Market Digest

AUGUST 2026

This commentary provides a review of global markets in August 2026, takes a closer look at the outlook and current topical themes, plus a market commentary covering the 12 months to 30 June 2026.

> Aug 2026 highlights

During August, global equities rose on strong earnings, led by gains in AI-related stocks

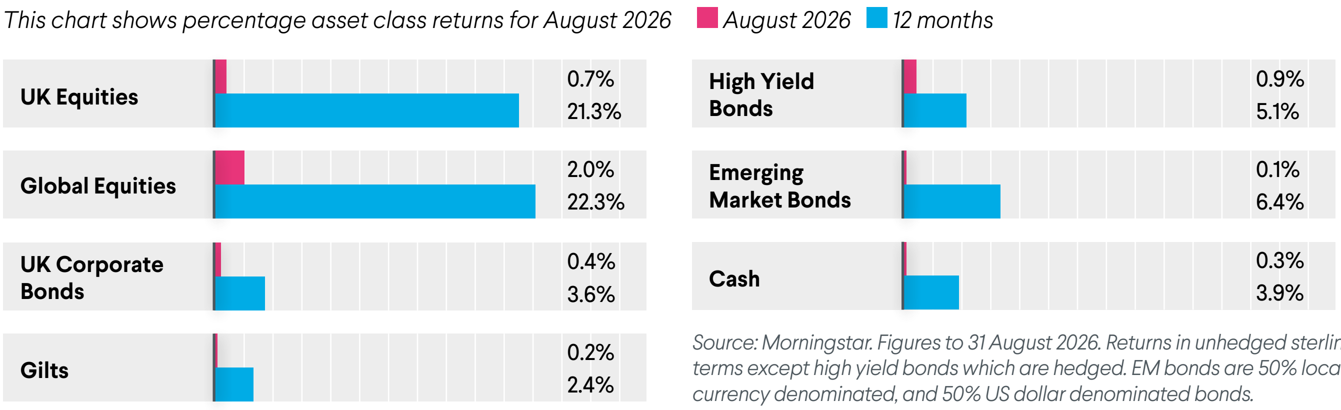
The UK lagged other markets despite higher energy prices, reflecting its lower exposure to technology stocks

Bond yields were volatile, but gilts finished broadly flat while high-yield bonds outperformed

- Our model portfolios typically invest in a combination of the asset classes shown in the chart below.
- Strong corporate earnings helped equity markets rebound, despite the continued standoff in the Middle East pushing oil prices higher again.
- A strong earnings outlook from chipmaker Nvidia helped drive the US market higher. Asian markets, including Japan and Taiwan, also benefitted from the continued strength of the AI theme.
- Despite strong performance from the Energy and Basic Materials sectors, the UK market underperformed because of its lower exposure to Technology.
- A speech from the Federal Reserve Chair and intervention in the Treasury market by the US Treasury Secretary, drove large movements in long-dated bond yields. We look at this in more detail on the next page.
- Despite this, gilts ended the month broadly flat. Once again, high-yield bonds outperformed other bond sectors.
- With equities outperforming bonds and cash, higher-risk portfolios generally performed better than lower-risk portfolios over the period.

Our model portfolios typically invest in a combination of the asset classes shown in this chart

This chart shows percentage asset class returns for August 2026



Source: Morningstar. Figures to 31 August 2026. Returns in unhedged sterling terms except high yield bonds which are hedged. EM bonds are 50% local currency denominated, and 50% US dollar denominated bonds.

Bond yields have risen steadily - short-term drivers include the Middle East, strong economic growth and AI-linked debt issuance

Long-term structural drivers, including high government borrowing, are more important - reversing these will take significant action

Higher yields now give bonds a more attractive balance of risk and return, they continue to play an important role in portfolios

Interpreting recent moves in bond markets

There have been plenty of headlines about government borrowing rates reaching levels not seen for decades. The 10-year gilt yield reached over 5.2% in early September (bond prices fall as yields rise). In reality, we haven't seen a sharp spike in bond yields. Instead, they've risen slowly and steadily over recent months and years.

There are some short-term cyclical reasons why yields have risen in recent weeks, some of which may reverse over the coming months. More significant though are the longer-term structural drivers of higher bond yields. Reversing these will take more significant action.

What's driving higher yields?

In the short term, the stalemate in the Middle East has pushed oil and gas prices higher again. UK and European gas prices recently reached their highest level since 2023, bringing inflation concerns back into focus. In the US, a continuation in robust economic growth has also strengthened the case for interest rate rises to avoid overheating, while large debt issuance from AI hyperscalers may have also contributed to higher yields.

The longer-term drivers are more structural. High and growing government debt across the Western world means a greater supply of government bonds, while there seems to be little political appetite for balancing budgets any time soon.

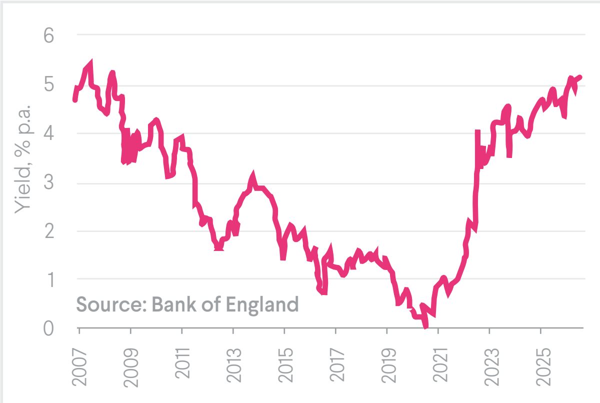
At the same time, traditional buyers such as defined benefit pension schemes and central banks aren't absorbing as much supply as they did in the 2010s. This isn't just a UK issue - it's affecting bond markets around the world. However, the 2022 mini budget has made investors particularly alert to weakening fiscal credibility in the UK. As a result, the gilt market can be more sensitive when global bond markets are falling.

Japan is another factor. As the Bank of Japan moves away from a zero-interest-rate environment, some Japanese investors may choose to keep more of their savings at home. This could reduce an important source of global demand for government bonds.

Chart of the month

Gilt yields rise to pre-financial crisis levels

This chart shows the 10-year gilt yield.



Key takeaways

Although there have been short-term factors driving global bond yields higher, the rise has been building for several years, driven by structural trends such as:

- Higher government borrowing
- Lower demand for government bonds
- The inflationary macro environment.

The role of bonds in portfolios

Bonds' role in investors' portfolios has changed in recent years. Their ability to diversify portfolios may have weakened in an inflationary environment, but the yields now on offer can still provide attractive risk-adjusted returns. As a result, bonds continue to play an important role in diversified portfolios.

Annual market summary: covering the 12 months to 30 June 2026

12m > 30 Jun

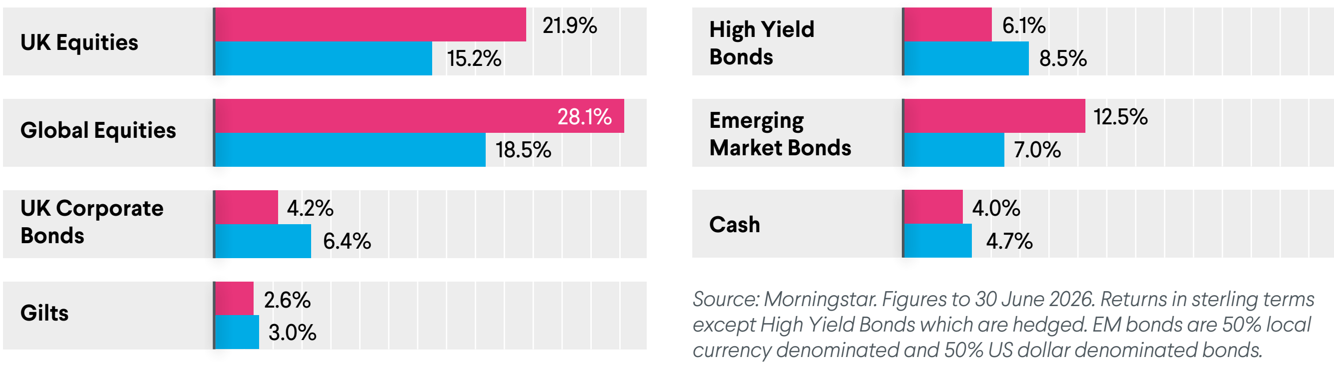
Global equity markets recovered strongly from geopolitical uncertainty to deliver positive 12-month returns

Corporate earnings and continued AI investment remained the key drivers of market performance

Bond markets delivered positive returns, although equities outperformed over the period

Our model portfolios invest in a combination of asset classes shown in this chart

This chart shows percentage asset class returns for the 12 months ending 30 June 2026 versus the three years ending 30 June 2026. 1 year 3 years (p.a.)



Source: Morningstar. Figures to 30 June 2026. Returns in sterling terms except High Yield Bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Markets remain resilient

The period began with strong equity returns as better-than-expected corporate earnings, continued strength in the technology sector and the Federal Reserve's return to interest rate cuts, boosted investor confidence. In the final quarter of 2025, concerns around high technology sector valuations and the level of AI spending emerged, but equity performance remained strong.

These trends continued into 2026, until the US and Israel's attacks on Iran at the end of February triggered a sharp fall in global equities, ending the first quarter of 2026 in negative territory. Global equities rebounded over the second quarter as investors refocused on resilient corporate earnings and renewed optimism around AI. Progress towards a peace framework and the reopening of the Strait of Hormuz helped push energy prices lower, providing further support for global equity markets.

Central bank policy developments

During the second half of 2025, the Bank of England reduced interest rates by 0.5% to 3.75%, while the Federal Reserve resumed its rate cutting cycle in late 2025, lowering rates by 0.75% to 3.75%. Both central banks paused further cuts in 2026, particularly following the escalation of conflict in the Middle East and the potential inflationary pressures this created.

Equity market performance

Despite periods of volatility driven by geopolitical events, global equity market performance was positive over the 12 months to 30 June 2026. Asia Pacific ex Japan and Japan were the strongest-performing regions, supported by their significant exposure to the technology sector, particularly chipmakers.

Fixed income and credit markets

Bond markets also delivered positive returns. Gilt returns were positive despite yields rising over the period (bond prices fall as yields rise). Political uncertainty in the UK and conflict in the Middle East pushed yields higher during April and May 2026, but the income on bonds offset the price drop, resulting in a modest positive performance.

Corporate bonds outperformed government bonds, supported by strong earnings growth. High-yield bonds delivered robust 12 month returns as credit spreads (the additional yield received on corporate over government bonds) fell over the period (bond prices rise as spreads fall). Emerging market bonds delivered strong 12-month returns, benefitting from a stronger US dollar.

HYMANS ROBERTSON

INVESTMENT SERVICES

AUTHOR

Jack Richards / *Investment Manager*

jack.richards@hymans.co.uk