GLOBAL INSTITUTIONAL ADVISORS

Weekly Market Wrap

Key Market Developments

The US equities extended their advance for a second straight week, with the S&P 500 (+3.6%), NASDAQ (+5.1%) and Dow (+3.0%) reaching fresh record highs as the market broke out of its three-month trading range. The catalyst was reduced pressure on the Fed to raise rates, with July payrolls coming in well below expectations and September rate-hike odds falling to roughly 42% from over 55% earlier in the week. The move was reinforced by a resilient earnings season, with blended S&P 500 Q2 earnings growth tracking near 48%, or ~29% excluding one-off gains at Alphabet and Amazon, alongside a rebound in semiconductors, with SOXX gaining more than 7% for the week. Oil fell sharply (WTI down 7.7% to $78.2) on reports of progress toward reopening the Strait of Hormuz, though optimism eased mid-week on reports the arrangement could restrict passage for U.S. and Israeli vessels. Treasury yields fell in sympathy, with the 10-year down roughly 9bps to 4.65%, even as the yield curve remains historically steep following the Fed's hawkish 9-3 hold on July 29, the most divided FOMC vote since 2016.

Globally, the performance was more mixed. European equities gained broadly (Stoxx 600 +1.7%) on resilient earnings and improving services PMIs, even as UK and German manufacturing stayed in contraction. Japan's Nikkei rose 1.9%, helped in part by the yen giving back some of the prior week's intervention-driven gains, with USD/JPY settling at 157.76 by Friday's close. China diverged sharply: onshore benchmarks outperformed a weaker Hang Seng (-0.8%), as Beijing's new tax on offshore insurance returns hit Hong Kong-listed financials, even as exports grew 23.9% year on year. India's Sensex advanced 0.5% as the RBI held its repo rate at 5.25% in a dovish hold, characterising the energy-driven inflation shock as largely supply-side.

What We Are Watching – Week Starting 10th August

- **The Fed's reaction function:** July's hold was passed 9-3, with three regional presidents dissenting in favour of an immediate hike. Markets have since pared September hike odds to roughly 42%. The July CPI print on August 12 and PPI on August 13 will be the next major test of whether disinflation is durable enough to keep the Fed on hold.
- **Earnings durability versus capital intensity:** Blended S&P 500 growth is running near 48%, or around 29% excluding one-off gains, but the market is drawing a sharper line between companies with a clear path to AI monetisation and those still ramping capex without one. We expect this split to persist through the rest of earnings season.
- **Deleveraging risk in crowded AI trades:** In late July, AI-focused hedge fund Situational Awareness was forced to liquidate its public equity book following margin calls after a sharp selloff in AI infrastructure stocks. Despite returning ~439% net through June, leverage of up to 4x reportedly amplified losses, highlighting that positioning and leverage risk can be distinct from the underlying AI earnings thesis. We continue to monitor similar concentration and leverage risks across the AI complex.
- **GCC equities and the energy premium:** GCC markets are balancing resilient hydrocarbon revenues against higher geopolitical and shipping risks. UAE crude flows through the Strait of Hormuz have remained strong, while Dubai equities declined in July on renewed escalation fears, particularly in real estate; Abu Dhabi held up better on resilient earnings. Saudi Arabia’s preliminary Q2 GDP contracted 4.8% YoY, highlighting the broader growth impact, while higher logistics costs and delayed capex are expected to weigh on GCC corporate profitability.
- **The dollar-yen-yield nexus:** The yen has given back much of the prior week's coordinated U.S.-Japan intervention gains, with USD/JPY settling at 157.76 by Friday's close. A sustained fall likely needs a BoJ hike, constrained by Japan's high debt-servicing costs.

GIA View

Equities:

- We stay neutral to moderately constructive on global equities. Earnings momentum argues against broad de-risking, and leadership is genuinely broadening beyond mega-cap technology, but elevated valuations and a history of crowded, leveraged AI positioning argue for selectivity over chasing momentum.
- We favour quality balance sheets, pricing power and visible free cash flow conversion.

Rates:

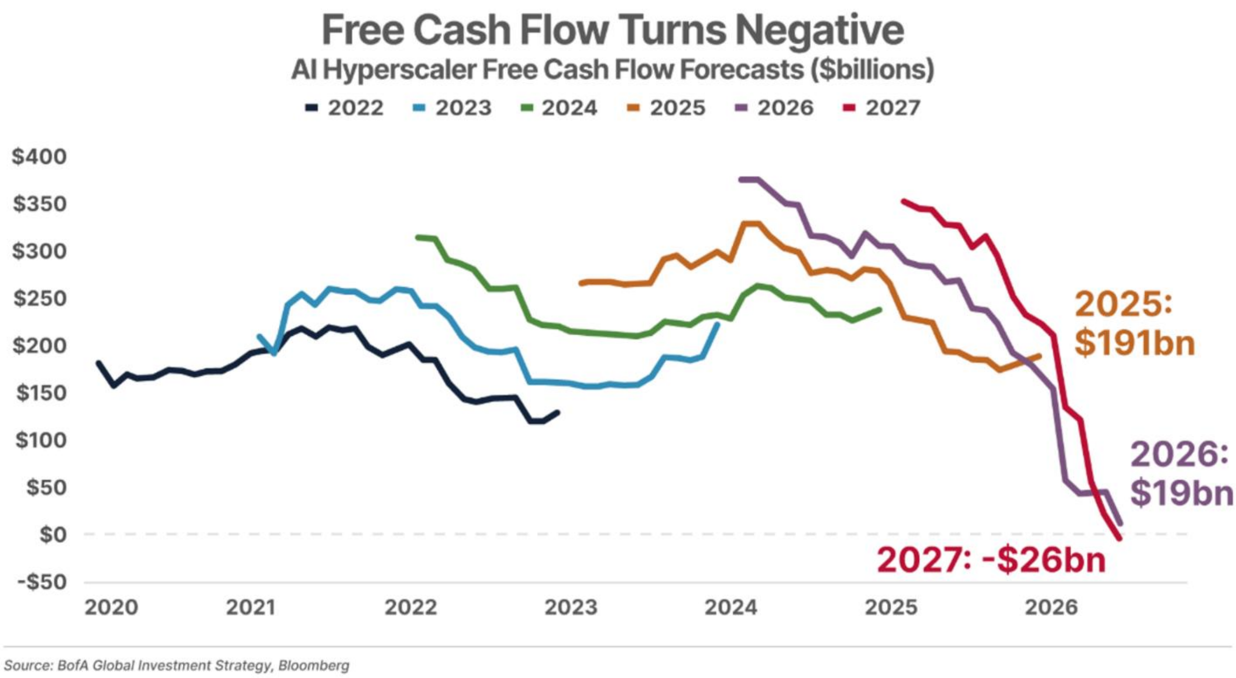
- Higher yields improve forward returns, but long-duration sovereign bonds remain vulnerable to oil-driven inflation and rising term premia. The Fed's divided July hold, a 9-3 vote with three regional presidents favouring an immediate hike, keeps that risk alive: a soft labor market argues for a pause, but sticky inflation could still tip the balance toward tightening.

- We favour high-quality short-to-intermediate duration and see long-duration sovereigns as vulnerable to inflation surprises and rising term premia.

Commodities:

- Gold has repeatedly found support near $4,000 and remains a useful hedge against geopolitical and policy uncertainty, though higher real yields can still produce sharp drawdowns. Oil should be treated as event-driven: this week's pullback shows how quickly the geopolitical premium can be priced out on diplomatic progress, but the underlying shipping-route risk has not been resolved and upside remains asymmetric if disruption resumes.

Chart of the week: Hyperscalers turn cash negative



Source: BofA Global Investment Strategy, Bloomberg

Aggregate hyperscaler free cash flow is set to swing from roughly $180bn in 2025 to negative territory by 2026, with BofA projecting further deterioration through 2027-2028 before recovery. This is a genuine inflection: for most of the past decade these companies generated $135-270bn a year with healthy margins, a run now reversing as capex, approaching $1.2 trillion by 2027, outpaces operating cash flow. The shift is already visible company by company: Alphabet's free cash flow turned negative in Q2, the first time since its 2004 IPO, while Microsoft remains the exception. Critically, this spending is increasingly debt funded rather than self-funded, a marked change from a sector that historically grew entirely out of its own cash. The market is already pricing the distinction: companies with a credible, quantifiable path from capex to revenue have been rewarded even as spending accelerates, while those asking investors to take that path on faith have not. The next few quarters will show whether operating cash flow scales fast enough to justify the capital being committed now.

Asset Class Performance – Week Ending 7th August 2026

	Week ending >>>				
	31-Jul-26	07-Aug-26	YTD Δ	MTD Δ	Weekly Δ
Equity Indices					
S&P 500 (USD)	7,489.7	7,757.6	13.1%	3.6%	3.6%
NASDAQ (USD)	28,274.2	29,722.3	17.9%	5.1%	5.1%
Dow Jones (USD)	52,485.0	54,036.9	11.7%	3.0%	3.0%
MSCI EM Index (USD)	1,665.9	1,657.8	16.0%	(0.5%)	(0.5%)
SENSEX (INR)	78,094.6	78,499.2	(8.5%)	0.5%	0.5%
Stoxx 600 (EUR)	649.2	660.3	10.8%	1.7%	1.7%
Nikkei (JPY)	64,362.0	65,606.7	30.3%	1.9%	1.9%
Hang Seng (HKD)	25,884.4	25,668.0	(2.5%)	(0.8%)	(0.8%)

	31-Jul-26	07-Aug-26	YTD Δ	MTD Δ	Weekly Δ
Commodities					
Gold (USD per troy ounce)	4,046.2	4,341.6	0.2%	7.3%	7.3%
Silver (USD per troy ounce)	57.6	63.6	(12.7%)	10.4%	10.4%
Oil (USD per barrel)	84.7	78.2	36.4%	(7.7%)	(7.7%)
Natural Gas (Henry Hub)	2.7	2.7	(26.4%)	(3.1%)	(3.1%)
Currencies					
EUR/USD	1.1527	1.1559	(1.4%)	0.3%	0.3%
GBP/USD	1.3483	1.3491	0.3%	0.1%	0.1%
USD/INR	95.3925	95.2112	5.6%	(0.2%)	(0.2%)
CHF/USD	1.2384	1.2378	(1.9%)	(0.0%)	(0.0%)
USD/JPY	157.4000	157.7600	0.6%	0.2%	0.2%
Credit Markets					
US Treasury 10Y Yield (%)	4.73	4.65	45.47	(8.93)	(8.93)
German Bund 10Y	3.21	3.13	23.20	(7.40)	(7.40)
UK Gilt 10Y	5.050	4.921	38.45	(12.90)	(12.90)
Japan JGB 10Y	2.801	2.773	70.70	(2.80)	(2.80)
India G-Sec 10Y	6.838	6.765	15.88	(7.30)	(7.30)
China CGB 10Y	1.715	1.706	(14.90)	(0.90)	(0.90)
S&P BDC Index	46.792	50.824	(8.0%)	8.6%	8.6%
Policy Rates					
Fed Funds Rate (US)	3.750	3.750	-	-	-
BoE Bank Rate	3.750	3.750	-	-	-
BoJ Policy Rate	1.000	1.000	25.00	-	-
RBI Repo Rate	5.250	5.250	-	-	-

Key Economic Events – Week of 10–14 August

Date	Country/Region	Event	Period	Survey (Median)	Prior
Tue, 11 Aug	UK	Labour Market Data (Report on Jobs)	Jul	--	--
Wed, 12 Aug	US	CPI / Core CPI (YoY, MoM)	Jul	3.40% / 0.10%	3.50% / (0.40%)
Wed, 12 Aug	India	CPI YoY	Jul	4.40%	4.38%
Thu, 13 Aug	US	PPI Final Demand MoM; Initial Jobless Claims	Jul / 8-Aug	0.20% / 203k	(0.30%) / 199k
Thu, 13 Aug	UK	GDP QoQ (Preliminary)	2Q	0.40%	0.60%
Fri, 14 Aug	US	Retail Sales Advance MoM	Jul	0.10%	0.20%
Fri, 14 Aug	US	U. of Mich. Sentiment (Preliminary)	Aug	54.6	55.2

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