August 17, 2026

Weekly Investment Insights

US Treasury markets were in focus last week as investors demanded higher compensation to absorb growing government borrowing needs. A $42 billion auction of 10-year Treasuries cleared at 4.683%, the highest yield since 2007, while a subsequent sale of 30-year bonds priced at 5.216%, the highest level in a quarter century. Both auctions attracted solid investor demand, suggesting that higher yields continue to draw buyers.

Fiscal concerns remain at the forefront. The US recorded a **record July budget deficit of $432 billion**, bringing the cumulative deficit for fiscal year 2026 to **$1.8 trillion** with two months still remaining. While Fitch reaffirmed the United States' **AA+ credit rating** this August, the agency projects the federal deficit to reach **7.4% of GDP in both 2026 and 2027**, reinforcing concerns about the long-term sustainability of public finances.

Beyond fiscal dynamics, several factors continue to support elevated bond yields. The US economy remains resilient, while a heavy calendar of corporate bond issuance has intensified competition for investor capital. Geopolitical developments are also contributing to the inflation outlook. Brent crude moved higher towards the end of the week after the US threatened Iran with “economic isolation” , including continued restrictions linked to its ports. Traffic through the Strait of Hormuz remains very scant, and a return to normal oil flows looks unlikely in the near term.

Equity markets, however, found support from a combination of strong corporate earnings and softer macroeconomic data. Technology stocks rebounded following their July correction, buoyed by robust results from leading AI-related companies. At the same time, weaker-than-expected inflation, retail sales and consumer confidence figures led investors to scale back expectations of further Federal Reserve rate hikes, providing additional support for risk assets.

More broadly, the earnings season has highlighted the strength of the US corporate sector beyond the technology space. **S&P 500 earnings growth accelerated to 34% YoY in the second quarter, up from 25% in Q1**, marking one of the strongest periods of profit growth outside post-recession recoveries. While technology remains the largest contributor to earnings growth, its share has declined from roughly 90% a year ago to around 55% today, indicating that profit growth is becoming increasingly broad-based across sectors. This widening participation points to a healthy cyclical expansion and provides a constructive backdrop for equities despite ongoing fiscal and geopolitical challenges.

MARKET SNAPSHOT

	Friday Close	5 Day Percentage Change	MTD Percentage Change	YTD Percentage Change
S&P 500	7785,76	0,36	3,95	13,74
Nasdaq Composite	26729,16	0,14	5,34	15,00
EuroStoxx 50	6539,59	0,31	3,11	13,20
CAC40	8636,8	-1,14	1,38	5,86
DAX	26440,31	0,46	3,18	7,98
CSI 300	4665,881	0,83	3,33	2,40
US 10 Year Yield (%)	4,6922	-0,48	-1,07	12,41
Germany 10 Year Yield (%)	3,204	0,76	-0,09	12,19
Gold Spot ($/Oz)	4376,4	0,13	8,66	1,79

Source: Bloomberg, BIL as of 17/8/26

MACRO SNAPSHOT

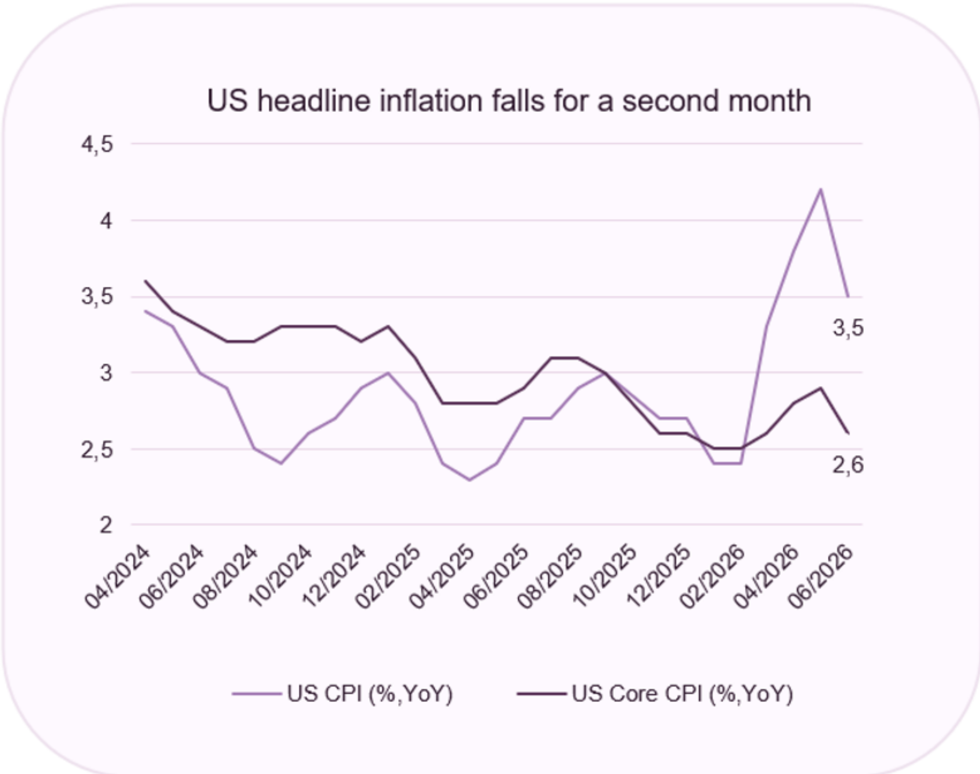
US inflation continues to cool, albeit slowly

US inflation moderated further in July, with headline CPI slowing for a second consecutive month to 3.4% YoY. On a monthly basis, CPI increased 0.1%; shelter prices (+0.1%) accounted for roughly two-thirds of the increase, while energy prices fell 1.5% during the month. Food prices declined, notably due to a 16.4% plunge in lettuce prices, following a cyclospora outbreak.

Importantly, annual core inflation - which excludes food and fuel - eased to 2.5%, the lowest level in five months.

On the producer side, the PPI rose 4.7% YoY, down from 5.5% in June and marking its lowest level since March. Core PPI increased 0.2% month-on-month, slowing from a 0.4% pace in June and coming in below market expectations of 0.3%. On an annual basis, core producer inflation stood at 4.2%.

The moderation in both core CPI and PPI gives the Fed greater flexibility. Nevertheless, one more inflation report for August will be released before the Fed's September meeting, while ongoing geopolitical tensions in the Middle East continue to represent an important source of uncertainty.



Source: Bloomberg, BIL

Rhine shipping constraints resurface as water levels fall

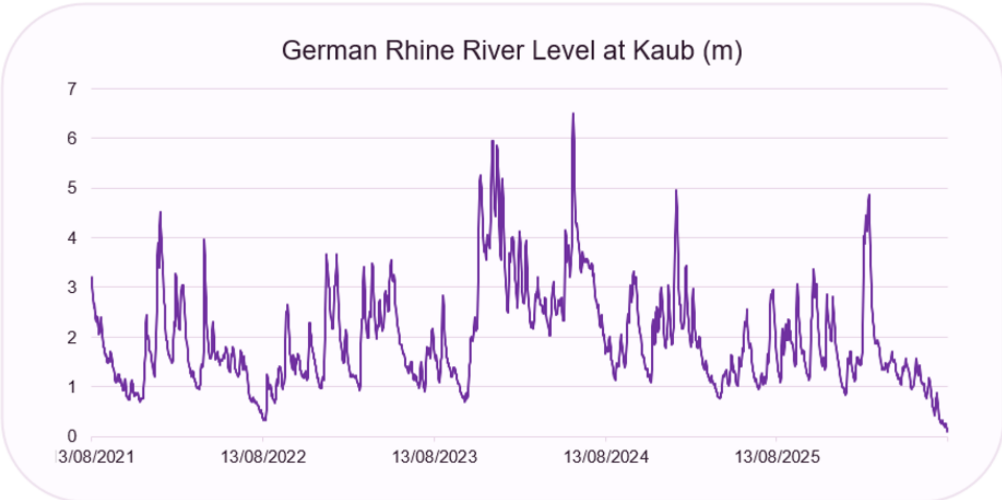
Following this summer's heatwaves and prolonged lack of rainfall, river levels on the Rhine have fallen sharply, forcing cargo vessels to operate at only a fraction of their normal capacity. To move the same volume of goods, cargo owners must distribute shipments across multiple partially-loaded vessels, significantly increasing transportation costs.

In response to the worsening situation, several German states have temporarily lifted Sunday driving restrictions for lorries to help mitigate supply chain disruptions. Rhine water levels now sit near record lows, with the Kaub bottleneck, the river's most critical shipping chokepoint, recording gauge levels of less than 20 centimetres of navigable clearance.

Parts of the Danube have also reached exceptionally low levels, forcing Hungarian authorities to implement emergency measures to maintain operations at the Paks nuclear power plant. The facility, which relies on water from the Danube to cool reactors, is currently operating at little more than 10% of its capacity because of low water levels. Paks supplies roughly one-third of Hungary's electricity.

As these rivers remain vital arteries for Europe, persistent low water levels could create supply chain bottlenecks, raise costs, and place renewed pressure on industrial production.

Eurozone industrial production was unchanged in June, according to data released on Thursday. On an annual basis, output increased by just 0.1%, underscoring the fragile state of the region's industrial sector.



Source: Bloomberg, BIL. The chart shows the navigable clearance above a predetermined reference level.

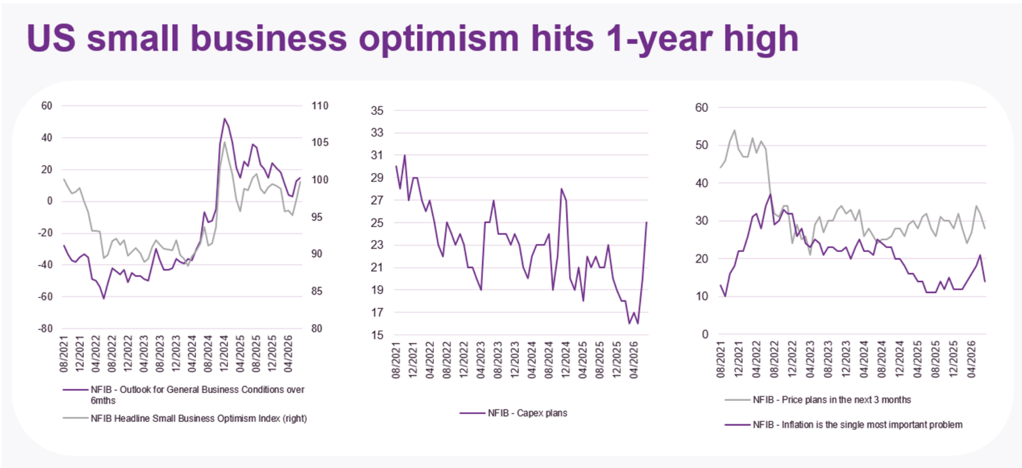
US Small Business Optimism rises to a near 1-year high

Small businesses account for nearly half of US economic activity, making the NFIB Small Business Optimism Survey an important gauge of economic momentum. As one of the earliest monthly readings on Main Street conditions, the survey provides valuable insight into hiring, pricing and investment intentions, offering an early signal on growth, inflation and ultimately the direction of Fed policy.

The Index rose to 99.8 in July, its highest level since August last year, and up from 97.4 prior. Eight of the survey's ten components improved, led by a sharp increase in hiring intentions. A net 20% of business owners expect to create new jobs over the next three months, up nine percentage points from June and the highest reading since October 2022. Labour quality and availability remained the most frequently cited business concern.

Inflation signals were encouraging. Both actual and planned price increases eased from June, with the net share of firms raising average selling prices falling seven points to 31%, while the net share planning future price increases declined four points to 28%.

For investors, the survey points to resilient small business activity and paints a picture of a more robust labour market than last week’s nonfarm payroll report showed. At the same time, easing pricing intentions suggest inflation pressures may be moderating. The combination is broadly consistent with steady economic growth but a less concerning inflation backdrop.



Source: Bloomberg, BIL

... but US Consumers are not riding the same wave of optimism

While Main Street is enjoying a rosier outlook, US consumers are not fully sharing in that optimism. Consumer spending lost momentum in July, raising fresh questions about the strength of household demand. Retail sales fell 0.6% MoM, significantly weaker than expectations for a 0.1% increase, marking the first decline since October 2025.

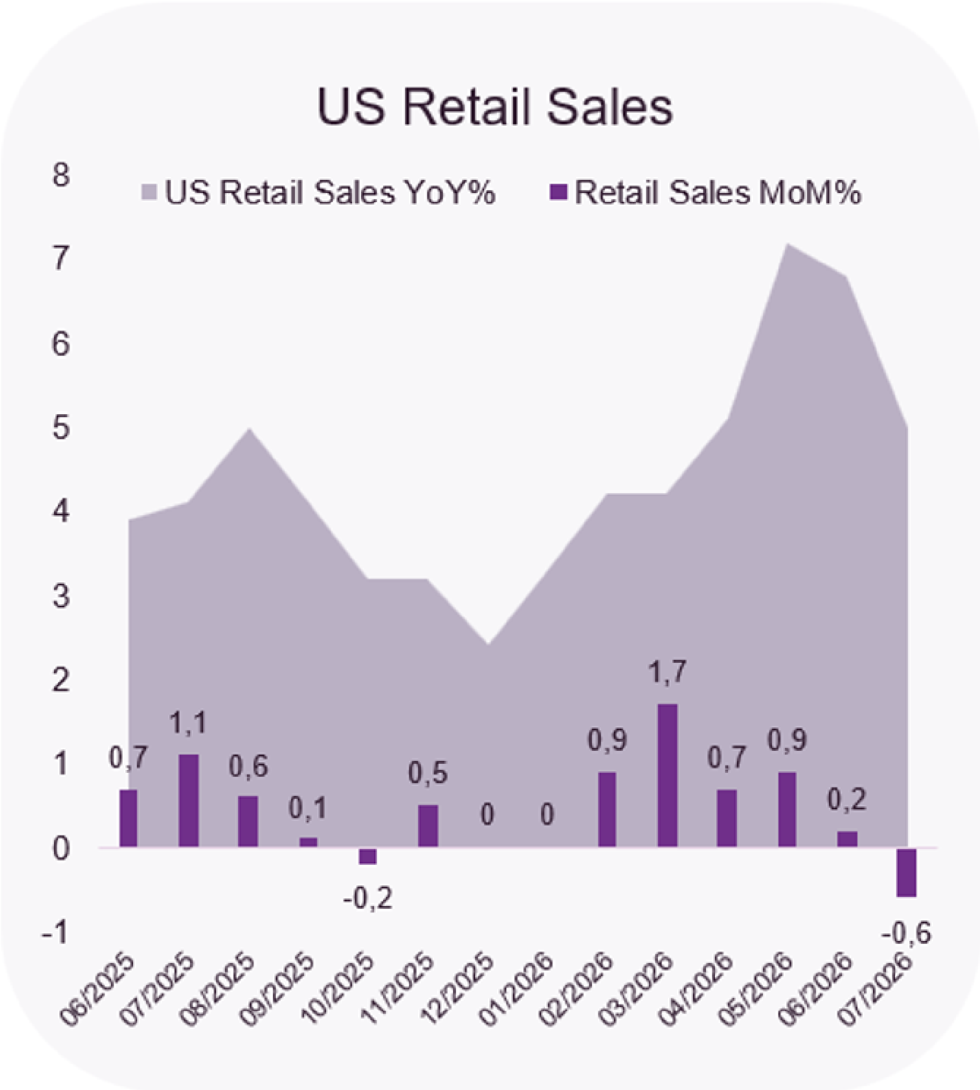
The weakness was led by non-store retailers (-2.2%), likely reflecting a cooldown after Amazon’s Prime Day boosted spending in June. Sales also declined at motor vehicle and parts dealers (-1.8%), gasoline stations (-0.9%) and electronics and appliance stores (-0.5%). The figures are not adjusted for inflation.

Core retail sales, which feed into GDP calculations, dropped 0.4%, the largest decline since the start of 2025.

There were, however, some pockets of resilience, especially for clothing and accessories. Spending at restaurants and bars, often viewed as a useful gauge of discretionary spending, increased 0.5% during the month, potentially supported by spending related to the FIFA World Cup, which ran through 19 July.

Consumer confidence also weakened. The University of Michigan Consumer Sentiment Index fell to 51.0 in August from 55.2 previously, well below expectations of 54.5. Notably, only 8% of consumers now expect their incomes to rise faster than inflation.

Taken together, the latest retail sales and sentiment data suggest that consumers are becoming increasingly cautious. While the labour market remains relatively healthy, softer spending patterns and declining confidence point to a gradual cooling in domestic demand, a development that could give the Federal Reserve additional room to remain patient on further policy tightening.



Source: Bloomberg, BIL

CALENDAR FOR THE WEEK AHEAD

Monday – Japan GDP Growth (Preliminary, Q2). China House Price Index, Industrial Production, Retail Sales, Unemployment, Fixed Asset Investment (July).

Tuesday – UK Unemployment Rate and Labour Productivity. Eurozone and Germany ZEW Economic Sentiment Index (August). US Housing Starts, Building Permits and Pending Home Sales.

Wednesday – UK Inflation (July). Eurozone Inflation (Final, July). US FOMC Minutes

Thursday – Japan Balance of Trade. China Loan Prime Rate. Eurozone Labour Cost Index (Flash, Q2). US Weekly Jobless Claims

Friday – Japan Inflation (July). UK Gfk Consumer Confidence and Retail Sales. **US, Eurozone, UK, Japan Composite PMI (Flash, August).** France Business Confidence. **Eurozone Consumer Confidence (Flash, August), Negotiated Wage Growth (Q2)**.

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