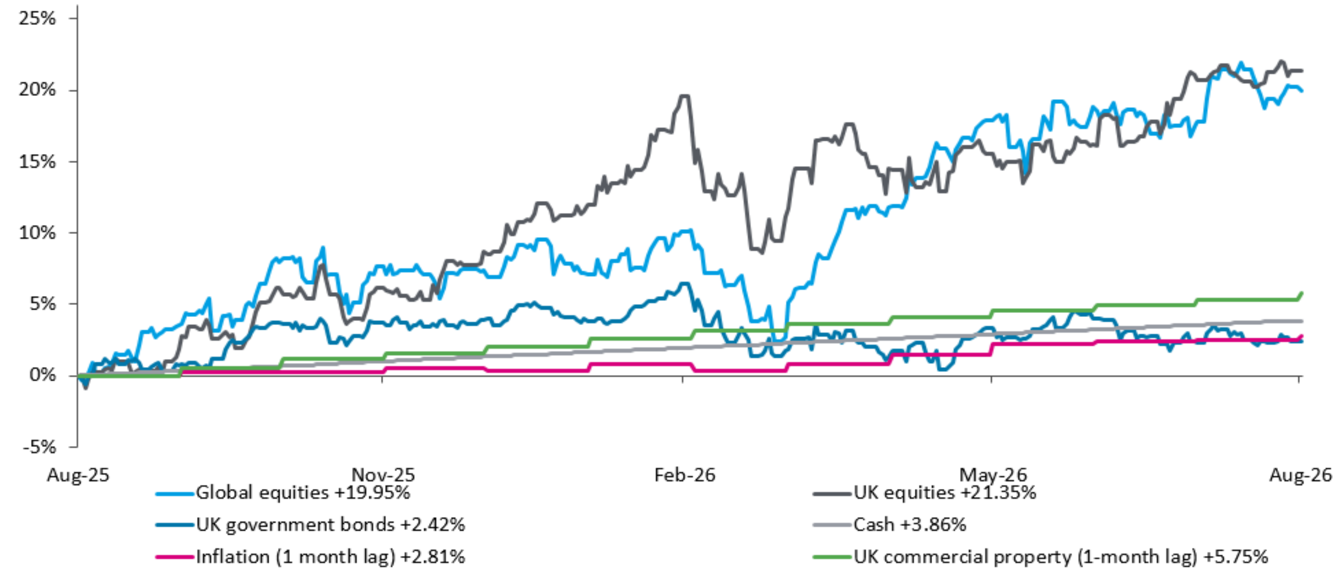
Market review

The headlines

- **August was another strong month for share prices. Even when investors temporarily turned away from artificial intelligence (AI) shares, more defensive names kept the rally going.**
- **After several years of *narrow* markets, i.e. share price gains concentrated in just a few shares, our funds are now benefiting from a broader rally in a larger number of shares.**
- **Inflation and rising bond yields are a concern, for shares as well as bonds. We continue be mindful of these risks, and we have put in place several non-bond diversifiers.**

Market returns: Share prices continued to rise in August, and the rally broadened to include more shares.



Sources: Bloomberg, returns in pound sterling as of 28 August 2026 (29 August 2025=0%). Daily data, except for inflation and UK commercial property, shown monthly. UK government bond returns as per Markit iBoxx £ Gilts Index. Inflation as per the Office of National Statistics' UK Consumer Prices Index, with a one-month lag. UK commercial property as per MSCI UK Monthly Property Index, estimated for the most recent month. Cash returns as per Sterling Overnight Index Average (SONIA). Global and UK equity returns as per MSCI World Index and MSCI UK IMI Index, respectively. **Past performance is not a reliable indicator of future results.**

Economics and markets news

World share prices rose 2.6% in August, as shares in information technology, mining and health care firms led the way. By region, US share prices advanced 2.7%, eurozone shares 1.0% and the UK market 0.5%. (1)

Inflation continued to rise around the world, but none of the three main central banks – the Federal Reserve (Fed), the Bank of England (BoE) and the European Central Bank (ECB) – met in August. As in previous months this year, bond yields mostly rose. (2)

The price of Brent Crude oil fell to $79 per barrel in early August, after President Trump called off military strikes in the Middle East. But when fighting resumed, it climbed to more than $90. The gold price, meanwhile, rose from $4,045 per troy ounce at the start of August to $4,457 at the end of the month.

The US dollar weakened versus the pound sterling in August, lowering returns from US dollar-denominated assets in pound terms.

United States

US share prices rose 2.7% during August, but their advance was far from uniform.

- By the start of August, the shares of AI hardware producers such as Western Digital and NVIDIA had become expensive. To justify their valuations, these firms need their revenues from AI providers such as Google to grow rapidly. As in some previous months this year, investors turned sceptical in early August that those growth rates will be achieved, leading to a 'chip-wreck' for hardware producers.
- Instead of AI hardware, investors reallocated funds to less cyclical shares and to firms that depend on AI revenues indirectly. Those included chemicals firms, pharmaceuticals producers and industrial firms such as Schneider Electric, which provides cooling and power systems to AI data centres.
- Later in August, leading AI providers such as Google, Microsoft and Amazon re-confirmed their investment plans. This re-emphasised demand for and bottlenecks in the supply of hard disks and other technology infrastructure.
- Finally, on 26 August, NVIDIA's latest quarterly profit report showed a doubling of revenue since last year, with a 75% gross profit margin. Those results buoyed NVIDIA's share price, boosted its peers such as Intel, and lifted the broader market.

The broader economic picture also contributed to rising US share prices during August.

- At the start of the month, most investors expected the Fed to raise rates at its 16 September meeting.
- But the Fed's preferred inflation gauge, the core Personal Consumption Expenditure (PCE) index, remained at 3.3%, year on year (yoy), in July, unchanged versus June. And US gross domestic product (GDP) growth was an annualised 1.5% for the second quarter, slower than the first quarter's 2.1%. The US economy unexpectedly lost 23,000 jobs in July, versus a forecast 95,000 gain.
- As a result, investors changed their outlook and, for most of August, expected the Fed to keep rates on hold until December. This boosted share prices.
- Expectations changed, again in the final days of August, however, when new Fed Chair Kevin Warsh said that the central bank had "work to do" on inflation, signalling a September rate hike.

Longer-dated bond yields continued to be high during August. The yield on 10-year US Treasuries (government bonds), for example, has risen from 4.19% at the start of 2026 to 4.75% at the end of August.

Higher yields on US Treasuries mean higher borrowing costs for the US government, on debt that reached $40 trillion during August, on GDP of *c.*$30 trillion.

That's why US Treasury Secretary Scott Bessent undertook several unusual steps during the month.

- At the end of July, Bessent joined forces with his Japanese colleagues to prop up the yen. His aim was to prevent Japan from having to sell US government bonds to support the yen, which would have raised US Treasury yields.
- Then, on 18 August, the yield on 30-year US Treasuries reached 5.34%, its highest in 19 years. In response, Bessent announced that the US Treasury would double its purchases of long-dated US Treasuries in September and October.

Bessent's interventions were short-term positives for US shares. But they weighed on the value of the dollar. Meanwhile, concerns about the US government's fiscal position continue to linger. A more fundamental solution will depend on the path of US inflation, the US government's national debt and/or US GDP growth.

United Kingdom

UK shares advanced just 0.5% during August, led by precious metals miners Fresnillo and Anglo American and by commodities house Glencore.

The gold price rose from $4,045 per troy ounce at the start of August to a peak of $5,405 during the month, buoyed by a weaker dollar, by concerns about government budgets and because central banks added to their gold reserves.

IT consultant Computacenter's share price also advanced, mainly because its AI business is rapidly expanding. Accounting software firm Sage's share price recovered from 'AI disruption' earlier this year.

At the other end of the spectrum, the shares of tobacco firms Imperial Brands and BAT, insurance firm Prudential and clothes retailer Burberry lost ground.

At its 30 July meeting, the BoE kept its Official Bank Rate at 3.75%, citing a fall in consumer price (CPI) inflation to 2.6% yoy in June. In July, however, CPI inflation rose to 2.9%, mainly because of higher prices for gas and electricity. But food and services inflation fell, so core CPI remained constant.

The BoE's monetary policy committee didn't meet in August. Investors expect its members to continue their 'wait-and-see' stance when they meet on 17 September, but to start increasing rates before 2027.

The country's new prime minister, Andy Burnham, set 28 October for his Chancellor John Healey's to publish his first Autumn Budget. Expect media speculation to be rife until then, about what Mr Healey will do or won't do, to which we won't contribute here.

Unlike US Treasury yields, UK gilt yields remained stable in August, at around 5.10% for 10-year gilts. But Mr Healey will undoubtedly keep a close eye on the bond market, to avoid a 2022-style mini-budget crisis.

Other markets

Eurozone share prices rose 1.0% in August. Software firm SAP, specialist pharmaceuticals company Argenx and payments provider Adyen were the main gainers, while the shares of chip producer Infineon, retailer Ahold-Delhaize and brewer AB Inbev lost ground.

Eurozone inflation rose from 2.8% yoy in June to 2.9% in July and 3.3% in August. The ECB raised its key interest rates by 0.25% in June but kept rates on hold in July. Investors overwhelmingly expect the ECB to raise rates when it meets on 9 September.

Japanese share prices rose 3.7% during August, helped by a historic peak in companies' return on equity and by the country's tech-heavy share universe. Prime Minister Takaichi's agenda of deregulation and fiscal stimulus also contributed. In August, Japan's finance ministry co-ordinated a historic currency intervention with the US Treasury to support the yen.

Japan's inflation rate has continued to rise this year, from 1.3% in February 2026 to 2.0% in July. Investors expect Japan's central bank to raise interest rates when it meets on 17-18 September.

Chinese share prices fell 0.5% during August. AI firms and tech hardware firms performed well, but property developers and banks weighed down Chinese indices. China's house prices have fallen some five years in a row, which is depressing consumer spend. Despite the government's promises to increase support, economic growth fell to 4.3% yoy in the second quarter.

(1) Source: MSCI (total return, net of withholding tax, in local currency), except where stated
(3) Sources: US Fed, Bank of England, European Central Bank
(2) The 'Magnificent Seven' are Apple, Google parent Alphabet, Amazon, Facebook owner Meta, Microsoft, NVIDIA and Tesla.

Looking ahead

The average profit growth of companies worldwide, forecast for the next 12 months, is 15%. Growth rates range from *c.*10% in the EU (ex-UK) to 35% for firms in emerging markets. These historically high rates have continued to support rising share prices over summer.

However: bond yields are on the rise as well, which poses a risk to share prices. The yield on 10-year US Treasury bonds, for example, has risen from 4.19% at the start of the year to 4.75% at the end of August. The US Treasury is trying to keep a lid on these long-dated borrowing costs, but it is unclear how successful it can be in stopping yields from rising.

The Fed's current stance may be contributing to rising bond yields. As a rule of thumb, we consider central bank policy to be 'loose' when the 10-year US Treasury yield is lower than nominal GDP growth, which is nearer 6%. The two US rate hikes that investors expect this year may be too little, too late to tame inflation.

If bond yields continue to rise to levels that threaten share prices, then bonds themselves offer little protection. That's because bond prices fall when yields rise, and vice versa. For that reason, we hold fewer bonds in our multi-asset funds than in the corresponding benchmarks of the funds we manage.

Instead, we continue to build out the so-called *diversifiers* in our multi-asset funds. Those strategies target absolute returns, independent of market direction, for example by buying shares with the highest profit growth and selling those with low profit growth. They have generated positive returns this year.

In addition, investors are allocating some of their holdings to assets such as gold, to protect against inflation. We've held gold in our multi-asset funds since the start of 2026, in combination with industrial metals.

Shares continue to make up *c.*75% of our multi-asset funds. Historically, where earnings lead, share prices follow, and forecast earnings growth remains attractive.

Moreover, we are encouraged by the increasing breadth of this year's share price rally. In contrast to the *narrower* market of 2023-2025, *c.* 46% of US shares outperformed the S&P500 index in the first half of 2026, rising to 52% in the third quarter to date.

Our investment style is to not follow the broader share market but to select those shares for our portfolios that we deem to be of the highest, fundamental quality. That style has historically fared well when market rallies broaden. Our improved performance since the start of this year reflects that evolution.

Glossary

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