Monthly markets review - August 2026

Schroders · 2026-09-04 · English original

A look back at markets in August when equities gained amid a renewed advance for technology stocks.

The month in summary:

Global equities gained in August with the information technology sector strong amid some robust corporate earnings. In bond markets, the focus was on evolving expectations for US interest rates amid mixed signals from economic data and a hawkish speech from Fed Chair Warsh. Commodities gained, led by agriculture as worries mounted over the potential impact of the El Niño climate pattern.

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Global equities

Global equities, as measured by the MSCI World Index, advanced by 2.6% in August. Strong corporate earnings, resilient economic data and continued investment in artificial intelligence (AI) infrastructure helped support investors' risk appetite. Technology-related shares remained an important driver of returns, as demand for semiconductors, cloud computing and other AI-enabling technologies remained strong.

Market sentiment became more cautious towards month-end as investors reassessed the outlook for inflation and interest rates. Rising oil prices, renewed conflict in the Middle East and higher government bond yields prompted concerns that central banks could face a more challenging path towards monetary easing. The markets also had higher expectations that the Federal Reserve (Fed) could raise interest rates after the Fed Chair delivered hawkish comments at the Jackson Hole Economic Policy Symposium.

While the month's performance was strong, the volatility seen at month-end reflected investors' sensitivity to developments that could reignite inflation pressures or challenge elevated equity valuations.

US equities generated another positive month, with the S&P 500 climbing 2.7%. Corporate earnings generally exceeded expectations, while investors continued to favour businesses positioned to benefit from AI-related spending and digital infrastructure investment. Record highs reached during the month reflected confidence in both earnings growth and the broader economic backdrop.

Energy, information technology and materials were the strongest-performing sectors. Energy benefited from higher oil prices as geopolitical tensions in the Middle East increased concerns about potential supply disruptions. Information technology continued to draw support from strong demand for AI-related software, semiconductors and computing infrastructure. Materials performed well as investors favoured companies tied to industrial activity, infrastructure spending and the demand for commodities linked to technology supply chains.

Utilities and industrials lagged during the month. Higher bond yields reduced the relative appeal of defensive, income-oriented sectors such as utilities, while industrial companies faced pressure as investors preferred sectors with stronger earnings momentum.

Eurozone stocks edged higher amid gains for the information technology, communication services and financials sectors. Within information technology, software had a particularly strong month. Meanwhile, more defensive areas of the market tended to underperform with negative returns from real estate, utilities and consumer staples.

Eurozone annual inflation for July was confirmed at 2.9%, well above the 2% target. Markets continued to anticipate an interest rate rise at the European Central Bank's September meeting. The flash eurozone purchasing managers' index rose to 52.1 in August, up from 52.0 in July, amid a stronger expansion in the manufacturing sector.

UK stocks, as measured by the FTSE All-Share index, made a small advance in August but lagged other regions. The basic materials sector was the top performer but there were declines for health care, energy and consumer staples. The FTSE 250 index of smaller companies fared better, with basic materials again the top gaining sector.

Data from the Office for National Statistics showed the UK economy grew by 0.4% in Q2. Annual inflation for July rose to 2.9%, the highest rate in four months, but this was largely down to the increase in the energy price cap.

Japanese equities delivered solid gains in August, with TOPIX Total Return index up 3.9% and the Nikkei 225 up 3.0%. Volatility remained elevated due to changing expectations for US interest rates, Middle East tensions, and coordinated Japan–US currency intervention to support the yen.

Investor sentiment was supported by earnings results for April–June quarter, as many companies exceeded expectations and strong performers led the market higher. AI-related stocks also gained despite concerns over free cash flow at AI data-centre operators, supported by continued infrastructure investment and robust demand. Banks contributed as expectations for further Bank of Japan rate hikes increased.

Emerging market (EM) equities posted positive returns in August in US dollar terms, outperforming developed market peers as measured by the MSCI World index, with strong returns from South Africa, Korea and Taiwan. A tech-led rebound, a weaker US dollar and commodity strength supported positive returns from the EM index. This helped offset the impact of an escalation in the Middle East conflict, which somewhat weighed on sentiment and kept oil prices volatile, while the focus on rising global bond yields had a more muted impact in EM than developed markets.

South Africa was the EM index's top-performing market in the month, posting double-digit returns, as it benefitted from strength in precious and industrial metals coupled with positive news on the macro front as headline inflation readings surprised to the downside. Taiwan was also a standout performer, as markets regained some confidence in the continuation of the AI infrastructure buildout benefitting semis, memory and hardware stocks. The Saudi Arabian, Polish and Korean markets also gained, outperforming the MSCI EM Index. In Korea, the market reclaimed some of its losses following its sharp fall in July. Continued strong earnings and revenue guidance from major AI-related companies helped alleviate concerns around the sustainability of the AI investment cycle.

Conversely, over the month, the smaller markets of the Czech Republic, Chile, Peru and the UAE ended modestly behind the benchmark despite posting positive absolute returns in US dollar terms. India and China underperformed the MSCI EM Index, both posting broadly flat returns. In India, encouraging signs from continued institutional investor inflows and strong Q2 2026 GDP growth at 7.8% were dampened by an outlook of elevated oil price volatility, higher rate expectations and the market's relatively demanding valuations limiting performance. In China, weak economic data and subdued domestic demand weighed on sentiment, while weakness in internet stocks offset gains from healthcare and materials companies.

Brazil was the key underperformer among the larger index markets, as economic data pointed to slowing growth and political developments came to the forefront with the October presidential election looming. The smaller markets of Thailand, Colombia and the Philippines were the largest EM underperformers in the month.

The MSCI AC Asia ex Japan Index rose 3.3% in August. Regional performance was supported by ongoing investment in technology infrastructure, improving export trends in several markets and continued demand for semiconductors and electronic components tied to AI development.

Materials, healthcare and information technology were the best-performing sectors. Materials benefited from the continued expansion of AI and semiconductor supply chains, which boosted demand for the specialised chemicals and industrial materials required to support chip production and data centre development. Healthcare saw particularly strong gains in pharmaceutical, biotechnology and life sciences companies. Information technology advanced as investors continued to favour companies exposed to semiconductor manufacturing, hardware production and broader digitalisation trends.

At the country level, Taiwan and South Korea continued to benefit from their central role in global semiconductor production and AI-related supply chains. Singapore also posted strong gains for the month, with banks leading the way as investors were drawn to their robust earnings and attractive dividend payouts. China and India experienced modest declines amid ongoing concerns about domestic demand and economic growth, as well as rising oil prices and higher global bond yields.

Global bonds

Challenges to global bond markets grew in breadth and depth in August. Bond yields generally rose again (moving inversely to price) with the key considerations of resilient inflation data, elevated energy prices and softer activity data. This was further complicated by uncertainty around central bank reaction functions. The latter factor was of particular relevance in the US, where narrative from the Federal Reserve (Fed) seemed at odds with actions of the US Treasury.

The Federal Open Market Committee (FOMC) had left rates unchanged at 3.50%–3.75% in July, while in August inflation remained above target and the labour market near full employment. However, softer payroll data and weaker retail sales tempered expectations for more immediate action to bring inflation back to target. US Treasury yields rose over the month, with headlines focusing on 30-year Treasury yields reaching 5.31%, their highest levels in almost two decades, prompting the US Treasury to announce that it would at least double the size of its buyback operations for longer-dated Treasuries.

Initial market response was positive with 30-year Treasury yields ending the month lower at 5.25%, but with the market now questioning whether attempting to suppress long-term yields could weaken policy credibility and the impact on the Fed's ability to fight inflation. Accordingly, attention turned to Fed Chair Warsh's speech at the annual Jackson Hole symposium, which ultimately delivered a more hawkish tone, as Warsh reaffirmed the 2% personal consumption expenditure target, that Fed Funds remained their primary policy tool and stating that unless inflation was moving clearly towards their objective "we have work to do."

Elsewhere, despite some more encouraging inflation data and signs of a cyclical pick up in Germany, the tone from the European Central Bank (ECB) remained relatively hawkish. Any brief encouragement the markets received from better inflation data was snuffed out by rising oil and gas prices. With markets pricing a further two hikes from the ECB, it was notable that ECB executive board member Isabel Schnabel appeared to support that expectation, stating that markets “seem to understand our reaction function very well.” European government bond yields continued to increase over the month with core and peripheral yields all reaching highs not seen in over a decade.

In the UK, markets continue to price further hikes from the Bank of England, noting that inflation remains closely tied to energy prices. Investors also remain wary that any cost-of-living initiatives being discussed by new Prime Minister Andy Burnham be implemented without undermining fiscal discipline. Similar to the US and Europe, long-end borrowing costs remain under pressure having reached levels not seen since the 1990s.

Japanese government bond yields were amongst the worst performers over the month with the Bank of Japan maintaining excessively accommodative policy given elevated inflation, which also appeared to reinforce the weakness of the yen. In August, Japan’s Ministry of Finance confirmed that together with the US Treasury, they had conducted a co-ordinated foreign exchange intervention to support the yen (selling US dollars and buying yen). Intervention provided temporary relief; however, consensus remains that to correct for yen weakness amplifying inflation, the BoJ need to hike rates and reduce interest rate differentials.

In credit, US investment grade (IG) and Euro denominated IG spreads were left almost unchanged over the month. Despite strong corporate credit fundamentals, investors continue to see IG as expensive and potentially vulnerable to higher interest rates, heavy issuance and geopolitical shocks. Balance sheets remain most resilient in highest quality borrowers, but with some signs of pressure in lower rated issuers. In the US, IG issuance exceeded $145 billion by 24 August, which is a record pace for this month with the greatest issuance in AI related names. All-in yields remained attractive despite the tightness of spreads and supportive of income-oriented demand.

Commodities performed well in August with the S&P GSCI index returning 6.1% (source: FactSet, US dollars). The agriculture component led the advance amid worries over the potential impact of the El Niño weather pattern. In addition, Russia and Ukraine focused attacks on each other’s agricultural exports.

Elsewhere, oil prices remained elevated as the crisis in the Middle East persisted. Gold drew support from its status as a store of wealth following news that the US Treasury would increase purchases of long-dated debt, which put pressure on the dollar.

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