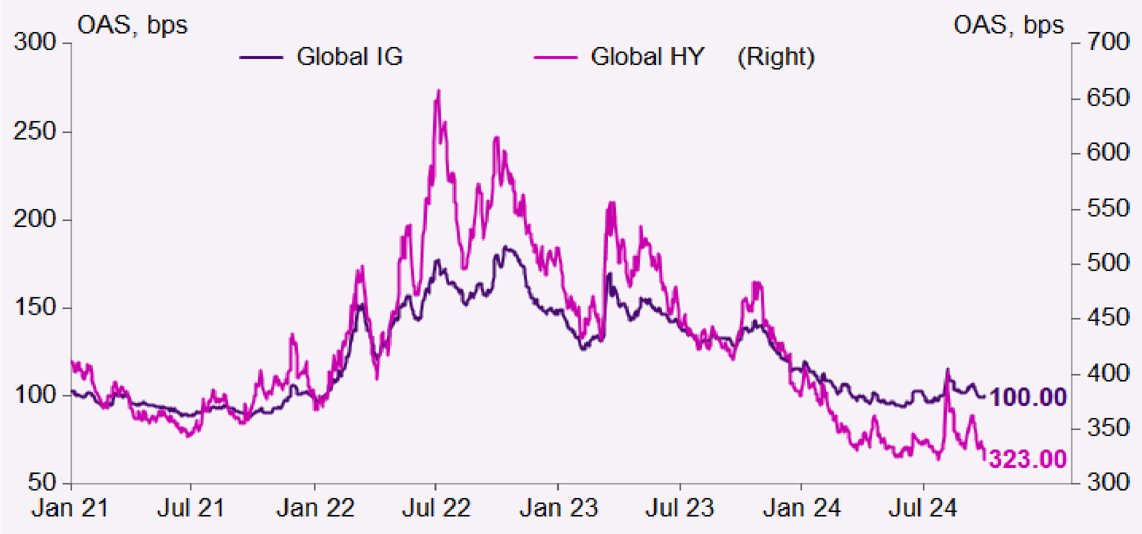
We are more cautious in the shorter-term, given the narrowing of corporate credit spreads in 2023 and year-to-date, their low levels currently, and possible risks to earnings growth in 2024.

**Investment grade spreads by country**




Sources: FactSet, WTW

**Both credit spreads and company debt measures show little sign of corporate stress – we expect this to remain the case over the next 9-12 months, with some volatility**




Sources: FactSet, WTW

# Equities

## Volatility and Recovery

### What happened over the past month:

**In September, global equities rose 2%, finishing the third quarter with a gain of 5% in total return terms**. Equities were supported by central bank interest rate cuts, particularly from the US Federal Reserve, which unexpectedly lowered its policy rate by 50bps. This boosted investor confidence despite mixed US economic data. Emerging markets outperformed developed market equities by 3.6%, after China's aggressive monetary stimulus led to a remarkable 23% rise in China's equity market.

### Broad market trends:

In the third quarter of 2024, global equities continued to deliver positive returns, building on the momentum from the first half of the year. Initial concerns over an overheating US economy and sticky inflation, have given way to Fed interest rate cuts and an expectation of an economic soft landing – an environment in which US real GDP growth slows to around its trend rate (c. 2%), core inflation falls to close to Fed target (2%), and policy interest rates can be reduced steadily. Over the last three months, the top performing sectors have been Utilities (+16%), Real Estate (+15%), and Industrials (+8%).

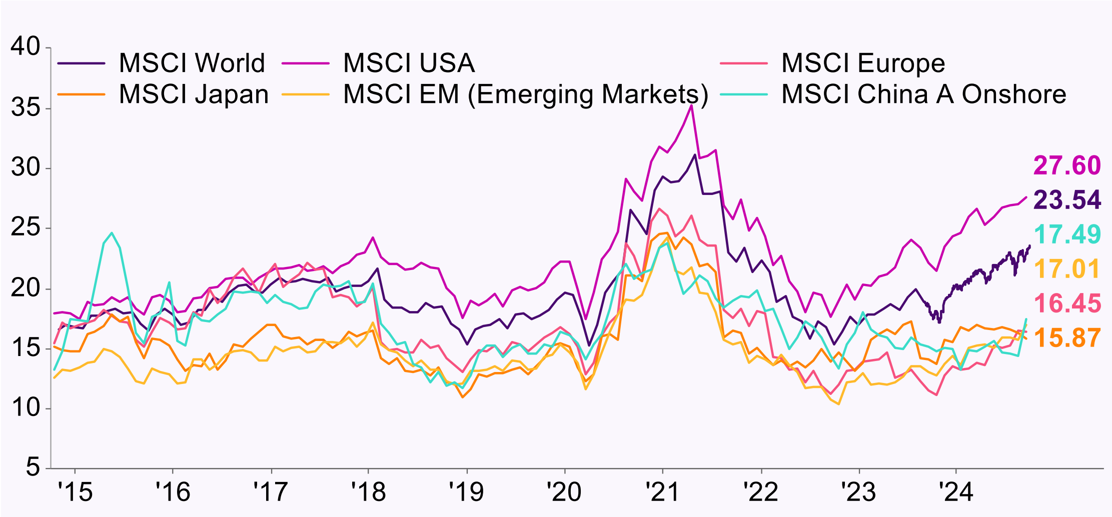
Looking to forward earnings, analysts forecast corporate profits to pick-up significantly in 2025, particularly in the US. Despite these high expectations, declining inflation and our outlook for a gradual easing of monetary policy in advanced economies, should support earnings growth and stock prices. We remain balanced in our outlook for equity returns in 2024/25.

### Looking ahead:

**Overall, we retain a neutral view on equities over a five-year horizon**. We see value in Japanese equities, given the positive impact on fundamentals of a push to improve corporate governance, stimulative policy, and good cyclical economic growth conditions.

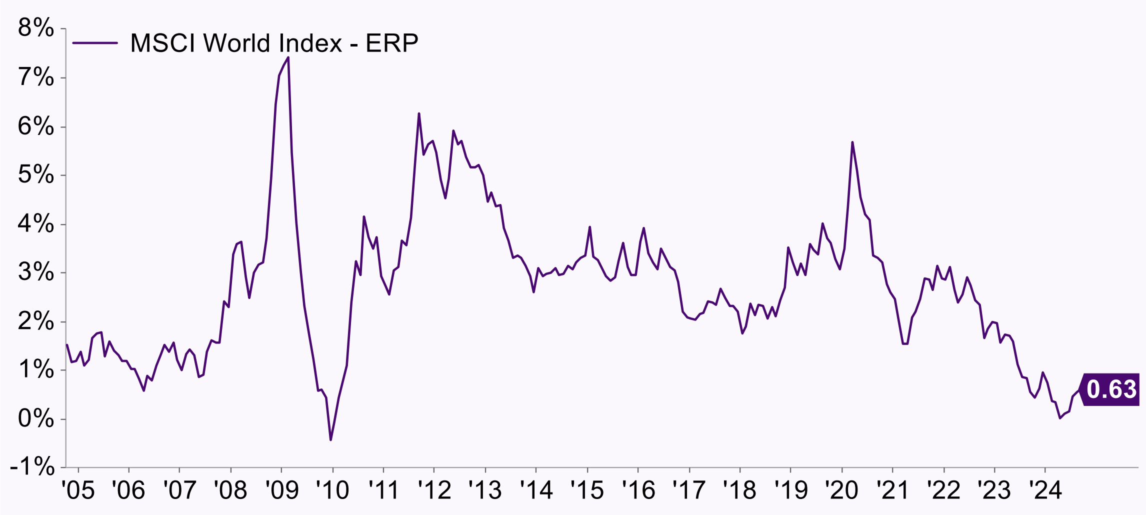
**Global equity valuations**

Trailing price to earnings ratio




Sources: FactSet, WTW

**The Equity Risk Premium has picked up at the end of September**




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:

**The US dollar has strengthened in recent weeks.** The most notable shift has occurred against the Japanese yen. The JPY vs the USD has depreciated over 5% since the middle of September. The euro and sterling have also fallen over the same period.

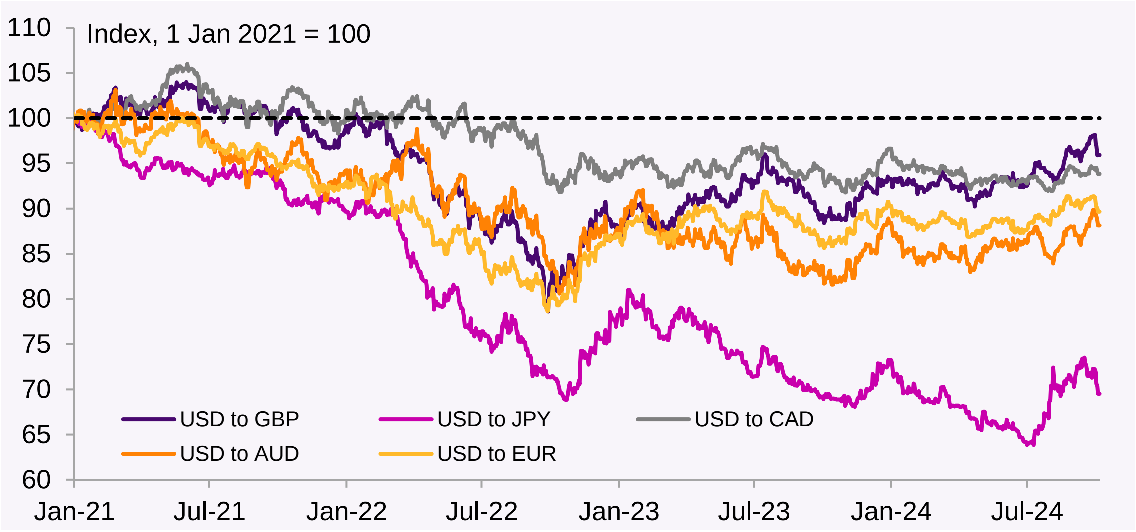
### Factors influencing market trends:

**Interest rate differentials help to explain currency moves**. The recent strengthening of the dollar has coincided with a large rise in US Treasury yields over and above most other bond markets. This has helped draw capital towards the US from other markets where rates have risen less. Since the middle of September, 2-year interest rate differences between US and Japanese government bonds have widened c. 40bps. **Other factors also play a key role**. Growth and innovation has been better in the US than other markets in recent years, attracting investment and propping up the currency. **Over a three-year period, the US dollar has appreciated versus all major advanced economy currencies, particularly the yen.**

### Looking ahead:

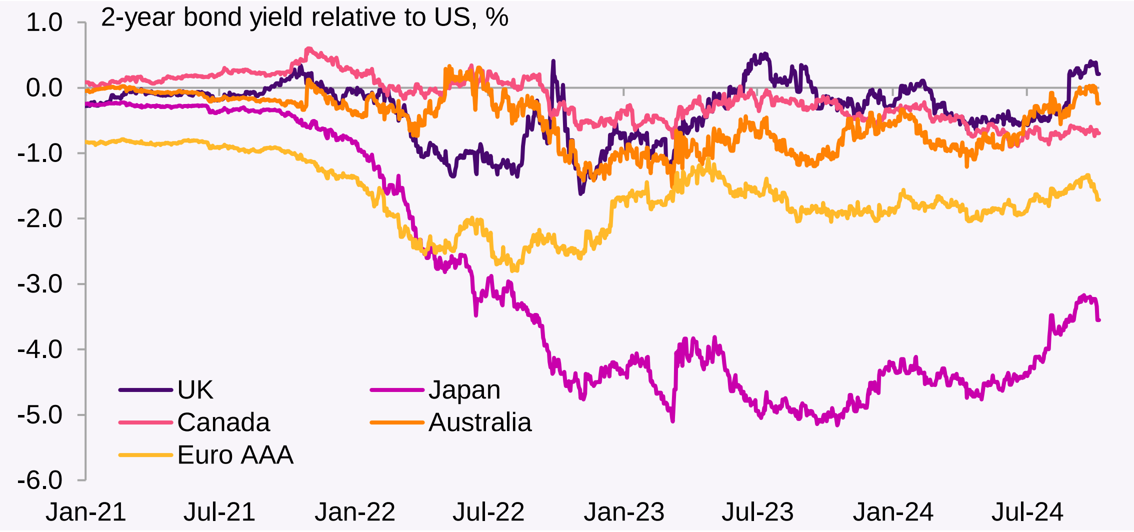
Following a sustained period of appreciation, the US dollar has become more expensive and less competitive against other major currencies on our preferred medium-term fair value metrics. This suggests downward pressure over a 3-to-5-year horizon and **a positive view on most developed market currencies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

**Developed exchange rates versus the US dollar**




Sources: LSEG Datastream, WTW

**Short term exchange rate dynamics have been influenced by differences in interest rates between countries**




Sources: LSEG Datastream, WTW

# Disclaimer

WTW has prepared this material for general information purposes only and it should not be considered a substitute for specific professional advice. In particular, its contents are not intended by WTW to be construed as the provision of investment, legal, accounting, tax or other professional advice or recommendations of any kind, or to form the basis of any decision to do or to refrain from doing anything. As such, this material should not be relied upon for investment or other financial decisions and no such decisions should be taken based on its contents without seeking specific advice.

This material is based on information available to WTW at the date of this material and takes no account of developments after that date. In preparing this material we have relied upon data supplied to us or our affiliates by third parties. Whilst reasonable care has been taken to gauge the reliability of this data, we provide no guarantee as to the accuracy or completeness of this data and WTW and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any errors, omissions or misrepresentations by any third party in respect of such data.

This material may incorporate information and data made available by certain third parties, including (but not limited to): Bloomberg L.P.; CRSP; MSCI; FactSet; FTSE; FTSE NAREIT; FTSE RAFI; Hedge Fund Research Inc.; ICE Benchmark Administration (LIBOR); JP Morgan; Markit Group Limited; Russell; and, Standard & Poor's Financial Services LLC (each a "Third Party"). Details of the disclaimers and/or attribution relating to each relevant Third Party can be found at this link: https://www.wtwco.com/en-gb/notices/index-vendor-disclaimers

This material may not be reproduced or distributed to any other party, whether in whole or in part, without WTW's prior written permission, except as may be required by law. In the absence of our express written agreement to the contrary, WTW and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any consequences howsoever arising from any use of or reliance on this material or any of its contents.

## About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organizational resilience, motivate your workforce and maximise performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at wtwco.com.

**wtwco.com/social-media**



**wtwco.com**