Marketline August 2026

Stocks:

Stocks continued to make progress this month, but interest rate levels are eroding the bullish sentiment. We analyze the rate move below in our *Bonds* section, but for now let's set the stage with market returns. The Dow rose by 1.3%, the S&P climbed 2.6%, and the Nasdaq soared 3.9% during the month. Among stock sectors, technology carried the indices last month, a shift to optimism that has not been uniformly present recently. A few tech stocks are flat or even down in 2026 – Microsoft, Oracle, Meta – after spectacular surges in 2025, though the sector as a whole is up about 30%. Driven by AI energy use and the war in Iran, the very best returns have come from energy stocks of all types – fossil fuels, renewables, even the "picks and shovels" that aid buildouts. The grid is in a massive improvement cycle all over this country, a process that might take ten years, but at least it's on the way. Trailing behind are consumer stocks, particularly retail, apparel, home renovation and, yes, Nike, as well as our new addition to our buy list, Yum! Brands (Taco Bell, KFC, and until recently, Pizza Hut). The press of inflation has softened consumer spending in the area of non-essentials, so a product has to be special these days to attract buyers' dollars.

Meanwhile, foreign stock indices ended the month mixed: the Canadian exchange posted a 3.0% increase after strong GDP growth in the second quarter driven by a rising manufacturing sector, but over in Europe, the index price drifted off about 0.4%. Mexico corrected by 2.3%; the Bolsa is considered an emerging market, a segment that is particularly sensitive to rising US interest rates. Notwithstanding the good news from last month, September has brought softer prices for several reasons. We'll discuss interest rates shortly, but adding to the ramping concerns are climbing oil prices and renewed trade wars – both of which will boost inflation.

Aside from fundamental concerns, we're entering a seasonally difficult time for stocks over the next two months – September and October are notoriously volatile as end-of-year earnings estimates are juggled to fit reality and investors begin looking forward to the new year. As always, we'll view this period as an opportunity rather than a problem.

Bonds:

I often neglect to mention here that we in the US are not uniquely subject to market forces – so is the rest of the world. We are running large budget deficits, but so are Europe and China. Our interest rates are rising, but rates are higher in other countries. We are suffering inflation, but did you know that inflation in the Eurozone is equivalent to our 3.4%? In short, it pays to look around sometimes, and this month, we're going to look at Japan.

Last month, I wrote, "Who cares about the yen? … Japanese households and governments own our Treasury securities. If the yen sinks, the best way to defend the currency's value is to hike interest rates. If Japanese rates rise, then households and the country's government have less need for our securities: they can buy their own. That could lead to sales of our Treasuries and more upward pressure on our interest rates in an unforgiving cycle."

Nothing about this story has abated; in fact, it has new facets: Japan's economy is recovering, its historical deflation has turned to inflation, and it is competing for capital with the rest of the world. (We're not alone in our manufacturing renaissance.) More rate increases by Japan's Central Bank are on the horizon, and that action will feed directly into other countries' rate scenarios.

Which brings us to Kevin Warsh, our new Fed chairman. Warsh is taking pains to avoid issuing forward guidance, though he's turned a bit hawkish lately, which means the committee might be closer to hiking rates than standing pat. But primarily, Warsh prefers that market signals lead the way here, and we think that's a reasonable tactic. Realistically, there's nothing the Fed can do about the government's predilection for spending too much, and there's nothing it can do about the supply of energy. Allowing the market to adjust the economy is about the only path that makes any sense in this environment.

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