Weekly Macro and Markets View

3 August 2026

Highlights and View

The Fed keeps rates on hold, with three members dissenting in favour of a rate hike

The rate path remains uncertain as inflation rates are still elevated.

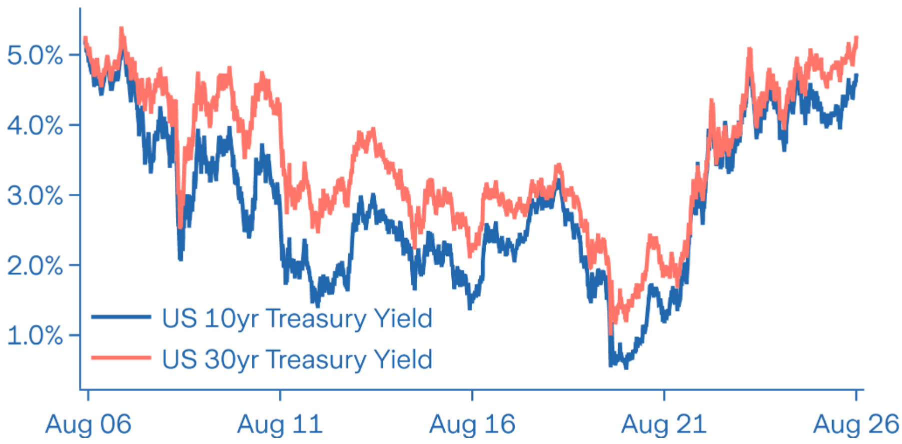
Coordinated action by Japan and the US arrests the slide in the JPY beyond a four-decade low of 164

The Ministry of Finance increases its resolve to defend the yen

China's July Politburo meeting struck a dovish tone, prioritising faster existing fiscal deployment over fresh stimulus

We expect near-term growth momentum to pick up, though the economy will remain K-shaped, with new tech sectors outpacing the broader economy.

Longer-term yields rise as the Fed remains on hold



Source: Bloomberg

With the Fed's new reluctance to provide any guidance, the uncertainty ahead of last week's meeting was unusually high, with markets pricing in a significant probability of a rate hike. As expected, however, the FOMC kept rates on hold, with three members dissenting in favour of a rate hike. Chair Warsh still refuses to give any guidance, but some of his comments during the press conference came across more dovish than last month. While the 2yr Treasury yield ended the week slightly lower, longer-term yields rose markedly, with 30yr Treasury yields reaching the highest level in almost two decades. Marked-based inflation expectations picked up but remain well anchored. Meanwhile, the economic environment remains robust, with consumer spending and business investment growing by 3.2% QoQ and 3.0% QoQ in Q2. Overall, however, GDP growth slowed from 2.1% QoQ to 1.5% QoQ as trade and government spending weighed on activity. Inflation remains stubbornly elevated, with PCE Core receding only marginally from 3.4% YoY in May to 3.3% YoY in June. Consumer confidence declined in July as households' perception of the employment situation deteriorated further to the lowest level since February 2021.

Equities

The AI rollercoaster

Mixed results from US hyperscalers triggered some very significant reactions in individual stocks, but strong earnings growth and the Fed's decision to remain on hold helped to support the overall market. Both the S&P 500 and the Nasdaq rose more than 1% last week while the equally weighted S&P 500 reached a new record high. Asian stocks saw extreme AI-driven volatility last week. The KOSPI plunged around 22% over two sessions on forced unwinds of leveraged ETFs before rebounding 18% on Friday, with Taiwan's TAIEX also recovering as inflows spiked.

Samsung and SK Hynix posted phenomenal Q2 profitability despite slight revenue misses: Samsung's chip profits rose 250-fold YoY on memory demand, while SK Hynix's operating margins hit a record 76.3%, underscoring strong pricing power, and FY2026 capex was raised 50% to USD 31bn. With the fundamental story intact, we view the market shake-out as a healthy reset, setting the stage for semis to resume their outperformance before long.

Japan

A rare, coordinated intervention in the FX market to stop the slide of the yen

Two key events at the end of last week spurred a sell-off in the yen. Firstly, the reference to a data-dependent stance at the conclusion of the BoJ meeting moderated expectations for the path of rate increases, and secondly, Japanese PM Takaichi announced a reduction in taxes on food products. These key developments sparked a sell-off in the yen to a four-decade low of 164. What followed was a coordinated currency market intervention by Japan and the US, with the Ministry of Finance (MoF) buying yen and selling dollars to halt the slide in the yen. The MoF reportedly spent USD 53bn to arrest the decline. This marked the first joint intervention in 15 years and reflected a slower reversion to the mean in terms of JGB yields given inflation, as well as concerns that the potential large-scale sale of US Treasuries as the funding leg would further widen Treasury yields. By midday Monday, Asian time, the yen was around the 156 level.

China

K-shaped by design

After a run of weak Q2 data, markets looked to the July Politburo meeting for H2 policy direction. Ahead of the meeting, dovish hints had created the expectation of further support to bolster faltering growth momentum. Those expectations were reinforced when PMIs slipped below 50 into contractionary territory. The message from the meeting was largely as expected. Encouragingly, policymakers acknowledged the weakness and called for stronger action in H2. However, no new stimulus was announced. Instead, the focus was on faster deployment of existing fiscal resources through accelerated bond utilisation, alongside measures to support consumption. Overall, policymakers appear pleased with the economy's ongoing transition toward high-tech. Industrial profits rose 18.7% YoY in H1 but remain K-shaped, with the AI-related and energy sectors doing the heavy lifting while others continue to see losses. We expect short-term momentum to pick up in H2, but the economy will stay on a K-shaped trajectory by design.

LatAm

Policy caution prevails

In Chile, the Central Bank held the policy rate at 4.5%, as expected. The communiqué adopted a more hawkish tone, emphasising geopolitical uncertainty surrounding the Middle East conflict and associated near-term inflation risks. Still, with underlying inflation contained and activity subdued, we expect the policy rate to remain unchanged through year-end, although risks have shifted to the upside. In Mexico, preliminary Q2 GDP rebounded by 1.5% QoQ, slightly above expectations and reversing the Q1 0.6% contraction, lifting H1 growth to 1.2% YoY. However, the headline overstates underlying momentum. Weak private investment and persistent USMCA uncertainty should keep growth modest, supporting expectations that Banxico will remain on hold at its upcoming meeting. In Brazil, the July CPI preview came in below expectations at 4.5% YoY versus the 4.7% consensus, amid softer food and energy prices. The print sets the stage for another BCB rate cut this week, although elevated inflation expectations and supply-side risks point to a likely pause by the end of Q3.

Credit

AI supply weighs on spreads

US corporate credit markets underperformed in July, with credit spreads widening by 4bps in Investment Grade (IG) and by 12bps in High Yield (HY), while European credit spreads tightened. A recovery on Friday saw US IG close 1bp tighter on the week as concerns over AI eased in both credit and stock markets. The cost of insuring against hyperscalers' default reached record levels before falling back on Friday. The strain was felt most in the AA-rated bucket, led by Meta, Amazon and Alphabet, which widened by 8bps and posted the weakest excess return across US rating buckets at -0.63%. This occurred after the bucket absorbed 19 new bonds, worth almost 5% of its market value in July. This came alongside record overall July supply of around USD 140bn, causing new issue concessions to rise from 3.6 bps to 5.6 bps. Flows held up better than reported, as LSEG Lipper corrected the large outflow we cited last week to a USD 1.7bn inflow. August should bring seasonal relief, but we see AI issuance keeping pressure on the highest-rated part of the index due to supply/demand imbalance rather than fundamentals.

What to Watch

- In the US, the ISM surveys and the latest batch of labour market data will give crucial insights into the current state of the economy.
- In Asia, China's exports, Japan's wage data and household spending, Australia's exports and household spending, and Indonesia's GDP are key to watch.
- LatAm faces a busy week, with policy decisions in Brazil and Mexico, Chile's June activity data, and Mexico's July CPI.

Disclaimer and cautionary statement

This publication has been prepared by Zurich Insurance Group Ltd and the opinions expressed therein are those of Zurich Insurance Group Ltd as of the date of writing and are subject to change without notice.

This publication has been produced solely for informational purposes. The analysis contained and opinions expressed herein are based on numerous assumptions concerning anticipated results that are inherently subject to significant economic, competitive, and other uncertainties and contingencies. Different assumptions could result in materially different conclusions. All information contained in this publication have been compiled and obtained from sources believed to be reliable and credible but no representation or warranty, express or implied, is made by Zurich Insurance Group Ltd or any of its subsidiaries (the 'Group') as to their accuracy or completeness.

Opinions expressed and analyses contained herein might differ from or be contrary to those expressed by other Group functions or contained in other documents of the Group, as a result of using different assumptions and/or criteria.

The Group may buy, sell, cover or otherwise change the nature, form or amount of its investments, including any investments identified in this publication, without further notice for any reason.

This publication is not intended to be legal, underwriting, financial investment or any other type of professional advice. No content in this publication constitutes a recommendation that any particular investment, security, transaction or investment strategy is suitable for any specific person. The content in this publication is not designed to meet any one's personal situation. The Group hereby disclaims any duty to update any information in this publication.

Persons requiring advice should consult an independent adviser (the Group does not provide investment or personalized advice).

The Group disclaims any and all liability whatsoever resulting from the use of or reliance upon publication. Certain statements in this publication are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans, developments or objectives. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, developments and plans and objectives to differ materially from those expressed or implied in the forward-looking statements.

The subject matter of this publication is also not tied to any specific insurance product nor will it ensure coverage under any insurance policy.

This publication may not be reproduced either in whole, or in part, without prior written permission of Zurich Insurance Group Ltd, Mythenquai 2, 8002 Zurich, Switzerland. Neither Zurich Insurance Group Ltd nor any of its subsidiaries accept liability for any loss arising from the use or distribution of publication. This publication is for distribution only under such circumstances as may be permitted by applicable law and regulations. This publication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

Zurich Insurance Group Ltd

Investment Management
Mythenquai 2
8002 Zurich

P1046630 (07/25) TAG