The Tatton Weekly

Wanting isn't getting

28 August 2026

This week's topics:

Tantrums and other 21st century resolution mechanisms

Outlook for the rest of 2026 - back to school

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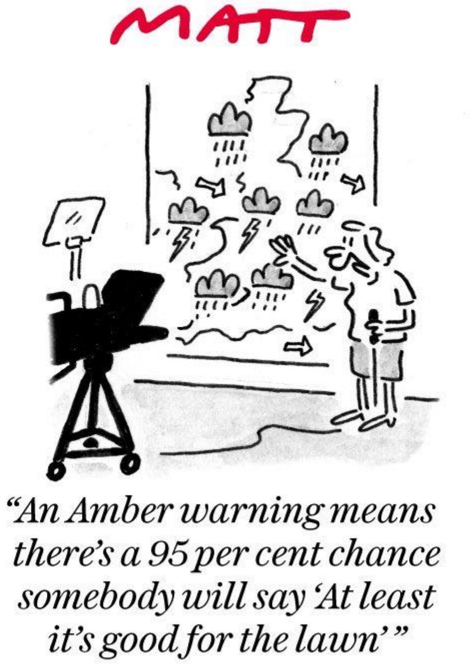


Wanting isn't getting, Matt, 27 August 2026

Tantrums and other 21st century resolution mechanisms

This week has seen little movement in the main asset classes. Generally, equity markets have moved a bit higher, longer bond prices and yields are unchanged and the US dollar has recouped much of the losses from last week.

Kevin Warsh is delivering his address to the US Federal Reserve's annual symposium of central bankers from around the globe, held at Jackson Hole, Wyoming. We will finish writing before he finishes his address but, so far, he has done a good job in communicating the reasons why Federal Open Market Committee members should be relatively uncommunicative. He has emphasised that returning inflation to the 2% target should be done with "speed" (although we point out below that he doesn't need to do very much).

Short bond yields are a bit higher but longer maturities are currently unchanged, while Warsh is undoing some of the talk of "debasement" that happened after Bessent's bond intervention of last week. Investors will be happy that currently he intends to set the inflation mandate ahead of the employment mandate – which is reasonable given the relative stability of employment.

However, the reason that short bond yields are up is that it is likely that the Fed will hike rates in September, given the Chairman's remarks. While large cap stocks are up, small cap stocks have traded lower because of higher interest costs. Having "fired" Jerome Powell for not lowering rates, President Trump does not appear to be getting what he wants.

He did not mention the Federal Reserve's bond holdings directly at all. We will have to wait for his task force whose recommendations "will come later". They won't affect the September or November FOMC decisions.

Economic data is sending a helpful signal for markets, in that growth is present but edging back from a pace that might add to inflation and force central banks to raise rates. For most regions, the year-on-year measures of inflation are still too high for comfort although these contain the Iran conflict's jump in fuel prices. The price shock affects petrol pump prices pretty much immediately but can take longer to feed through the system in other areas; here in the UK, regulated household energy prices will rise by 4% for invoices after the end of September. It would have been more but for VAT being set at 0% (from 5%, with the lower rate only for six months) as wholesale prices have risen by 11% over a year.

However, the secondary impacts of oil and gas price rises are not as strong as were initially feared. In our "Back to School" Outlook for the rest of 2026, we note that the developed world's core inflation, without the volatile and more importantly usually reversible food and energy price components, continues to edge down and is now running at about 2.4% year-on-year. This is still above the universal developed world central bank target of 2% (and each central bank has a slightly different measure of inflation) but the path is comforting. As for the level, the 0.4% "miss", well it is equivalent to the 1997-2019 period's average degree of deviation from the target, albeit that inflation was too low for much of the 2010-2019 period.

Given the consistently frequent shocks to the global system over the past decade, the strength of growth and the relative stability of inflation are remarkable and heartening. Perhaps the global system is far more robust than many thought.

There are good reasons why this could be so. We talk of extremely high global debt levels, but that discussion tends to focus on one part of the economy, governments. Generally, across the world both household and corporate debt has reduced substantially, relative both to the size of the economy and the total of all assets. Partly because of this low level of debt, the big rise in interest rates since 2021 has had a relatively low impact on consumers and businesses.

One theory of why government debt has risen so much is that it is the counterpart of the fall in household and corporate debt; the public sector has had to provide demand while the private sector built its net savings. Private sector growth and investment remained at low levels, and that allowed interest rates and bond yields to fall to extremely low levels – despite growing public debt levels.

However, since part way through last year and with greater momentum into this year, the private sector has stopped saving and is becoming a big spender via the AI-related and defence-related investment drive. While some fear the technology might be less productive than the believers say, history tells us that the investment drive will be long-lived even if it is likely to be bumpy rather than smooth.

The growth path should remain robust over the medium to long term and signs are that growth keeps surprising on the upside. This week, for example, German Q2 GDP was revised up to 1% year-on-year while German confidence measures for both businesses and consumers were higher than forecasts. UK and US data are slowing from strong levels, but Europe and Japan are gaining from lower levels.

So what could go wrong?

The answer is that governments and their leaders may not have enough faith in the system's ability to cope, or that they may want to protect weaker areas of the economy. They could also make mistakes which rock a system already damaged from previous shocks.

Last week, we mentioned that the US Treasury Secretary Scott Bessent had said the administration would bring forward a fiscal action plan within days, designed to reduce the government deficit meaningfully. He also intervened in the bond market, sending a clear signal that yields are too high for the world's largest state to bear. Bessent has told us he is very worried about a potential acceleration in yield levels – a US "Doom Loop".

On Monday, he announced Project Outcast which will impose as-yet unspecified tariffs on Iran's trading partners as a means of sanction. Tariffs as a form of tax receipt are a valid way to increase government revenues and the 2025 "Liberation Day" tariffs did – at least temporarily – help reduce the year's deficit.

However, as a policy, those tariffs were unsustainable in many different ways. Project Outcast tariffs will inevitably be less than 2025's and will be unsustainable by design. In other words, Project Outcast was not the policy that Bessent was talking about. We don't doubt, however, that this serious man is being serious and that he will deliver a plan.

The real danger is that weakened Republican senators and congressmen and women heading into mid-terms will welcome somebody else's pain but not countenance their local electors to be squeezed – what will now be known as the Count Binface policy ("I'll cut your taxes and raise everybody else's", not the one about "99 ice creams for 99p").

Bessent may have created the circumstances of the very thing he fears by signalling urgent action is needed, and then not acting with urgency. He may be blocked from bringing anything substantive before the mid-terms and there is a lot that can happen in these two months.

Meanwhile, some of the global leaders seem intent on grabbing attention and, if their own aims require, convincing us that they will go to almost any end to achieve them.

President Trump may have been bounced into trade belligerence towards Canada by Howard Lutnick, U.S. Secretary of Commerce (just as Vance did in the meeting with Zelensky in 2025) but he seems happy enough to carry on with it. It appears that the US and Canada were very close to a deal before Lutnick's involvement. This event may not have been a diplomatic slip-up on the US side, but the citizens of the US northern border (and important electoral vote-swing) states will be badly affected as much as those in Canada. A resolution seems likely.

Putin's real belligerence towards Europe is also worrying on the face of it, and seems to have been the cause of the Head of the CIA's visit to Moscow. Bloomberg and Reuters reported unnamed Putin insiders as effectively threatening "tactical nuclear" weapon use in Ukraine and possible attacks on Europe.

This certainly grabbed our attention but we note that such threats have been made before without leading anywhere. The threats of escalation are partly a signal of Russia's pain and come with proffered paths to de-escalation, albeit ones which are not exactly attractive or easily accepted.

Brinkmanship doesn't generally signal strength and mistakes can create the path that no one wants. The aim of playing up the "now not unthinkable" event is to skew the estimation of its probability. But the worst outcome is not substantially more likely because one party has said it. In fact, the probability of a path to resolution should also be increased, offsetting the risky scenario.

We've said before that geopolitics often has little impact on markets. It's not that we think the news is unimportant, or that there is no downside. When people tell us what they want, often it is a way of getting something else, and bears little relationship to what will happen.

Having wanted a bit of rain for much of the last month, most of us would like to have a sunny Bank Holiday weekend, but wanting isn't getting. See you in September.

Back to School Outlook 2026

Economic conditions are supportive as we head into the autumn. Despite geopolitical challenges and at times extreme noise from both the traditional media and even more so social/internet media, global growth and corporate profits have been strong in 2026 – powering investment returns. We expect that growth will stay strong into 2027. The driving force is private sector investment, as it has been all year. Absent new unknown shocks, we think investors are set for a solid end to the year.

However, conversations with clients still indicate many remain worried. Concerns include fears that tech stocks are in a bubble, and that inflation might surge forcing interest rates to rise sharply along with bond prices falling to new lows. UK savers fret about the possibility that wealth taxes might be imposed.

Those worries are reasonable but have been in place for much of this year and, so far, markets and economies have remained resilient, underpinned by strong growth in worldwide corporate profits.

Advances in technology are causing businesses to invest heavily. At the same time, consumers in developed markets are, in aggregate, coping with the oil shock – particularly in the US. The US and Israel's war with Iran threatened to raise costs and dampen global economic activity and, it remains that energy price movements are a challenge, most notably in some emerging markets. However, the more dire predictions about global growth have not come true.

Middle East tensions are still important for the medium-term market outlook. Markets keep oscillating between periods of relative calm and sharp concern over oil and natural gas supplies. There have been several false dawns in recent months. That being said, the US, Iran and other gulf nations have strong incentives to pursue a lasting ceasefire that ensures the flow of energy supplies.

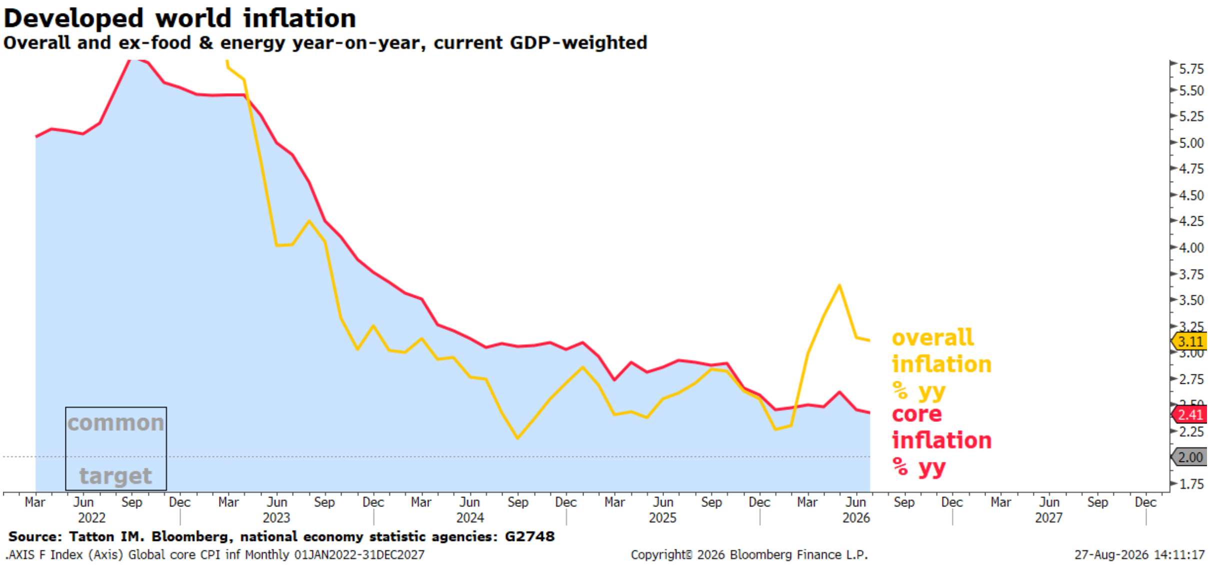
The stability of global growth has made the war itself less important to asset prices in the near-term. Investors have become a little numb to the news, given that there is a sort of stability around the back-and-forth in the Strait of Hormuz. The tighter supply has been offset by a drop in global oil demand – particularly in China, the world's largest oil importer. That does not mean things cannot get worse. Continued disruption into the winter would likely be more painful, particularly for Europe, but for now, markets are holding firm.

Judging by the most recent business sentiment surveys, companies feel confident, virtually everywhere. Manufacturers are particularly strong, having bounced back from woes last year. AI infrastructure spending is driving the recovery in global manufacturing, offsetting higher energy costs.

Households, particularly the lower-paid and less wealthy, have seen real incomes squeezed and confidence levels have remained near lows. Still, employment has barely changed and fears of AI-related redundancies have proved to be unfounded (so far). At the margin confidence is improving slightly.

Government investment spending is also broadly supportive for global growth, albeit not as vigorous as in 2025. Defence spending, particularly in Europe, benefits manufacturers further.

Core inflation (excluding volatile elements like food and energy) looks relatively well contained. That should mean fewer inflation pressures into the end of 2026, energy price volatility notwithstanding. Manageable core inflation also means less pressure on central banks to raise interest rates, supporting markets.



AI infrastructure spending is set to continue and could well accelerate, given the intense capital raising from the so-called hyperscalers (large cloud computing companies). This will power global growth and corporate earnings, as it has through 2026 so far.

Hyperscaler capital demand is strong, but non-tech firms are more apprehensive about borrowing to invest. There is an element of crowding out here: the biggest tech firms with the highest credit ratings keep issuing bonds, pushing up bond yields for lower-rated credits – and even government bonds.

Partly because of that crowding out, the world economy is not in much danger of overheating. High capital demand could see bond yields rise from already higher levels, but those rises should be manageable. It is a supportive growth environment, but not a supercharged one.

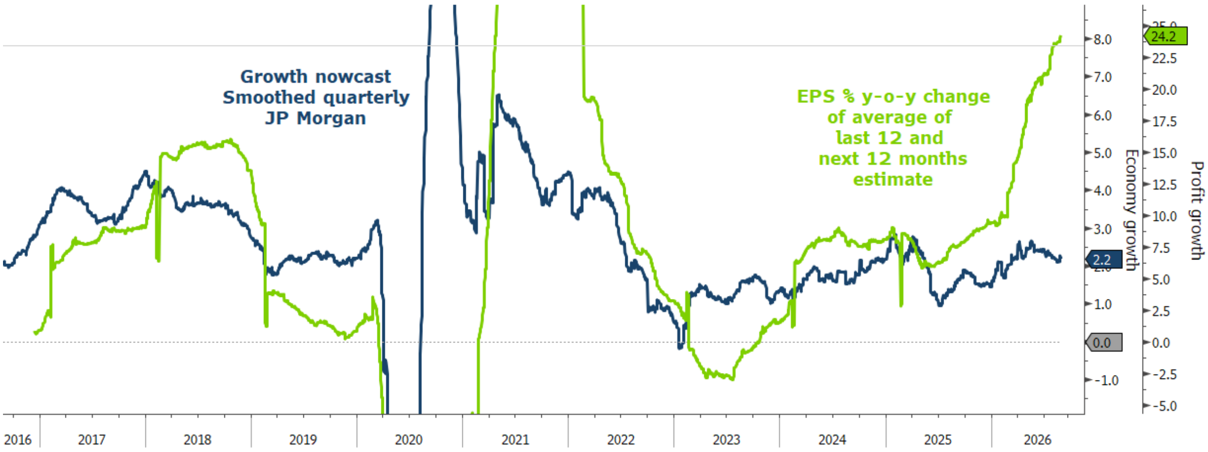
Although investment spending is concentrated because of the enormous amount coming from the hyperscalers, corporate profits are much more evenly spread and look healthy; growth is well based. All else being equal, you would expect that to carry on.

Regions

US

US corporate earnings growth is very strong. Investors have shown some doubts about the durability of AI-related earnings, particularly from the typically cyclical chip manufacturers, but the earnings themselves continue to impress. AI infrastructure investment is the main driver of the US economy – but tech firms' demand for capital is pushing up borrowing rates for everyone else. Non-tech companies are at least starting to benefit from hyperscaler spending, but the 'K-shaped economy' (big tech booms, others struggle) is still alive and well in the US.

Economy & corporate profits - US and S&P 500
JP Morgan current economic growth estimate and equity index EPS growth



Source: Tatton IM, Bloomberg, JP Morgan: G2753
JNOWUSSQ Index (JPMorgan United States Smoothed Quarterly Nowcast (SQN)) now growth+profit US Daily 28AUG2016-28AUG2026 Copyright© 2026 Bloomberg Finance L.P. 28-Aug-2026 16:22:35

That skewed distribution aside, corporate profits look great in aggregate and should continue to motor ahead. US businesses, even those not involved in AI growth, have been remarkably resilient to higher oil prices. The same is true for US consumers; sentiment surveys are negative but they keep spending through the crisis. This is helped by the fact that US natural gas prices have actually fallen since the start of the Iran war.

The Trump administration dialled back its tariffs and trade disruptions, compared to 2025. That is partly down to the Supreme Court's ruling that the President cannot unilaterally impose tariffs at will, but also because Washington has been more focussed on its war.

The recent collapse of trade talks between the US and Canada and the imposition of new bilateral tariffs suggests that Trump intends to return to a combative stance in the buildup to November's midterm elections. This is possible but past episodes have proved fairly short-lived (the famous TACO phenomenon) as "affordability" is the Republican Party's biggest political weakness, and they have decreasing appetite to play into the Democrats' hands.

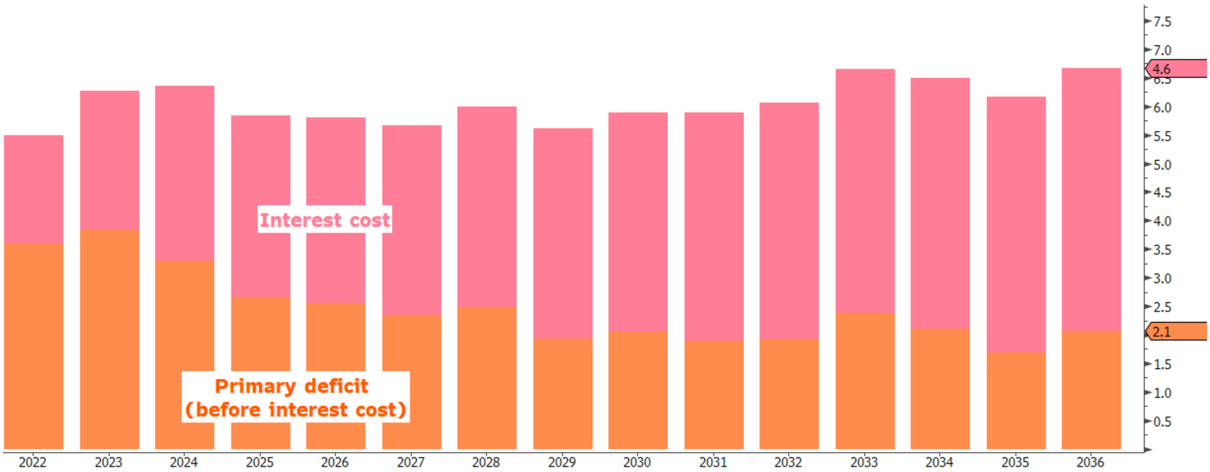
More likely, we should expect Trump to provoke international spats, although China will always have a strong position given that tariffs ultimately raise US consumer costs. Along with Canada, European nations are a favourite target for the President.

Democrats are currently tipped to win the House of Representatives, but gaining control of the Senate will be a tall order. Losing even one chamber of Congress would frustrate Trump's policy agenda for the rest of his term, but the election results are not likely to affect markets too much either way. That is unless something truly extreme happens – like the White House declaring a state of emergency.

Federal Reserve policy will be more important for markets. Recent tame inflation data has lowered the chances of a Fed hike – but it remains a possibility. If rate rises come, it is likely to be only one or two, not the typical four to five cycle. Fed chair Warsh's plan to reduce central bank liquidity on the other hand could have a larger effect.

The Fed's dilemma is that interest rates are still compressive for many sectors of the US economy, but are clearly not compressing free-spending tech firms.

US budget deficits and interest costs
US Congressional Budget Office forecasts relative to GDP



Source: Tatton IM, Bloomberg, US Congressional Budget Office: G2749
DHPPPUBP Index (CBO US Annual Budget Data Debt Held by the Public % of GDP) US CBO forecasts Yearly 31DEC2022-28AUG2026 Copyright© 2026 Bloomberg Finance L.P. 28-Aug-2026 16:42:09

Fed chair Warsh's plan to wean the financial system off central bank liquidity is a bigger threat to markets. It would take away some of the 'juice' markets have enjoyed for nearly two decades. Many are sympathetic to Warsh's long-term goal of shifting the burden of liquidity creation onto banks, but it would likely cause volatility in the short-term, and make him very unpopular with the Trump administration as it is likely further to push up the yield cost of the government's debt mountain.

UK

The medium-term outlook for UK assets is reasonably positive, but fragile.

UK economic data has long been more positive than the dour narrative suggests. Growth was surprisingly strong in the second quarter of 2026 and the most recent data – like JP Morgan's Nowcasts – suggest that Britain is growing at around a 2% annual rate. Forecasts from the likes of the OECD are less encouraging into the start of 2027, but economist forecasts have tended to underestimate UK growth in recent years.

The strongest component of the Q2 data was private sector investment. This is surprising in one sense, given that business sentiment surveys are persistently negative. It is unsurprising in another: corporate earnings growth has repeatedly surprised on the upside and seems to be accelerating – not just in large-cap stocks, but in smaller caps too.

The mismatch between sentiment and investment cannot continue though. Either private sector investment tails off or, more encouragingly, businesses will cheer up. Given strong profit growth, we are hopeful of the latter, but we will have to wait for Q3 data at least.

Economy & corporate profits - UK & FTSE 100
JP Morgan current economic growth estimate and equity index EPS growth

Source: Tatton IM, Bloomberg, JP Morgan: G2755
JNOWUKSQ Index (JPMorgan United Kingdom Smoothed Quarterly Nowcast (SQN)) now growth + profits UK Daily 28AUG2016-28AUG2026 Copyright© 2026 Bloomberg Finance L.P. 28-Aug-2026 16:32:52

Earnings growth is not stronger than elsewhere, but UK stocks' price-to-earnings valuations are cheap – certainly compared to the US. UK equities have been cheap for a while, without attracting significant demand, but private equity firms' recent interest in UK companies shows that there is demand at the right price.

The main problem is persistently high yields on UK government bonds (gilts). This is largely down to structural gilt market supply and demand imbalances – relative to other countries, the UK has more long-dated debt and much more inflation-linked debt – which make gilts more sensitive to inflation and energy prices. The fact core inflation looks relatively contained is therefore good news. The US-Iran war is clearly a risk, but the underlying inflation picture is encouraging.

Gilt sensitivity also limits Andy Burnham's ability to spend. The new Prime Minister wants to tweak fiscal rules to allow more borrowing for investment, but significant fiscal expansion would push up interest costs – neutralising the spending impact. Burnham's government knows this, so we do not expect net borrowing to become a major concern. Indeed, talk of impending tax rises is a positive for the fiscal position, even if they are negative for economic growth.

High gilt yields are attractive for savers, but gilts are increasingly at the whim of international investors, which tend to be more fickle than domestic bondholders. The cheapness of gilts should attract demand eventually, but volatility could get worse before it gets better.

If Burnham can raise investment, even mildly, it should reinforce the private sector investment already underway. The most likely avenue is defence spending. Ultimately, though, the best way to address Britain's chronic underinvestment problem is closer ties with the EU. We will have to wait and see about that.

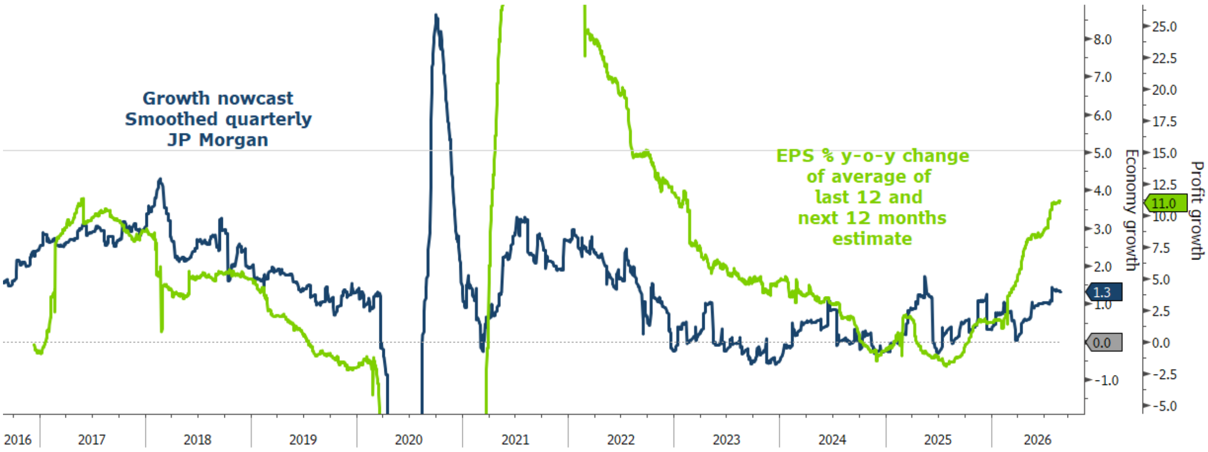
Europe

European growth expectations have tailed off somewhat, following the historic defence spending package last year. We expect defence spending to continue at a decent enough pace, but not as strong as previously. This should support the European economy, but not supercharge it. Away from government priorities, overall economic data suggests that growth and corporate profits have done better than expectations.

The US-Iran war is a problem for Europe, but not quite as bad as feared. It helps that Eurozone core inflation has eased, but energy prices are still a threat. EU natural gas storage levels are now at their lowest seasonally-adjusted point in over 20 years. If the Strait of Hormuz crisis lasts into the winter, that will become a major problem.

If the energy crisis resolves, European assets should be well supported. Q2 corporate earnings have been surprisingly strong, especially European banks. Earnings forecasts have been upgraded, lifting stocks.

Economy & corporate profits - Eurozone & MSCI EZ Index
JP Morgan current economic growth estimate and equity index EPS growth



Source: Tatton IM, Bloomberg, JP Morgan: G2754
JNOWEUSQ Index (JPMorgan Euro Area Smoothed Quarterly Nowcast (SQN)) now growth + profits EU Daily 28AUG2016-28AUG2026 Copyright© 2026 Bloomberg Finance L.P. 28-Aug-2026 16:29:05

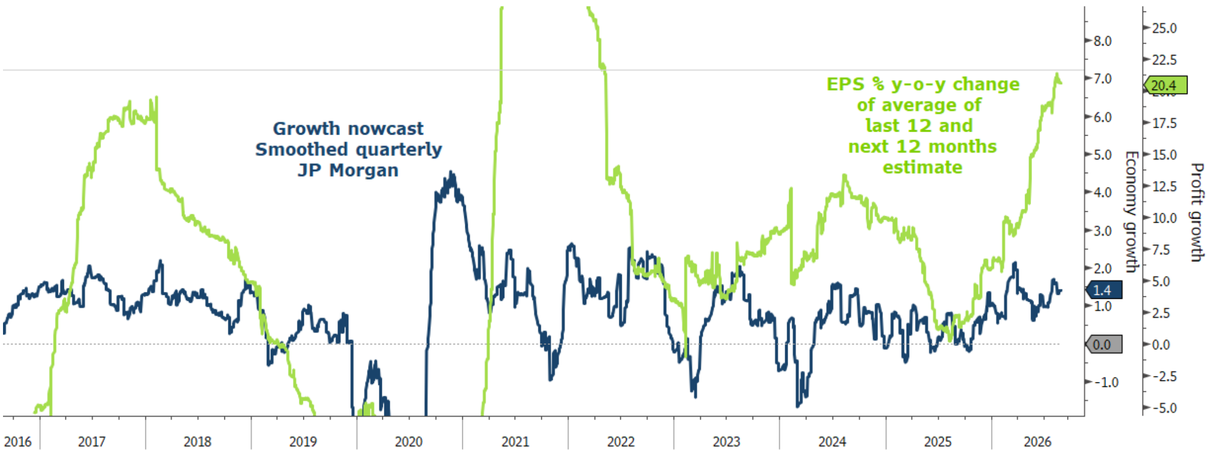
The Iran war has also brought European leaders into conflict with President Trump. Tensions with Washington could flare up again but, by now, markets and European leaders have become used to the White House's bark being worse than its bite.

If politics do disturb Europe's outlook, the call will more likely come from inside the house. The buildup to the French presidential election in spring 2027 could make investors nervous. France already has a strained fiscal position, and with populist policies gaining votes, the risk is that government borrowing becomes unconstrained, and that would seriously hurt European bonds.

Japan

The fundamental investment case for Japanese equity remains strong: labour costs are low relative to the world, and corporate governance changes have made Japanese companies more profitable. We are now seeing evidence of this improvement in earnings results, and a strong stock market performance in 2026. Even with a weak yen, Japan was the best performing developed market from the start of the year to the end of July in sterling terms.

Economy & corporate profits - Japan & Topix
JP Morgan current economic growth estimate and equity index EPS growth



Source: Tatton IM, Bloomberg, JP Morgan: G2756
JNOWJPSQ Index (JPMorgan Japan Smoothed Quarterly Nowcast (SQN)) now growth+profit Japan Daily 28AUG2016-28AUG2026 Copyright© 2026 Bloomberg Finance L.P. 28-Aug-2026 16:35:13

The consistent weakness of the yen has become a problem. The currency is cheap in purchasing power parity terms, a way to compare what money can actually buy in different countries, and Japan's large current account surplus (payments in minus payments out) should cause yen appreciation, but investors are still not buying it. The joint US-Japan intervention to prop up the yen at the start of August was the first such action in nearly 30 years. The currency has already fallen back again since, which could lead to greater coordinated action.

Many expect the Bank of Japan (BoJ) to raise interest rates to back up the yen intervention – and for good reason. Japan's era of deflation is over: growth and inflation are back.

28 August 2026

Despite Japan's current account surplus, it actually runs a trade deficit (exports minus imports). The surplus comes from the enormous income flow from Japanese investors' substantial foreign asset holdings. That income is typically not converted back into yen, but directed into even more overseas holdings.

Repatriating that capital would be the best way to raise the yen's value. That requires Japanese investors to buy back into their own markets. The attractiveness of Japanese equities helps, as do the highest government bond yields in decades.

Capital repatriation could also come from yen appreciation itself. Large foreign holdings are fine when exchange rates are relatively stable, but currency volatility feeds directly into share price volatility. If the dollar-yen rate becomes volatile, it would increase risk perceptions around overseas equities, incentivising Japanese investors to repatriate capital as a form of de-risking. That process is how a little bit of yen strength could quickly snowball into significant strength.

China

China is the notable exception to the strong global growth story. While Chinese manufacturers continue to overproduce, consumers' demand remains tepid, causing deflationary pressures to resurface this year. It is now two years since the Chinese government promised stimulus policies to address economic stagnation, but that promise has not been met.

Beijing has been half-hearted in its attempts to boost consumer demand, despite hinting at policies to that end last year. If anything, the government's fiscal position tightened in the first half of 2026.

The fiscal tightening hurt some of the better companies, in that the state chose to levy unusual taxes which have depressed profits and, in some cases, actually pushed them into losses. It could be a case of the Communist Party being unable to stimulate demand, rather than unwilling:

Chinese economic policy has forever been sought through boosting production, worsening the oversupply problems.

Even so, policymakers could certainly do more and, up until now, have chosen not to. President Xi understandably did not want to reinflate the property market bubble that burst in 2021, but the party are struggling to find alternative growth sources.

Disinflation impetus harms not just China's economy, but global manufacturers too – particularly European carmakers. Again, overproduction is more of a structural weakness, rather than any deliberate 'dumping' policy. Exporters typically funnel revenues back into production rather than into domestic profits, worsening the supply glut.

The positive case for China is, as ever, that Beijing might surprise us. The restrictive policies through the first two-thirds of the year may be about to change. At the end of August, many senior politicians made speeches implying a big fiscal easing – one which might also see the unusual taxes removed while providing a spur to domestic revenue growth.

That would benefit not just Chinese assets, but global growth more generally. We should not get our hopes up, however.

In the short-term, policy will likely become more accommodative for purely seasonal reasons; government spending tends to ramp up into the end of the year as policymakers rush to meet growth targets. The People's Bank of China has had to ease policy rates already, and seasonal spending should pick up.

There is also the potential for political confrontation with the US, if Trump wants to pick fights ahead of midterm elections. China is already behind in the purchases it promised to make in the last US-China deal. We have also seen an increased risk of EU tariffs against Chinese goods, as European manufacturers struggle with oversupply.

Emerging Markets

Emerging market (EM) equity performance has been tied to the AI investment theme, particularly chip manufacturing. That is down to EM indices' massive weighting towards tech and hardware, with that group also dominated by three companies: Taiwan's TSMC, and South Korea's Samsung and SK Hynix. Chip stock dominance has created the outperformance of EM index returns so far in 2026, though some of those gains pulled back in July. The prevalence of chip stocks makes it hard to assess the EM outlook, however, at least in the classic sense of the global export cycle.

EM stocks powering ahead while China and India – two of its biggest country components – languish is a clear sign of how polarised EM prospects have become. China has now fallen behind Taiwan as the largest market cap weighting in the MSCI EM index, for example.

A renewed policy push from China (signalled in late August) could mean that broader EM stocks benefit. However, the biggest single factor holding back general non-tech EM performance has been the rise in fossil-fuel energy prices. Thus, EM investors everywhere will be hoping for a lessening of the supply constraints and a move down in oil and gas prices before the winter.

Asset classes

Equities

Strong corporate earnings growth should support stock prices through to next year, as it has through 2026. Profit margins are good everywhere but especially in US tech stocks involved in the AI buildout. No change there.

Strong profit growth will boost equities even if price-to-earnings valuations stay static. Indeed, earnings growth has outpaced share prices for AI firms this year, meaning that valuations have actually fallen, despite healthy price returns. Cheaper valuations speak against worries of an AI bubble, in the classic sense at least.

You could argue AI earnings themselves are a bubble – and the recent earnings boost Amazon and Alphabet achieved on the back of their investment gains in other AI appears to confirm that. But, there is no denying that tech earnings are strong on purely fundamental terms. As long as that continues, it is hard to see much downside.

One potential risk to the outlook is currency volatility. Markets around the world have become increasingly globally integrated, with significant foreign ownership of US stocks, for example. That is not a problem if exchange rates are stable, but currency volatility means price volatility for holders of foreign assets. Spiking currency volatility thereby increases risk metrics, potentially causing investors to sell their foreign equities. We do not expect this to happen, but it is a risk to keep an eye on.

The biggest danger for equities, however, is bonds. Government bond yields are at historic highs, particularly real (inflation-adjusted) yields. That makes equities less attractive by comparison. Indeed, when we adjust equity valuations for real yields in our model, they do not look cheap at all.

High yields have not dragged capital out of stocks yet, as the owners in respective asset classes have become fairly entrenched. That could change, however. If real yields keep rising, at some point they will be attractive enough to lure investors away from stocks. The equity outlook therefore depends on the bond outlook.

Bonds

While shorter maturity bond yields are generally in line with levels implied by the medium-term outlook for growth and inflation, longer dated bond yields have risen more than most analysts would have expected. ‘Risk-free’ government bonds were close to the sum of long-term growth and inflation expectations for more than a decade before the Pandemic. Now the yields are substantially above that sum, in most of the developed world’s markets.

In other words, you get paid more than the economy's likely overall return just for holding government bonds. Global growth is decently strong but not outlandishly so, while inflation is falling. On those terms, yields look attractive, and you might expect that attractiveness to push up bond prices (the inverse of yields).

The problem is that there is a large demand for capital right now and not just from already heavily indebted governments. AI-related firms seem to be in a race where the winners are those who have raised enough capital. This has led to a surge in bond issuance where one company's new issue leads to other companies deciding to issue bonds. Bond supply keeps rising, and demand is struggling to keep up. So, on that basis, it is hard to see yields falling until the expected "marginal" rate of return on investment is less than the cost of the new debt.

Among the indebted governments, the UK is a concern but perhaps not overly so because the high interest costs are clearly constraining government policy. Our biggest concerns are France and the US. Both have high national debt and rising deficits with little (or no) popular or political consensus to tackle the issues. The risk – as we have seen in the UK – is that the rise in bonds' fiscal premium leads to concerns about interest rate costs, which increase fiscal risk further in a vicious cycle.

If that happens, the bond vigilantes emerge. The UK has been visited by bond vigilantes many times over the years, but other fiscally lax countries – most notably the US – have not. In a world of ample bond supply, though, bond vigilantes can pop up anywhere. If we saw a 'Liz Truss moment' in the US, the knock-on effects for global markets would be much more severe than the original in 2022.

If that happened, eventually yields would become attractive enough to drag capital out of equity markets, thereby bringing yields under control again. This is not a situation anyone should want, however. It would mean significant pain followed by a slight relief.

These are all risks, but they are not our base case. Ultimately, you would not want to sell bonds in an environment of falling global inflation pressures. The bond outlook is therefore mixed, with attractive pockets of return potential for diversified investment portfolios.

Tatton
Investment Management

28 August 2026

Global Equity Markets	28-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	10814	-0.1	-0.1	⬀	→	3.2	14.0	12.9	12.7
UK FTSE 250	24949	+1.1	+1.1	➚	→	3.3	9.3	13.3	13.1
UK FTSE All-Share	5838	+0.0	+0.0	⬀	→	3.2	13.1	12.9	12.6
FTSE Small x Inv_Tsts	6803	+0.6	+0.6	➚	→	4.1	20.6	10.2	9.9
EU STOXX ex UK	837	+0.3	+0.4	⬀	→	2.8	17.4	15.6	15.1
France CAC 40	8401	-0.9	-0.8	→	→	3.1	16.5	14.3	14.1
Germany DAX 40	26519	+1.5	+1.7	⬀	→	2.4	18.1	15.6	13.4
US S&P 500	7731	+0.9	+1.2	→	➚	1.1	23.6	19.6	19.1
US NASDAQ comp	26541	+1.8	+2.2	→	➚	0.5	35.9	24.0	26.2
Japan Nikkei 225	66406	+0.6	+0.6	→	➚	1.3	22.0	21.1	18.8
World Bloomberg	2677	+0.6	+1.0	→	⬀	1.5	20.7	16.9	16.7
China Bloomberg	1301	-0.7	-0.3	⬂	→	2.3	15.2	11.7	12.5
Emerging Bloomberg	1838	+0.1	+0.5	⬂	→	2.1	15.4	10.4	12.5

FTSE100 Top 6

Company	%
Computacenter	+11.4
Melrose Industries	+9.9
Anglo American	+4.9
London Stock Exchange	+4.6
IG	+4.3
Investec	+4.2

S&P Global Top 6 (GBP terms)

Company	%
Salesforce	+25.8
Doosan Enerbility	+21.8
Veeva Systems	+14.5
Synopsys	+13.5
United Microelectronics	+13.1
ServiceNow	+12.9

Global Sectors (GBP terms)

Sector	%	Sector	%
Tech	+2.8	Staples	-0.4
Financials	+1.2	Energy	-2.1
Health	-1.3	Materials	+1.7
Discretionary	-1.3	Utilities	+1.1
Industrials	+0.5	Real_Estate	-0.3
Communicatic	+0.1		

FTSE 100 Bottom 6

Company	%
BP	-6.3
Babcock Int'l	-4.3
BAE Systems	-4.3
GSK	-3.8
Entain	-3.6
Autotrader	-3.0

S&P Global Bottom 6 (GBP terms)

Company (GBP terms)	%
PayPal	-11.1
Hormel Foods	-10.2
Magna International	-9.6
Casey's General Stores	-8.9
Samsung Electronics	-8.7
Meituan	-8.3

Fixed Income

Govt bond	%Yield	1 wk chg
UK 5yr Gilt	4.61	+0.03
UK 10yr Gilt	5.06	-0.00
UK 15yr Gilt	5.47	-0.01
US 10yr Treasury	4.69	-0.04
France 10yr OAT	4.11	-0.02
Germany 10yr Bund	3.27	+0.01
Japan 10yr JGB	2.92	+0.04

Currencies

Pair	last	%1W
USD per GBP	1.359	-0.4
GBP per EUR	0.857	+0.1
USD per EUR	1.165	-0.3
JPY per USD	159.65	+0.5
CNY per USD	6.722	+0.0
USD per Bitcoin	79,555	+3.6

Commodities

Cmdty	last	%1W
Oil Brent $:bl	90.19	-4.0
Gold $:oz	4599	+0.2
Silver $:oz	70.37	+1.2
Copper $:lb	673.0	+0.7
Alumnm $:mt	3229	+0.5
Agriculture BBG	64.79	+4.1

UK Mortgage Rate Estimates

Rates (LTV c.75%, no fee)	28-Aug	29-Jul
UK BoE base rate	3.75	3.75
2yr fixed	4.84	4.81
3yr fixed	4.80	4.76
5yr fixed	4.82	4.65
10yr fixed	5.15	5.18
Standard variable	6.60	6.60

Where possible, prices taken levels at 28 August 3:00 PM (today) and 21 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

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