August 2026 Market Recap

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Market Overview

Global markets delivered mixed signals in August as strong corporate earnings and continued enthusiasm surrounding artificial intelligence supported equities, while persistent inflation, rising energy prices and increasingly hawkish central-bank rhetoric pushed sovereign bond yields higher. U.S. equities ultimately finished the month firmly positive, with the S&P 500 gaining 2.6%, the Nasdaq Composite advancing 3.9%, and the Dow Jones Industrial Average rising 1.3%. The S&P 500 and Nasdaq recorded their strongest August performances since 2021. Year-to-date, the S&P 500 has now returned approximately 12.3%, while the Nasdaq and Dow have gained 13.5% and 10.7%, respectively. Small-cap equities have been particularly strong in 2026, with the Russell 2000 up approximately 19.1% year-to-date.

The positive equity performance stood in contrast to growing pressure across global fixed income markets. Longer-term yields moved materially higher as investors reassessed the persistence of inflation and the likelihood that central banks may need to maintain restrictive policy or potentially resume tightening. The month ended with renewed geopolitical tensions in the Middle East pushing oil prices higher and reinforcing concerns that the path toward lower inflation may remain uneven.

U.S. Equity Markets

Domestic equities continued to advance during August despite considerable volatility beneath the surface. The S&P 500 gained 2.6%, while the technology-heavy Nasdaq Composite rose 3.9%, as investors continued to reward companies benefiting from AI-related capital spending and improving earnings expectations. The Dow Jones Industrial Average gained 1.3%, extending its monthly winning streak to five months.

August's gains were not solely a continuation of the narrow mega-cap technology trade that characterized portions of the market's earlier

Our Current Market Perspective

The U.S. economy remains in a productivity-driven expansion supported by innovation, technological advancement and private-sector investment.

Ongoing productivity gains driven by artificial intelligence, automation, infrastructure modernization and technology investment continue to support corporate profitability and earnings growth across a widening range of industries. We believe the AI investment cycle remains in its early stages and may continue to influence capital spending, productivity and competitive dynamics for years to come.

Inflation remains one of the primary risks facing financial markets. The ongoing conflict with Iran is creating instability in energy prices, hampering the Federal Reserve's ability to hit their inflation target. While we have a new untested Federal Reserve Chair in Kevin Warsh, the Fed continues to emphasize a data-dependent approach, balancing economic growth, labor market strength and inflation risks when evaluating future policy actions.

Evolving U.S.-China relations, global trade policy, energy market dynamics and regional conflicts remain important considerations for investors. While difficult to forecast, these factors can influence inflation, supply chains, market sentiment and asset-class performance.

Periodic consolidation and market volatility remain likely as investors navigate evolving monetary policy expectations, elevated fiscal deficits, government funding negotiations and ongoing geopolitical uncertainty. While potentially disruptive in the near term, we view such volatility as consistent with a maturing economic expansion rather than indicative of a prolonged downturn.

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advance. Software stocks staged a particularly strong recovery, while improving earnings expectations provided fundamental support to valuations. Approximately half of S&P 500 constituents advanced during August and 86 companies gained more than 10%. Meanwhile, the S&P 500's weighted forward P/E reportedly declined from roughly 22.2x to 19.7x according to Bloomberg, despite the index moving higher, as earnings estimates increased faster than stock prices in several areas of the market.

Corporate profitability remains an important source of support. Federal Reserve Chair Kevin Warsh noted at Jackson Hole that profits for S&P 500 companies have increased by more than 20% over the past year, while business investment in equipment and intangible assets has been growing at roughly a 9% annual rate, its strongest pace since 2021. More than half of this year's capital expenditure growth can likely be attributed to the continued buildout of AI-related infrastructure.

That combination of resilient earnings and investment has allowed equities to absorb a meaningful increase in interest rates. However, the divergence between rising stock prices and rising long-term yields bears watching. The 10-year Treasury finished August around 4.75%, meaning the hurdle rate facing equity valuations has increased considerably. Continued earnings growth will therefore become increasingly important if equity markets are to sustain current valuation levels.

U.S. Fixed Income

Fixed income markets faced a much more difficult backdrop during August. Treasury yields rose across much of the curve, with the largest moves occurring in intermediate and longer maturities. The 10-year Treasury yield climbed to approximately 4.75% by month end, reaching its highest level since January 2025, while the 30-year Treasury moved above 5.2%. The rise in yields reflected a combination of persistent inflation, stronger

Our Longer-Term View

- We believe the U.S. economy remains in a productivity-driven expansion supported by innovation, technological advancement and private-sector investment. While much of the recent productivity acceleration has been concentrated within technology-related industries, we expect these benefits to broaden across a wider range of sectors over time.
- Corporate earnings growth, innovation and productivity improvements remain the primary drivers of long-term equity returns. While periods of policy uncertainty, market volatility and economic slowdowns are inevitable, history suggests that business fundamentals ultimately have the greatest influence on long-term market performance.
- We view the ongoing evolution of artificial intelligence, automation, digital infrastructure and advanced manufacturing as potentially transformative forces that could support economic growth, corporate profitability and productivity for years to come. As with previous technological revolutions, the benefits are likely to emerge unevenly across industries and over extended periods.
- Labor market conditions are expected to continue normalizing following the post-pandemic recovery. While employment growth may moderate compared to recent years, rising productivity, healthy corporate balance sheets and consumer resilience should help support economic expansion over the long term.
- Following the normalization of interest rates from historically low levels, fixed income once again offers meaningful income generation and portfolio diversification benefits. While interest rate volatility may persist, we believe bonds remain an important component of balanced portfolios and a valuable tool for managing risk across market cycles.
- Geopolitical competition, fiscal policy challenges and shifting global supply chains are likely to remain important features of the investment landscape. While these developments may contribute to periods of volatility, we believe well-diversified portfolios remain best positioned to navigate an increasingly complex global environment.

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economic activity, elevated Treasury supply, fiscal concerns and renewed pressure from higher energy prices.

The move represented a meaningful repricing from the end of July. Longer-duration bonds consequently experienced the greatest pressure, while shorter-duration securities were comparatively resilient because of their higher income and lower interest-rate sensitivity. Credit markets were also challenged by the rise in government yields, although corporate fundamentals remain generally healthy and spreads have not signaled a meaningful deterioration in underlying credit conditions.

The broader message from August was that duration risk has returned as a meaningful source of volatility. With Treasury yields once again approaching levels that offer attractive absolute income, fixed income continues to provide portfolio value, but the shape of that exposure remains important. Higher starting yields improve the longer-term return outlook for bonds, while the uncertain inflation and fiscal environment argue for maintaining diversification across duration and credit exposure rather than relying excessively on long-duration securities.

Federal Reserve

Federal Reserve communication became one of the most important market drivers late in the month. At the Jackson Hole Economic Policy Symposium, Chair Kevin Warsh emphasized that the U.S. economy remains fundamentally strong but made clear that inflation remains the central bank's predominant concern.

The Fed's preferred inflation measure, the PCE price index, was running at 3.7% year-over-year, with the six-month annualized pace around 4.1%. Meanwhile, unemployment remained historically low at 4.1%, reinforcing the Fed's view that the labor market remains broadly consistent with full employment. With economic growth and corporate investment holding up reasonably well, policymakers currently have less urgency to support employment and greater flexibility to focus on restoring price stability.

Warsh reiterated the Fed's commitment to its 2% inflation target and indicated that policymakers remain prepared to adjust interest rates if inflation fails to improve. Other Federal Reserve officials reinforced that message. Kansas City Fed President Jeffrey Schmid questioned whether the current 3.50%–3.75% federal funds rate is sufficiently restrictive, while Cleveland Fed President Beth Hammack argued that persistent inflation may require additional action. Chicago Fed President Austan Goolsbee was somewhat more balanced but warned against allowing above-target inflation expectations to become embedded.

By the end of August, futures markets were assigning roughly a 65% probability of a September rate increase, compared with approximately 35% prior to Warsh's Jackson Hole remarks. The shift represents a meaningful change from the rate-cut narrative that dominated portions of the past year. Incoming employment and inflation data will therefore carry considerable weight ahead of the September FOMC meeting.

International Equity Markets

International equities also advanced during August, although performance varied considerably by region. The MSCI EAFE IMI gained approximately 2.1% during the month, supported by resilient corporate earnings and a modestly weaker U.S. dollar. Emerging-market equities were somewhat stronger, with the MSCI Emerging Markets Index advancing approximately 3.2% based on month-end index levels.

European equities produced more modest gains. The STOXX Europe 600 rose approximately 0.3% in August, marking its fifth consecutive positive month. European markets faced many of the same competing forces as the U.S. healthy corporate results on one side and higher energy prices, inflation and government bond yields on the other. European sovereign yields moved sharply higher late in the month as markets began contemplating additional tightening from the European Central Bank.

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Emerging markets remained comparatively resilient despite the increase in U.S. yields. A relatively stable-to-weaker dollar during much of the month, improving fundamentals across several emerging economies and attractive real yields provided support. However, regional dispersion remains significant, particularly as commodity importers contend with renewed energy-price pressures while exporters benefit.

Japan and the Yen

Japan remained one of the most important international macro stories during August. Following the rare joint U.S.-Japan currency intervention on July 31, the yen initially strengthened sharply, moving from approximately ¥164 per U.S. dollar toward ¥156 in early August. The intervention marked the first coordinated U.S.-Japan action of its kind since 1998 and was designed to introduce greater two-way risk into a currency market that had become heavily positioned for continued yen weakness.

The persistent weakness of the yen is increasingly becoming an inflation issue for Japanese policymakers. Tokyo's core inflation reached approximately 2% in August, while unemployment fell to 2.4%. At the same time, Japanese government bond yields moved sharply higher, with the 10-year JGB approaching 3%, levels not seen since the 1990s.

International Fixed Income

International sovereign bond markets experienced many of the same pressures seen in U.S. Treasuries. Long-term yields rose materially across Europe and Japan as markets responded to inflation, increased government borrowing requirements and the possibility of additional monetary tightening.

German government bond yields climbed toward multi-year highs as investors absorbed heavy sovereign issuance associated with infrastructure and defense spending, while Japanese yields moved to levels not seen in decades. The simultaneous rise in U.S., European and Japanese yields suggests that August's bond weakness was less about one country's monetary policy and more reflective of a broader reassessment of the global inflation and fiscal environment.

Emerging-market debt proved comparatively resilient. Many emerging economies entered the current environment with relatively high real interest rates and stronger fiscal positions than in previous cycles. Local-currency debt has also benefited periodically from U.S. dollar weakness, while yields across several emerging markets remain attractive relative to developed-market alternatives. Nevertheless, selectivity remains important given the sensitivity of commodity-importing economies to higher energy prices and the potential for renewed dollar strength if the Federal Reserve tightens further.

Precious Metals and Commodities

Precious metals were among the strongest-performing major assets during August. Gold gained approximately 9.4% for the month, finishing near $4,431 per ounce, while silver surged approximately 15.0% to roughly $66.22 per ounce. Gold recorded its strongest monthly advance since February.

The strength in precious metals occurred despite rising Treasury yields, normally a headwind for non-income-producing assets, and reflected continued demand for inflation protection, geopolitical hedging and diversification. Silver's outperformance also reflected its dual role as both a precious and industrial metal, particularly amid expectations for continued investment in electrification, data centers and other infrastructure.

Energy markets were volatile throughout the month as developments surrounding Iran and the Strait of Hormuz repeatedly shifted the geopolitical risk premium. WTI crude finished August around $85.76 per barrel, gaining

This report is incomplete without the important disclosures at the end.

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approximately 1.3%, while Brent crude ended near $90.49 and gained roughly 0.4%. The relatively modest monthly changes understate considerable intra-month volatility.

Higher oil prices remain especially important because of their potential secondary effects on inflation. A sustained move above $90 per barrel could complicate central-bank efforts to return inflation toward target and would represent an additional tax on consumers and businesses. Industrial metals also remained well supported, with copper trading near historically elevated levels as improving Chinese manufacturing activity and long-term electrification demand continued to underpin the market.

Geopolitical Developments

Geopolitical risk remained elevated throughout August, with the Middle East continuing to command the greatest market attention. Periods of optimism surrounding negotiations with Iran helped reduce the oil risk premium early in the month but renewed military activity between the United States and Iran near the Strait of Hormuz pushed crude prices sharply higher into month-end.

The Strait remains a particularly important transmission channel between geopolitics and financial markets because disruptions to global energy flows can quickly translate into higher inflation expectations, higher bond yields and tighter financial conditions.

Russia's war in Ukraine also remains unresolved and continues to influence European energy, defense and fiscal policy. Meanwhile, global policymakers are increasingly focused on currency and trade imbalances, particularly involving China and Japan, adding another dimension to an already complicated geopolitical backdrop.

Outlook

The fundamental backdrop remains supportive as corporate earnings continue to grow, labor markets remain healthy and inflation has generally continued to moderate. At the same time, elevated equity valuations and an uncertain path for monetary policy suggest periods of market volatility should be expected.

From a portfolio perspective, the evolving market environment reinforces the importance of maintaining diversification across asset classes, regions and investment styles, while remaining attentive to opportunities created by shifts in market leadership and changing macroeconomic conditions.

Please reach out to your financial professional with any questions.

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