Market Flash: US policy makers are caught in a dilemma

21 August 2026

- **Oil flows passing through the Strait of Hormuz are reportedly overvalued, which, combined with Houthi attacks and rising gas prices, pushed the global commodities index above its 2022 peak.**
- **Faced with the sharp rise in government bond yields, US Treasury Secretary Scott Bessent massively increased Treasury buybacks to reassure markets, triggering a drop in the dollar and a surge in precious metals in return.**
- **Equity markets racked up serious losses this week. The tech sector was particularly badly hit and this time with additional worries over increasingly powerful Chinese AI models, although future productivity gains remain promising.**

US Treasury Secretary Scott Bessent feigned surprise this week when he was asked what he thought of the rapid rise in oil prices. He admitted he was at a loss to explain the increase as the US administration claims that 10 million barrels a day are shipped through the Strait of Hormuz. However, all shipping data agree that this figure is probably exaggerated. The real figure is nearer 5 million barrels a day on average. This is much lower than the 20 million barrels before the war but also compared to the level after Washington and Tehran signed their MoU. While alternative routes can offset the loss to some extent, recent Houthi attacks in the Red Sea have also slowed Saudi exports and aggravated investor concerns, especially as oil product prices are still very high due to a lack of refining capacity. We also have to add in rising gas prices in Europe. The blockade in the Strait of Hormuz is a contributing factor but a very hot summer and low nuclear production in France have also played a part. And recent weather forecasts have warned of a powerful El Nino effect which could seriously disrupt agricultural production in 2027. All these factors taken together once again sent the global commodity index above its 2022 peak and they largely contributed to another sharp rise in government bond yields this week, particularly for longer maturities. The possibility of losing control of long bond rates left the US Treasury Department with no choice but to surprise everyone with a plan to ramp up bond buybacks for 10, 20 and 30-year Treasuries from $2bn to at least 4bn. These amounts look limited for the moment but Scott Bessent was above all keen to tell markets that he was determined to curb rising bond yields, much like a central bank with forward guidance. The announcement worked for a short time this week but sent the dollar lower and precious metals higher.

Ensuring a lasting period of calm will necessarily involve reassuring investors on two fundamental points. First, with the budget deficit still around 6% even in a growing economy, Washington needs to establish fiscal credibility. Announcements could be made in the coming days. Second, some idea of an end to the Iran crisis needs to take shape. Washington has abandoned military strikes and now wants to apply maximum economic pressure on Tehran but it could be months before the results start to emerge. As the midterms approach, the danger of severe Republican losses and the risk of losing control of the Senate (estimated at 51%) could persuade Donald Trump to resume talks.

In the meantime, equity markets racked up serious losses this week. The tech sector was particularly badly hit and this time with additional worries over increasingly powerful Chinese AI models. The Qwen

3.8's performance is a direct rival to US models and has already been downloaded more than 3 billion times. Tougher AI competition is, however, good news for the rest of the stock market. A lower cost/intelligence model could result in big productivity gains and that could continue to underpin company results. This is why we are still upbeat on equity markets, even if short term geopolitical uncertainty has led us to roll out some hedges. We also remain positive on investment grade and high yield bonds. On the other hand, we are still bearish on the US dollar.

European equities

With Europe's second-quarter earnings season nearing an end, the picture looks particularly rosy. Aggregate earnings are up 23% over a year, a sharp acceleration since the first quarter's 7% increase. This exploit is partly due to the energy sector but earnings still rose 12% if we exclude this segment. The first half of 2026 boasts the best earnings growth tally in Europe in three years. However, rising bond yields over the week ushered in a correction phase on markets accompanied by some profit taking.

Elsewhere, this week's PMI data confirmed that the eurozone was seeing a gradual recovery. Manufacturing and services PMI both stayed in expansionary territory. There was a positive surprise in industry while services came in as expected. France's situation is more mixed. Manufacturing is improving but services lost ground. This recovery varies depending on countries and sectors.

In company news, the latest reports were generally upbeat. Like-for-like growth at **Novonesis** was 9%, mainly due to volumes. The Food & Beverages and Household Care divisions in particular enjoyed solid momentum. The group raised its growth guidance from 6-8% to 7-8%. **Geberit** also had a good quarter with growth up 8.8%, again driven by volume growth. But **Coloplast** had a more mixed quarter: growth was better than expected but margins were disappointing, due to persistent weakness in China and tougher local competition. Sales at **Pfisterer** jumped 14% over a year but new orders slipped 10%, partly due to capacity constraints. **CTS Eventim** reiterated guidance and EBITDA was in line. However, the ticketing division surprised on the upside by growing 25% more than the market expected.

Strategic manoeuvring in Italy's banking sector continued. In a sign that restructuring in Italy's banking network was accelerating, **Monte dei Paschi di Siena** launched two simultaneous bids on **Banco BPM** and **Banca Generali**.

US equities

US equities lost ground over the week as investors turned cautious after the latest FOMC minutes showed several members had argued for a rate hike. The S&P 500 lost 1.9%, the Nasdaq 100 2.8% and the Russell 2000 2.5%. WTI jumped 6.6% on fears over global supply problems after Washington unveiled new anti-Iran measures.

Tech came under pressure. The segment fell 3.2% while the SOX semiconductor index tumbled by more than 5%. Concerns over AI infrastructure funding weighed on sentiment. This followed **Nvidia**'s announcement that it would be spending $500bn on data centres. At the end of July, **Anthropic** reported annualised sales of $65bn, a token of strong demand for AI services.

Healthcare bucked the trend by gaining 3%. The rise was largely driven by **Moderna** and **Merck** after news of successful late-stage trials of a personalised ARN messenger treatment for melanoma. Over the week, Moderna soared 110.5% and Merck ended 9.7% higher.

Energy (+2.8%) also outperformed. US plans to increase economic pressure on Tehran pushed oil prices to within a 4-week high.

Retail giant earnings sent mixed signals on US consumers. **Walmart** weighed on the Dow after like-for-like US sales, excluding petrol, rose by 2.6%, or less than expected. The group also gave cautious guidance for the current quarter. But like-for-like sales at **Target** rose 3.8% and management raised annual guidance.

Emerging markets

The MSCI EM was down 0.05% in USD as of Thursday. China, Brazil, Mexico and Korea were up 2.02%, 0.55%, 0.35% and 0.01%, respectively. Taiwan and India were down 2.05% and 0.64%.

In **China**, mixed July data reframed the growth debate: July aggregate financing beat but new renminbi loans missed, while both corporate and household longer-term loans shrank. Industrial production slowed to +4.5% YoY (from +5.5% in June), retail sales grew +0.6% YoY, fixed-asset investment missed as the property drag continued, July new-home prices in 70 cities fell 0.18% MoM (vs. -0.15% prior). Policy leaned in incrementally: Beijing widened use of the RMBt 10.9trn ($1.6trn) Housing Provident Fund to cover renovations and other housing consumption. Weeks before Donald Trump hosts Xi Jinping for the Chinese leader's first visit to Washington in a decade, the geopolitical outlook remains cloudy as Trump threatened Iran and its trading partners with an "economic D-Day," explicitly targeting China as the largest buyer of Iranian oil. **Alibaba**'s June quarter revenue rose 9% YoY (in line) but net income collapsed 75% as capex neared $10bn and free cash flow turned negative, but investor focus remained on improving cloud margins and guidance for QoQ acceleration on AI annualised revenue. **NetEase**'s second-quarter revenue beat at +8% YoY (core gaming, also a beat) but adjusted net per ADS missed estimates on an investment loss.

In **South Korea**, July net barter trade index jumped a recordo24.7% YOY as export prices climbed the most in more than 28 years. The first-20-day exports soared 56% YoY in headline terms, on a 198.8% surge in chip shipments, exports to China +118.6% and to the US +59.4%. The corporate story was a record capital-return arms race: **SK Hynix** unveiled a $29bn buyback-and-cancellation programme and lifted its shareholder-return pledge to more than 50% of cumulative 2025–27 free cash flow. **Samsung Electronics** also announced a shareholder return package of $65–79bn while raising prices for some advanced contract chipmaking services by up to 15% for new orders according to Reuters.

In **Taiwan**, July export orders surged 61.9% YoY (est. +52.7%, prior +59.4%), led by a record 88.9% jump in US orders on AI, HPC and cloud demand. **TSMC** completed development and validation of its 1.6nm-class A16 process with mass production expected to begin in the fourth quarter of 2026.

In **India**, the surprise came from the minutes of the 3–5 August MPC, which, despite a unanimous fourth straight hold at 5.25% with a neutral stance, revealed a growing tightening bias. And the early closure of its overseas deposit facility, a cheaper funding source for banks, also pushed three-month CD rates up. June CAD swung to a $6.2bn deficit. Core-industry output rose 5.4% YoY. New Delhi eased rupee-based export-settlement rules and allowed duty-free raw-sugar imports of up to 1 million tons until 31 October to cool prices. The RBI estimated there were at least $80bn of foreign-currency inflows from recent measures.

In **Mexico**, minutes of the 6 August unanimous hold at 6.50% showed the board judged it “appropriate” to keep rates steady, with most members seeing inflation risks tilted to the upside. Canada's preliminary deal with the US, which reportedly cuts tariffs on Canadian steel and aluminum to 25% and auto exports to 15%, caught Mexican officials and business leaders off guard, thus asking for comparable tariff relief of their own.

In **Brazil**, June IBC-Br economic activity fell 0.64% MoM, or below the -0.5% estimate, reinforcing sentiment that ultra-tight policy is cooling demand. July IPCA rose 0.07% MoM (est. +0.01%; +4.44% YoY, in line), a mild upside surprise led by housing. Congress approved a spending-control mechanism but the fiscal-credibility concern overhangs remain heading into the October presidential election. The iShares MSCI Brazil ETF (EWZ) recorded over $593m in outflows last week — the largest weekly withdrawal since the fund's inception in 2000.

Corporate debt

Credit markets diverged slightly over the week as government bond yields rose. US Treasury Secretary Scott Bessent said the bond buyback programme for maturities between 10 and 30 years would be ramped up but the news failed to stop yields rising.

The Xover widened by 6bp after hitting a low of 246bp in the previous week. Cash index spreads held up better and only widened by 1bp, a sign that the market is proving resilient to government bond tensions. The yield on the German Bund rose from 3.20% to 3.26% (+6bp). The high yield index fell 0.10% and investment grade ended 0.23% lower, both hit by rising yields. The CoCo index slipped 0.17%

The new issues market was busy for financial bonds and corporate hybrids. There were two newcomers on the hybrids market. **Swisscom** raised €500 million at a coupon rate of 4.125%. Meanwhile, **Sika**, a Swiss company specialised in building and auto industry chemicals, raised a total of €1bn with a bond at 4.375% and another at 4.875%.

In financial bonds, **RBI** raised €750m with a Tier 2 issue at 4.5%.

GLOSSARY

• Investment Grade: bonds rated as high quality by rating agencies.

• High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.

• Senior debt benefits from specific guarantees. Its repayment takes priority over other debts, known as subordinated debt.

• Debt is considered to be subordinated when its redemption depends on the earlier payment of other creditors. To offset the higher risk, subordinated Senior debt has priority over other debt instruments.

• Tier 2 / Tier 3 : subordinated debt segment.

• Duration: the average life of a bond discounted for all interest and capital flows.

• The spread is the difference between the actuarial rate of return on a bond and the rate of return on a risk-free loan with the same maturity.

• The so-called "Value" stocks are considered to be undervalued.

• EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization.

• CTA: quantitative strategy which uses futures to invest in a wide range of financial assets, including equity indices, short-term and long-term interest rates, currencies, and commodities.

• The PMI, for "Purchasing Manager's Index", is an indicator of the economic state of a sector.

• AT1s belong to a family of bank capital securities known as contingent convertibles or "Cocos". Convertible because they can be converted from bonds to shares (or depreciated entirely) and contingent because this conversion only occurs if certain conditions are met, such as the issuing bank's capital strength falling below a predetermined trigger level.

• RT1s: perpetual bond issues with early redemption possible after 10 years. Coupon payments are discretionary and non-cumulative.

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