MONTHLY REVIEW

MACRO

August 2026 will be remembered as the month markets had to face a paradox: the US economy is holding up well, but inflation refuses to come down. This leaves central banks on both sides of the Atlantic with less room to maneuver than expected. The common backdrop: the Strait of Hormuz has been closed since February 2026, keeping a "risk premium" (extra cost built into oil prices because of danger or uncertainty) on oil and feeding inflation everywhere.

The Fed (US central bank), now led by Kevin Warsh, kept interest rates unchanged at 3.50–4.75% in late July. Three members dissented, wanting a *rate hike* instead — something that hasn't happened since 2016. July's inflation came in at +3.4% year-over-year, a slight improvement. But the PCE index (the Fed's preferred inflation gauge) for July came in hotter than expected at +3.7% (vs. 3.6% forecast), reviving talk of a rate *hike* in September rather than a cut.
The month closed with the Jackson Hole symposium (an annual gathering of central bankers, closely watched by markets), where Warsh gave his first big speech as chairman. He said summer's better-than-expected inflation numbers didn't reflect a real, lasting improvement — a tone markets read as hawkish (leaning toward tighter policy/higher rates), and they raised their bets on a rate hike.
Federal debt crossed $40 trillion on August 20. The Treasury announced it will double its buybacks of long-term bonds — a move Stanley Druckenmiller criticized as damaging to the bond market's credibility.
Q2 GDP growth slowed to 1.5% annualized, but underlying data stayed solid: consumer spending, household confidence (best in five months), and business investment. The job market remains balanced despite slower hiring.

Contrary to expectations, the ECB (European Central Bank), seen as dovish (leaning toward looser policy) not long ago, could raise rates as early as September to contain inflation from the Iran war — a stance reinforced by comments from Isabel Schnabel (ECB board member). Q2 GDP grew 0.4%. The flash composite PMI (a survey-based gauge of business activity; above 50 = expansion) rose to 52.1 in August from 52.0 in July. Annual inflation stands at 2.9%.

The State Secretariat for Economic Affairs (SECO: the Swiss government's economic body) estimates Q2 real GDP growth at 1.5%, driven by pharma and chemicals, with steady support from services. The ZEW index (a survey of investor confidence) rose to 12.1 points from 10.0 in July — its highest in nine months, signaling renewed confidence despite ongoing geopolitical risks.

Q2 earnings season confirmed companies are doing well: S&P 500 earnings grew about 32% year-over-year through end of July — the highest since 2021, with 10 of 11 sectors growing (Source: FactSet). STOXX 600 earnings grew roughly 20–24% year-over-year, the strongest since late 2022 (Source: FactSet, Reuters, August 2026). Energy is pulling the average up, but growth is broad-based: excluding energy, earnings growth is still around 13%, led by technology and industrials.

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OUTLOOK

We maintain our equity exposure, supported by an AI investment cycle that continues to surprise on the upside in terms of scale.

On sectors: we favor quality growth stocks linked to AI, as well as banking and industrials. On geographies: we remain overweight US and emerging market equities. Europe has surprised us positively in recent weeks and serves as a short-term tactical alternative while tech volatility settles down.

We keep our long-standing preference for High Yield over Investment Grade — a position we have held for several half-years, particularly in Europe.

Risks to watch: valuations in certain segments, notably AI-linked US tech, remain elevated and leave little room for error in case of earnings disappointments. The main macro risk remains the rate trajectory: stickier-than-expected inflation would delay the rate cuts currently priced in by the market and would weigh on both equity valuation multiples and credit. We are closely monitoring inflation releases and upcoming central bank meetings.

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EQUITY MARKETS

Technology, and American technology in particular, drove the mood across equity markets this month. The S&P 500 gained about 3.2% over the month, and the Nasdaq did even better, up 4.6%. Nvidia posted spectacular results, with the stock jumping 8.5% in a single session and adding roughly $435 billion in value on its own. Walmart went the other way: despite beating expectations, its stock fell 9% on sales considered disappointing, a warning sign for the retail sector. Moderna jumped 177% on August 26, its best day ever, after announcing a cancer-treatment partnership with Merck. US semiconductor stocks had a rough end of August, with Micron falling 5.8% and both AMD and Broadcom dropping around 3%.

In terms of sectors, the same trend holds on both sides of the Atlantic. In Europe, technology is the second-best performing sector of the month at +5.08%, behind basic resources, which surged 9.79%. Media (+4.99%) and financial services (+3.67%) follow. Conversely, real estate (-4.08%), food and beverage (-3.36%), and personal and household goods (-2.21%) bring up the rear.
In the United States, energy leads the 11 S&P 500 sectors, up +7.41% for the month. It is closely followed by tech (+6.36%), healthcare (+4.92%), and materials (+4.48%). Only utilities (-3.65%), industrials (-1.50%), and real estate (-1.31%) close the month in the red.

August performance: CAC40 -2.06% (YTD 2.27%), SMI -0.42% (YTD 7.68%), Stoxx600 0.29% (YTD 9.95%), Nasdaq 3.93% (YTD 13.64%), S&P500 2.96% (YTD 12.65%), Hang Seng -1.23% (YTD -0.25%), Topix 3.82% (YTD 21.92%).

Stoxx600 2Y

Nasdaq 100 2Y

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FOREIGN EXCHANGE MARKET

The dollar had a difficult month. The euro rose from 1.1485 at the end of July to 1.1662 around August 25, a gain of about 1.5%, briefly touching above 1.169 during the month. This move had less to do with genuine euro strength than with growing distrust in US debt: federal debt crossing $40 trillion, the Treasury's announced doubling of bond buybacks, and a Fed whose path remains uncertain between the risk of a hike and the promise of a pause all weighed on the dollar throughout the month.

EUR USD 2Y

The real story of the month on the currency side is that the Swiss franc is becoming the market's new funding currency, a role traditionally held by the Japanese yen. A funding currency is one that investors borrow cheaply in order to invest the proceeds elsewhere for higher returns, a strategy known as a carry trade. With the Swiss National Bank's policy rate stuck at 0% for several quarters, very low domestic inflation, and a central bank that appears to tolerate, even welcome, a weaker franc rather than defend it, speculators are borrowing heavily in francs to fund positions in higher-yielding assets. As a result, EUR/CHF rose from 0.9304 at the end of July to 0.9361 at the end of August, a gain of 0.6%, with several analysts citing technical targets as high as 0.945 to 0.955.

EUR CHF 1Y

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INTEREST RATES AND BOND MARKET

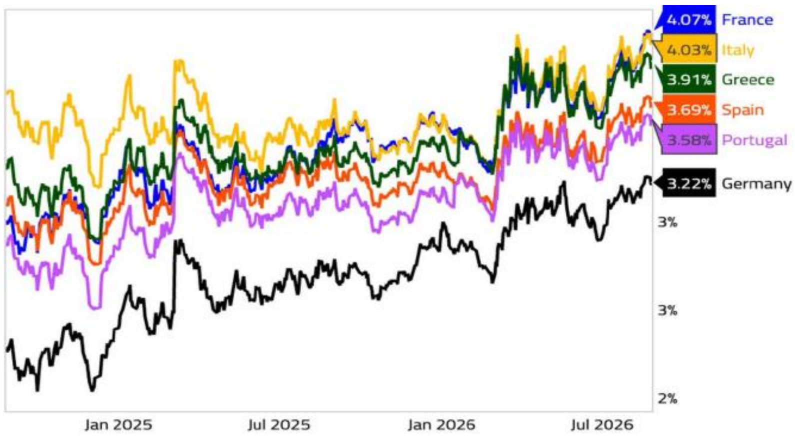
Between late June and mid-August, long-term government bond yields in developed markets rose, with the average G7 yield reaching its highest level since 2008. The increase was sharpest in Japan. US 30-year yields hit a 19-year high of 5.33% on August 18, while long-term UK, French, and German bonds also reached levels not seen in over a decade. This reflects a pattern that has persisted since the end of the Covid period: inflation stuck above central bank targets, combined with a growing risk premium demanded to finance persistent government deficits.

France illustrates this dynamic well. Its public deficit stood at 5.1% of GDP in 2025, its debt reached 115.7% of GDP at the end of 2025 with 118.3% expected in 2026, and the average yield on French government bonds, known as OAT, rose from 0% in 2021 to 3.35% in 2025. The perceived risk on French debt is increasing amid the political fragmentation that has persisted since 2024, which is slowing budget consolidation.

In the United States, this dynamic has taken an unusual institutional turn. Treasury Secretary Scott Bessent doubled buybacks of 10- to 30-year debt, from $2 billion to $4 billion per operation, in an effort to push long-term yields down, but the effect faded quickly as yields moved back above their starting level. Fed Chair Kevin Warsh, by contrast, refuses to let the central bank's balance sheet substitute for interest-rate policy and opposes any bond-buying aimed at artificially compressing long-term yields. This tug-of-war between a Treasury trying to push rates down through bond purchases and a Fed insisting that yields should reflect inflation still anchored at 3.3% year-over-year was on full display at the Jackson Hole symposium in late August.

US 10Y 1Y

Euro Area 10Y 2Y



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COMMODITIES

GOLD

Gold had a good August overall, up 10% for the month, but the rally was stopped in its tracks by Kevin Warsh's Jackson Hole speech on August 28. As the original review puts it, this was no longer a future risk to price in, it had already happened, and it cost the rally dearly.

The underlying bullish catalyst remains the run of weaker-than-expected US data in early August, which reduced bets on a Fed rate hike in September; the breach of USD 40 trillion in federal debt weighed on sentiment, and the expansion of long-dated Treasury bond buybacks revived the "debasement trade." Central bank purchases added a structural floor: 288.9 tonnes in Q2 2026, a record for a second quarter, up 62% year-on-year.

Gold 2Y

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OIL

Oil had a turbulent month, entirely driven by the Strait of Hormuz crisis. The net change for the month came out to about -3%, but the real story lies in the volatility within the month rather than in the net move. The physical market still treats $85 to $90 per barrel as a floor for as long as the Strait has not returned to normal traffic. The IEA, the International Energy Agency, raised its forecast for the average Brent price in the third quarter of 2026 to about $85, up from $74 the month before, and now expects oil production to normalize only in early 2027.

Brent 1Y

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