Monthly Market Commentary from Chief Investment Officer, Andrea Ciaccio
As of 31 August 2026

Market Review

For more than five decades, traders have done well by heeding the maxim “don’t fight the FED”, coined by renowned market strategist Martin Zweig in 1970. But following the latest string of market interventions and policy announcements from Scott Bessent, it increasingly appears that a new sheriff is in town and the famous phrase may necessitate an update: “don’t fight the Treasury”. First came the rare joint intervention by the US and Japan on July 31st to strengthen the Japanese Yen (JPY) after the currency had fallen to a 40-year low against the US Dollar (USD). The last time the US participated in such a support operation was in June 1998, while in August 2011 the Group of Seven (G7) coordinated actions to weaken the JPY. However, the decision to step in was only part of the story. On August 3rd, Bessent revealed that the Treasury had sold Euros, and not greenbacks, from its Exchange Stabilization Fund (ESF) to fund JPY purchases. The transaction was conducted with such secrecy that the US blindsided the European Central Bank (ECB), informing its President, Christine Lagarde, only after the multi-billion-dollar trade had already been executed by the Federal Reserve Bank of New York. According to the Financial Times, European officials privately criticised the US for carrying out the sale without warning, characterising it as an unprecedented breach of longstanding convention.

The US Treasury Secretary did not stop there, though. He pledged to do “whatever it takes” to bolster Japan’s effort to defend the value of its domestic currency and, to that end, called on the FED to expand its so-called Foreign and International Monetary Authorities (FIMA) facility. FIMA allows eligible foreign central banks to obtain dollars from the FED by pledging US Treasuries as collateral, obviating their need to liquidate their reserves into a possibly illiquid market. It currently has a $60 billion per-counterparty limit. The facility was created in March 2020 amid the turmoil of the COVID-19 pandemic and made permanent in 2021. Designed as a temporary emergency backstop to safeguard the functioning of the global dollar funding markets, its use has been minimal outside of the banking turmoil of 2023. Raising its ceiling would transform what had been a largely dormant liquidity mechanism into a potentially valuable tool for implementing official foreign-exchange intervention. As Japan is one of the world’s largest holders of US government debt, the (unusual) proposal appears aimed less at supporting the JPY than at protecting the Treasury market from an additional source of forced selling. Moreover, it raises concerns that the US may be moving closer to a regime of “fiscal dominance”, in which the size of FED’s balance sheet is dictated by the Treasury's borrowing needs.

The probability of a similar scenario became more pronounced after the US Government disclosed on August 19th that gross federal debt had crossed above $40 trillion for the first time. The milestone came only five months after public liabilities had passed $39 trillion and less than a year after they crossed $38 trillion. Since early 2017, the national debt has more than doubled. The rapid increase reflects rising longer-term US obligations linked to social security and healthcare programmes like Medicare and Medicaid, while tariff-related refunds and reversals added to the near-term financing burden. The growing cost of servicing the debt is adding to the pressure. Through July, net interest had reached $931 billion, meaning that this item absorbed 20.8% of receipts during the first ten months of fiscal 2026. At that pace, net interest would annualise to approximately $1.12 trillion, exceeding defence spending and stressing the sensitivity of the fiscal position to higher borrowing costs. Understandably, as the US 10-year yield repeatedly tested the 4.70% level during the month, threatening to break above it, Bessent was not amused. In addition, the 30-year yield rose to its highest level since June 2007, generating a lot of consternation given its direct transmission into mortgage rates and further constraining a US housing market mired in an "affordability" crisis.

Eventually, Bessent intervened again. Just two weeks after the Treasury released its quarterly buyback schedule, he announced an emergency expansion of the program, targeting nominal government bonds in the 10-to-20-year and 20-to-30-year maturity sectors and doubling the ceiling from $2 billion to at least $4 billion per operation. In an interview with CNBC on August 20th, he stated that the administration believed that "yields don't reflect the underlying fundamentals" and that he had "asymmetric information" that enabled him to execute what he termed a "Treasury twist". In an ironic turn of events, Stanley Druckenmiller, possibly the most successful investor of all time and Bessent's mentor during his tenure at Soros Fund Management in the 1990s, penned an article for the Wall Street Journal (WSJ) urging the Treasury to focus on deficit reduction and entitlement reform. Druckenmiller's message was that instead of attempting to manipulate borrowing costs we should "let the bond market speak", a position that Kevin Warsh appeared to channel during his second press conference as FED Chairman back in July. Interestingly, Warsh spent fifteen years working alongside Druckenmiller at the latter's family office, which he joined as a partner in 2011. The three men who once shared the same intellectual orbit now find themselves on opposite sides of the Treasury market.

International Equities

US equities started August on a strong note but ultimately spent most of the month trading within a choppy range. The Dow Jones Industrial (+1.34% in USD terms) and the S&P 500 (+2.62%) broke to new all-time highs during the first week of trading, while the Nasdaq 100 (+4.18%) remained below its peak recorded on June 3rd despite recording the strongest returns. Following its sharp sell-off in July, the Philadelphia Stock Exchange Semiconductor posted muted gains as Citadel reported that it had unwound more than 80% of the aggregate risk from the original portfolio of the collapsed hedge fund Situational Awareness, which it had acquired at the market's lows and was heavily concentrated in chipmakers. Meanwhile, the "Magnificent Seven" group of stocks continued their rebound, outperforming the rest of US large caps for the second month in a row. Tesla, Nvidia and Microsoft led the gains, followed by Meta and Apple, while Amazon and Google ended August in negative territory. Software stocks experienced a renaissance, driving the S&P North American Expanded Technology Software Index, which includes behemoths the likes of Microsoft, Palantir, Oracle and Salesforce, to its second best month on record. The Nasdaq CTA Cybersecurity Net TR Index was up double digits, achieving an even more impressive feat by breaking to new all-time highs and seemingly putting to rest all the talk of a "SaaSpocalypse". Investors also shrugged off concerns surrounding private markets, with the Red Rocks Global Listed Private Equity Index and the Cliffwater BDC index, which provides exposure to a diversified pool of private credit assets, posting robust gains. As highly speculative stocks caught a bid, the S&P 500 High Beta Index trounced the S&P 500 Low Volatility TR Index by more than 6%, while the VIX Index, the market's gauge of expected volatility, tumbled to its lowest level since November 2024.

Five sectors outperformed the broader index in August, with energy topping the list, followed by technology, healthcare, materials and communication services. Within the medical segment, biotech was a standout performer, as Moderna more than doubled after its mRNA-based cancer therapy met its main goal in a large, late-stage trial. Financials and consumer discretionary rose but lagged the S&P 500, while utilities, industrials, real estate and consumer staples declined amid a broad rotation out of defensive sectors. US equities eked out a modest outperformance versus the rest of the world (as exemplified by the MSCI AC World Index ex USA TR Index) but remained well behind on a YTD basis. Emerging markets were the best performing region as South Korea and Taiwan benefited from renewed confidence in semiconductor and memory-related stocks, while their domestic currencies strengthened against the greenback on the back of record trade surpluses. Japan came second, driven higher by AI-related names and banks, even as the JPY ended August slightly weaker than a month earlier. Conversely, expectations of imminent rate hikes weighed on Europe. All in all, the MSCI AC World Daily TR Index was up +2.67% in USD terms and +0.64% in AUD terms.

Australian Equities

Australian equities rose in August as the reporting season saw results generally around or ahead of expectations, despite signs of a gradually slowing economy and a more cautious outlook. The S&P/ASX 300 was up +1.62% on the back of the solid gains posted by healthcare and materials. CSL continued to rise from oversold levels to buoy the former. The latter tracked the price of precious and industrial metals higher, with gold, silver and iron ore jumping +9.64%, +15.35% and +4.35% respectively, while copper recorded its highest monthly close in history. Technology, energy and utilities also outperformed the general index, while consumer discretionary and financials suffered steep losses. Retailers fell amid concerns over a downturn in the housing market, higher-for-longer rates and softer consumer spending, while banks lagged the benchmark by the most since November 2021. Index heavyweights Goodman Group and Scentre Group weighed on A-REITs. However, losses were widespread within the segment following the placement of Bathla Group into voluntary administration on August 25th. The property developer succumbed to a mounting load of debt and unpaid bills, softening sales and higher construction costs, leaving a hole of A$3.4 billion. Finally, mid-caps and smaller companies recorded their best month of relative performance vis-à-vis the Top 20 since April 2020.

International Fixed Income

Only two major global central banks met in August, and they both left interest rates unchanged. The Norges Bank, Norway’s central bank, held at 4.25%, noting that inflation had slowed more than projected but was still “too high”. The Riksbank, Sweden’s central bank, extended its pause to seven consecutive meetings on August 20th.

Kevin Warsh’s Jackson Hole speech on August 28th was the main event of the month. The Chairman surprised markets by adopting a deliberately hawkish tone, echoing his first address in June and contrasting with the more dovish communication delivered in July. He reiterated that the 2% objective is a “firm, fixed target” and that “price stability is not self-executing” but rather “it is the FED’s job” to deliver it. He brushed aside discussions about the central bank’s balance sheet, asserting that “short-term interest rates are the predominant tool” and that “unconventional policies” should be reserved for genuine crises. He remarked that the economy “appears to have strengthened”, before opening the door to a September hike by observing that “inflation is running above our 2% target” and that, as a result, the “FED’s predominant focus right now should be on prices”. He concluded by warning that, should underlying inflation fail to move in the right direction at sufficient speed, “we have work to do”. The yield curve experienced a minor flattening in the US, while it transposed higher in the Eurozone as inflation in the Old Continent accelerated to +2.9% in July. France’s 10-year yield climbed to its highest level since November 2008 on the back of chronic fiscal concerns compounded by political uncertainty ahead of next year’s presidential election. The 10-year OAT/Bund spread, that is, the difference between the yield paid by the

French government and the yield offered by the German government, widened to its highest level since June 2012, reaching 85 Bps. Japan was one of the worst performing major bond markets in August, falling for the seventh month out of eight in 2026 in local currency. Credit continued to track well, with emerging markets and high yield among the best performing segments, while investment grade spreads withstood heavy issuance. The Bloomberg Barclays Global Aggregate Index hedged back to AUD was up +0.16% for the month.

Australian Fixed Income

On August 11th, the RBA left the cash rate at 4.35%, extending its pause to two consecutive meetings. During her press conference, Governor Bullock stated that “it’s quite possible” that further tightening will be required as the central bank “remains concerned about the upside risks” of inflation. However, she tempered these comments by noting that labour-market conditions had eased somewhat and that new housing loans had declined noticeably. Domestic data were once again mixed. The Australian Bureau of Statistics (ABS) reported that headline CPI moderated to +3.5% over the year to July 2026, while the CPI Trimmed Mean was stable at +3.6% YoY. Both measures exceeded expectations of +3.3% and +3.5% respectively. Moreover, underlying inflation rose +0.5% MoM, its strongest monthly increase since July 2025. Conversely, jobs data pulled back in July following two exceptionally solid months of hiring. Employment declined for the second time in 2026, shedding 15,800, while the unemployment rate edged up to 4.5%. The yield curve transposed higher, with the 2-, 5- and 10-year yields adding 17, 16 and 17 Bps to 4.69%, 4.71% and 5.09% respectively. The Bloomberg AusBond Composite 0+ Yr Index returned -0.22% in August, marginally trailing global fixed income. At the end of the month, cash rate futures were pricing in one further hike, with a 100% probability of the move occurring in Q4 2026. The Australian Dollar strengthened across the board, reaching multi-month highs against major European and Asian currencies.

Real Assets

Global property dropped -3.08% in USD terms and -5.00% in AUD terms for the month, with all regions generating negative returns. Asia and the UK curbed losses, while Australia continued to struggle. National dwelling prices were down -0.7% in July, their fourth decline in a row, signalling that the housing downturn was broadening and deepening amid government tax changes and a tighter monetary stance.

Global infrastructure slid -2.37% in USD terms and -4.30% in AUD terms in August. Momentum deteriorated further for US electric utilities as sentiment towards data centres cooled off, while UK-listed water continued to shine, diverging from the rest of the sector.

Alternatives

Alternatives (+1.35%) posted their largest gains since April, fully reversing July’s drawdown. Trend following and macro mandates successfully navigated the commodity complex, while short covering continued to be a headwind for Long/Short Equity managers.

Market Outlook

In 2010, at the start of the European debt crisis, hedge fund manager Hugh Hendry famously told investors: “I would recommend you panic.” Fast forward to today, and the bond market is starting to look like it is heading for a collapse. The US 10-year yield has surged towards 5%, raising fears that yields could move materially higher from here. The speed of the move has been striking, and so too has its breadth. Yields have spiked across Japan, Europe, the UK and Australia, making this a broader global rates shock rather than a US-specific phenomenon. While the end-of-the-world narrative may appear very compelling at this juncture, we are fading it. This is not the time to panic. Rather, this is the first time in three years that fixed income is offering value to investors.

There are several explanations being put forward by the “doomers” for the recent move in yields, but we find them unsatisfactory. The first is concern over the sustainability of US fiscal policy. The sheer size of the public debt implies that approximately $8 to $9 trillion of existing Treasuries now needs to be rolled over each year, in addition to new borrowing required to finance the fiscal deficit, which is projected to exceed $2 trillion in fiscal year 2026. This represents a substantial and recurring demand for capital and raises legitimate questions about the capacity of the market to absorb growing Treasury supply. However, we do not consider these structural considerations as the primary explanation for the recent move in yields. The (unsustainable) trajectory of the US debt and deficits has been well known for some time. While the deterioration of US public finances appears to be unstoppable, and more public spending seems to be the only bipartisan policy, there is limited evidence that investors have suddenly reassessed this issue.

The second explanation relates to Japan and the foreign-exchange market. The JPY has remained weak as the Japanese monetary stance has stayed extremely accommodative. At the time of writing of this note (September 18th), the Bank of Japan (BOJ) has just increased its policy rate to 1.25%, while in July 2026 workers’ wages grew by +4.7% YoY in nominal terms, the fastest pace since 1997, and by +2.4% in real terms, a seventh consecutive month of gains. Japan is also a major holder of US Treasuries, with holdings of more than $1 trillion. This has fuelled speculation that Japanese authorities could sell part of their Treasury portfolio to support the JPY, thereby creating additional pressure on US yields. While the potential is there, so far, we have seen little trace of large-scale selling activity. Moreover, the JPY has recently strengthened vis-à-vis the greenback, yet its appreciation has not provided any meaningful respite to the bond market. If Japanese repatriation and Treasury selling were the primary drivers of the recent move in US yields, we would expect a stronger JPY to coincide with some stabilisation in Treasuries. That has not happened.

A third factor is the rapid expansion in debt issuance by the so-called hyperscalers. These technology companies are increasingly competing with the US Treasury for long-duration investor capital. According to data compiled by Michael Cembalest of JP Morgan Asset Management, annual investment grade debt issuance by the five major hyperscalers (Microsoft, Amazon, Alphabet, Meta and Oracle) plus Nvidia was below $50 billion for most of the period from 2015 through 2024. That figure increased to approximately $180 billion last year and ballooned to $320 billion in the first eight months of 2026, if we include Special Purpose Vehicles (SPVs) for which these companies are backstop obligors on data-centre leases. Investors who previously allocated capital to Treasuries now have a much larger pool of investment grade corporate bonds competing for the same duration exposure. One way to gauge the significance of this trend is to compare hyperscaler issuance with Treasury bond issuance. A few years ago, the former represented less than 10% of the latter. That ratio increased to approximately 30% last year and has approached 70% this year. This rapid surge in long-duration corporate supply has therefore created a meaningful marginal demand dynamic and may help explain why the pressure has been particularly pronounced at the long end of the Treasury curve. However, we believe this is likely to be a temporary rather than a permanent shift in the bond market. Investment in AI infrastructure remains substantial, but the exceptionally rapid increases in capital expenditure seen among the major technology companies are unlikely to continue indefinitely at the same pace. A moderation in the rate of capex growth would, in turn, reduce the need for incremental corporate borrowing.

The simplest explanation for the broader rise in yields is the strength of the economy. In our opinion, the current environment is better understood as a normalisation of yields consistent with resilient global growth, particularly in nominal terms, robust earnings and, as a result, inflation rates which are running above targets in most major economies. This is particularly evident in the US, where the 2-year yield has historically exhibited a strong correlation with the FED's target rate as it incorporates market expectations for the path of monetary policy. With the former around 4.6% and the latter's midpoint of the range at 3.625%, the bond market was literally screaming that a meaningful degree of tightening was required. The scale of the repricing that has already occurred in 2026 is also significant. On the eve of the start of the Iran war, the curve was pricing approximately 84 Bps of cuts by the end of 2027. The market has now moved to price in four hikes over the same period, an abrupt and brutal adjustment. Thus, if there ever was a time to panic about the bond market, we surmise that it was 6 months ago, certainly not today. In this context, the FED's decision to hike by 25 Bps at its September 16th FOMC meeting was consistent with market pricing. The probability of an increase had been around 90%, making a decision not to move an unusual outcome given the degree of conviction already embedded in asset prices. The hike also reinforced the message that the central bank remains willing to respond to persistent inflationary pressure and is prepared to maintain its policy independence.

Our base case is that the recent decision is unlikely to mark the beginning of a prolonged tightening cycle. A further hike remains possible, potentially in December or later depending on the inflation and growth data, but we do not currently expect all of the additional hikes embedded in the curve to be delivered. The US economy remains strong, but several of the factors that supported the acceleration in nominal growth are beginning to moderate at the margin. The fiscal largesse remains substantial, but its rate of change, defined as the fiscal "impulse", is expected to wane after the midterms. That is, unless Trump is successful in sending every American adult $5,000 if Republicans retain control of the House and Senate. However, as things stand today, tax and tariff refunds are largely behind us. As highlighted above, while corporate capex remains historically elevated, higher yields could start to constrain the pace of future investment. For these reasons, we are open to the possibility that the US economy will cool off from here. However, we are not predicting a recession, nor do we believe that one is necessary for the bond market to become an opportunity. A moderation in the pace of growth, fiscal stimulus, capital expenditure and corporate debt issuance could be sufficient to reduce the pressure on interest rates. US inflation remains above the FED's target, and its persistence over recent years has raised questions around the central bank's ability to restore price stability sustainably. At present, however, a significant portion of the recent price pressures appears to be associated with energy. For once, the US president may well be correct when he says that "gasoline is going to drop like a rock" once the war is over. The obvious caveat is that neither we, nor perhaps even he, have any meaningful visibility on the duration of the conflict or the path it may take from here.

Against this backdrop, we are constructive on fixed income on the back of higher yields, which have materially improved the prospective carry available to investors, combined with a significant amount of potentially unwarranted monetary tightening already reflected in the curve. This is even truer in Australia, where yields are now around 5% across the curve and above 5.5% at the long end. Our base case was that the RBA was done with hiking, but if it now delivers one or two additional increases, the resulting tightening could place further pressure on an economy where there are already indications of slower activity. The outlook for the equity market is instead more uncertain in the short term. Earnings growth has been running at approximately +30% YoY, but sustaining this rate indefinitely from current levels will be difficult. Higher interest rates and inflation are actively placing downward pressure on valuation multiples. If earnings continue to grow faster than equity prices, price-to-earnings (P/E) will naturally compress, providing some valuation relief even without a significant deterioration in corporate fundamentals. This adjustment may take time. Moreover, volatility has been relatively subdued despite a vastly different macroeconomic and geopolitical backdrop, and the potential for some turbulence as we enter a seasonally weaker period should not be discounted. A 10% correction would represent a meaningful adjustment in valuations but would not in itself signal a change in the broader market regime.