

MARKETS UNWRAPPED

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Market Review: August and the outlook ahead

August was another positive month for global markets despite continued uncertainty around inflation, government debt levels and geopolitical tensions. Investor attention was focused on the annual Jackson Hole conference, where policymakers discussed the outlook for inflation, interest rates and economic growth. While markets continue to navigate a range of challenges, company earnings remained resilient and equity market returns broadened beyond the largest technology stocks.

As we move towards the final months of the year, investors remain focused on inflation, bond markets, corporate earnings and the long-term implications of artificial intelligence (AI). Encouragingly, market leadership is becoming more diversified, supporting a wider range of investment opportunities.

A focus on bond markets

One of the key developments during August was renewed attention on government bond markets. Concerns around elevated fiscal deficits in the US, Japan and parts of Europe, combined with inflation remaining higher than many expected at the start of the year, prompted investors to reassess the outlook for interest rates and government borrowing costs.

These concerns contributed to rising bond yields over the summer, as markets increasingly considered the possibility that inflation could remain higher for longer. While bonds continue to play an important role in diversified portfolios and currently offer attractive income opportunities, investors are paying closer attention to inflation risks and the sustainability of government debt levels.

For portfolio positioning, this has reinforced the importance of diversification across defensive assets, including the use of alternative investments alongside traditional bonds to help manage uncertainty.

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Market gains widen beyond technology

While AI continues to be a major market theme, August highlighted an important shift in equity markets. Strong earnings from leading AI-related companies, particularly Nvidia, reinforced confidence in the long-term growth potential of the technology. However, some of the strongest market performance came from outside the largest US technology stocks.

The earnings season demonstrated that growth is becoming increasingly broad-based, with sectors such as energy, financials and industrials delivering encouraging results. Regional performance also widened, with UK, European and Japanese equities outperforming US markets over recent months.

This broadening of returns is an encouraging development for investors. Rather than relying on a small number of technology companies to drive market performance, opportunities are emerging across different sectors, industries and regions.

Smaller companies show signs of recovery

After a challenging period for smaller companies, August saw signs of improving investor sentiment towards this area of the market. Smaller companies outperformed many larger businesses during the month, benefiting from increasing confidence in the economic outlook and wider participation in market gains.

In the UK, takeover activity remained elevated, particularly among mid-sized businesses. Several companies continued to attract interest from private equity and overseas buyers, highlighting the value opportunities that remain available within parts of the UK market.

While challenges remain, these developments suggest investors are becoming more willing to look beyond a concentrated group of large-cap companies in search of future growth opportunities.

Inflation and geopolitical risks remain important

Geopolitical tensions continue to influence markets, particularly in the Middle East and Eastern Europe. While markets have become somewhat more resilient to daily headlines, these events continue to have important implications for inflation, commodity prices and global supply chains.

Alongside geopolitical developments, longer-term trends such as demographic changes and the reshaping of global supply chains may also contribute to inflationary pressures. As a result, many investors now expect inflation to remain more persistent than previously anticipated, even if short-term data continues to fluctuate.

This backdrop reinforces the need for a balanced investment approach that can navigate a range of economic scenarios rather than relying on a single market outcome.

Looking ahead

- ◆ Several themes are likely to remain central to markets in the months ahead:
- ◆ Inflation and interest rate expectations.
- ◆ Government borrowing levels and bond market stability.
- ◆ Corporate earnings and business confidence.
- ◆ The continued development and adoption of AI.
- ◆ Geopolitical tensions and their impact on global growth.
- ◆ Broadening market participation across sectors and regions.

In summary

August demonstrated the benefits of maintaining a diversified investment approach. While inflation, government debt levels and geopolitical risks remain key considerations, company earnings have remained resilient and market leadership is broadening beyond a small group of technology stocks.

For investors, the focus remains on long-term objectives rather than short-term headlines. A balanced portfolio that combines exposure to equities, bonds and alternative investments remains well positioned to navigate an evolving market environment while capturing opportunities across a wider range of markets and sectors.

[Watch the full video here](#)

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