August 2026: Resilience Meets Rising Risk

MONTHLY MARKET COMMENTARY

Markets remained resilient in August even as the global economy's margin for error narrowed. Corporate earnings and continued investment in artificial intelligence supported confidence, but geopolitical escalation, persistent inflation pressures and renewed trade uncertainty repeatedly tested that optimism.

Geopolitical Risks Move Closer to the Global Economy

The conflict involving the United States and Iran remained the month's most immediate geopolitical risk. Renewed military activity near the Strait of Hormuz highlighted the continuing vulnerability of global energy supplies and critical shipping routes. The market implications extend beyond oil: higher transportation and energy costs can reduce household purchasing power, pressure corporate margins and complicate the inflation outlook. Central banks must therefore weigh any slowing in growth against the risk that supply-driven price increases spread through the broader economy.

The war in Ukraine also intensified, with attacks increasingly affecting energy facilities, ports, warehouses and transportation networks. These developments underscored the exposure of global commodity and food supply chains to military disruption. Together, the conflicts in the Middle East and Eastern Europe increased attention to energy security, more diversified supply networks and defense preparedness, while adding another layer of uncertainty for businesses and investors.

The Federal Reserve Confronts a More Complicated Outlook

In the United States, economic activity remained broadly durable. Consumer spending and corporate profits held up, while some interest-rate-sensitive sectors continued to show strain. Inflation, meanwhile, remained above the Federal Reserve's 2% target, limiting policymakers' flexibility even as they monitored the labor market and the effects of higher borrowing costs.

Federal Reserve Chair Kevin Warsh's remarks at Jackson Hole reinforced that price stability remains the central bank's immediate priority. His comments left open the possibility of additional restraint if underlying inflation does not improve, challenging expectations that monetary policy would soon become more supportive. Warsh also argued for a more limited use of detailed forward guidance, an approach that could leave markets more responsive to incoming inflation, employment and activity data.

Central Bank Paths Begin to Diverge

Similar tensions were visible elsewhere. European policymakers continued to weigh uneven growth against inflation pressure linked to higher energy costs, while expectations for additional monetary tightening in Japan persisted.

The Bank of England remained cautious, recognizing that the energy shock could lift prices even as it reduced real household income and restrained demand.

Rather than moving in concert, the world's major central banks are responding to different combinations of inflation, growth, energy exposure and currency pressure. That policy divergence may remain an important influence on global bond and foreign-exchange markets.

China’s Recovery Remains Uneven

China presented a different challenge. Manufacturing conditions improved marginally in August as export demand strengthened, but the sector remained in contraction. Weak domestic demand and the prolonged property downturn continued to restrain the broader economy.

Recent policy measures have emphasized targeted fiscal and financial support. Without a more sustained improvement in household demand, however, China's recovery may remain gradual and uneven. The strength of China's domestic economy will matter not only for Asia, but also for commodity producers and multinational companies seeking an offset to slower growth elsewhere.

Trade Tensions Become a Strategic Business Concern

Trade policy returned to the foreground during the month. The suspension of negotiations between the United States and Canada, followed by Canada's announcement of retaliatory tariffs, showed that even deeply integrated trading relationships remain vulnerable to political pressure. The possibility of additional U.S. action affecting Chinese goods added to the uncertainty.

For companies, tariffs increasingly appear to be an ongoing strategic consideration rather than a temporary disruption, influencing sourcing, capital investment, inventory management and profit margins.

Artificial Intelligence Continues to Support Confidence

Against this unsettled backdrop, artificial intelligence remained an important source of market confidence. Strong demand for computing infrastructure continued to support the technology ecosystem and encourage substantial capital investment.

Investor attention, however, is shifting from the scale of AI spending to the durability of its returns. Companies that translate AI investment into productivity, revenue and sustainable cash flow may be better positioned than those whose prospects depend mainly on enthusiasm and ready access to financing. The timing and distribution of those returns remain uncertain.

Looking Ahead

As August draws to a close, the global economy continued to demonstrate resilience, but its capacity to absorb policy mistakes or geopolitical surprises appeared more limited. Inflation remained above central-bank targets in several major economies, the timing of interest-rate relief was uncertain, trade barriers were rising and conflicts were increasingly affecting critical economic infrastructure.

Earnings and technology investment supported markets, but policy, inflation and geopolitical risks widened entering September.

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