Monthly Macro Insights — August 2026

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As the second half of 2026 gets underway, the global economy is being pulled in opposite directions. The powerful tailwinds generated by technological innovation and business investment are colliding with a more challenging backdrop of geopolitical tensions, trade fragmentation and rising long-term interest rates.

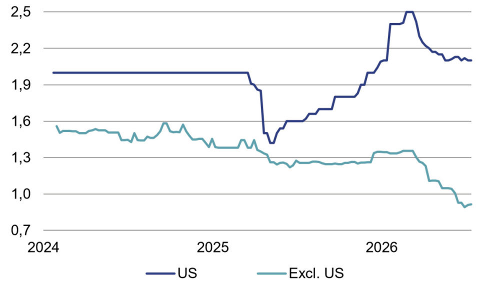
Rising yields amid resilient growth

Geopolitical tensions in the Middle East remain a source of uncertainty for energy markets and global supply chains, while President Trump's renewed tariff agenda is raising trade barriers and weighing on business confidence. Although the direct economic impact of these measures has so far been relatively limited, the risk of further trade fragmentation remains an important concern for the global outlook.

At the same time, a powerful counterweight continues to support economic activity, particularly in the U.S. Investment linked to artificial intelligence (AI) remains exceptionally strong, helping to sustain corporate profits, equity markets and business spending even as other sectors face a more challenging environment. While it is still too early to conclude that AI is generating a broad-based productivity revolution, the sector has become one of the principal engines of global growth and investor optimism.

Adv. eco. - Growth forecast

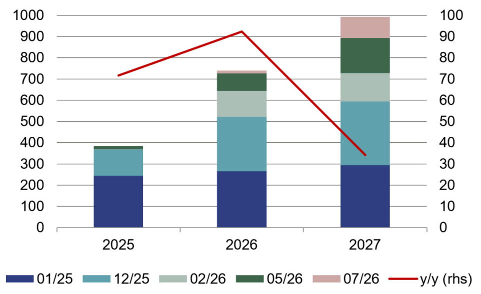
in %, year 2026



Sources : Bloomberg, Rothschild & Co Asset Management.

US - Hyperscalers capex forecast

in billion USD, in %



Sources : Bloomberg, Rothschild & Co Asset Management.

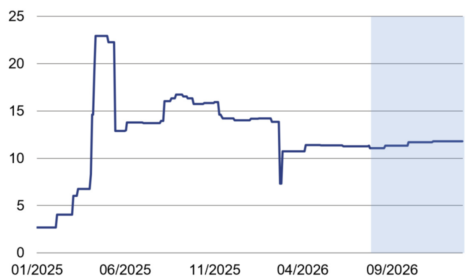
Another major development in recent months has been the sharp rise in long-term sovereign bond yields across most advanced economies. Several factors have contributed to this trend. First, investors have become increasingly concerned that trade barriers, geopolitical disruptions and persistent inflationary pressures could force central banks to keep policy rates elevated for longer than previously anticipated. Second, governments continue to run large fiscal deficits and issue substantial amounts of debt, increasing the supply of sovereign bonds that markets must absorb. Concerns over fiscal sustainability have become particularly visible in the U.S., although similar dynamics are evident across many advanced economies.

A third factor is the growing recognition that the next phase of economic growth may be unusually capital intensive. The development and deployment of AI require massive investment in data centres, semiconductors, energy infrastructure and digital networks. As competition for capital intensifies between governments financing persistent deficits and private firms funding AI-related projects, the equilibrium cost of capital may rise structurally. In this sense, the AI revolution may not only boost productivity growth over time, but also contribute to upward pressure on long-term real interest rates by increasing demand for investment capital.

The rise in Japanese government bond yields deserves particular attention because of its potential implications for global financial stability. For decades, Japan's exceptionally low interest rates encouraged domestic investors to allocate large amounts of capital abroad, making Japanese institutions key providers of liquidity to international financial markets. As Japanese yields move higher, investors may increasingly choose to repatriate capital, reducing demand for foreign assets, including U.S. Treasuries and European government bonds. Such a shift could amplify upward pressure on global long-term interest rates and tighten financial conditions worldwide. More broadly, the normalization of Japanese monetary conditions marks an important transition for a global financial system that has long relied on Japan as a source of inexpensive funding. Although the adjustment has so far been gradual, a faster-than-expected increase in Japanese yields could trigger significant portfolio reallocations, increase market volatility and expose vulnerabilities among highly leveraged investors and financial institutions.

US - Effective tariff rate

in %



Sources : Yale Lab, Rothschild & Co Asset Management.

World - Sovereign LT yield

in %, Bloomberg index, 10 yr+

Sources : Bloomberg, Rothschild & Co Asset Management.

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Warsh’s communication gamble

Against this backdrop, the July meeting of the Federal Reserve attracted considerable attention. The Fed left the federal funds rate unchanged at 3.50%-3.75%, but the meeting was notable for the continued implementation of Chairman Kevin Warsh's new communications framework. Unlike his predecessors, Warsh has largely abandoned forward guidance and replaced lengthy policy statements with shorter communications focused primarily on current economic conditions rather than future policy intentions. As a result, the July statement offered little indication regarding the likely future path of interest rates.

Warsh argues that excessive reliance on forward guidance distorts market behaviour by encouraging investors to focus on central bank projections rather than incoming economic data. His objective is to restore market discipline and reduce the perception that the Fed is pre-committed to a particular policy path. Yet this new approach has been met with growing scepticism. Indeed, the deliberate reduction in guidance obscures the Fed's reaction function at a time when inflation remains above target and policymakers themselves appear increasingly divided. By providing less information about the framework guiding future decisions, the Fed has made it more difficult for investors, businesses and households to assess how incoming data will influence monetary policy. Markets are therefore left trying to infer the Chairman's views indirectly rather than evaluating them against clearly articulated objectives.

These concerns are particularly relevant because much of Warsh's intellectual case for a less restrictive policy stance appears to rest on the belief that stronger productivity growth will eventually emerge from the current wave of technological investment. In his public remarks, he has repeatedly emphasized the importance of business investment and the potential for AI-related spending to raise the economy's productive capacity. However, evidence of a meaningful productivity acceleration remains limited and uneven. More importantly, Warsh has provided little indication of how heavily this expectation influences current policy decisions. If productivity growth ultimately succeeds in easing inflationary pressures, a more patient monetary-policy stance could be justified. If such gains fail to materialize, however, inflation could remain stubbornly above target and require further tightening. The lack of clarity leaves markets uncertain about which interpretation is guiding policy.

More fundamentally, Warsh's apparent attempt to revive a style of central banking associated with the Greenspan era, when policymakers often favoured strategic ambiguity over detailed communication, appears ill-suited to today's environment. Inflation has remained above the Fed's target for several years, fiscal deficits continue to widen, public debt levels are elevated and long-term interest rates have risen significantly. Under such conditions, credibility depends not only on policy actions but also on a transparent articulation of the framework underpinning those actions. The growing number of dissenting votes within the Federal Open Market Committee reinforces these concerns. As differences of opinion become more visible, a lack of clear communication risks fuelling speculation about future policy decisions and increasing financial-market volatility. From this perspective, the central issue is not simply whether the Fed ultimately raises or lowers rates, but whether markets can understand the reasoning behind those decisions.

Looking ahead, the global economy remains caught between powerful but opposing forces. On one side, the technology cycle continues to support investment, profits and growth. On the other, geopolitical tensions and elevated interest rates continue to weigh on confidence and financial conditions. While the baseline outlook remains constructive, the margin for policy error has narrowed. In an environment characterized by rising long-term interest rates, mounting fiscal pressures, sticky inflation and profound technological change, central-bank credibility and effective communication may prove just as important as policy decisions themselves in shaping economic and financial outcomes through the remainder of 2026.

US - Core PCE services ex-housing

in %

Sources : Bloomberg, Rothschild & Co Asset Management.

Japan - 10-Year sovereign yield

in %

Sources : Bloomberg, Rothschild & Co Asset Management.

Performance of the indices and interest rate levels

	Price as of 31/07/2026	1 month % change	2026 % change
Equity markets			
CAC 40	8 510	1.3%	4.4%
Euro Stoxx 50	6 358	0.5%	9.8%
S&P 500	7 490	-0.1%	9.4%
Nikkei 225	64 362	-8.1%	27.9%
Currencies			
EUR/USD	1.15	0.9%	-1.9%
EUR/JPY	181.43	-2.3%	-1.4%

Interest rates	Price as of 31/07/2026	1 month bp(1)	2026 bp(1)
3 month			
Eurozone	2.42%	4	30
United States	3.75%	-6	13
10 years			
Eurozone	3.21%	35	35
United States	4.73%	27	57

(1) Basis point.
Source: Bloomberg. data as of 31/07/2025. Performances in local currency.
Past performance is not a reliable indicator of future performance and is not constant over time. Index's performance is calculated on the basis of net dividend reinvested

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[1] Purchasing Managers' Index (PMI), an indicator reflecting the confidence of purchasing managers in a particular industry. A reading above 50 indicates expansion, while a reading below 50 indicates contraction.

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(1) Source: Rothschild & Co Asset Management, 31/12/2025.

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