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BILBoard August 2026 – Partial Eclipse

A solar eclipse will occur in Luxembourg on 12 August, with around 90% of the Sun covered shortly before sunset. The global economy also seems to be going through a partial eclipse. AI investment and infrastructure buildouts might be thought of as the sun, providing a powerful source of long-term economic energy. Inflation, higher interest rates and geopolitical risks are the metaphorical moon, periodically obscuring that light and creating bouts of market volatility.

The shadow currently commanding investors' attention is substantial. The conflict involving Iran remains unresolved, and energy markets remain vulnerable to further disruption, which in turn, could stoke broader inflationary pressures and compel a degree of central bank hawkishness.

This is particularly relevant in the United States, where the economy continues to display remarkable resilience. Consumer spending remains healthy, while business investment continues to be supported by the AI capex cycle and fiscal incentives. But the same forces that are supporting growth are also contributing to inflation. Domestic demand remains strong, while tariffs and higher energy prices are adding imported inflationary pressures.

As a result, the possibility of a more restrictive Federal Reserve remains a genuine risk. While the Fed left rates unchanged in July, markets were unsettled by the lack of clarity surrounding the policy path ahead. The 30-year Treasury yield climbed to 5.23%, its highest level since 2007, as investors reassessed inflation risks and demanded greater compensation for inflation uncertainty. More clarification may emerge at the Fed's Jackson Hole symposium later this month.

In our view, the risk of second-round inflation effects remains underappreciated and could influence monetary policy for longer than many currently expect, despite political pressure for lower interest rates.

Europe, meanwhile, has weathered the latest geopolitical shock better than anticipated. Economic growth has surprised to the upside, while inflation has begun to edge higher again. Looking ahead, it remains to be seen whether the recent improvement in sentiment indicators will actually translate into stronger output and activity. **Markets have already priced in a meaningful degree of ECB tightening** (50 basis points more this year), **leaving less room for a hawkish surprise**, unless there is a material escalation in the US–Iran conflict.

"The forces illuminating the global economy remain powerful... While inflation and geopolitics may periodically obscure the outlook, they have not extinguished the structural drivers of growth."

Overall, we remain constructive on **AI as a long-term investment theme** despite recent volatility. Transformational technologies are rarely adopted in a straight line, and periods of enthusiasm are often followed by periods of consolidation as investors reassess valuations and separate durable business models from speculative excess. While parts of the market may occasionally become overextended, the broader investment case remains intact. The companies building the infrastructure that underpins the AI ecosystem continue to invest heavily, with hyper-scalers committing significant capital to data centres and computing capacity, reflecting strong demand and confidence in the long-term opportunity.

However, not every investment will succeed. As competition intensifies and the industry matures, the dispersion between winners and losers is likely to increase. This reinforces the importance of **focusing on fundamentals**, particularly **capital expenditure discipline**, **free cash flow generation** and **long-term competitive positioning**.

INVESTMENT IMPLICATIONS

At our August Asset Allocation, the Committee remained broadly comfortable with our portfolio positioning.

Equities continue to be preferred over fixed income, with emphasis on the US. Earnings growth is strong and is increasingly supported by more than just the large technology companies. This is **complemented by exposure to Europe**, which offers attractive valuations, improving earnings momentum and **valuable diversification benefits**, particularly during periods when the AI theme experiences inevitable bouts of volatility.

A constructive view is also maintained on **Chinese technology**. Chinese AI models have narrowed the performance gap with leading frontier models while operating at significantly lower cost, highlighting both the sector's strategic importance and its long-term growth potential.

Within fixed income, **investment-grade credit** remains the preferred area of the market. Although spreads are relatively tight, all-in yield levels remain attractive and provide a reasonable cushion against moderate increases in rates. By contrast, government bonds remain less compelling. While yields have risen to more attractive levels, resilient economic growth, persistent inflation risks and broader global rate dynamics may limit the scope for a significant rally in sovereign debt. Selective exposure to **emerging market debt** and **high-yield credit** remains appropriate in order to benefit from additional carry without materially increasing portfolio risk.

CONCLUSION

It is natural to focus on the shadow. Today, that shadow is inflation, central bank uncertainty and geopolitical tensions. These risks are real and should not be disregarded.

Yet the forces illuminating the global economy remain powerful. On the **private side**, AI is driving a new capex cycle, while on the **public side**, energy security concerns and geopolitical fragmentation are underpinning higher government investment, particularly in defense and strategic infrastructure. Economic activity has proven more resilient than many expected on both sides of the Atlantic. While inflation and geopolitics may periodically obscure the outlook, they have not extinguished the structural drivers of growth.

For investors, the challenge is not to ignore the shadow, but to avoid mistaking it for the whole picture. **Maintaining exposure to long-term growth themes, while remaining disciplined** along the lines of valuation, fundamentals and diversification, is the most sensible way to navigate an environment in which uncertainty and opportunity continue to coexist.

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