August 10, 2026

Weekly Investment Insights

Last week, the S&P 500 surpassed USD 70 trillion in total market cap for the first time in history, while the technology-heavy Nasdaq recorded its strongest weekly performance since April. All major US equity indices closed the week higher, supported by robust corporate earnings, growing optimism surrounding a potential US-Iran agreement, and a weaker-than-expected jobs report.

The latter prompted investors to scale back expectations of a September rate hike by the Federal Reserve, putting downward pressure on the US curve. European bond yields followed in sympathy. Prior to the weak labour market data, US yields had been pushing higher, with investors demanding greater compensation for inflation uncertainty. Under the new Chair, Kevin Warsh, FOMC statements have become significantly shorter and have largely eliminated explicit guidance about the future path of interest rates. He has described this as a "just the facts" approach.

European equities also clocked gains in local currency terms, benefiting from improved risk appetite, resilient corporate earnings, and renewed interest from investors seeking greater portfolio diversification.

In commodity markets, spot gold rallied by roughly 7%, marking its strongest weekly advance since January, while Brent crude oil prices fell by more than 7%, reflecting easing geopolitical concerns.

MACRO SNAPSHOT

US Economy Shows Broad-Based Strength Across Manufacturing and Services

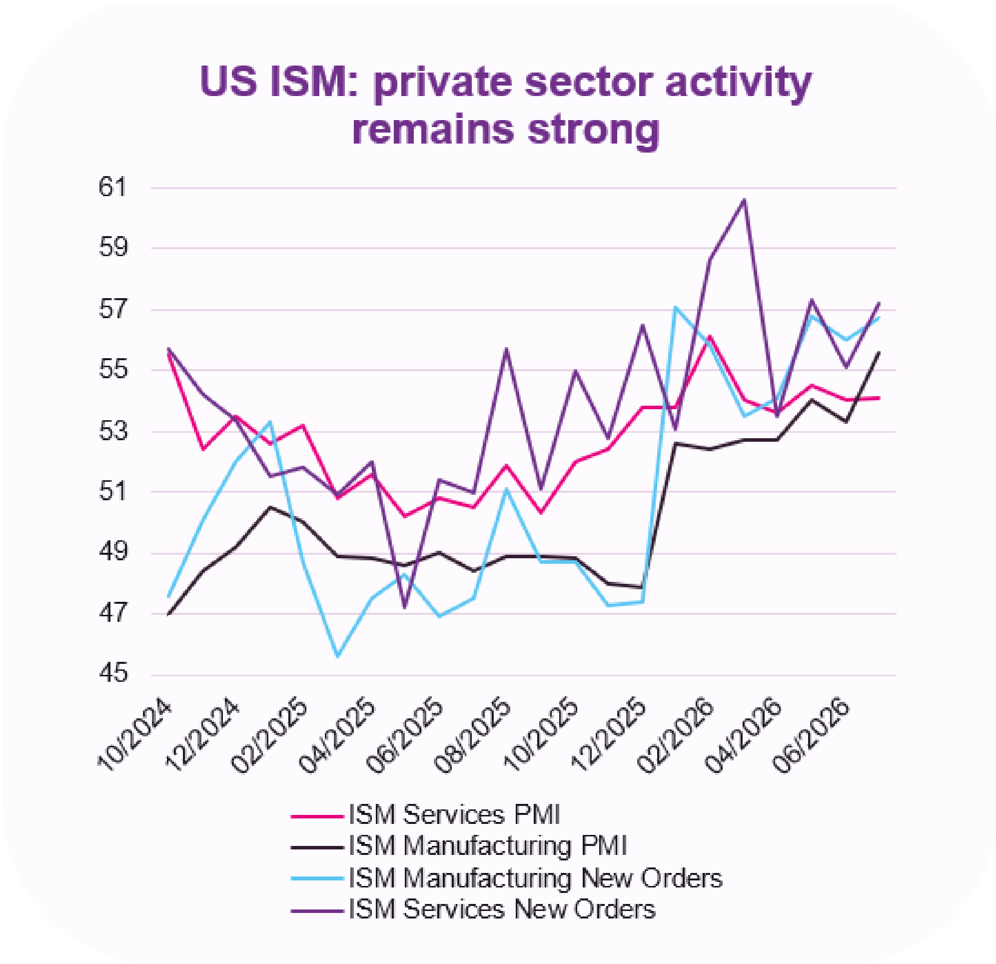
Recent survey data suggest that US economic momentum remained robust in July, with both the manufacturing and services sectors continuing to expand despite a re-escalation in Middle East tensions.

The manufacturing sector delivered particularly strong performance, with the ISM Manufacturing Index rising to 55.6 from 53.3, comfortably above expectations of 54.0. Output growth accelerated sharply, reaching its highest level since November 2021, while new orders remained firmly in expansion territory. Encouragingly, employment returned to growth for the first time since January 2025, pointing to improving confidence among manufacturers. Strong AI-related investment continued to support demand for equipment and infrastructure, helping offset the impact of tariffs, while low inventory levels suggest there is still scope for further production growth.

The services sector also remained resilient, with the index edging up to 54.1. Therein, business activity accelerated notably, with that subindex rising to 59.1 from 55.4, while new orders strengthened to 57.2 from 55.1.

One area of softness was employment, which slipped back into contraction territory at 47.4. This suggests service-sector firms may be becoming more cautious on hiring despite strong activity levels. At the same time, inflation pressures moved higher, with the prices-paid component climbing to 70.3 from 67.7. Much of the increase was linked to higher costs for petroleum-related products and plastics, highlighting the continued influence of energy markets on the inflation outlook.

Taken together, the surveys paint a picture of an economy that remains on solid footing. Indicators across both manufacturing and services continue to point to healthy demand, supported by ongoing AI investment and resilient consumer spending. However, the combination of rising input costs and persistent economic strength is also likely to reinforce the Federal Reserve's cautious approach.



Source: Bloomberg, BIL

A summer slump in the US labour market

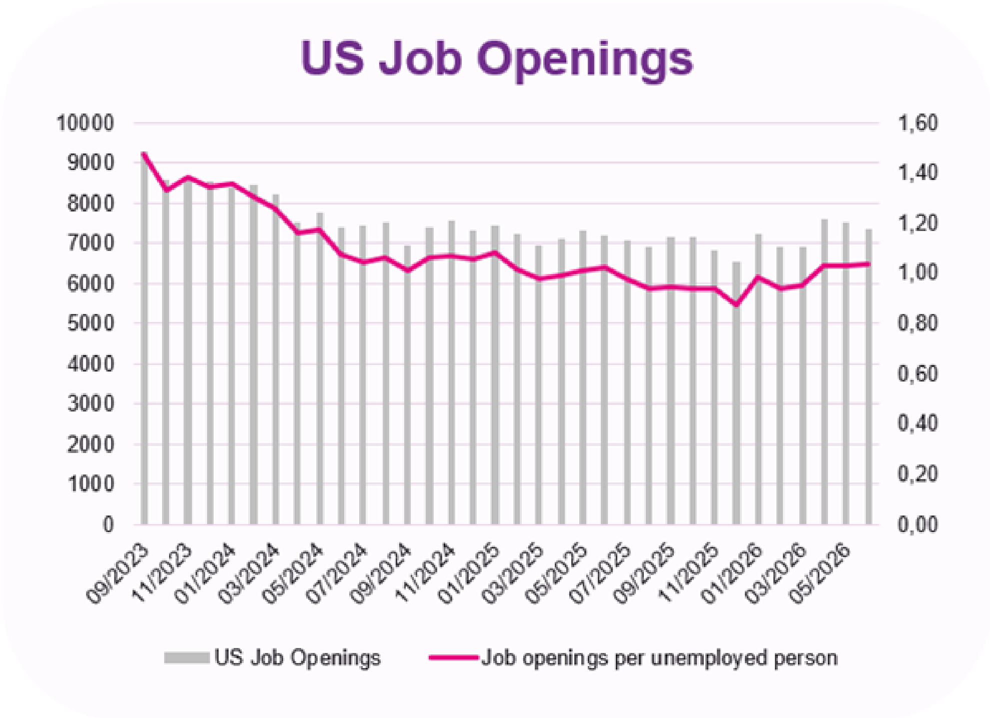
The US labour market lost some momentum over the summer, with nonfarm payrolls declining by 23,000 in July, well below expectations for an increase of 80,000. Revisions to previous months' data added salt to the wound, suggesting that labour demand has been facing increasing headwinds. Wage growth also moderated, with average hourly earnings rising by just 0.1% month-on-month, compared with expectations of 0.3%. On an annual basis, wage growth eased from 3.4% to 3.2%, moving closer to the roughly 3% pace that the Federal Reserve considers consistent with its 2% inflation target.

Investors will now look to Wednesday’s inflation data to assess whether wage growth is running hotter than inflation. Consensus expectations call for monthly CPI of 0.1%, broadly in line with the increase in average hourly earnings.

The headline employment figures were undoubtedly disappointing, but the broader labour market remains far from distressed. The unemployment rate actually fell to 4.1%, although this was largely due to a decline in labour force participation. Meanwhile, indicators of layoffs continue to point to a relatively healthy employment backdrop.

According to Challenger, Gray & Christmas, announced job cuts fell to 33,429 in July, the lowest level in two years. That represents a 27% decline from June and a 46% drop compared with July 2025. While AI remained the leading reason for workforce reductions for a fifth consecutive month, accounting for almost 11,000 announced layoffs, the broader trend suggests companies remain reluctant to undertake large-scale headcount reductions.

Weekly jobless claims tell a similar story. New applications for unemployment benefits have remained below 200,000 for three consecutive weeks, while the four-week moving average has fallen to its lowest level since September 2022.



Source: Bloomberg, BIL

Other measures indicate that labour demand is cooling, but only gradually. Earlier in the week, job openings were shown to have declined by 178,000 to 7.36 million in June, leaving the ratio of vacancies to unemployed workers at 1.04. The quit rate remained unchanged at a subdued 2.0%, suggesting workers remain cautious about voluntarily changing jobs in an environment where finding alternative employment has become somewhat more challenging.

From an inflation perspective, the most encouraging development remains strong productivity growth. Labour productivity increased at an annualised rate of 1.4% in the second quarter, as output rose 1.7% while hours worked increased by only 0.3%. In other words, firms are generating more output with relatively little additional labour input, potentially reflecting the growing adoption of AI and other productivity-enhancing technologies.

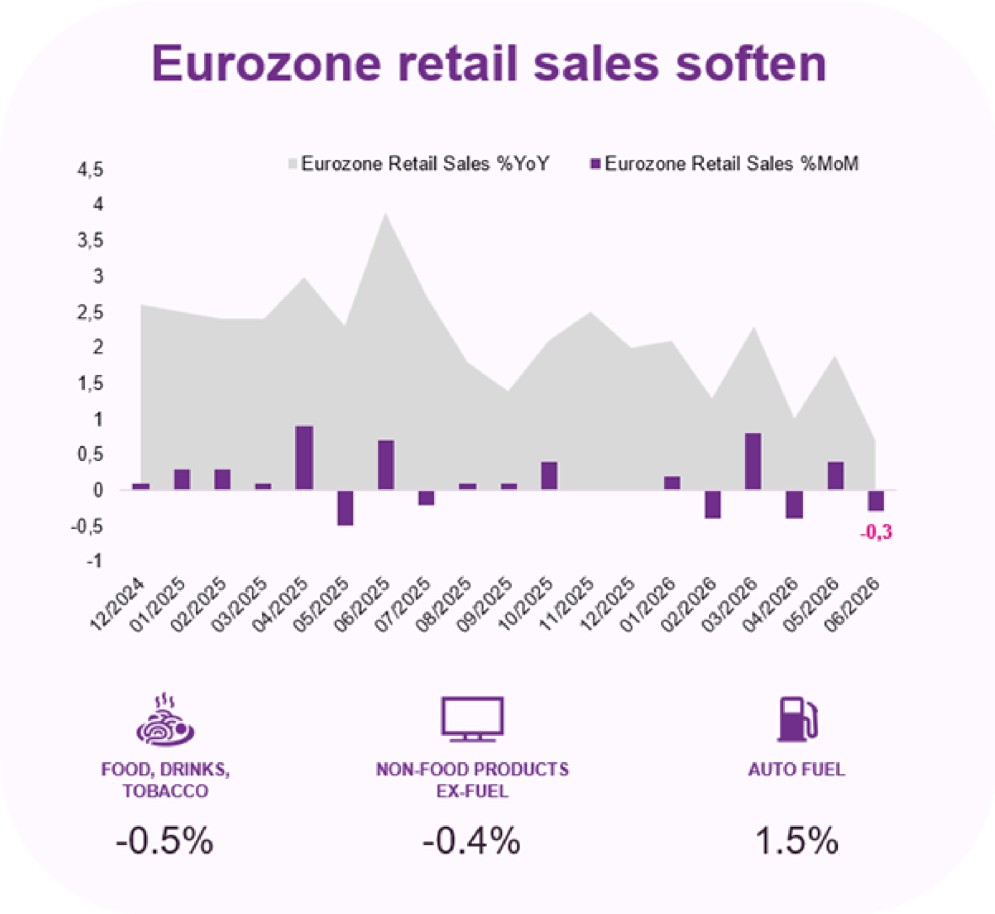
This matters because stronger productivity helps offset wage increases, limiting growth in labour costs per unit of output and reducing the risk that wage gains translate into persistent inflation pressures. As a result, the latest data broadly support the Federal Reserve's decision to leave interest rates unchanged in July. San Francisco Fed President Mary Daly echoed this view last week, arguing that keeping policy steady was appropriate while stressing that policymakers must remain vigilant and prepared to respond if conditions change.

Financial markets interpreted the employment report as reducing the likelihood of additional policy tightening. Treasury yields declined, particularly at the short end of the curve, as investors trimmed expectations for further rate hikes. Markets now assign less than a 50% probability to a September hike, down from 58% before the payroll report.

Eurozone consumer demand falls

Eurozone retail sales weakened unexpectedly in June, falling 0.3% month-on-month and missing expectations for a 0.1% gain. The decline largely reversed the previous month's improvement and highlights the still-fragile nature of consumer spending across the bloc. Among the region's largest economies, retail activity contracted in Germany (-1.1%) and France (-0.5%), while Italy (+0.2%), Spain (+0.3%) and the Netherlands (+0.4%) continued to record modest growth.

On an annual basis, retail sales increased by 0.7%, down from a revised 1.9% in May and below expectations of 1.0%, marking the slowest pace of growth since July 2024.



Source: Bloomberg, BIL

CALENDAR FOR THE WEEK AHEAD

Monday – Bank of Japan Summary of Opinions.

Tuesday – US NFIB Business Optimism, Existing Home Sales, Total Household Debt.

Wednesday – US Inflation (July). OPEC Monthly Report.

Thursday – US Weekly Jobless Claims and PPI (July). UK GDP Growth Rate (Preliminary, Q2). Eurozone Industrial Production (June).

Friday – Eurozone GDP Growth (2nd estimate, Q2). US Retail Sales, Michigan Consumer Sentiment (Preliminary, August).

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