Weekly Macro and Markets View

24 August 2026

Highlights and View

The US Treasury surprises markets by announcing it plans to double the size of its long-end buybacks

The move is modest in size but shows that the administration is worried about rising bond yields.

The Eurozone Manufacturing PMI rises to its highest level in five years

Offsetting this, the Services PMIs in Germany and France are consistent with outright contraction.

China's July economic data disappoints across the board, with notable weakness in retail sales

With policymakers acknowledging softer data, we expect further fiscal support, but measures will likely stay targeted rather than broad-based.

The US Treasury wants to put a lid on long-term yields

Source: Bloomberg

Long-term Treasury yields have been grinding higher since the beginning of the year, with the yield on 30yr Treasury bonds rising above 5.3% in mid-August, the highest level since 2007. An unsustainable fiscal path, inflation worries, and increased borrowing to finance the AI investment boom have all contributed to the rise. The Fed's reluctance to provide any forward guidance has added another layer of uncertainty. Last week, just two weeks after the Treasury's regular Quarterly Refunding process, the US Treasury surprised markets by announcing plans to double the size of its long-end buybacks from USD 2bn to USD 4bn per month. While modest in absolute terms, the move carries significance as it provides a strong signal as to what degree the current administration is willing to tolerate higher bond yields. The announcement gave some respite to US and global government bond markets, with sell-off pressure easing by mid-week, though yields crept higher again towards the end of the week. Weakness continues to be led by the long end of the curve, in large part reflecting higher real yields. Last week saw some changes in dynamics, however, as rising oil prices triggered a rebound in inflation expectations, particularly in Europe, adding to negative sentiment. While further upside to yields is likely to be limited given already stretched levels, bond markets are set to remain volatile, amid fiscal pressures, lingering inflation risk, and the strong capex cycle.

UK

Accelerating services activity supports growth

Inflation rates have picked up in line with expectations in July, pushed up by higher energy prices. Headline CPI inflation rose 0.3% MoM, pushing up the annual rate from 2.6% to 2.9%. Meanwhile, the unemployment rate remained at 4.9% in June with employment growth slowing markedly. Retail sales fell by 0.5% MoM in July and by 0.9% MoM if fuel is excluded. UK private sector output expanded at the fastest pace since April, according to the latest PMI surveys, with the Composite PMI rising from 52.2 to 52.5. The pickup was led by improving services sector activity, which offset a slowdown in manufacturing production growth. Overall, the survey points to a continuation of growth momentum like the one observed in the first half of the year. The FTSE 100 gained 1.4% last week, outperforming the smaller cap FTSE 250 as well as other markets including the S&P 500 and the Euro Stoxx 50. Meanwhile, sterling strengthened against the USD to the highest level in more than six months.

Eurozone

Manufacturing builds and builds

Last week's PMI data brought broadly good news. The Eurozone economy has been resilient through the energy shock so far, with the Composite PMI rising marginally to 52.1, a level consistent with trend-like growth. Manufacturing stood out, rising to an impressive 52.8. Germany contributed significantly here, with its own Manufacturing PMI at 54.1, the highest since 2022. AI and defence demand were both cited by firms as driving orders higher. Germany and France's composite measures, however, fell to 51 and 48.8 respectively. The services indicators in both countries are both below 50 and falling, clouding the outlook for both economies. In better news, price pressures are fading. This is clear in services, were the Prices Charged PMI has returned to the average level of 2025. Evidence of second-round inflationary impacts from the energy shock remain absent. Lastly, funding pressures are rising in the economy. Bond yields have broken higher, boosted by a global duration weakness. We see this as a key downside risk, and think current levels are outright restrictive for activity.

China

Broad-based weakness calls for more proactive fiscal support

China's July activity data showed a broad downside surprise, suggesting that domestic demand remains the economy's key weakness despite robust exports and AI-related manufacturing. Industrial production slowed from 5.3% YoY to 4.5% while retail sales eased from 1.0% YoY to just 0.6%. Fixed asset investment deteriorated sharply. Part of the softness was weather related as typhoons and rainfall disrupted construction and logistics through July. The bigger concern, however, is that underlying domestic demand continues to soften. Recent signs of stabilisation in top-tier city property markets remain limited, while national activity stayed deeply negative. In contrast, export-oriented and AI-linked sectors continued to outperform, reinforcing China's increasingly two-speed economy. Policymakers have responded by signalling faster deployment of existing fiscal space. Markets are now focused on whether fiscal spending can catch up quickly enough to stabilise Q4 growth momentum.

Asian Trade

Broadening strength

Trade data releases last week indicated regional trade is gaining further traction, skewed by the exuberance in tech. Taiwan and Korea, the bellwethers of regional trade, continue to show strength, with a notable spillover to ASEAN. Korea's 20-day August exports were up 56% YoY. Working-day-adjusted figures showed a 3.1% MoM increase, led by a 9.5% MoM rise in semiconductors. Taiwan's export orders for July hit record highs, rising 61.9% YoY and more than 20% MoM, led by orders to ASEAN and the US. Malaysia's exports surprised to the upside, led by electronics and electrical products, with a 51% YoY increase. In Singapore, electrical machinery was up 112% YoY. Overall, the export data highlighted Asia's pivotal position in the AI supply chain, particularly in chips and semiconductor-related hardware, with ASEAN increasingly integrated with Taiwan and Korea, the two critical nodes of the supply chain. We think this strength will continue well into next year as global AI demand and capex build-out remain robust.

Credit

AI issuers continue to drive robust supply

Corporate credit markets were broadly stable last week, with USD and EUR Investment Grade (IG) spreads little changed, although European credit modestly outperformed US credit. Supply slowed to around USD 21bn last week, but month to date supply in August is already around USD 157bn, which is likely to make August a third consecutive record month after June and July. AI remains the dominant theme, and GPU-backed debt is a growing area. Broadcom is reported to be in talks with Blackstone and Apollo to raise between USD 60bn and 100bn via a Special Purpose Vehicle to finance chips for Anthropic and other firms following a similar USD 35bn deal in June. AI Issuers are also continuing to tap new markets, with US hyperscalers raising close to USD 70bn outside the US so far this year. The recent AUD 5.5bn (nearly USD 3.9bn) deal from Alphabet was Australia's largest non-financial corporate bond offering. Such diversification of funding sources is structurally positive and enables global credit markets to fuel the AI buildout over the coming years.

What to Watch

- In the US, data on consumer confidence and spending will give important insights into the current state of US households.
- Early August inflation data is due next week, with France and Spain on tap. German ifo and consumer confidence data will also be released.
- In Asia, China's industrial profits, Japan's Tokyo CPI, and central bank rate decisions in Korea, Philippines and Thailand are key data to watch.

Disclaimer and cautionary statement

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P1046630 (07/25) TAG