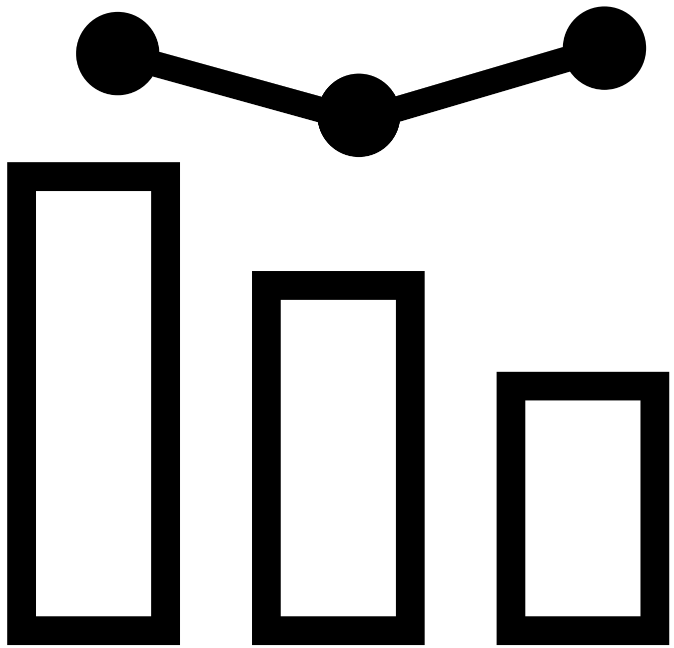

Market update

August 2026

Augustus 2026: 'Smooth sailing'?

After a moderate performance in July, stock markets recovered in August, with the exception of listed real estate. Meanwhile, capital market interest rates rose further, due in part to continued high inflationary pressure and doubts regarding the sustainability of government debt.

Rising interest rates negatively affected bonds, with government bonds declining by 0.6% and investment grade corporate bonds losing 0.2%. Real estate also suffered from the rise in interest rates, especially on the expected increase in short-term rates. Real estate lost 4.6% in August, making this the worst-performing category in the past month and also in 2026 as a whole.

Real estate was an exception within marketable securities, however. Stocks have performed well this year, with returns in euros of 12% for European shares and 14% for US shares. To some extent, this was due to the strong earnings growth reported by listed companies in recent quarters. This does not mean, however, that earnings growth will continue at the same pace. There are several obstacles, such as the war between the United States/Israel and Iran and the ensuing volatility in energy prices, higher interest rates and rising government debt. These obstacles are more likely to lead to choppy conditions for the financial markets than smooth sailing.

The returns on the various asset classes were as follows:

Rendementen (total return, in euro's)	augustus	Q3	2026	12 mnd
Bloomberg Barclays Eurozone Staatsobligaties	-0,6%	-2,3%	-1,1%	-0,4%
Bloomberg Barclays Euro Bedrijfsobligaties	-0,2%	-1,2%	0,1%	0,8%
Bloomberg Barclays Euro High Yield Bedrijfsobligaties	0,5%	0,2%	2,0%	3,1%
FTSE/EPRA Europe Onroerend Goed	-4,6%	-2,2%	-2,3%	-1,0%
MSCI Europe Aandelen	0,5%	1,4%	12,3%	21,3%
MSCI North America Aandelen	2,0%	1,1%	14,1%	20,7%
MSCI Asia Pacific Aandelen	2,4%	0,1%	25,0%	34,8%
MSCI World Developed Markets Aandelen	1,7%	1,2%	13,4%	19,6%
MSCI Emerging Markets Aandelen	2,6%	-1,5%	25,4%	40,1%
EUR/USD	0,8%	1,7%	-1,1%	-0,6%

Bron: Bloomberg

The US economy is performing quite well

The US economy continues to perform reasonably well. This is not a given, since this country is engaged in a military conflict with Iran, is in a trade war with Canada (among other countries) and is facing high inflation and rising interest rates. However, this is not yet reflected in consumer spending, as retail sales are apparently still growing. The RedBook index (which measures sales at 9,000 large US retailers) was up by more than 8% in August year-on-year, compared to a long-term average of 3.5%. The official retail sales figure was more modest, showing an increase of 5.2%, significantly lower than in the previous month (8.5%), but still well above the long-term average of 4.3%. In any case, US consumers are still spending, and purchasing managers in the US also appear to be optimistic. The Services PMI stood at 54.1 in July, while the Manufacturing PMI came to 55.6. Both these figures suggest growth in these economic sectors. According to a Bloomberg poll, economists are still forecasting 2% growth for the US economy, which is not far off the long-term average.

European economy is picking up slightly

Meanwhile, things are improving somewhat in the European economy. The final figures for the second quarter have now been published, and these confirm that the eurozone economy grew by 0.4% on a quarterly basis (and by 1.0% year-on-year). This was a positive surprise, as fears of a recession in the eurozone have failed to materialise. Moreover, there was an upward revision to the growth figure for the eurozone in the first quarter (from -0.2% to 0.0% on a quarterly basis). However, it was not the largest eurozone countries that contributed to this growth. Germany generated year-on-year growth of only 0.9% in the second quarter, with France contributing 0.7%. By contrast, Spain and Portugal produced growth of 2.7% and 2.5% respectively.

Based on the leading indicators, the macroeconomic outlook for the eurozone is not that bad either. The purchasing managers' index for services stood at 51.7 and the purchasing managers' index for manufacturing rose to 52.7. The latter figure is notable and marks the highest level for the eurozone Manufacturing PMI in the past three years. However, retail sales growth eased to 0.7% in June (from 0.9% in May). This could indicate that consumers are hesitant when it comes to spending. Consumer confidence has, however, been steadily improving since April and currently stands at -15.5, although this is still below the long-term average of -11. Meanwhile, a Bloomberg poll of economists produced forecasts of 0.8% growth in the eurozone in 2026 and 1.2% in 2027. The latter figure is close to the eurozone average. Having said this, a sharp rise in inflation could disrupt this growth outlook, due to a combination of less purchasing power and weaker sentiment.

Eurozone inflation still high

Eurozone inflation rose to 3.3% in August, from 2.9% in July. The increase was mostly due to higher energy prices. The energy component of the inflation index actually increased by 14.3% in August. Services inflation declined to 3%, from 3.3% in July. This partly explains why core inflation in the eurozone eased to 2.4%. Note that this is still higher than the 2% target set by the ECB. There is also no clear indication from the labour market of any decline in core inflation due to a sharp slowdown in employment. Eurozone unemployment is still historically low at 6.4%, and wages are still increasing. According to the ECB, wages negotiated under CLAs in the eurozone rose 2.4% in the second quarter of 2026. This is a smaller increase than in the previous quarter, and the trend in recent quarters has been downwards. However, slightly more recent data from the Wage Growth Tracker, from the job site Indeed, shows that wage growth increased to 3.3% in July.

There is still inflationary pressure in the US as well

The US is also having difficulty in curbing high inflation. US inflation was still relatively high in July (at 3.4%), driven mainly by a 14.4% increase in energy prices. Core inflation eased slightly, but is still above the Fed's target at 2.5%. Services inflation is also still high (at 3.3%), which is not entirely surprising since the US labour market is still in reasonably good shape. Admittedly, wage growth in the US has been easing since the middle of 2024, suggesting a slowdown. However, unemployment is still historically low at 4.1%, and the recent job figures do not suggest a crash is on the way. US non-farm payrolls were up 162,000 in August, which is significantly higher than the increase in the previous month (21,000) and also much higher than forecast by economists in a Bloomberg poll (55,000). Continuing high energy prices mean that US inflation is more likely to rise than fall for the time being.

This is not a comfortable situation for new Fed Chair Kevin Warsh. Both inflation and the labour market suggest a policy interest rate hike is more likely than a cut. However, Warsh is under pressure to reduce rates, in some instances rather explicitly. US vice president J.D. Vance has actually called publicly for a cut, even though the markets are still counting on an interest-rate increase this year.

Public debt is again a topic of public debate

Public debt has recently again become a hot topic among investors. Bond yields have risen in recent years, and while there are various reasons for this, the increase in government debt has certainly been one of the drivers. US government debt currently stands at nearly 125% of GDP. In France, government debt is around 115% of GDP, and in Japan this figure is even 195%. In Japan's case, it has to be said that almost half of the debt is held by the Japanese central bank and almost the entire debt is in local currency. This means a depreciation of the yen is not a direct problem for Japan's government debt. Due to its large domestic investor base, Japan is also less dependent on finance from abroad. Still, the fact that the interest on this government debt is becoming less affordable could be a problem. According to the Japanese Ministry of Finance, interest costs on government debt in 2025 accounted for 9% of the government budget. This problem will not diminish if interest rates rise. The yield on 10-year Japanese government debt now stands at nearly 3%, its highest level in 30 years.

The US is facing a similar problem, as interest costs on US government debt account for 14% of the government budget. In addition, the US government is running a large budget deficit (6% of GDP), so its government debt is more likely to rise than fall in the coming period. The 10-year yield on US government debt has risen to 4.8%. By comparison, this yield was 2.6% in 2022. The situation is not improved by the fact that the US government has recently opted to finance a large part of its additional funding with short-term government bonds. This makes the government finances more exposed to future increases in interest rates.

Closer to home, government finances are still a problem in France. Various administrations have failed to achieve a sustainable reduction in the government deficit. Nor do we expect to see any reduction in the coming period. The IMF expects the French government deficit to remain around 5% of GDP until 2027. With that in mind, it is no surprise that the 10-year yield on French government bonds of 3.9% is nearly 0.9% higher than the 10-year government yield in Germany.

What does all this mean for investors? It is more likely that interest rates will remain high than that they will fall sharply. The combination of increasing debt and rising interest rates is a threat for bonds. However, it is not good news for stocks or real estate either. Both these categories will be affected by higher interest rates, because this will diminish the present value of future cash flows. It will also be more expensive for businesses to invest, and for consumers looking to take out a mortgage.

Conflicting forces argue for a neutral stance

There is extensive uncertainty regarding geopolitical developments, interest rates are rising and the development of inflation is unclear. This is not a positive environment for most asset classes. A further increase in inflation could also negatively affect consumer and business sentiment. On the other hand, the economy is still generating decent growth, and business earnings are also holding up. To illustrate this last point, companies in the S&P500 have reported average year-on-year earnings growth of 12% over the past five quarters. However, these earnings may be concentrated among a relatively smaller number of companies than currently estimated by the markets and may therefore be exposed to setbacks. Taking all this into consideration, these conflicting forces suggest a cautious stance is more appropriate than any strong view on specific asset classes.

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