The Tatton Weekly

Risks take a holiday

14 August 2026

This week's topics:

Hot weather, chilled markets

Do currency interventions work?

Beware US margin expansion

This week's writers:

Lothar Mentel
Chief Investment Officer

Jim Kean
Chief Economist

Dr. Isaac Kean
Head of investment writing

14 August 2026

Matt, Non AI Capex, 10 August 2026

Hot weather, chilled markets

Capital markets had another decent week, led by US tech stocks and propelled by AI-related corporate earnings reports. How many times have we written that sentence? The market-moving narratives are basically the same as they have been for weeks: strong tech earnings, receding energy price fears and lingering anxiety around high government bond yields.

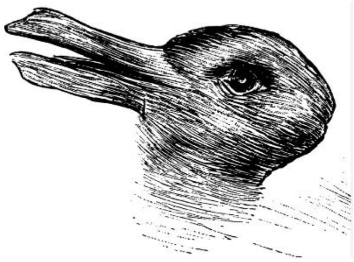
The difference between July's volatility and August's calm is less about the fundamental outlook and more about investor sentiment. Markets have remained liquid through the light summer period, while many retail investors with leveraged positions were flushed out during July's sell-off in chip manufacturing stocks. Since then, prices have drifted higher on strong fundamentals. The risks are still there but the rewards are too. Markets are what you make of them.

Are tech earnings a duck or a rabbit?
Two news stories contributed heavily to AI stocks' outperformance this week.

The FT reported that Claude owner Anthropic is looking for an eye-watering $2 trillion valuation in its initial public offering (IPO), likely in October. SpaceX's reign as the largest-ever IPO ($1.765 trillion market cap on 11th June) will be over.

AI cloud computing firm CoreWeave released strong Q2 results, comfortably beating revenue forecasts – though its bottom-line losses expanded, due to a higher capital spending forecast. CoreWeave shares gained 19% in Wednesday trading, buoying broader US tech stocks.

It is interesting that markets responded so well to CoreWeave's 'spend money to make money' report. These were exactly the kind of results that the so-called AI hyperscalers (Alphabet/Google, Amazon, Meta/Facebook, Microsoft and Oracle) were punished for last month, as investors grew anxious about vast AI spending. Where investors once saw worrying levels of cash-burn, they now see AI firms investing while they are ahead. It is the typical 'duck or rabbit' illusion.



Strong earnings or cash-burn?
The change in perspective is, we suspect, down to improved market liquidity. The US-Japan intervention to support the yen is estimated to have injected close to $100 billion of dollar liquidity into the financial system at the start of the month. Benign inflation figures since have reduced the chances of interest rate hikes and loosened financial conditions further. And while oil prices are still high, the Middle East's market impact has dulled, with investors buying back into equities.

A liquidity boost reduces the gap risk in stock markets, lowering share price volatility – both in recorded and implied terms (the cost of insuring shares against price falls). When volatility falls, investors feel more comfortable buying risk assets.

UK growth can't bridge the narrative gap
Having had a good run through July, UK markets no longer share the glass-half-full mood. UK stocks underperformed this week, despite stronger-than-expected economic growth in June (the UK is one of a few who publish monthly as well as quarterly real growth estimates).

The ONS also published its 2026 second quarter growth estimates and these too were surprisingly strong, given higher oil and gas prices, with strong business investment growth being particularly encouraging. For the quarter, real growth rose an annualised 1.7%.

The commentary downplayed the overall UK growth numbers, suggesting they were a one-off bounce from a weak business investment position in Q4 last year, over budget uncertainty. Consistently weak business sentiment might back that up, but the fact remains that Britain's economic data has been consistently stronger than the surrounding narrative for some time.

We will have to see how the data holds up in the second half of 2026 to know for sure. But in any case, the UK economy looks reasonably well supported. Inflation pressures are dissipating and company earnings are strong. If the green shoots of private sector investment can be matched by public investment – a big if – then that should support growth further.

One negative you could pull out of the UK data is that growth is being led by business demand – widening an already stretched trade deficit (exports minus imports). If that demand is investment-related, you might expect it to create stronger exports later on, thereby narrowing the trade deficit. But we cannot know yet. Regardless, it is a slight concern not a massive one.

Another potential negative, for mainland Europe even more than the UK, is the impact of recent extreme heat levels. Hot weather has boosted consumption in some sectors but reduced manufacturing and agriculture production, while transportation problems are adding up. The UK may see a marginal impact of about -0.2 to -0.3% for 2026, while Germany and France could see growth pulled down by -0.5% to -1%, according to various sources.

Strong sentiment but risks remain

The global market backdrop looks good, with strong earnings growth, inflation pressures abating and returning investor risk appetite. But investors being in a good mood does not mean the risks have gone away.

On Wednesday, the International Energy Agency (IEA) increased its estimated global oil shortfall for the rest of 2026 and warned that dwindling reserves might be insufficient if supply stays disrupted. The IEA has made dire predictions about the US-Iran war before, and markets have become a little numb to them. But the longer the Strait of Hormuz remains only "sort of open", the more likely they will come true eventually. Markets' sensitivity to oil supplies has changed, but the underlying situation has not.

Numbness to oil prices also limits the chance of a relief rally if oil supplies improve. You would expect bond yields to fall if energy prices drop, for example, but AI firms' demand for capital could simply mean that lower yields just incentivise more borrowing. That would limit the upside for bond prices (the inverse of yields).

So far this month, markets have been happy with more of the same. But we are approaching an event that could definitively change the mood: the Jackson Hole conference for central bankers from around the world, at the end of August. There, new Federal Reserve Chair Kevin Warsh may give some clues about his plan to wean markets off the central bank liquidity provision they have enjoyed for nearly two decades. Given that strong liquidity is keeping spirits high, those plans will be crucial for markets.

Do currency interventions work?

The yen intervention at the start of August was historic. It has been nearly 30 years since the US and Japan teamed up to support the value of the yen, but the currency's persistent slide against the dollar forced the US Treasury and Japan's Ministry of Finance, with the help of their respective central banks, to step in.

We wrote last week that the 'yen-tervention' was reminiscent of the 1985 Plaza Accord – a decisive international agreement that set the dollar on a years-long downward path. But this week, the yen has already given up some of its gains against the world reserve currency. To work out how impactful this intervention will be over the long term, it is worth looking at past interventions.

From the Plaza to the Louvre

Government interventions in currency markets were not really a feature until the 1971 Nixon shock, when the US unilaterally, and without notice, abandoned the gold standard. Before then, free-floating currency markets were not really a feature either. Since the inception of the fiat currency regime, the International Monetary Fund has allowed nations to intervene in currency markets "if necessary to counter disorderly conditions".

That clause was used to support a sinking dollar in 1978, but more famously in the 1985 Plaza Accord: a multilateral agreement between the US, UK, France, Germany and Japan to reduce the dollar's value against the others' currencies. The Reagan administration particularly wanted the dollar to weaken against the Japanese yen and the Deutsche mark – to address the US's large trade deficits with Japan and Germany.

The plan worked. The dollar sank and the US current account (exports minus imports) stabilised. In fact, Plaza hit the dollar so hard that the G5 nations needed another agreement – 1987's Louvre Accord – to reverse dollar weakness.

Louvre helped boost the dollar but could not stop the yen rising. The Japanese government also stimulated its economy in response to the agreements' impacts on Japanese exporters. These policies helped inflate Japan's asset price bubble – which burst at the end of the 1980s and led to Japan's 'Lost Decades' of economic stagnation.

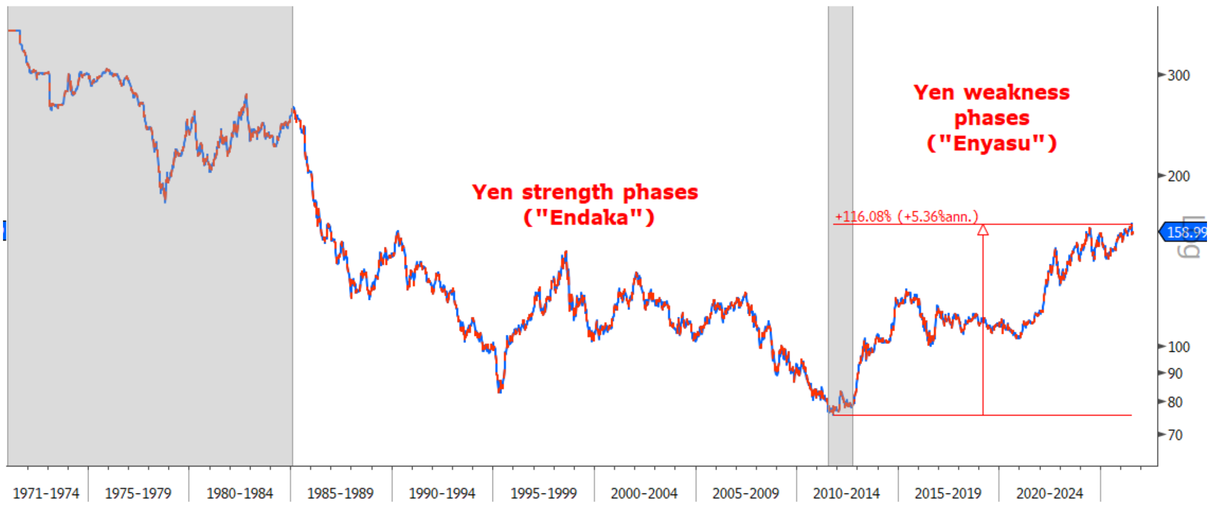
The Louvre Accord couldn't stem the yen's rise

The yen's appreciation hurt Japanese exporters, and the Louvre Accord gave only temporary relief. Despite an increasingly large current account surplus, the currency kept growing stronger. That strength motivated Japanese investors – large holders of global assets – to repatriate their capital. The Bank of Japan (BoJ) cut interest rates to try to weaken the yen, but that could not stop the flow of capital into Japan.

Part of the problem was that investors did not believe the BoJ could influence exchange rates effectively. Japanese investors feared missing out on a strengthening yen, so piled capital into the most liquid asset there was: government bonds. That compressed bond yields and created the financial market liquidity which eventually funnelled into Japan's stock market bubble.

The debacle proved that it is exceptionally hard for would-be currency manipulators to stand in the way of structural imbalances – and that attempting to do so can have significant unintended consequences. You could argue that the joint 1998 US-Japan intervention to bolster the yen was similarly ineffective: the yen did strengthen in the years after, but this probably had more to do with external factors (Russia's debt crisis and the collapse of Long-Term Capital Management) than policy control.

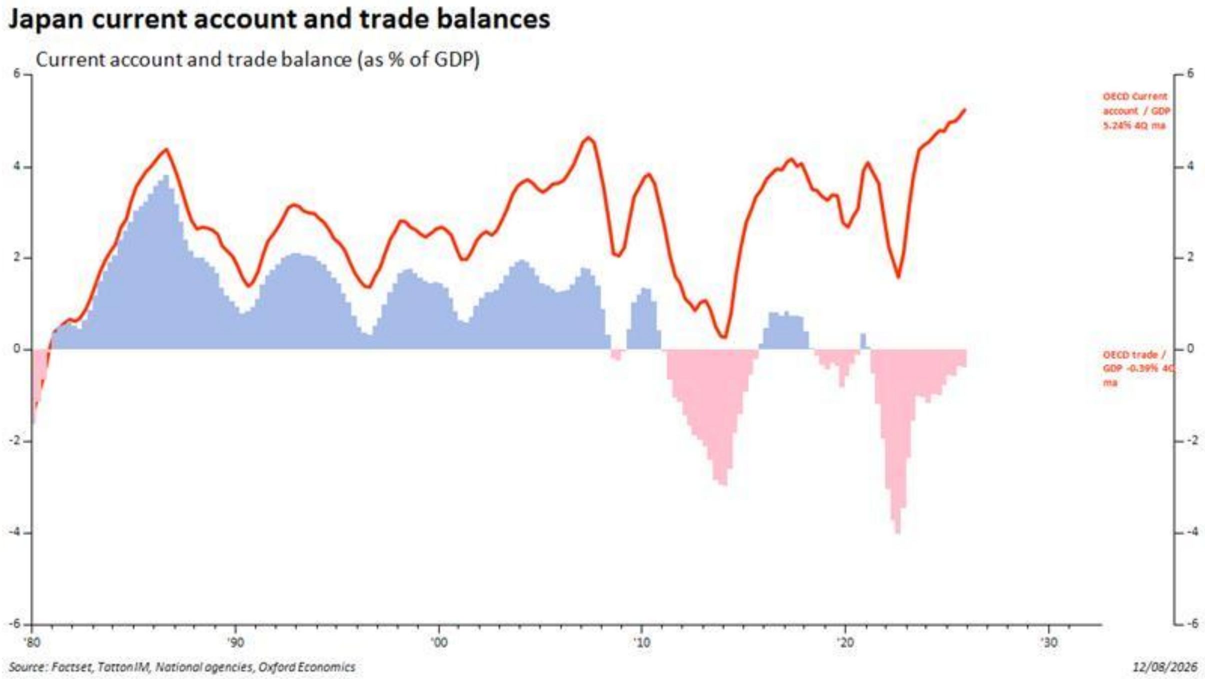
The Dollar and the Yen
JPY per US Dollar since 1970



Source: Tatton IM, Bloomberg: G2719
JPY Curncy (Japanese Yen Spot) JPY 1970 Weekly 15MAY1970-14AUG2026 Copyright© 2026 Bloomberg Finance L.P. 14-Aug-2026 14:24:54

Will investors believe it this time?

Tokyo's problem this year has been consistent yen weakness, not strength. Japan's record current account surplus (the balance of payments in goods and services, with foreign investment income also added), relative to GDP, suggests that the currency is extremely cheap, but investors still will not buy it. Indeed, the sliding currency amplifies the current account surplus – not just through trade but through Japan's huge net international investment position (NIIP). Japanese investors have significant holdings in the rest of the world and a weakening yen makes the value of non-yen income even greater. For Japanese holders of those foreign assets, the currency moves act as an incentive to reinvest in foreign assets, so little of the income gets sold for yen.



If more of Japan's foreign investment income were exchanged into yen, either to support consumption or buy Japanese assets, it would support the yen, or at least stabilise it. But the problem is that Japanese investors do not typically convert payments back into yen. To do so would be to go against a group behaviour which has existed for decades. They choose to keep the money abroad and reinvest in foreign markets instead.

If Tokyo wants this month's yen-tervention to be a turning point, then, Japanese investors need to start buying yen-denominated assets. Japan's strong stock market performance this year should help with that; Japanese stocks have outperformed all other developed markets in sterling terms, despite the yen's slide. The most attractive Japanese bond yields in decades should help too – although the fact yields are still higher everywhere else detracts from that case.

As for the US, it is no secret that the Trump administration would prefer a weaker dollar over the long term. That was part of the thinking behind last year's tariff plan to address US trade imbalance. But as Japan's experience shows, interventions cannot stem the tide if investors still want to buy dollar assets.

That being said, the US's bigger problem could be the opposite. It was revealing that the Treasury opted to sell euros, rather than dollars, to prop up the yen. There are even rumours that Treasury Secretary Scott Bessent intervened not out of any loyalty to Tokyo, but rather because Japan's Ministry of Finance was going to unilaterally sell from its huge stock of US Treasury bonds.

Coordinated policy action can have strong impacts on currency markets – but uncoordinated skin-saving is not a long-term plan. However, the current account imbalance provokes disquiet because there is a significant risk that the imbalance resolves rapidly and chaotically. Thus, the current near-term actions could become more organised, and a new Plaza Accord could emerge in the weeks ahead.

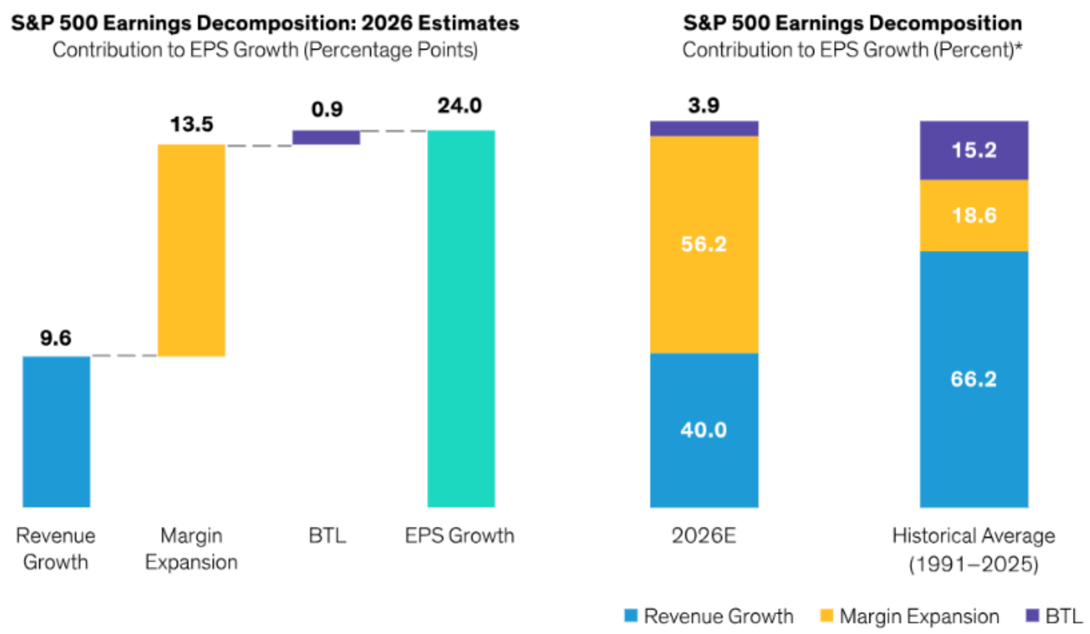
Beware US margin expansion

US corporate earnings growth is strong. The underlying numbers are not quite as strong as the eye-watering headline figures – as we covered last week – but they are encouraging, nonetheless. Still, some investors doubt how long the good times can last, particularly for the chip manufacturers and so-called 'hyperscalers' involved in the global AI buildout.

Central to that doubt is where the corporate earnings are coming from. Investors always like profit growth, but some types of growth are more reliable than others.

Margins, not revenue, driving earnings growth
According to an article from AllianceBernstein late last month, US corporate earnings growth this year has primarily been driven by higher profit margins, rather than revenue growth. As their chart below shows, S&P 500 companies are expected to post 24% earnings-per-share growth in 2026, but just 9.6 percentage points of that will come from revenue growth.

Profit Margin Expansion Is Driving S&P 500 Earnings Growth



Past performance does not guarantee future results.
Margin expansion refers to operating margins.
BTL: taxes, interest, buybacks, other; EPS: earnings-per-share
*Numbers may not sum to 100 due to rounding
As of June 30, 2026
Source: FactSet, S&P and AllianceBernstein (AB)

For shareholders, the source of earnings is important. Higher revenues typically come from stronger demand, and are hence sensitive to economic growth. Margin growth, meanwhile, can come from operational efficiencies or one-offs (e.g. tax cuts) which are harder to repeat. When companies expand their margins, they take a bigger slice of the pie. When they grow revenues, they make a bigger pie. As AllianceBernstein points out, periods of strong margin growth are usually followed by margin compression.

That being said, higher revenues typically themselves boost margins – as businesses benefit from economies of scale. Aggregate profit margins at the stock index level can also rise as the higher-margin companies grow their share prices, and thereby make up a larger proportion of the index.

Neither of those factors fully accounts for US stocks' current margin growth – nor is it just down to the kind of asset price distortions we wrote about last week (e.g. Amazon's SpaceX shares boosting its recorded profit). Margin expansion is happening at the operating level, across a broad range of companies.

Margins growing from unsustainable highs

It might sound strange for investors to worry about profitable companies. Corporate efficiency is one of the reasons US stocks have outperformed all others over the last decade, and we have long argued that the improvement in Japanese profit margins is a strong reason to be positive about Japan's market.

The key difference, however, is that US margins are already historically high. If profit margins expand from a low base, the overall profit growth is much higher: increasing your margin from 2% to 4% doubles your overall profits, while a move from 13% to 15% has a much smaller effect. More importantly, history shows that margins cannot keep expanding, even if they do not fall.

One of the reasons that margins cannot keep expanding is that high profit margins naturally attract competition, which then compresses those margins. For example, AI chipmakers currently have some of the highest profit margins out there. Their profitability is already encouraging significant investment in chip production – including from newer entrants who want some of those profits. Investment increases future supply capacity, compressing prices. This process is why profit margins typically rise and fall in cycles.

Productivity can sustain margins – but politics can hurt them

Our description of the profit margin cycle is heavily simplified. The real impacts of rising margins – certainly the effects on overall profit growth – are more complex. Margin growth can be sustained for unusually long periods, especially when companies become more productive. Optimists often point to productivity growth in periods of margin expansion, and they are often wrong, but the AI revolution is a good reason to think that this time could be different.

When companies genuinely become more productive, we often see margin growth *followed by* revenue expansion – as the productivity improvements filter through the whole economy. This is precisely what AI optimists argue is happening right now. If they are right, then US earnings growth can stay high even if margins remain static. It is an appealing story, but we are still waiting for firm evidence of these broad productivity gains from AI (though AI-related *investment* is certainly benefitting companies more broadly).

Even without broad productivity growth, there are reasons to think that many US companies can keep expanding their margins for a while yet. Big tech firms, for example, are spending billions on AI infrastructure, in large part to fend off future competition. They know that there is a competitive advantage to utilising the new technologies first. That somewhat blunts the argument about higher margins attracting more competition.

However, it also highlights another problem with continued margin growth: political unpopularity. If companies grow their profits from finding willing and able customers, they rarely face regulatory action. But companies that grow their profits by squeezing customers or suppliers are very unpopular.

This is particularly relevant for US corporations right now. Affordability is shaping up as one of the major national issues heading into the midterm congressional elections, and the datacentres that are driving so much margin expansion are hardly popular with voters. One way or another, companies cannot keep growing their profit margins forever.

14 August 2026

Global Equity Markets	14-Aug			Technical		Valuations			
Market	Level	% 1 Week	% 1 Week (GBP)	Short	Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	10755	-1.5	-1.5	⬀	→	3.1	14.0	12.9	12.7
UK FTSE 250	24865	+0.2	+0.2	↗	→	3.1	9.3	13.4	13.1
UK FTSE All-Share	5808	-1.2	-1.2	⬀	→	3.1	14.3	12.9	12.6
FTSE Small x Inv_Tsts	6807	+0.3	+0.3	↗	→	3.9	19.5	10.1	9.9
EU STOXX ex UK	843	-0.2	-0.5	↗	→	2.8	17.8	16.0	15.1
France CAC 40	8648	-0.9	-1.2	↗	→	2.9	17.2	14.9	14.1
Germany DAX 40	26440	+0.4	+0.1	↗	→	2.4	18.4	15.9	13.4
US S&P 500	7806	+1.1	+0.6	⬀	⬀	1.0	26.5	20.1	19.1
US NASDAQ comp	26806	+1.2	+0.7	→	⬀	0.5	36.0	25.0	26.2
Japan Nikkei 225	68714	+4.7	+3.4	↗	⬀	1.2	22.6	22.4	18.7
World Bloomberg	2691	+1.1	+0.6	⬀	⬀	1.5	23.2	17.3	16.7
China Bloomberg	1292	-2.2	-2.7	→	⬂	2.3	15.1	11.6	12.5
Emerging Bloomberg	1818	+1.9	+1.4	→	→	2.1	18.0	10.6	12.5

FTSE100 Top 6

Company	%
Lion Finance	+8.9
Computacenter	+4.4
Entain	+3.9
Autotrader	+3.3
Scottish Mortgage IT	+3.1
Endeavour Mining	+3.0

S&P Global Top 6 (GBP terms)

Company	%
Sandisk	+34.4
Super Micro Computer	+28.5
Recruit	+23.5
Nexon	+22.9
SK Square	+21.9
Marathon Petroleum	+20.0

Global Sectors (GBP terms)

Sector	%	Sector	%
Tech	+1.4	Staples	-0.7
Financials	+0.0	Energy	+4.9
Health	-0.4	Materials	-1.6
Discretionary	-1.7	Utilities	-0.6
Industrials	+0.5	Real_Estate	-0.3
Communicatic	-1.2		

FTSE 100 Bottom 6

Company	%
Antofagasta	-8.8
Burberry	-8.0
GSK	-7.7
Coca-Cola HBC	-7.1
Imperial Brands	-6.8
Marks & Spencer	-6.0

S&P Global Bottom 6 (GBP terms)

Company (GBP terms)	%
Tapestry	-21.3
Cia de Saneamento Basico do Est	-14.9
Rakuten	-14.9
Localiza Rent a Car	-14.8
JD.com	-13.9
Banco do Brasil	-13.7

Fixed Income

Govt bond	%Yield	1 wk chg
UK 5yr Gilt	4.54	+0.07
UK 10yr Gilt	5.00	+0.08
UK 15yr Gilt	5.42	+0.09
US 10yr Treasury	4.66	+0.01
France 10yr OAT	4.02	+0.11
Germany 10yr Bund	3.19	+0.06
Japan 10yr JGB	2.87	+0.08

Currencies

Pair	last	%1W
USD per GBP	1.355	+0.4
GBP per EUR	0.855	-0.2
USD per EUR	1.158	+0.2
JPY per USD	159.01	+0.8
CNY per USD	6.742	-0.0
USD per Bitcoin	62,546	-3.4

Commodities

Cmdty	last	%1W
Oil Brent $:bl	87.26	+5.4
Gold $:oz	4391	+1.3
Silver $:oz	65.53	+3.2
Copper $:lb	672.2	+0.3
Alumnm $:mt	3265	-0.4
Agriculture BBG	59.92	+1.8

UK Mortgage Rate Estimates

Rates (LTV c.75%, no fee)	14-Aug	15-Jul
UK BoE base rate	3.75	3.75
2yr fixed	4.86	4.81
3yr fixed	4.80	4.76
5yr fixed	4.81	4.65
10yr fixed	5.18	5.18
Standard variable	6.60	6.60

Where possible, prices taken levels at 14 August 3:00 PM (today) and 07 August 3:00 PM. Mortgage estimates from moneyfacts.co.uk
LTM PE is the index price as a ratio of last 12 months earnings. NTM PE is next 12 months earnings.

Please note: Data used within the Personal Finance Compass is sourced from Bloomberg/FactSet and is only valid for the publication date of this document. The value of your investments can go down as well as up and you may get back less than you originally invested.

Lothar Mentel