

Monthly Market Commentary

August 2026

US Economy

The U.S. economy remained resilient in August 2026, although growth continued at a moderate pace. Second-quarter GDP slowed from earlier in the year, but consumer spending remained surprisingly strong, increasing at a healthy rate and helping support overall economic activity. Business investment also stayed robust, particularly in technology and artificial intelligence (AI) infrastructure, suggesting that companies remained confident enough to continue spending despite economic uncertainty.

The biggest economic themes in August were inflation and interest rates. Inflation showed signs of cooling compared with earlier peaks but remained above the Federal Reserve's (Fed) target, prompting the Fed to keep interest rates unchanged and maintain a cautious stance. The labor market softened somewhat as hiring slowed, but unemployment remained relatively low and the economy continued to expand rather than contract. Overall, August reflected an economy that was still growing and supported by consumer and business spending, though higher borrowing costs and lingering inflation pressures continued to pose challenges.

US Markets

U.S. stocks turned in a strong performance during August 2026, overcoming periodic bouts of volatility to finish the month higher. Investors were encouraged by strong corporate earnings, signs that inflation was gradually cooling, and continued optimism surrounding AI and technology-related investments. Both the S&P 500 and Dow reached new all-time highs during the month, reflecting continued confidence in the resilience of corporate America.

August was a reminder that markets can advance even when economic headlines appear mixed. While concerns remained about inflation, higher interest rates, rising bond yields, and ongoing tensions in the Middle East, investors largely focused on strong company profits and the long-term growth potential of AI-driven businesses. Technology stocks were once again among the market's strongest performers, helping lift broader indexes higher. Although renewed conflict involving Iran created some market turbulence late in the month, stocks still finished August with solid gains, suggesting that investors remained optimistic about economic growth and corporate earnings despite the challenges.

Fixed Income

The rise in 10-year US Treasury yields over the past two months has drawn investors' attention. Inflation is the obvious suspect, especially with oil prices elevated. Higher inflation can make bonds less attractive, pushing prices lower and yields higher. However, long-term inflation expectations have not moved much and remain below levels from last summer.

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That points to a different explanation. We believe two other components of yield have driven much of the recent increase: real interest rates, meaning rates adjusted for inflation, and the term premium, meaning the extra compensation investors demand to own longer-term bonds. In our view, inflation itself has had a minor impact.

Real rates can rise when investors believe the Federal Reserve (Fed) policy may need to become less accommodative to slow business and household borrowing, especially while the economy is strong and further borrowing might spark more inflation. At the same time, term premium appears to reflect greater uncertainty around federal deficits, Treasury issuance, and the size of government debt relative to the economy. Our view is that these pressures are unlikely to fade soon. Inflation shocks could add further upward pressure, but even without a major rise in long-term inflation expectations, higher real rates and term premium can keep long-term yields elevated.

International Markets

Economic activity in the Eurozone showed signs of a welcome revival, though the bloc remains vulnerable to energy and other supply-chain disruptions from the conflict in the Middle East. Demand improved after a largely stagnant second quarter, with recent purchasing managers' indices reaching recent highs. Growth was supported by Germany's first increase in business activity in four months, partially offset by France's marginal decline. The labor market also improved modestly, with employment rising for the first time this year.

Asia's growth remained uneven at mid-year. Economic growth in China's two-track economy slowed more than expected in the second quarter. Strong exports were offset by weak domestic demand, drawing little fiscal-policy support. India's growth also slowed as weak expansion was experienced in private sector sales and output. Strength was most apparent in northern Asian economies like Taiwan and South Korea, continuing to benefit most from the boom in AI-related capital expenditures. Manufacturing growth in trade-sensitive Southeast Asia also rebounded, signaling global trade's resilience to geopolitical disturbances.

Commodities

After a challenging five months, gold is regaining momentum, supported by hopes for progress toward negotiations in the Middle East and by investors scaling back expectations for aggressive Fed rate hikes. Undoubtedly, gold has struggled since March 2026, as rising US inflation-adjusted yields and concerns that inflation could pressure the Fed to raise interest rates make gold, which does not pay its holders interest, relatively less attractive against interest bearing assets. However, despite gold's weak performance we believe we continue to see several underlying strengths.

Aggregate global demand was actually fairly resilient in the first half of 2026. International investors have been especially constructive amid heightened geopolitical and market uncertainties, inflation risks, and relatively low interest rates in select key markets – such as China. While gold's spot price pulled back in the first half of the year, Asian investors have actually been persistent purchasers, helping push

gold prices higher as of this writing. We believe these same geopolitical and market uncertainties reinforced gold's role and supported the rebound in central bank purchases during the second quarter. Looking ahead, we believe these strengths could support gold's performance and reinforces our favorable outlook. That said, we believe gold's path higher could be uneven, as international demand is challenged by US monetary headwinds.

What Does This Mean to Me?

We believe the US economic outlook still is being shaped by an AI-led investment boom and by geopolitical events affecting oil and other tradable goods. Looking at the remainder of the year, we anticipate US economic growth to remain tepid, shaped by crosscurrents from strong AI-related investment and persistent supply-side inflationary pressures from the Middle East conflict. That said, we believe economic growth could improve during the first half of 2027, as oil prices could potentially decline following an eventual Middle East peace accord, reopening the Strait of Hormuz and restoring the flow of fuel and other tradeable goods. That should free up household income for other goods and services spending, broadening and strengthening the pace of economic activity. As such, we continue to advise clients to use any equity pullbacks as an opportunity to deploy sidelined cash.

If you have any questions or concerns, please do not hesitate to reach out to us at any time.

Sincerely,

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Index returns are not fund returns. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results. S&P 500 Index is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation and financial companies.

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