Asset Management Market Flash: Riding High, but walking on the Tightrope

28 August 2026

- **The lull in tensions over Iranian oil driven by Strait of Hormuz negotiations is overshadowed by the resumption of the trade war waged by Washington against Canada and China.**
- **Economic activity in the US and the Eurozone shows resilience, though tempered by stagnant US consumer spending and a contraction in French services.**
- **Pressure on the OAT-Bund spread continue to build, fuelled by the budgetary deadlock in France and investor concerns over the economic proposals of the leading presidential candidates.**

The actual economic sanctions announced by Scott Bessent against Tehran fell short of the promised shock measures, probably so that Iran's trading partners China and India might apply them. A gradual approach seems to be in favour but the danger is that the situation could get bogged down. Nevertheless, rumours of continued talks via Pakistan or Qatar -and news that Iran and Oman had made progress on plans to manage the Strait of Hormuz- eased pressure on oil prices. These talks involve introducing an Iranian tax on shipping through Hormuz, a measure that goes against Donald Trump's latest proposal.

The US president has resumed his trade war, this time with Canada which could see $20bn in its exports to the US being taxed at 50% from September 8. Canada riposted with similar measures. Canada's aluminium and autos will also see an additional 50% tax and Ottawa replied by doubling levies on various US products to 50%. Although Donald Trump is down to meet Xi Jinping at the beginning of September, he is also considering an additional 7.5% levy on Chinese goods which are currently taxed at an estimated 26%.

Elsewhere, Composite PMI in the US came in at 56 in August, or better than the 54 expected. And PCE inflation was stable at 3.7% with 3.3% in underlying inflation so still no signs of energy price tension spreading. But US consumers are being cautious. Real consumption was flat despite a 0.5% increase in disposable income.

Eurozone indicators were also resilient. Composite PMI rose from 52 in July to 52.1 in August when analysts were expecting 51.7. The figures, however, overshadow areas of weakness, particularly in France where soft services led to the indicator falling to 48.8 when expectations were for 49.5.

For political problems essentially, the OAT-Bund spread widened recently to flirt with highs not seen since the French Assembly was dissolved. The 2027 budget is coming up for a vote and there is a risk of deadlock. If by default the 2026 budget is extended, the deficit could worsen by an estimated 0.5%. The 2027 presidential election is already in focus with opinion polls increasingly pointing to a second-round run-off between Marine Le Pen and Jean-Luc Mélenchon. The debate organised by France's employers' association failed to dispel the market's concerns about both candidates. Marine Le Pen's economic proposals still lacked detail and credibility while her left-wing opponent's plans to increase taxes, ramp up wages and cancel part of France's debt were also worrying.

As we believe the looming mid-term elections should favour a diplomatic solution in the Middle East and help ease price pressures, we remain upbeat on fixed income, corporate debt and equities. We had previously hedged equity positions during the summer rally. We continue to be negative on the dollar.

European equities

Equity markets this week were relatively resilient but trading was still very cautious. Intermittent hopes for de-escalation in the Middle East resulted in oil prices falling back but uncertainty still clouded any chance of really reopening the Strait of Hormuz, a possible agreement with Iran and the risk of additional US sanctions.

In company news, the European picture is still varied. Visibility is still good for companies exposed to strategic investment in defence and energy. **Exosens**, for example, won its first order from the US army as part of an IDIQ contract (Indefinite Delivery/Indefinite Quantity). **GTT** and **Technip Energies** announced new contracts in gas and offshore infrastructure. But the energy space still needs to be closely watched. **TotalEnergies** said that despite sporadic shipping of crude oil through the Strait of Hormuz, the situation for refined products is more complex and the group warned that consumers would be seeing the negative consequences in the future. Europe's auto industry is still struggling. Pressure on the sector was illustrated by a comment from a **Volkswagen** executive that the situation was more than critical. And workers are worried about redundancies and possible plant closures. Auto manufactures have to deal with rising Chinese competition, overcapacity and the unpromising global environment. Elsewhere, **Pernod Ricard**'s results disappointed investors. Trading in the US and China is still very difficult.

US equities

Wall Street mostly gained over the week with the Nasdaq up 1.1%, outperforming the S&P 500 (+0.7%). The Russell 2000 edged 0.1% lower. Markets remained concerned about persistent underlying inflation ahead of the Fed chair's intervention this Friday at the Jackson Hole symposium.

Tech jumped 3.1% while the SOX semiconductor index advanced by 1.2%. Chip stocks were initially under pressure before **Nvidia** (+6%) bolstered the outlook for AI investment by reporting quarterly sales of $96.2bn. The group's finance director also said she expected sales to rise 70% in 2027, or much more than the 45% increase expected by analysts. **Salesforce** also underpinned the sector. The stock soared 21% on Thursday after the group raised guidance and announced a broader partnership with **Anthropic**.

Healthcare dipped 1.8% over the period. **Eli Lilly** fell back from recent highs amid fresh regulatory pressure on drug prices. **Boston Scientific** was also hit by a cybersecurity incident and by an FDA Class 1 recall for a pacemaker.

Energy (-2.5%) was the week's big losing sector after Iran and Oman made diplomatic progress on a possible resumption in shipping in the Strait of Hormuz.

Consumer discretionary shed 1.6% on mixed signals on US consumer spending. **Abercrombie & Fitch** jumped after raising EPS and sales guidance. **Dick's Sporting Goods**, in contrast, cut annual sales guidance due to ongoing weakness at **Foot Locker**.

Emerging markets

The MSCI EM was up 1.68% in USD as of Thursday, led by Korea (+3.35%) and Taiwan (+2.82%) on continued AI optimism after Nvidia's results. Brazil (+1.28%) and China (+1.04%) also advanced, while India and Mexico ended slightly lower. Overall, AI-driven momentum continued to support North Asia, while investors remained focused on the ongoing earnings season and evolving US–China trade developments ahead of next month's expected leaders' meeting.

In **China**, July industrial profit growth slowed for a third consecutive month to 11.2% YoY, or below expectations. Earnings were mixed: **PDD** missed second-quarter expectations amid intense domestic competition and tighter overseas tariff policies. **WuXi Biologics** delivered strong first-half results, with revenue up 18% YoY and net profit up 38% YoY, driven by accelerating order growth. **Xiaomi** launched its second-generation XRING chip family, further expanding its AI ecosystem. **Alibaba** raised $10bn in Hong Kong to fund AI investments, while **Shein** launched its Hong Kong IPO, targeting $1.7bn at a $26bn valuation, or well below the $100bn mooted 4 years ago.

In **Taiwan**, the TWD reached a two-month high, supported by sustained equity and FX inflows.

In **Korea**, the Bank of Korea raised rates by 25bp to 3.0% and upgraded its GDP forecasts to 3.3% for 2026 and 2.9% for 2027. **SK Telecom** agreed to sell a minority stake in its SK Horizon data center business while retaining control, and **SK Hynix** broke ground on its first US HBM packaging facility.

In **India**, the RBI's August bulletin highlighted resilient domestic demand, improving manufacturing and services activity, and stable core inflation. India also lifted its wheat export ban. TCS signed a $1.5bn, five-year AI partnership with Porsche to deploy AI across engineering, manufacturing, operations and customer experience.

Elsewhere, the Bank of **Thailand** kept rates unchanged at 1.0%, while **Brazil**'s mid-August CPI eased to 4.24% YoY, or below expectations and within the central bank's target range.

Corporate debt

Yields on Germany's 10-year Bund hit a high of 3.28% this week due to rising inflation, persistently high oil prices and the ECB's more hawkish stance. Investors are waiting to see if Fed chair Kevin Warsh's Jackson Hole address clarifies the US interest rate trajectory.

Investment Grade and High Yield indices were unchanged over the week as pressure on interest rates was offset by spreads narrowing slightly. The Xover tightened by 7bp over the period.

We expect to see new issuance return in force from next week for corporates, financials and LBO sponsors.

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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