August 7, 2026

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.

Lionel De Broux
Group Chief Investment Officer

Jade Bajai
Senior Investment Strategist

Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeless of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent,- subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of- date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch ı L-2953 Luxembourg ı RCS Luxembourg B-6307 ı Tel. +352 4590 6699 ı www.bil.com.