Weekly Macro and Markets View

17 August 2026

Highlights and View

In the US, receding inflation rates make a near-term rate hike increasingly unlikely

Fading price pressure and a softer employment market show that there is no urgency for tighter monetary policy.

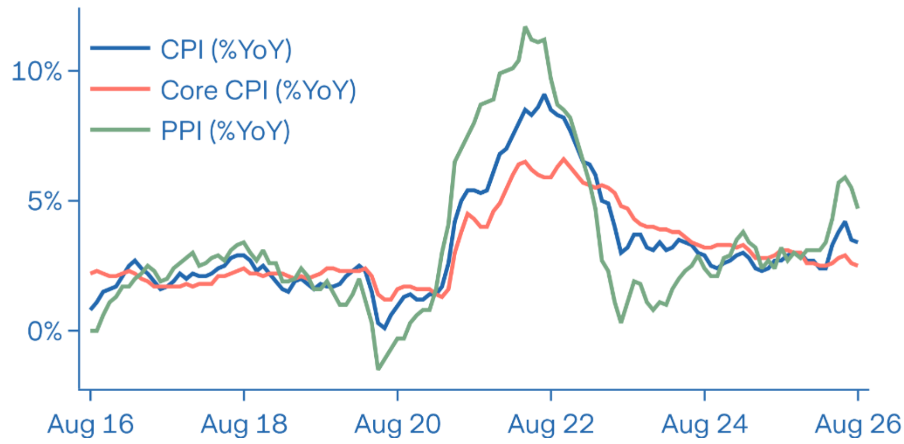
Government bond markets remain under pressure despite easing concerns around US inflation, with weakness led by the long end of the curve

Rising real yields and renewed energy price pressures are pushing government bond yields higher, with conditions set to remain volatile near term.

US municipal bonds rebound in August after a sharp sell-off in July, outperforming Treasuries and corporate bonds

Munis have had a good run this year, but headwinds are rising from a technical supply/demand perspective as fund flows are moderating despite continued heavy supply.

Falling inflation reduces the risk of a Fed hike



Source: Bloomberg

While US price pressure remains elevated, inflation rates ticked down again in July. Headline CPI inflation slowed from 3.5% YoY to 3.4% and Core CPI receded from 2.6% YoY to 2.5%. Monthly inflation rates picked up in line with expectations. Producer prices were mostly weaker than expected, with headline PPI slowing from 5.5% YoY to 4.7%. The latest batch of data confirms the slow but steady process of receding inflation rates which, combined with the softening of the labour market, make near-term policy tightening increasingly unlikely. Market-based expectations of a rate hike by the Fed in the coming months have fallen substantially. Meanwhile, consumer spending seems to have weakened somewhat at the beginning of the third quarter, with retail sales falling by 0.6% MoM in July. The more downbeat mood was also reflected in a drop in the University of Michigan's consumer sentiment survey, driven by both current conditions and expectations. The share of households expecting higher income over the next year has fallen to the lowest level since 2011. Finally, the National Federation of Independent Business's survey shows that small businesses' mood has improved to the highest in a year. Both hiring and investment plans have picked up entering the second half of the year.

Eurozone

Ominous signs

While last week brought limited Eurozone data, we received further information about Q2 GDP. Economic growth was reasonable, if slow in absolute terms; tracking just below 1% for the total year. Employment growth is slowing, running at a 0.5% YoY pace. There is a clear regional split. Italy and Spain continue to record faster employment growth, while employment is declining in both Germany and France. With energy prices still elevated, a September interest rate hike looks likely. Our assessment is that longer-term growth and inflation conditions don't warrant further tightening. Bond yields have been marching higher, led by real yields. Funding conditions across the economy are increasingly unfavourable. This applies to governments facing rising interest costs, households avoiding new mortgages, and corporates citing concerns about all-in borrowing costs despite tight credit spreads. For now, the ECB is content to monitor the situation. We think that any meaningful further weakness in bonds would see an early end to QT.

Australia

The RBA retains its hawkish bias

Last week, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 4.35%, as expected. It was a hawkish hold, with the RBA stressing that 'The Board will continue to do what it considers necessary to bring inflation sustainably back to target, including increasing the target cash rate further if upside risks materialise.' Markets are now pricing in over a 30% chance of a November increase. June inflation remained elevated at 3.8%, with trimmed mean CPI at 3.6% YoY, but the outlook is softening as oil prices ease and the housing downturn deepens. Q2 home loans show continued declines, with investor loans down more than 10% QoQ, while home prices have been correcting since March and auction clearance rates are falling, pointing to further weakness. Given households' strong exposure to property, negative wealth effects should weigh on demand and growth. Barring persistently higher inflation than expected, we think the RBA will stay on hold for the rest of the year while maintaining a hawkish bias.

Government Bonds

Government bond markets under pressure despite benign US inflation data

Government bond markets were unsettled last week, with yields pushing higher as investors focused on rising European gas prices and upside risk to oil prices. The benign US CPI release offered some respite, reducing market pricing of an imminent Fed hike. Impact on longer-maturity bond yields was limited though, leading to significant curve steepening in the US and globally. Weakness was most pronounced in Europe, where the 10yr Bund yield rose 7.2bps to 3.20%, matching the prior high, while the 10yr French OAT yield rose 12.9bps to 4.04%, the highest level since 2009, with gilt yields also trading higher. Volatility in the government bond market continues to be amplified by JGB weakness. The 10yr JGB yield has risen further to a three-decade high, with pressure increasing on the BoJ to hike rates. Globally, rising nominal yields reflect a combination of higher real yields, due to both the strong capex cycle and fiscal expansion, as well as concerns around renewed energy price pressures. While we maintain our view that yields are capped to the upside, bond market volatility is set to remain high near term.

Equities

Asian equities eclipse global stocks

Following its strong equity performance over the last couple of weeks, the MSCI World Index only managed to eke out a modest gain of 0.7% last week. While most equity markets appeared to be taking a breather, that was not the case for key Asian indices. The KOSPI appears to have bottomed, rebounding 11.5% last week, though it is still more than 20% below its June high. The earnings story remains extremely robust, and with much of the hype having been washed out as levered positions were unwound, we see further upside. Japanese stocks were also strong, helped by renewed yen weakness, with the TOPIX gaining 3.5% to reach a new high. With earnings season largely behind us, investors will be focused on key central banks narratives in the weeks ahead. The benign inflation prints in the US last week have helped sentiment, but with oil prices still facing upside risks and natural gas prices in Europe continuing to rise, the policy outlook is murky although currently not threatening for stocks.

US Municipal Bonds

Rebounding from the July sell-off, but technicals are weakening

After selling off in July, US municipal bonds have been recovering ground in August. July 2026 was the second worst month for returns this year as rising Treasury yields weighed on the asset class at a time when valuations had already reached historically rich levels. So far in August, Municipals are once again outperforming both Treasuries and Investment Grade (IG) corporate bonds, and their year-to-date outperformance remains solidly intact. Supply, which continues to be elevated, has been absorbed easily and with minimal concessions, especially in the IG space. Supply and demand dynamics are likely to become less favourable during the remainder of the year, however, acting as a headwind to further outperformance. Issuance is expected to remain heavy, with the record-setting pace of the first half of 2026 showing few signs of abating. However, fund inflows appear to have moderated at the margin recently, and the seasonal reinvestment tailwind from August and September redemptions will soon fade. We remain of the view that the strong H1 performance is unlikely to be repeated in H2.

What to Watch

- This week brings Eurozone wage data for Q2, as well as inflation expectations for July. August PMI data is due on Thursday, as is Consumer Confidence data.
- In the UK, PMIs as well as inflation and employment data will give crucial insights into the current state of the economy.
- In China, the PBoC is expected to keep the Loan Prime Rate unchanged. Japan's CPI, Australia's labour market, and Indonesia's rate decision are also key to watch
- Brazil's June economic activity data and Chile's Q2 GDP will be the key highlights in LatAm this week.

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