August 3, 2026

Weekly Investment Insights

Markets faced three overlapping headwinds last week: concerns about the profitability of AI investments, renewed tensions in the Middle East, and uncertainty surrounding the Federal Reserve's policy outlook.

The **technology sector came under pressure** early in the week as investors questioned the sustainability of heavy AI-related capital expenditure, financing arrangements, and the impact of intensifying competition. These concerns pushed the tech-heavy Nasdaq index into technical correction territory on Wednesday. Sentiment improved markedly, however, with earnings results supporting a broad rebound in technology stocks. By the end of the week, the Nasdaq had recovered its losses and closed higher.

Geopolitical developments also remained in focus. Brent crude briefly moved above $100 per barrel amid escalating tensions in the Middle East but subsequently retreated towards $80 per barrel as signs of a diplomatic thaw emerged. President Trump indicated that negotiations are set to resume on Monday, easing immediate concerns about potential supply disruptions. The decline in oil prices provided support to risk assets, helping the Euro Stoxx 600 reach a fresh intraday high on Friday. Better-than-expected corporate earnings added to the positive momentum.

Monetary policy was another source of volatility. As widely expected, the Federal Reserve left interest rates unchanged on Wednesday. However, ambiguity around the future path of rates contributed to market swings as participants reassessed the outlook for inflation and growth.

Elsewhere, Japan and the United States intervened in currency markets to support the yen for the first time in three decades. The Japanese currency has been trading near four-decade lows, with some investors concerned about Japan's fiscal outlook. These fears were amplified after Prime Minister Takaichi reiterated plans for a reduction in sales tax on food and soft drinks, aimed at alleviating cost-of-living pressures.

Both governments indicated they stand ready to intervene again if necessary. Reports suggest that the US sold euros to purchase yen, avoiding additional downward pressure on the dollar. Market attention has also focused on Japan's status as the largest foreign holder of US Treasuries, with over $1 trillion in holdings. A significantly weaker yen could force Japanese authorities or investors to sell US Treasury holdings to raise dollars and support the currency. Such sales could put upward pressure on Treasury yields and, by extension, borrowing costs across the US economy.

Looking ahead, investor attention will centre on US-Iran negotiations, another busy week of corporate earnings, and key economic data releases, particularly on the US labour market. Given the Federal Reserve's dual mandate of price stability and maximum employment, labour market developments will play a crucial role in shaping expectations for the future path of monetary policy.

	Friday Close	5 Day Percentage Change	MTD Percentage Change	YTD Percentage Change
S&P 500	7489,72	1,05	0,00	9,41
Nasdaq Composite	25373,85	1,59	0,00	9,17
EuroStoxx 50	6358,01	2,06	0,84	10,70
CAC40	8509,64	2,28	1,04	5,50
DAX	25629,24	2,48	1,41	6,13
CSI 300	4588,197	-3,39	-0,98	-1,87
US 10 Year Yield (%)	4,7347	0,88	-0,95	12,55
Germany 10 Year Yield (%)	3,206	0,67	-1,62	10,47
Gold Spot ($/Oz)	4046,15	-0,48	0,26	-6,08

Source: Bloomberg, BIL, as of 27 July 2026

MACRO SNAPSHOT

Eurozone Growth Surprises as Inflation Pressures Re-Emerge

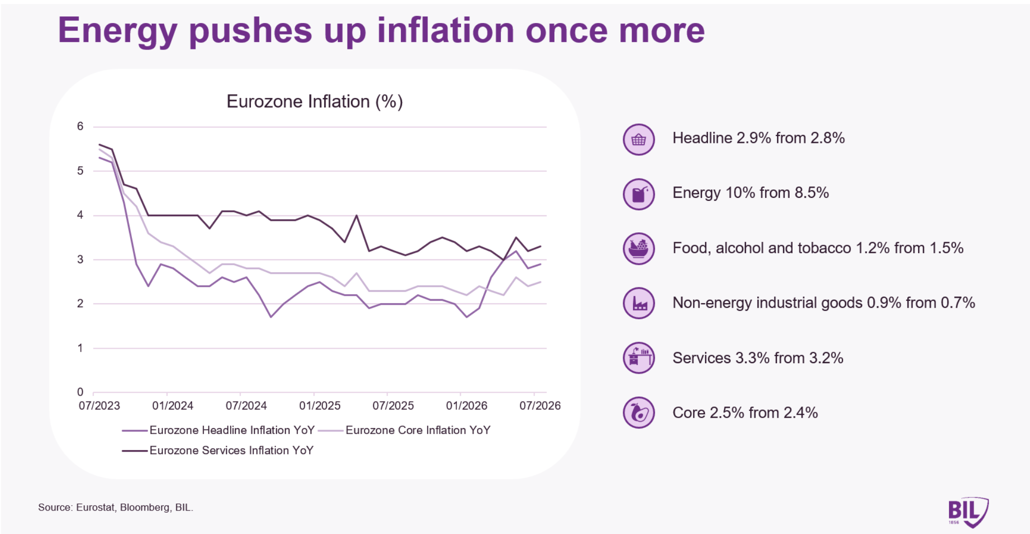
Headline consumer price inflation in the Eurozone edged up to **2.9% YoY in July**, from 2.8% prior. The increase was largely driven by **energy prices, which rose 10.0%**, on the renewed flare-up in Middle East tensions. **Underlying inflation pressures also strengthened modestly**, with non-energy industrial goods inflation increasing to 0.9% from 0.7%, services inflation edging up to 3.3% from 3.2%, and core inflation rising to 2.5% from 2.4%.

The increase in inflation was broad-based across the region's largest economies. Price growth accelerated in Germany (2.8% from 2.4%), France (2.4% from 2.0%), Spain (3.8% from 3.6%) and the Netherlands (2.9% from 2.5%), while Italy recorded a slight moderation to 2.9% from 3.0%. Luxembourg's inflation fell from 3.7% to 3.4%.

Simultaneously, **Eurozone GDP growth proved more resilient than expected, rising by 0.4% QoQ in Q2**, comfortably ahead of the consensus expectation of 0.2%. The stronger-than-expected performance could lead to a modest upward revision in 2026 growth forecasts, with full-year growth expectations potentially moving from around 0.6% towards 0.8%.

Encouragingly, growth surprises were broad-based across the region's largest economies. **Spain** continued to lead, with growth accelerating to 0.7% from 0.6%. France returned to growth, rising 0.2%, while Germany and Italy also recorded 0.2% quarterly growth.

Overall, the data paints a picture of an economy that is proving more resilient than anticipated, supported by improving activity across both services and manufacturing. However, the simultaneous reacceleration in both headline and core inflation suggests that underlying price pressures remain persistent, strengthening the case for another **25 basis point rate hike come September**.



July FOMC: Markets Want More Action on Inflation

At Wednesday's FOMC meeting, the US Federal Reserve left **interest rates unchanged at 3.50%-3.75%**. The decision was broadly expected, with markets having assigned a 30% probability to a 25 basis point rate hike. Notably, three of the twelve voting members dissented, favouring an increase.

Market participants were more surprised by Fed Chair Warsh's inability to clearly articulate why the Committee chose not to act at this meeting or what specific conditions would be required to justify further tightening. As a result, investors began to question the strength of the Fed's commitment to controlling inflation. Although financial conditions had tightened since the previous meeting, markets appeared to conclude that they could not shoulder the burden of anchoring inflation expectations on their own.

In contrast to the yield curve flattening seen after Warsh's first FOMC meeting, the **curve steepened sharply**. **Short-term yields declined** while investors sold long-dated bonds, reflecting growing doubts about the Fed's ability to bring inflation under control. This shift in sentiment was also reflected in rising market-implied inflation expectations. As a result, **the 30-year Treasury yield climbed to 5.23%, its highest level since 2007**.

Overall, the bond market's message was clear: investors want to see a little less conversation and a little more action on inflation. The Fed's forward guidance failed to provide sufficient confidence that such action would be forthcoming at upcoming meetings. Consequently, market-implied expectations for a September rate hike fell to 65%, down from near certainty previously, while an additional inflation credibility premium was priced into markets.

The US dollar weakened against the euro and other major currencies following the announcement.

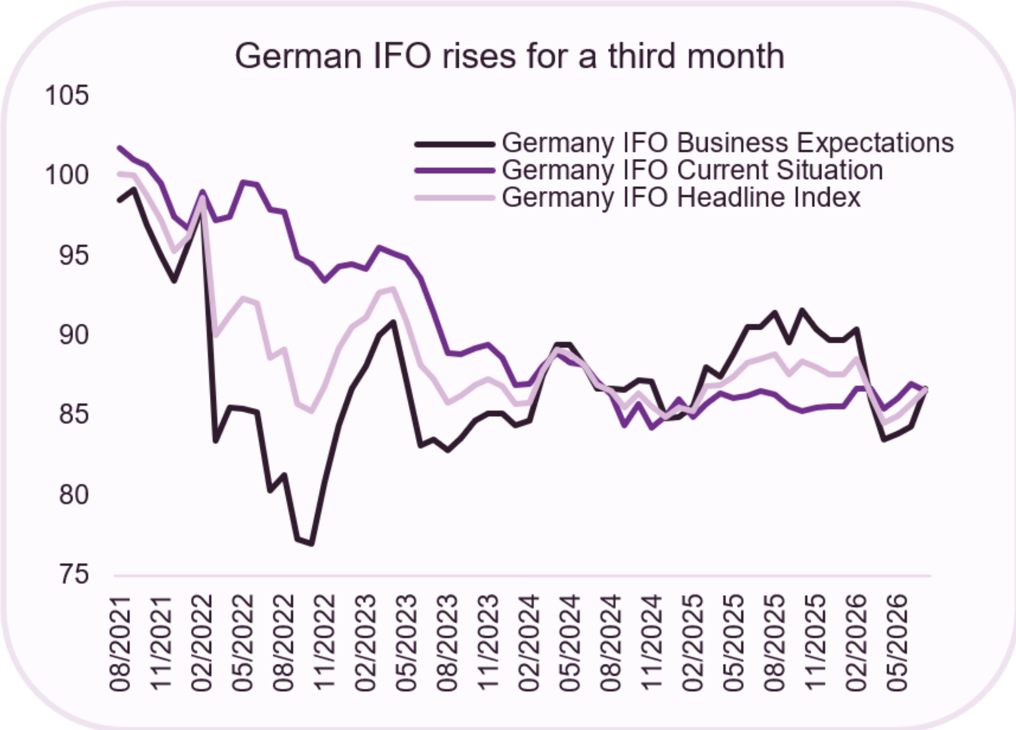
Three's a trick – Another positive sentiment indicator from Germany

Last week, we wrote about the notable improvement in the German ZEW survey, as well as the return of the composite PMI to expansionary territory above the 50 mark. This week, Germany's leading economic indicator, the IFO survey, also delivered encouraging signs. The **business climate index rose for a third consecutive month, reaching 86.7**, ahead of expectations of 86.0.

Expectations for the coming months improved significantly, rising to 90.7 from 89.0 in June, while companies' assessment of current conditions edged up to 86.5 from 86.2. The improvement was broad-based across sectors. Manufacturing sentiment strengthened to -9.5 from -12.3, supported by stronger expectations, recovering demand, and easing supply constraints. Services sentiment rose to 3.8 from 2.9, while construction also improved to -16.4 from -18.8, helped by better expectations and fewer reports of weak order books.

IFO President Clemens Fuest commented that while the situation in the Middle East remains volatile, the Germany economy is showing **signs of stabilising**, and that if nothing unexpected happens, the second half of the year may be one of growth and recovery – albeit a slow one.

The real test comes next week. If Germany is to pull a rabbit out of the hat, retail sales, factory orders, trade figures, and industrial production will need to show that improving sentiment is feeding through into the real economy.

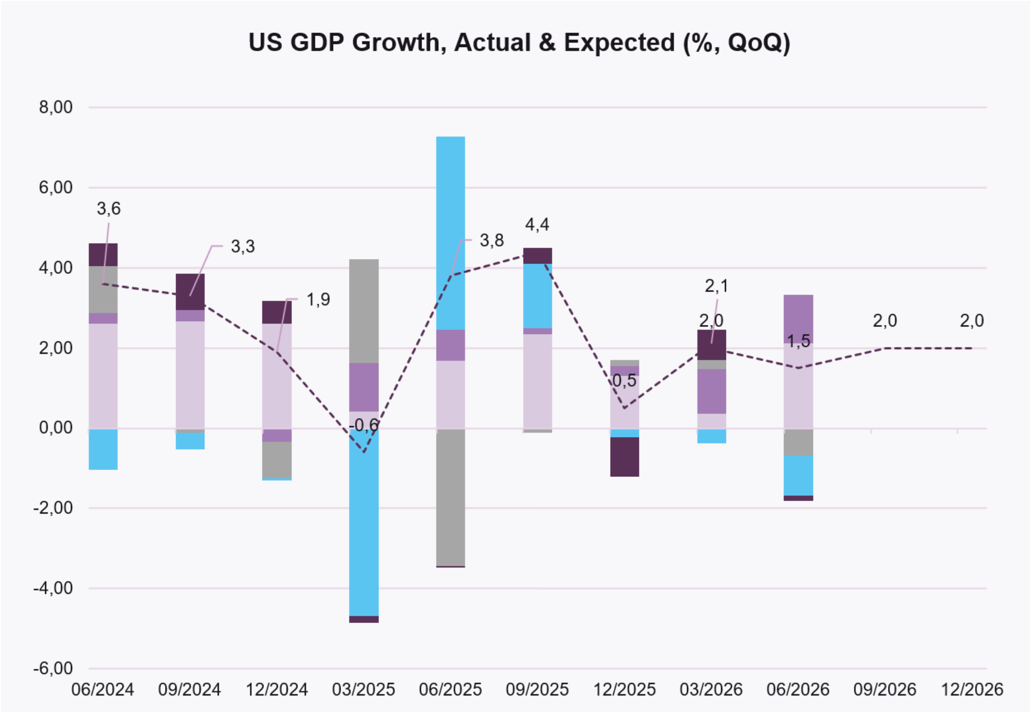


Source: Bloomberg, BIL

Weak Headline, Strong Core: Domestic Demand Continues to Drive US Growth

US GDP grew by 1.5% in the second quarter, a headline figure that understates the strength of underlying domestic demand. Growth was held back by volatile components, notably **net trade** and **government spending**, while **household consumption and business investment remained robust**.

Government spending declined by 0.8% after a 4.4% increase in the previous quarter, reflecting sales of crude oil from the Strategic Petroleum Reserve. Net trade was also a larger drag on growth, subtracting 1.01 percentage points from GDP compared with 0.37 percentage points in Q1. This mainly reflected a slowdown in export growth to 4.5% from 10.9%, while imports remained elevated, rising 11.5%.



Source: Bloomberg, BIL as of 30/7/2026

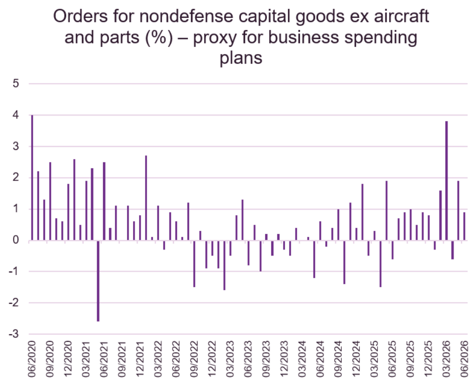
In contrast, **consumer spending accelerated sharply to 3.2%** from just 0.5% in the first quarter. The improvement was broad-based, with notable strength in prescription drugs, new light trucks, furniture, food services, and accommodation. Business investment also remained healthy. **Non-residential fixed investment increased by 8.4%**, following a 10.6% rise in Q1, supported by continued spending on equipment and intellectual property products.

Looking ahead, consumer sentiment indicators suggest some moderation in spending growth may be possible in coming months. Higher gasoline prices and concerns over job availability have weighed on optimism. However, sentiment and actual spending have frequently diverged in recent years, limiting the predictive power of survey measures.

Meanwhile, business investment continues to show signs of resilience. **June's durable goods orders** pointed to solid underlying demand, rising 0.3% month-on-month. Growth was supported by capital goods, electronics, primary metals, and electrical equipment. More importantly, **non-defense capital goods orders excluding aircraft, a key proxy for corporate investment intentions, increased 0.9%**, following an upwardly revised 1.9% gain in May.

Taken together, the latest data suggest that **US domestic demand remains on a firm footing** despite a softer headline GDP print. The outlook for investment is further supported by the ongoing AI infrastructure buildout, enhanced investment incentives under the One Big Beautiful Bill Act, including the reinstatement of 100% bonus depreciation for qualifying assets, and continued strength in defense-related spending.

Corporate America is still investing



KEY DRIVERS

- **AI** infrastructure build-out. Bloomberg Intelligence expects the largest US hyper-scalers to spend $820bn in 2026
- Enhanced incentives under the **OBBBA**, including the reinstatement of 100% bonus depreciation for qualifying assets
- Sustained **defense**-related demand

Source: Bloomberg, BIL

CALENDAR FOR THE WEEK AHEAD

Monday – Germany Retail Sales. US, Eurozone UK Final Manufacturing PMI. US ISM Manufacturing PMI.

Tuesday – Italy Retail Sales. Spain Unemployment. US JOLTs Job Openings, Factory Orders.

Wednesday – France Industrial Production. US, UK and Eurozone Final Composite PMI. Eurozone PPI. US ISM Services PMI, ADP Employment Change.

Thursday – US Weekly Jobless Claims, Challenger Job Cuts, Nonfarm Productivity. Germany Factory Orders. Italy Industrial Production. Eurozone Retail Sales.

Friday – China Balance of Trade. France Unemployment Rate. Germany Balance of Trade and Industrial Production. Italy Balance of Trade. US Nonfarm Payrolls, Unemployment Rate, Average Hourly Earnings, Consumer Inflation Expectations

Sunday – China Inflation data

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