Global Markets Overview

Asset Research Team

September 2024

Exhibit of the month

Who is in the lead?

- Based on averages of national polls, Harris is ahead by 1-3%pts, and polling has improved significantly in several key battleground states since Harris entered the race.
- However, this lead is fickle and is only just enough to overcome the Democratic Party's slight disadvantage in the electoral college. Therefore, the Presidential Election remains too close to call.

Why does it matter?

- The elections impact Federal policy and therefore the economy, and so have the potential to be a driver of market volatility (particularly if election outcomes amplify markets' existing fears/hopes).
- Arguably the outcomes in Congress are as important as who wins the White House, certainly for economically important national tax & spend policies.

	Trump biased policy	Harris biased policy	What we believe will be the implications for investors
Trade	Potential tariffs against all trade partners, including allies, but initially focused on China.	China policy in line with current administration but still hawkish. Prefers more stable trade relationships.	**Multiple impacts,** the detail of how trade tensions manifest really matter for winners/losers and market impact. However, more likely than not tarrifs result in a stronger USD and, at least for a time, somewhat higher U.S. inflation.
Fiscal Policy	Extension of personal and corporate tax cuts. Amendments to the Inflation Reduction Act.	Tax rises on corporations and the wealthy. Spending on housing, healthcare, childcare etc.	**Proposed fiscal policy is loose under both candidates**. This may put upwards pressure on both inflation and Treasury yields. A split congress may be less inflationary as legislation is more difficult to pass.
Immigration	Stringent border controls. Trump has discussed mass deportation of undocumented migrants.	More lenient on immigration. Supports legal pathways and family reunification.	**Labour markets may tighten** under the proposed policies put forward by Trump**.** This could place upwards pressure on wages and inflation, and that may be enough to offset other cyclical disinflationary forces.
Regulation	Easier regulation for banking and energy. FTC less likely to finish data privacy rulemaking.	Continued antitrust assertiveness. Stricter regulations on financial institutions and big corporations.	If Trump wins, he might slow down the shift to clean energy. This could impact the performance of **energy-related investments** (renewables vs. oil and gas etc.) although U.S. Federal Policy is a relatively small driver over the medium-term.
Governance	Wants more control over the Federal Reserve. Has talked about currency intervention.	No significant changes in governance approach.	**Attempts at intervention are likely to have limited success.** Only two FOMC members' positions are up for renewal over the next presidential term. Moderate congress members are likely to block extreme proposals.
Geopolitics	Transactional foreign policy. Focus on reducing international commitments.	Maintain alliances, and the "rules based" international order.	**Continued uncertainty.** Avoid directional bets/concentrations of risk where possible by accessing diverse drivers of risk and return.

Government bonds

At current yield levels we believe that selective government bonds are attractively priced

What happened over the past month:

Global bond yields fell in the month of August with further declines month-to-date. U.S. Treasury yields are currently trading around 375bps (as of 5 September 2024) down over 90bps since their peaks in Q2. Other major developed bond markets have also registered notable falls.

Factors influencing market trends:

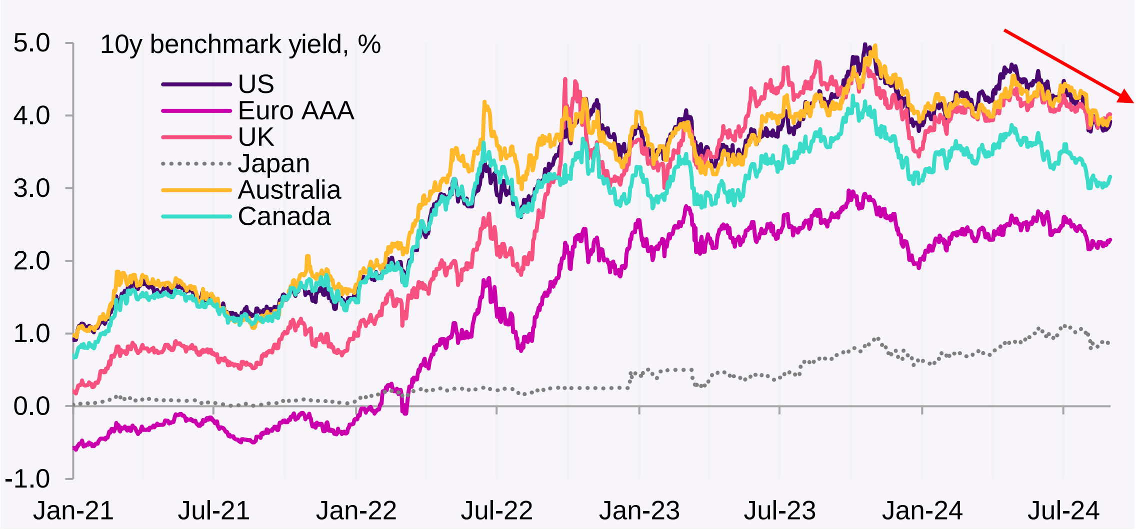
Bond markets remain highly sensitive to economic data and policy news. The rise in bond yields earlier in the year coincided with hotter-than-expected U.S. economic outcomes. The recent decline has occurred amid signs of slowing economic activity, inflation, and employment growth. In recent weeks yields have responded to weaker-than-expected manufacturing and jobs data. Non-farm payrolls saw a downward revision of 800,000 in the year to March, indicating prior numbers were materially overstated. In addition, unemployment ticked up, and job openings fell at a faster rate than forecasters expected. Markets now expect faster cuts in U.S. policy rates.

Looking ahead:

Yield volatility is likely to continue for the next few months. As consumers and businesses continue to be face high borrowing costs, we expect 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 is uncertain.

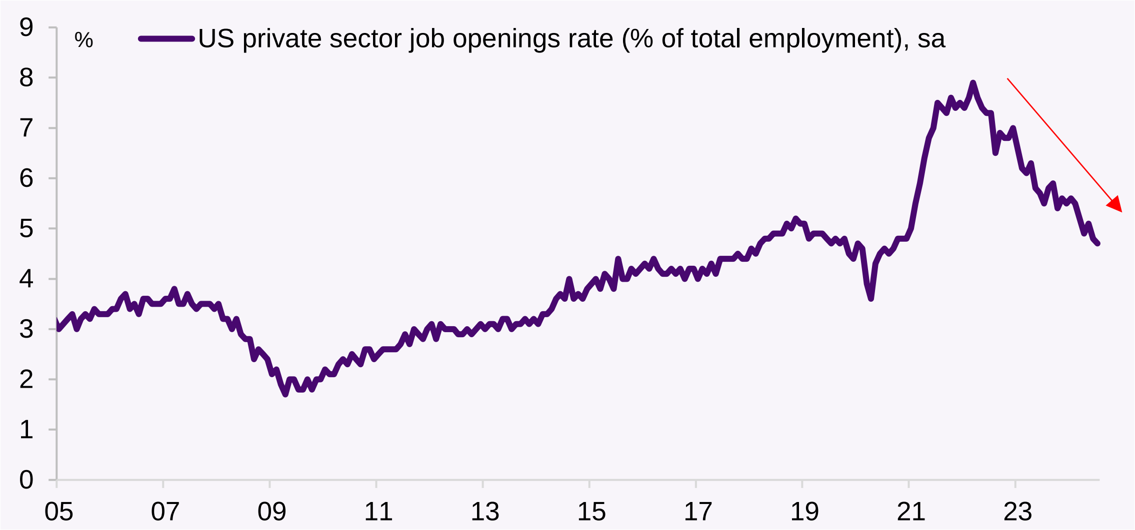
After the recent drop in yields, we think that most bond markets are neutrally priced over a one to three-year horizon. Although, they continue to see provide a valuable role in protecting return-seeking portfolios. **For under-hedged liability-driven-investment portfolios, current pricing remains reasonable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

Global 10-year benchmark nominal bond yields



Sources: LSEG Datastream, WTW

A cooling job market has weighed on yields



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 were broadly flat over August, with some variation by country and quality. Investment grade dipped by 1bps in the U.S. while rising 5bps in Europe. Junk bond spreads dipped across regions by contrast. European high yield spreads led the way, contracting 13bps, while U.S. spreads narrowed by 8bps.

What has influenced recent market dynamics?

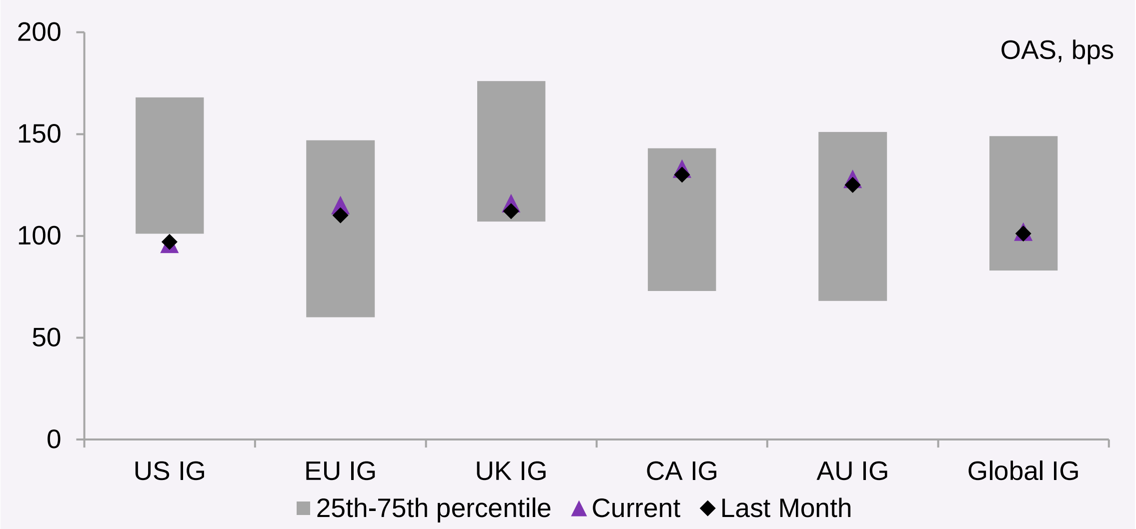
Relatively **healthy interest coverage ratios** and **a notable phase of corporate issuers terming out their debt maturities** prior to the recent rate hiking cycle has cushioned corporate credit markets from the slowdown in economic growth in various advanced economies. The exceptional resilience of the U.S. 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.

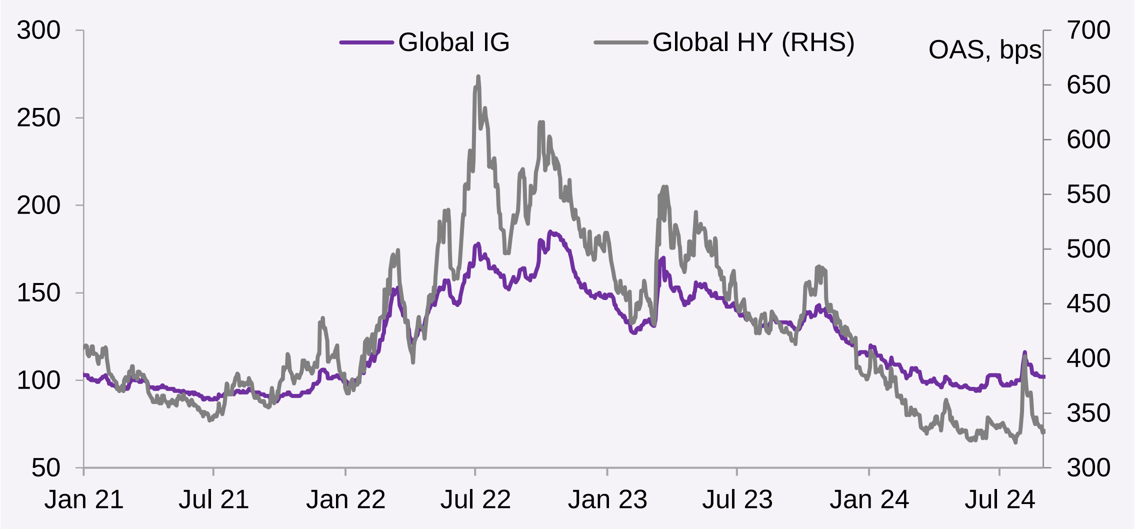
We are more cautious in the shorter-term, given the narrowing of corporate credit spreads in 2023 and year-to-date, their low levels currently, and possible risks to earnings growth in 2024.

Investment grade spreads by country



Sources: FactSet, WTW

For the time being, both credit spreads and company debt measures show little sign of corporate stress – we expect this to gradually weaken going forward



Sources: FactSet, WTW

Equities

Volatility and Recovery

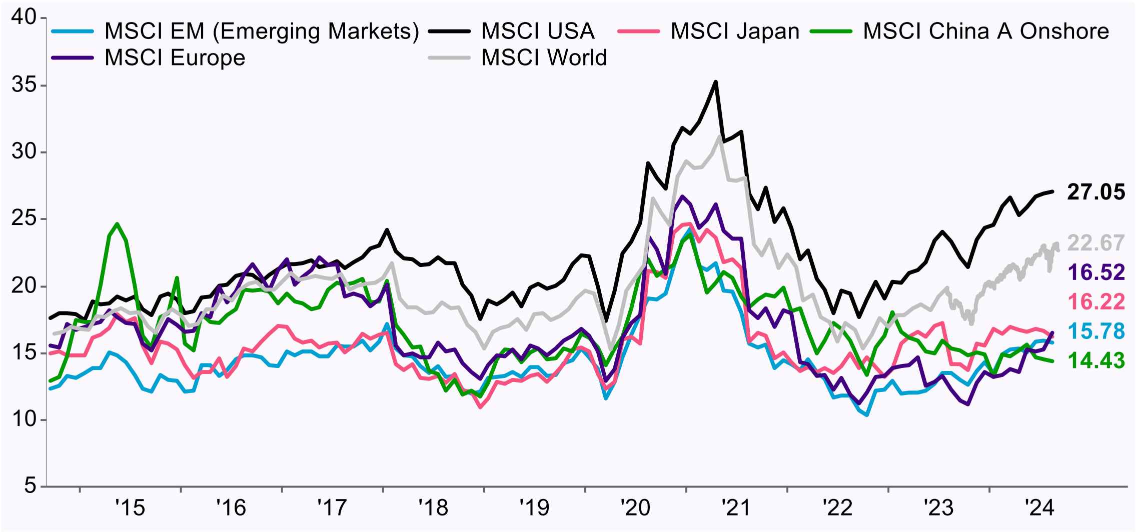
What happened over the past month:

August was a volatile month, with global equity markets initially selling off due to a combination of a softening of U.S. employment data, and a sharp rise in the yen which hurts Japanese earnings and carry trades. Markets subsequently rebounded, after increased expectations of rate cuts by the Federal Reserve to ensure a continuation of the "soft landing" of the U.S. economy.

Developed Market equities had a total return of 1.9% over the month. Broader markets outperformed tech-focused stocks, with real estate rising 5.3% and healthcare gaining 4.7%. Emerging markets lagged developed market equities. Regionally, the U.S. led gains at 2.4%. Japanese equities remained volatile (-2.7%), and Chinese equities faced economic challenges, posting a modest 0.6% gain. Eurozone equities advanced 1.8%, driven by lower inflation and rate cuts. Overall, markets shifted towards defensive and quality stocks, amid the uncertainty.

Global equity valuations

Trailing price to earnings ratio



Sources: FactSet, WTW

Broad market trends:

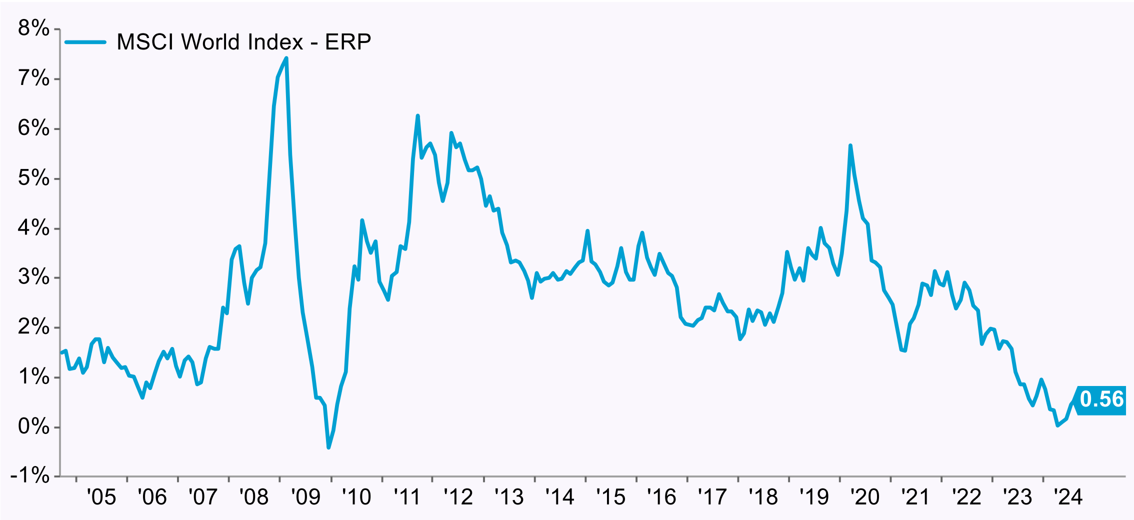
Over the last three months, the top performing sectors have been Real Estate (13.0%), Health Care (9.2%) and Financials (7.8%)

Equity markets have had a positive return over the last three months driven by improving expectations of earnings growth, particularly in the U.S. Market volatility has increased during this time, given softening of economic data. Markets have moved from a “bad news is good news” to a “bad news is bad news” environment – with any evidence of economic weakening seen by investors as consistent with evidence of declining growth as opposed to reducing inflation.

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.

The Equity Risk Premium has picked up at the end of July



Sources: FactSet, WTW

FX

We hold a positive view on most developed currencies relative to the U.S. dollar over the long term

What happened over the past month:

The U.S. dollar weakened against most other major currencies over August. The Australian dollar and Japanese yen were the largest movers, appreciating 3% to 4%. Other major currencies, including the euro and the UK pound also strengthened against the greenback.

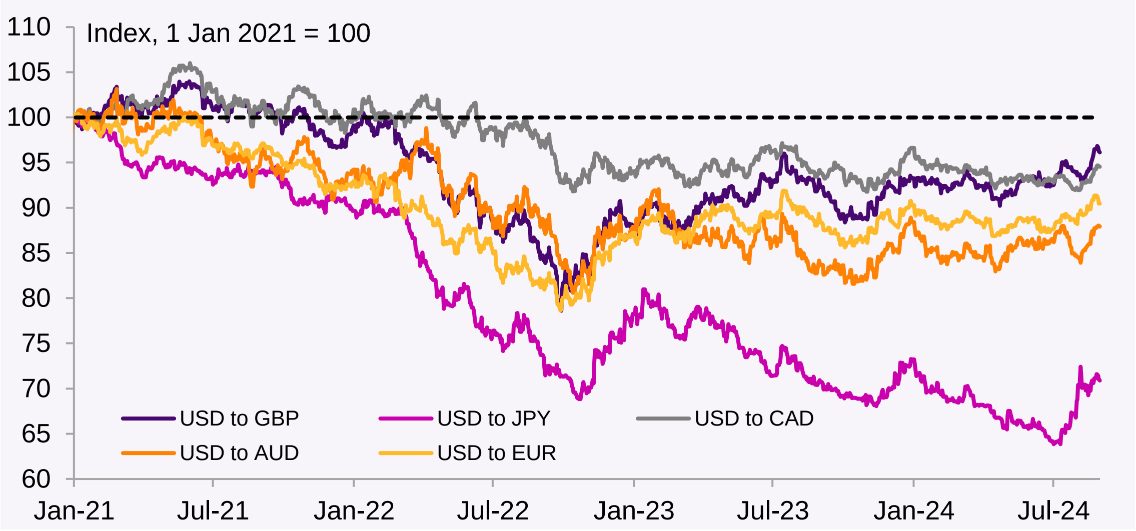
Factors influencing market trends:

Interest rate differentials help drive currency moves. Following weaker U.S. economic data in recent months, U.S. short rates have fallen significantly as markets now expect swifter rate cuts. This has helped shift capital away from the U.S. towards other markets where rates have fallen less. Australia's RBA is only expected to cut once this year according to derivative markets while the Fed is now priced to cut four to five times. **Other factors also play a key role**. Growth in the U.S. has been more resilient than other economies, drawing portfolio inflows, mitigating the carry impact, as has the currency's reserve status. **Over a three-year period, the U.S. dollar has appreciated versus all major advanced economy currencies, particularly the yen.**

Looking ahead:

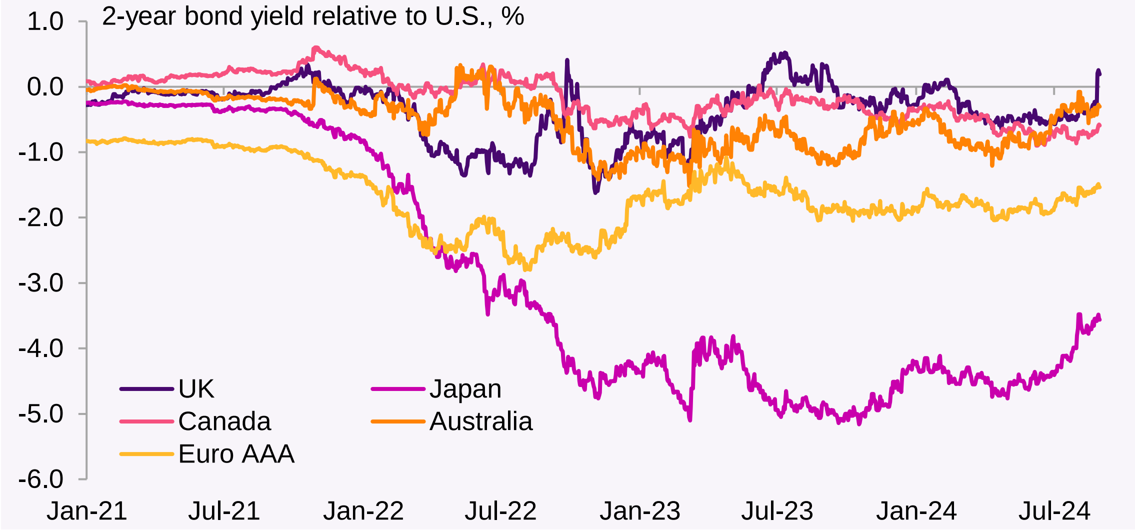
Following a sustained period of appreciation, the U.S. dollar has become more expensive and less competitive against other major currencies on our preferred medium-term fair value metrics. This suggests downward pressure over a 3-to-5-year horizon and **a positive view on most developed market currencies against the dollar**. In the near term, however, the relative strength of the U.S. economy, and/or its safe-haven status, and/or the imposition of additional tariffs 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 U.S. dollar



Sources: LSEG Datastream, WTW

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



Sources: LSEG Datastream, WTW

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