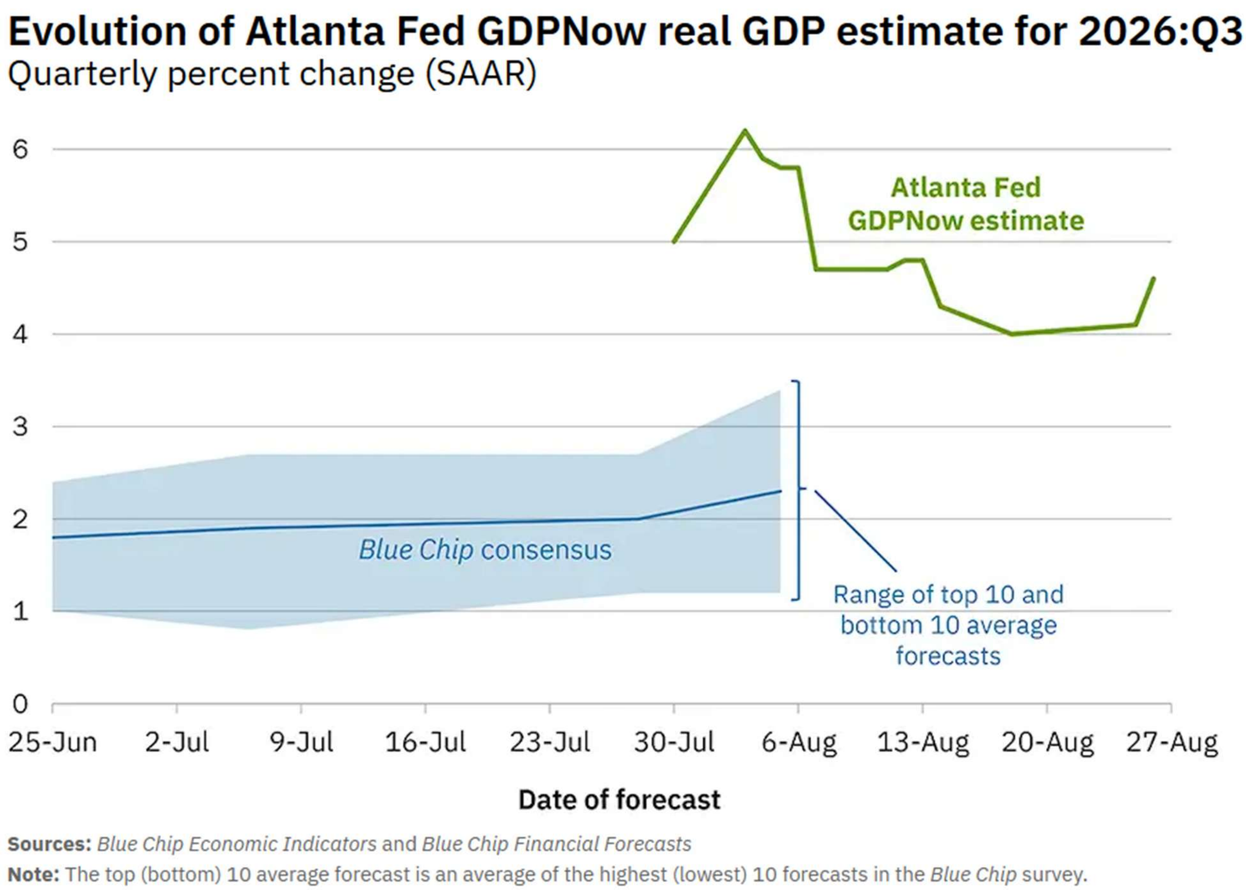
MARKET REVIEW & OUTLOOK AUGUST 2026

KEY TAKEAWAYS

- **Equities:** The markets exploded higher the first two days of the month. Then essentially traded the balance of the month within the range of the second day, as viewed by the S&P 500.
- **Fixed Income:** The U.S. 10-year Treasury Yield traded in a choppy range of around 15 basis points, though ended at high yields for the month, just above July's close.
- **Crude oil** prices initially dropped to start the month, nearing $75 but no real progress in resolving the Iran conflict/war, lead to steadily higher prices as the month continued.

The U.S. Economy

The second read on 2nd quarter GDP came in as expected at 1.5%. Core PCE, the embedded GDP inflation, increased 3.6% compared to 3.4% last reported. The 3rd quarter GDPNow estimate looks significantly better at +4.6% while the Blue-Chip consensus forecast is around 2.3%, as shown in the chart below. Growth continues to be steady while not great.



Source : https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

The U.S. 10-year Treasury yield dropped sharply to start the month but then chopped back and forth before ending at the highest yields of the month, just above July's close. A lot of moving parts this month. Employment was weak, some of the inflation measures moderated while others continued to perk up. The Fed and Treasury didn't want to be left out of the fun. The Treasury started first offering to buy more off the run 10-to-30-year Treasury's, which are generally viewed as less liquid, with the intention of keeping the longer-term rates lower. However, this runs counter to Fed Head Warsh's comments, during the July Fed meeting, that the higher long-end rates were doing some of the Fed's work, i.e. tightening financial conditions. So, Warsh seemed to need a pivot and during the Jackson Hole symposium said that the Fed's main tool is the Fed funds rate, i.e. the short end of the curve. The end result was the Jackson Hole meeting led to a sharp increase in the probability for a rate hike in September, though a lot of commentary suggests this was just the talk tough meeting and that in the actual interest rate Fed policy meeting a rate hike is not likely. The U.S. is not the only one facing higher longer-term rates as it is generally a global phenomenon. The relatively flat yields were not material for High-Quality fixed income, which as measured by the iShares US Aggregate Bond ETF increased +0.38% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.76%, essentially unchanged from July's close of 4.75%.

The Dow Jones Industrial Average rose +1.34%, the S&P 500 jumped +2.62%, and the small cap iShares Russell 2000 ETF increased +0.96%. The International markets again traded like the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index gained +2.01%, and the MSCI Emerging Markets iShares Core ETF Index popped +4.93%.

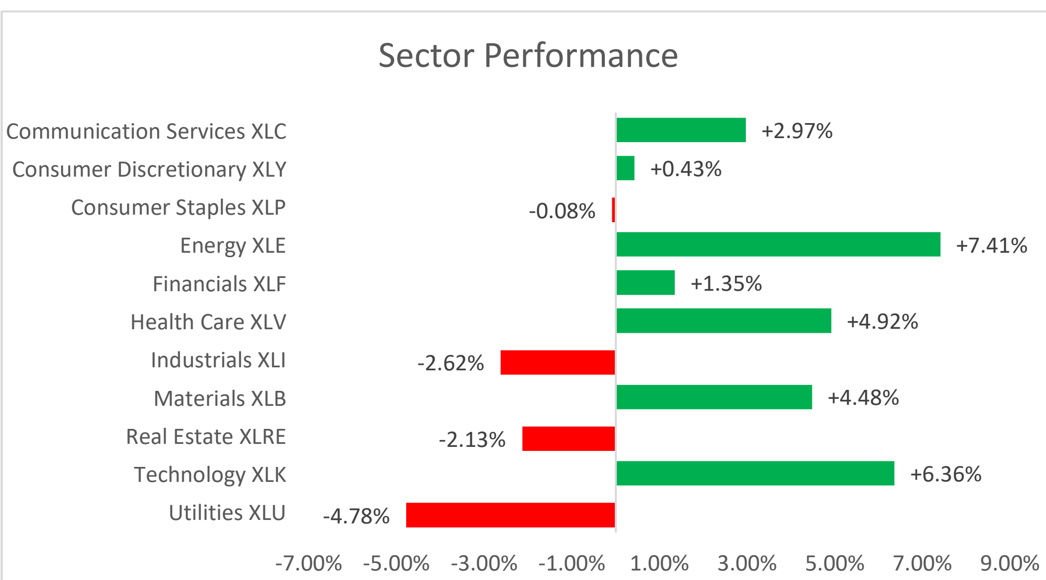
August's Sector performance was again mixed though still leaned green.

The best performers were…

- Energy: +7.41%
- Technology: +6.36%
- Health Care: +4.92%

The worst performers were…

- Utilities: -4.78%
- Industrials: -2.62%
- Real Estate: -2.13%



Source: https://www.morningstar.com

Oil Report

Crude Oil resumed its decline to start the month after the U.S. halted the bombing of Iran after 13 straight nights. The next 3 weeks was a lot of blustering and name calling with no action in either direction. That stalemate ended last weekend as Iran fired on a cargo ship, the U.S. retaliated and Iran retaliated against Jordan. There are rumors that the blockade is really harming the Iranian economy and even leading to fuel shortages and increased fuel costs. It is hard to know how much truth is in that statement or whether the IRGC even cares. It really feels like we are at a stalemate, the IRGC doesn't want to concede, and the U.S. doesn't want to back down. The biggest impact remains in refined products; gasoline, diesel and heating oil, where production has taken a big hit further exacerbated by the seemingly continual attacks on Russian refineries by Ukraine. There are hints that talks may resume in the Ukraine/Russian conflict, though that doesn't seem to be the case for the Iran war/conflict. I have found one benefit of El Nino conditions; the strong westerly flow is a serious impediment to Atlantic hurricane formations. As we turn to September, there has yet to be a named hurricane which is beneficial to the refining capacity in the Gulf. The current NYMEX WTI Crude Oil futures settled at $86.40, increasing by over 2% from the prior month's close of $84.67 (sorry, last month was not $86.47) a barrel. RBOB gasoline was again not as strong as Crude and finished essentially flat +0.01% for the month vs. July's close. The summer driving season is nearly finished which should reduce some pressure on the refiners that have been running flat out for months. Hopefully we will see a meaningful end to hostilities to reduce the burden on the energy complex.

The Rest of the Data

The July ISM Manufacturing Index increased to 55.6, up from June's reading of 53.3, remaining above the 50 level. The ISM Services Index increased modestly to 54.1 in July, from June's print of 54.0, remaining above the 50 level. Any reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing dropped modestly to remain at elevated levels, and Services' prices moved up to elevated levels, nearly matching Manufacturing. Consumer confidence decreased to 89.4 in August, which compares to 90.8, as reported in July. The unemployment rate in July fell to 4.1% with a sharp drop in the number of unemployed people. The number of jobs dropped by 23,000, which was much weaker than expectations of +80,000. The Consumer Price Index for All Urban Consumers (CPI-U) for July increased +0.1% versus a drop of -0.4% for the month of June, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate continued to ease to +3.4% on a non-seasonally adjusted basis. The CPI ex Food and Energy also softened further to +2.5% over the last year. Economic growth reports continue to be decent, though inflation is holding higher from the supply shocks caused by the Iran and Russia/Ukraine conflict/war. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

Well, we hoped the Iran conflict/war was nearing a conclusion but alas not yet. The markets continue to juggle a lot of competing narratives. Now we are rounding the corner to a potential pivotal mid-term election season which is sure to stir the pot even more. It seems we have been listening to the same record for 6 months. At some point the music will change, but when is anyone's guess. We will continue to take it one day at a time and stay focused on our process.

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/war vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

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