Rothschild & Co
Wealth Management

# MARKET *OUTLOOK*

AUGUST
2026

## Key Takeaways

- Middle East strife resumes
- Economic impact still limited
- Markets largely rangebound

# Market Outlook

## Investment Backdrop

GROWTH
*Positive*

INFLATION
*Neutral*

POLICY
*Negative*

GEOPOLITICS
*Negative*

VALUATIONS
*Neutral*

MARKET DYNAMICS
*Neutral*

*Indicators reflect a qualitative assessment of current macro conditions.*

## Middle East ceasefire falters

The fragile US-Iran ceasefire collapsed in early July. As yet, resumed strikes by both sides are limited, and precisely targeted, while background talks seem to be continuing, but we are reminded anew of today's geopolitical fragility. That said, we also remain aware that the most troubling humanitarian developments sometimes have little impact in the narrowly-focused, technical world of finance.

## … but growth may continue

Oil prices have surged from around \$70pb at the start of July to hit \$100pb, before falling back (as we write) to \$88pb. Reserves are reportedly at multi-year lows, and regional shortages of refined products have been biting.

Nonetheless, economic disruption may remain muted. The most recent forward-looking business surveys, if anything, suggest a small increase in momentum, and from respectable levels.

Again, the single most important driver of growth seems still to be US private demand: household spending, and capital outlays by businesses. Importantly, consumers and corporates together have so far been able to spend more without needing to borrow. For corporates at least this seems likely to change if spending on AI-related capacity surges further, as planned. Such spending could itself absorb much of the US corporate sector's remaining free cashflow. Meanwhile, it is still unclear just how profitable – and sustainable – such AI capacity will ultimately be.

Growth in Europe remains (as usual) more subdued, though local business surveys have also ticked higher and the long-awaited surge in defence spending seems poised to make itself felt. China remains the fastest-growing of the big economies, but it is slowing, with ongoing headwinds from earlier overinvestment.

## Rates tilt upwards

Ongoing economic resilience may keep underlying inflation firm, even if oil prices stabilise. If unemployment stays low, core inflation rates seem unlikely to fall back to 2% targets and stay there.

At the start of the year we felt that interest rate expectations were too low. In place of that earlier profile of falling rates, money markets have been pricing-in rising rates during the rest of 2026. The ECB raised rates in June.

The catalyst for the change in views was the initial spike in oil prices back in March, but most recently markets have shared our view that there may be no room for cuts even in a world of lower oil costs. The new Chair at the US Federal Reserve has also been sounding more hawkish than his predecessor, underlining the shift in market expectations.

We didn't see things following this path, then, but interest rate expectations have ended up more or less where we thought they might. That said, the adverse impact on stocks remains smaller than we'd anticipated, because economic growth, and surging AI outlays in particular, has boosted corporate profitability.

## Volatility contained

Even after the latest re-escalation, this does not look like the "biggest ever energy shock" which some proclaimed it to be. On a long-term view, the Strait of Hormuz and oil itself are becoming less important, and more quickly than was already the case.

Against this backdrop, and with US corporate results comfortably beating expectations for a second successive quarter, the relative stability of stock prices looks less remarkable. Our own appetite for risk remains higher than it was in April/May (even though the business case for much of that AI investment remains unproven).

The shift in interest rate expectations has been hurting both bonds and gold. Bonds are not expensive, but the gold price however remains historically elevated.

# Asset allocation

## Stocks preferred tactically

Mosaique portfolios were positioned close to benchmark before the conflict. Initially in March we reduced our equity positions, but then returned them to neutral as the ceasefire approached. In June we moved to an overweight in stocks, as surging corporate earnings left short-term valuations looking less stretched, and closed our overweight in gold, as higher interest rates undermined its appeal. We stayed neutral on bonds. In euro and dollar portfolios the overweight was funded from an underweight in cash; in franc-based portfolios the underweight was in real estate. These positions have been maintained in July and into August.

Our concerns pre-conflict were stock valuations – particularly the elevated expectations surrounding what AI might be able to deliver – and the limited room (as we saw it) for interest rate cuts given the possibility of sticky inflation cited above. These concerns were then amplified by revived geopolitical uncertainty and the threat of economic disruption (which in the broader context of course were inconsequential when set alongside the grim human toll).

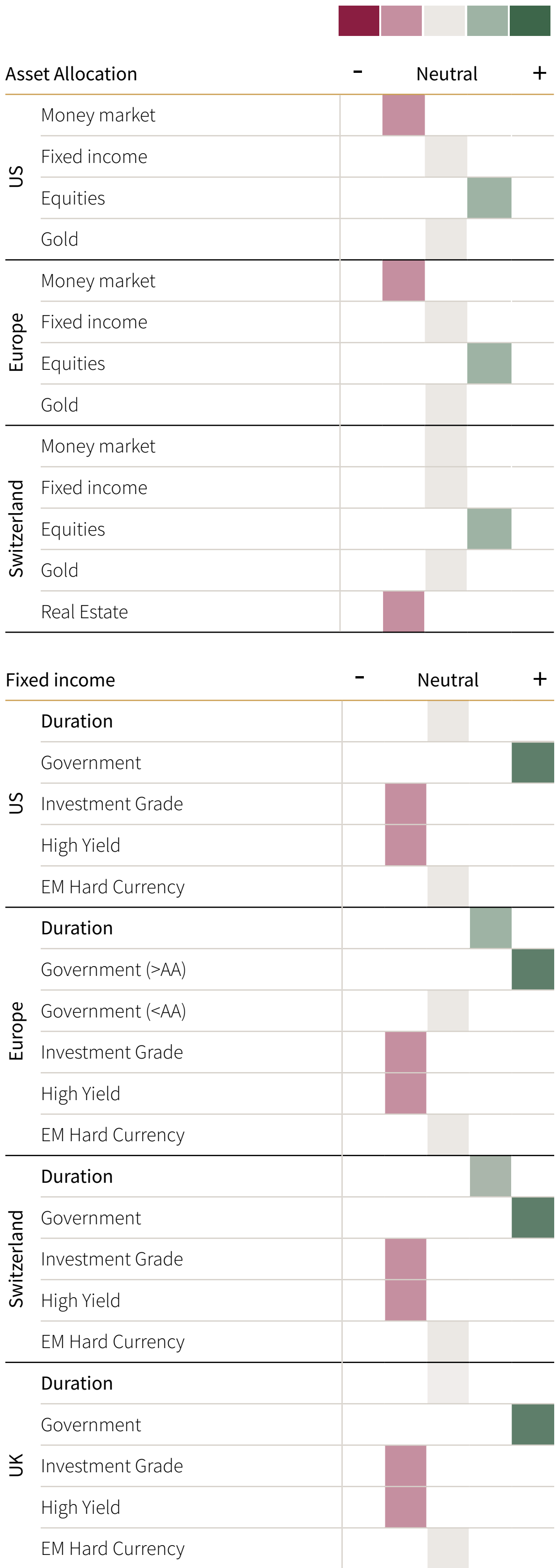
These concerns were then muted – or at least postponed – by subsequent developments. Interest rate expectations rebounded as noted – though not initially for the reasons we expected – and the profitability delivered by the surging AI-build-out pulled near-term valuations down. These developments have not been reversed by the revived conflict: indeed, at the margin we are adding a little more to risk at the equity sector level.

Longer-term we still doubt whether today's AI can have as many commercial applications as its advocates suggest: end-user demand remains unclear. However, the committed capital spending is clearly sustaining overall profitability for the time being at least. Within equities, we still have no strong regional views. At the sector level, a small number of AI-related and cyclical overweights – now including financials – are funded from real estate and consumer-orientated sectors.

Gold had risen a long way, and even though prices had already fallen somewhat we cut our overweight in June at a significant profit. The prospect of higher policy rates alongside a smaller headline inflation spike pointed to a firmer environment for real interest rates, and something of a regime-change for gold. So too, at the margin, did a less vulnerable US dollar and (perhaps) some easing in geopolitical tail risk.

We have stayed neutral on bonds. Firmer interest rates argued against them. These may now be priced-in, but longer-term yields seem still be to adjusting to an old "new normal", and the prospect of ongoing medium-term economic growth.

We again persevere with a preference in European portfolios for longer-dated issues, and generally for the highest quality (government) bonds: corporate bonds appear less reasonably priced, though to some extent this reflects an altered sectoral mix.



# Equity Regions

Staying regionally neutral

| Equity Regions | - | Neutral | + | |
|---|---|---|---|---|
| North America | | | | The US economy continues to do better than many feared. However, US stock market supremacy may be threatened by the MAGA agenda, while AI momentum seems to have spread to other regions. Earnings – largely at US technology providers, not users – continue to grow briskly here, which has allowed stretched valuations to regain some modest headroom. |
| Europe | | | | Growth had stabilised after several sluggish years, though surging energy costs are already pushing inflation higher - with possible consequences for interest rates. Its export-tilted stock market is no longer cheap, but if conflict fades – and global activity accelerates – then Europe may benefit. A defence-led boost to public spending is still being slowed by local political and fiscal concerns. |
| UK | | | | Growth has firmed, while inflation has remained persistently above target, undermining the scope for further big interest rate cuts. However, the low beta UK stock market can sometimes outperform by virtue of its idiosyncratic sectoral mix (energy and materials), and valuations are still supportive. |
| Switzerland | | | | A resilient economy (alongside no inflation and negligible interest rates) underpins the franc, but for local investors big weightings in healthcare – a source of US political tension – and consumer staples make this an inherently defensive – and global – market. |
| Japan | | | | Takaichi's political momentum and the promise of fiscal stimulus may have revived Japan's animal spirits. But domestic consumption remains sluggish, and interest rates are rising. Valuations are looking full, and Japan's shift to a more conventionally capitalist model is progressing slowly – the recent profitability trend is flat. |
| Pacific ex Japan | | | | This diverse region benefits from strong fiscal positions and stable growth, but is highly exposed to global trade cycles and China's economic performance. Firmer commodity prices help (notably Australia), but higher energy prices are a big headwind. Inexpensive valuations are muted by low RoE. |
| EM ex Asia | | | | Public and corporate governance is always an issue, and poor diversification – centred mostly around primary exports – and exchange rate volatility further undermine structurally low valuations. Latin America, Africa and Eastern Europe also lack Asia's structural growth appeal. |
| EM Asia | | | | Energy and trade uncertainties shadow the region tactically, but a constructive outcome is still possible. China's domestic property woes persist, but growth is stable, and fiscal and monetary policy are modestly supportive. Wider valuations are still attractive, but AI continues to be the dominant market theme, leading to big divergence in performance. |

# Equity Sectors

## Financials raised to overweight, utilities cut to neutral

| Equity Sectors | - | Neutral | + | |
|---|---|---|---|---|
| Energy | | | | Recent conflict-driven gains in energy prices have largely reversed, with oil prices retracing sharply from their highs. While earnings may still benefit from elevated price levels, our structural wariness on the sector remains in place. |
| Materials | | | | A highly cyclical sector that has been one of the big beneficiaries of AI-related infrastructure rollout. Renewed demand for inputs has steadily pushed commodity prices higher. Earnings are growing briskly, and valuations still look attractive. |
| Industrials | | | | Another capital-intensive cyclical sector that has benefitted from AI build-out and defence-related spending. Despite a setback, valuations remain expensive and relative earnings growth has slowed. |
| Utilities | | | | Infrastructure needs and AI-related capital and energy outlays may have been priced-in, leaving the sector looking defensive once again – at higher valuations. |
| Cons. Discretionary | | | | Consumer spending remains resilient, but signs of shifting demand are emerging across several segments, notably autos and luxury goods. Valuations are not cheap, and market leadership has increasingly shifted toward AI-related capex beneficiaries rather than consumer-led growth. |
| Cons. Staples | | | | Sector has offered some of the best long-duration (growth at a reasonable risk) investments in capital markets, but currently faces slowing revenues and contracting margins, putting earnings under pressure. Valuations are not cheap. |
| Communications | | | | Much like discretionary, the sector is dominated by two stocks – Meta and Alphabet. Valuations and earnings growth are respectable, but ambitious AI capital spending and potential disruption to advertising models leave us neutral on the sector. |
| Healthcare | | | | A long-duration – and defensive – sector by virtue of its structural growth (demography, technology) and relatively low risk (balance sheets, stable earnings). However, pharma has been dogged by US politics, and earnings growth remains lacklustre. |
| Technology | | | | One of the best performing sectors in recent years. The ongoing AI infrastructure and data-centre build-out continues to drive exceptional earnings momentum, particularly among semiconductor suppliers. Valuations look less demanding again as rising earnings expectations continue to support the sector despite its recent strong gains. |
| Financials | | | | Strong earnings results are reinforcing market momentum and capping valuations. Ongoing economic growth, and levels of interest rates which offer better net interest income, add to the sector's appeal. |
| Real estate | | | | Not to be confused with direct property holdings: these are mostly REITs or equities, and affected by management and leverage. Higher interest rates pose a headwind and supply imbalances in the commercial office segment point to underlying structural challenges. |

| Currencies | - | Neutral | + | |
|---|---|---|---|---|
| USD | | | | We remain neutral on the major currencies, which has been broadly appropriate for several years now. Indeed, the amount of exchange rate commentary generally may be in structural decline as the difficulties of accurately predicting tactical movements become ever more apparent. and those movements themselves seem less dramatic. The dollar's strength as the conflict erupted was not that marked, and has not lasted, but equally we see little chance of it losing its prime reserve status soon – despite that MAGA agenda: the call is not Mr. Trump's to make. We do implicitly take some currency positions as a result of our regional equity views, but these too for the time being remain broadly neutral, as noted above. |
| EUR | | | | |
| GBP | | | | |
| CHF | | | | |

# Market monitor

As at 31 July 2026

| Selected Bonds | Yield (%) | 1M (%) | YTD (%) |
|---|---|---|---|
| US Treasury | 4.4 | -0.3 | -0.1 |
| UK Gilt | 4.7 | -0.8 | 0.1 |
| German bund | 2.9 | -1.0 | -0.2 |
| Swiss Govt. bond | 0.3 | -0.8 | -0.7 |
| Japanese Govt. bond | 2.0 | -0.3 | -1.1 |
| Global IG credit | 4.0 | -1.0 | 0.1 |
| Global HY credit | 7.2 | -0.4 | 2.4 |
| Emerging Markets | 6.0 | -1.2 | 0.9 |

| Stocks: regions (USD) | 1M (%) | YTD (%) |
|---|---|---|
| Global | 0.1 | 22.1 |
| US | -0.1 | 18.7 |
| Europe | 0.6 | 21.6 |
| UK | 5.3 | 25.6 |
| Switzerland | 0.3 | 23.1 |
| Japan | 1.0 | 32.3 |
| Pacific ex Japan | 6.6 | 18.4 |
| EM Asia | -4.2 | 39.0 |
| EM ex Asia | 2.8 | 8.3 |

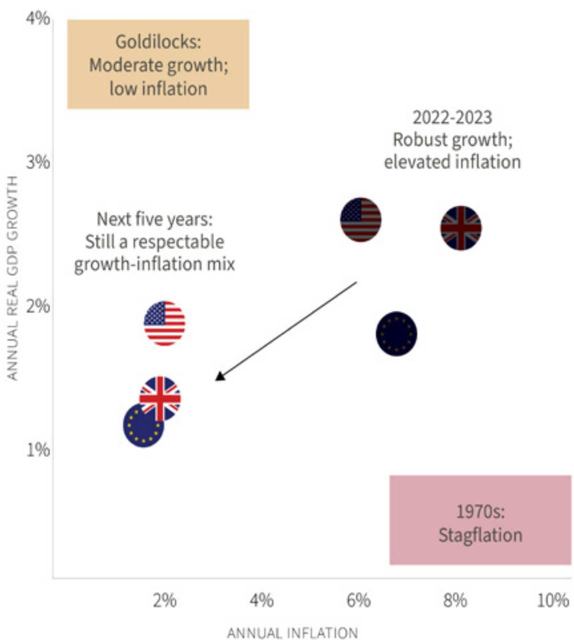
| Stocks: Developed Markets sectors (USD) | 1M (%) | YTD (%) |
|---|---|---|
| Energy | 12.7 | 41.3 |
| Real Estate | 2.6 | 14.5 |
| Financials | 6.5 | 21.5 |
| Materials | -0.5 | 25.9 |
| Communications | 0.2 | 14.3 |
| Discretionary | 1.8 | 6.6 |
| Utilities | -1.5 | 12.7 |
| Healthcare | 1.4 | 21.3 |
| Industrials | -1.2 | 18.8 |
| Technology | -4.1 | 27.5 |
| Staples | 2.4 | 8.4 |

| Commodities (USD) | Level | 1M (%) | YTD (%) |
|---|---|---|---|
| Brent crude oil | 90 | 23.6 | 48.1 |
| EU natural gas | 59 | 36.0 | 109.8 |
| Gold | 4,046 | 0.5 | -6.4 |
| Silver | 58 | -2.8 | -18.2 |
| Copper | 13,858 | 3.7 | 11.2 |

*Note: Government bond returns are local currency; Corporate & EM bond returns are USD (hedged); Stock returns are derived from MSCI indices in USD (unhedged); Spot commodities are USD, except EU natural gas (EUR). Units are USD/barrel for oil; EUR/MWh for gas; USD/t oz for gold and silver; USD/MT for copper.*

## Macro: The growth/inflation mix

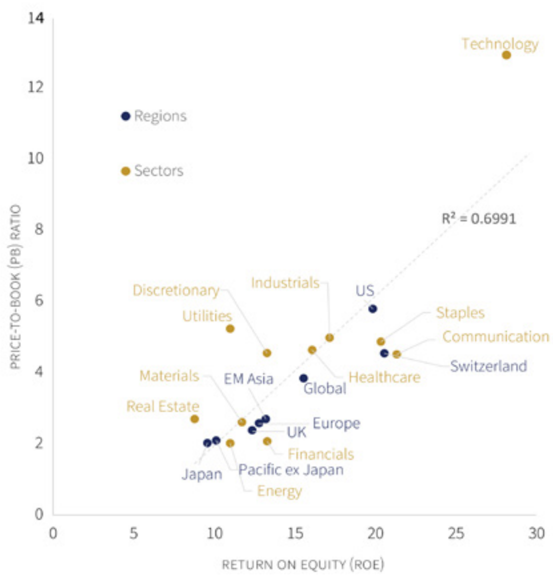
Economic growth remains solid, but inflation is still elevated compared to the ideal „Goldilocks“ environment.




*Source: Rothschild & Co, Bloomberg, IMF*

## Stocks: Profitability vs valuations

Higher profitability (ROE) tends to drive higher stock valuations, with technology leading.




** $R^2$ = 0.7 shows a strong positive relationship between profitability and valuations.*
*Source: Rothschild & Co, Bloomberg, MSCI*

# Notes

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