ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

August 2026

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/08/2026	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	226.57	+0.7%	+1.0%	+6.4%	+18.7%	+10.8%
ARC Balanced	Medium Risk	298.87	+1.1%	+1.5%	+11.1%	+28.6%	+19.6%
ARC Steady Growth	Medium High Risk	371.06	+1.2%	+1.8%	+13.3%	+33.7%	+24.3%
ARC Equity Risk	High Risk	446.81	+1.5%	+2.5%	+15.5%	+38.5%	+28.0%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	31/08/2026	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	10824.26	-0.4%	4.0%	17.8%	45.5%	52.0%
UK All Share	UK	5842.37	0.1%	4.3%	17.5%	43.9%	42.2%
Dow Jones Ind Avg	US	53185.90	1.3%	4.2%	16.8%	53.2%	50.4%
S&P 500 Index	US	7686.14	2.6%	1.4%	19.0%	70.5%	69.9%
Nikkei 225	Japan	66311.93	3.0%	0.0%	55.2%	103.3%	136.1%
MSCI Europe Ex UK	Europe	256.93	0.6%	3.9%	18.2%	40.2%	35.9%
MSCI Asia Ex Japan	Asia	1138.52	3.2%	-2.0%	38.2%	82.9%	35.9%
MSCI Emg Mkts (£)	Emg Mkts	1047.91	2.6%	-1.8%	38.8%	74.9%	50.4%
MSCI World Index (£)	Global	4967.92	2.5%	2.1%	18.9%	66.4%	58.1%
UK Conventional	Gilts	3137.58	0.2%	-0.7%	2.4%	7.4%	-21.9%
UK Index-linked	Gilts	3722.10	0.9%	-1.7%	4.2%	-2.9%	-37.9%
UK Real Estate Investment Trusts	Property	2078.70	-2.1%	10.2%	15.5%	9.8%	-30.7%
WTI Crude ($/Barrel)	Oil	85.76	1.3%	-1.8%	34.0%	2.5%	25.2%
Gold Spot $/Oz	Commodities	4437.38	9.7%	-2.3%	28.7%	128.7%	144.7%
£1 = US$	Currencies	1.3549	0.5%	0.7%	0.3%	6.9%	-1.5%
£1 = €	Currencies	1.1663	-0.3%	1.1%	0.9%	-0.2%	0.1%
£1 = Yen	Currencies	216.43	2.0%	1.0%	9.0%	17.3%	43.0%

Source: Bloomberg. NB: Price returns only, excluding dividends

Index	Region / Asset Class	31/08/2026	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	15,689.36	3.9%	1.7%	18.2%	41.1%	11.2%
Latest Weighted Average Discount	-11.4%						
12 Month Weighted Average Discount	-12.0%						

Source: Bloomberg, Refinitiv. NB: Price returns only, excluding dividends

General Comments

Equities rebounded in August following July's AI-driven sell-off, staging a broad, global advance in which US large caps, Japan, and emerging markets led the way. Leadership rotated decisively back towards technology and artificial-intelligence (AI) related names, while energy and materials shares also displayed notable strength, underpinning the wider rally.

Commodities emerged as the standout asset class of the month. Gold and other precious metals surged, and oil prices moved higher as geopolitical risk, particularly in the Middle East, heightened concerns over supply security.

Bond markets presented a more mixed picture. Government bond yields drifted higher as central banks signalled their intention to persist with inflation fighting, yet corporate credit held up better, with high-yield spreads tightening as investors continued to seek income in a resilient credit environment.

UK Commentary

In a pleasant surprise, second-quarter GDP expanded by 0.4%, bolstered by a scorching summer heatwave, TV broadcasts, and the excitement of the World Cup. Furthermore, private sector productivity surged by 1.8% compared with last year, which analysts suggest may be an early sign of artificial intelligence boosting efficiency in the workplace. Interestingly, this data was sourced from Pay As You Earn (PAYE) taxpayer data. The Office for National Statistics (ONS) has increasingly turned to taxpayer records because its traditional Labour Force Survey has been plagued by low response rates.

Adding to the optimism, the preliminary Composite Purchasing Managers' Index (PMI) rose to a four-month high of 52.5 in August, indicating that business activity is still expanding at a steady pace.

However, July also saw an unexpected budget deficit of £1.8 billion, which represented a £2.3 billion difference compared to Office for Budget Responsibility (OBR) forecasts of a £0.5 billion surplus. Meanwhile, the Ofgem energy price cap is set to rise by 4% to £1,723, driven by ongoing Middle East conflicts. These inflation fears and growing deficits helped send Government borrowing costs soaring; 10-year gilt yields approached post-2008 highs, hitting 5.1%, and 30-year yields reached 5.86%. More on this below.

In the sports and media business, a Jeff Bezos-backed consortium called 1892 Holdings agreed a deal to acquire approximately a third of Liverpool Football Club. This transaction values the historic Merseyside club at a staggering $7 billion.

North America Commentary

One big story from across the Atlantic was a sudden cooling of the US labour market, which shed 23,000 jobs in July. Whilst unemployment actually ticked down to 4.1%, the soft hiring figures initially prompted the financial markets to scale back their expectations of aggressive interest rate rises from the Federal Reserve. However, Federal Reserve Chair Kevin Warsh struck a decidedly hawkish tone at his Jackson Hole speech, warning that policy rates might need to climb higher to fully tame price pressures.

This hawkishness, combined with US national debt breaching the eye-watering $40 trillion mark, helped push 30-year bond yields to their highest level since 2008, exceeding 5.3%. In a dramatic move, Treasury Secretary Scott Bessent intervened by doubling the Treasury's bond buybacks to $4 billion per operation, successfully (at least temporarily) cooling yields but raising questions over long-term fiscal credibility.

There were further trade tensions as a dramatic breakdown in negotiations saw the US slap 50% tariffs on certain Canadian goods, prompting Canada to retaliate in kind on $20 billion of US exports. Washington imposed tariffs on Canadian car and steel imports, while Ottawa retaliated "dollar-for-dollar" with its own 50% duties on US imports, including dairy, clothing, and electronics.

Meanwhile, the AI investment boom continues to steam ahead, though not without growing pains. The world's largest technology giants, or "hyperscalers," have quietly amassed a staggering $1 trillion in off-balance-sheet leasing commitments (according to Goldman Sachs) to fund their artificial intelligence infrastructure. This massive spending is driving stellar revenues for suppliers like Nvidia, but it is also raising eyebrows among credit analysts who worry about hidden corporate debt. This came as Alphabet secured a massive bond order book, SpaceX beat revenue expectations but fell after doubling AI spending to $16 billion, and Nvidia posted yet more blockbuster results.

Europe Commentary

The eurozone economy grew by 0.4% in the second quarter, comfortably beating the modest expectations of most economists. Germany, traditionally the industrial engine of the continent, led the charge with a 0.3% expansion, fuelling optimism that the nation is finally shaking off a prolonged period of post-pandemic stagnation as it looks to be on track for its best annual expansion since 2022.

Meanwhile, France has replaced Italy as the primary source of anxiety for European bond investors. For years, Italy was considered the riskier bet, meaning the government had to offer higher interest rates (or yields) to entice buyers. This summer, however, that historic trend turned completely on its head. French borrowing costs rose above Italy's, effectively crowning France as the eurozone's new fiscal "weak link". With France's debt-to-GDP ratio climbing to 117% and its budget deficit widening past 5% of economic output, investors have focussed on the mounting debt pile, a minority government, and a highly polarised parliament. In contrast, Italy has shown unusual levels of stability with the Meloni government recently setting a record by becoming the country’s longest-serving government since World War II.

Asia Pacific Commentary

In response to recent exchange-rate volatility, the Bank of Japan, the New York Federal Reserve, and the Japanese Ministry of Finance launched a historic joint intervention. This massive $87 billion yen-buying programme was reportedly the first coordinated action of its kind since 1998, aimed at stabilising a currency drifting toward historic lows. In corporate news, Toyota demonstrated remarkable resilience, raising its annual profit outlook to ¥3.4 trillion and launching a major ¥1 trillion share buyback, supported by a weak yen and booming hybrid vehicle sales.

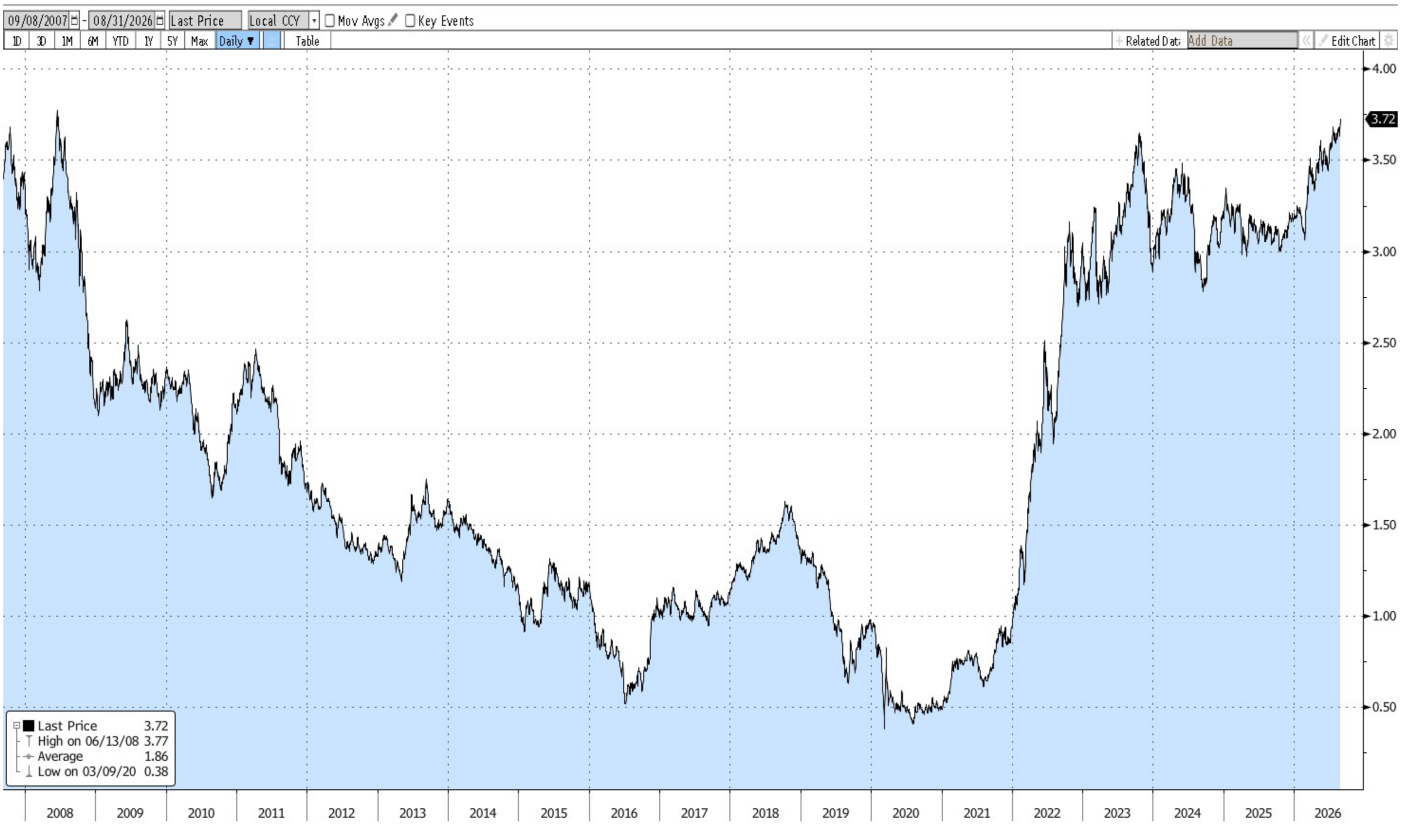
In China, the trade picture remained robust. The country posted a positive surprise with a $112.5 billion trade surplus, driven by a 23.9% surge in exports of AI-related electronics. Yet, onshore sentiment remained mixed. Whilst internet giants faced stagnant domestic growth (Alibaba shares tumbled after it launched a heavily discounted $10.2 billion share sale to fund AI hardware), retail investors went into a feeding frenzy for advanced tech, sending shares of humanoid robot maker Unitree up by more than 600% on its debut.

Emerging Market Commentary

The impressive advance of emerging market equities was fuelled by a weakening US dollar, a general resurgence in investor risk appetite, and a broadening of the artificial intelligence boom beyond standard mega-cap technology names. Leading the charge were the tech-centric Asian markets. South Korea surged 7.1% and Taiwan gained 8.6% (in sterling total return terms) as global chipmakers stabilised, with major South Korean memory giants boosting retail sentiment by announcing substantial new plans for share buybacks and dividends. South Africa was another stellar performer, rallying 10.9% as local mining firms capitalised on rising precious and industrial metal prices, whilst domestic inflation cooled faster than expected.

In contrast, Latin America proved to be the month's laggard, as Brazil's real slid and its Ibovespa index suffered its sharpest daily fall since March after polls showed leftist President Lula leading Flávio Bolsonaro by nine percentage points ahead of the October election. This reignited fiscal concerns, prompting JPMorgan to downgrade Brazilian equities to neutral, whilst the central bank intervened to support the currency.

Chart of the month – Global Government Bond Yields



As shown in the above chart from Bloomberg, global government bonds have hit their highest yield level since 2008.

This month saw many stories of various countries' debt hitting record yields; 10-year yields in the UK, Germany and Japan all marked multi-year or multi-decade highs. While headlines focus on domestic policy missteps, the move is fundamentally global as investors are pricing in stickier inflation, larger fiscal deficits and debt issuance, and the changing nature of the government bond marketplace.

As it becomes more expensive for governments to borrow, those with deficits may also see them widen further as they need to issue even more debt to pay this extra cost of borrowing.

It could be argued that this bond-market move looks like the pay-back for the post-2008 era of ultra-low rates and large government spending. For years, central banks kept interest rates near zero and bought huge amounts of government bonds (quantitative easing), which made borrowing very cheap and encouraged governments to run larger deficits. Now that inflation has been higher and more persistent, investors are demanding much higher returns to lend to governments.

The result is a world where borrowing costs are likely to stay "higher for longer", governments have less room to spend freely, and bonds once again offer meaningful income to investors.

Investment Team's thoughts

Equity markets have performed strongly alongside record corporate profits, while fixed-income yields have become increasingly attractive in recent months, leaving investors in a comparatively favourable position.

Risks remain, particularly in parts of the government debt market, where shifting dynamics pose challenges for buyers of long-dated bonds. Despite these challenges, we find plenty of reasons to remain positive.

We are navigating a potentially epoch-defining technological shift driven by artificial intelligence. In this environment, we expect continued periods of sharp two-way volatility in AI-related assets, often with spillovers into broader markets. Our response is to pursue genuine diversification across asset classes and strategies, supported by the elevated yields now available in government bonds, which enhance our ability to build more resilient portfolios.