Weekly Macro and Markets View

31 August 2026

Highlights and View

German economic data improved as Q2 GDP growth was revised up to 0.3% QoQ, and forward-looking indicators signalled rising activity.

In contrast, Q1 and Q2 French GDP growth data were revised down, with the economy shrinking so far this year. This adds further pressure to deficit reduction plans.

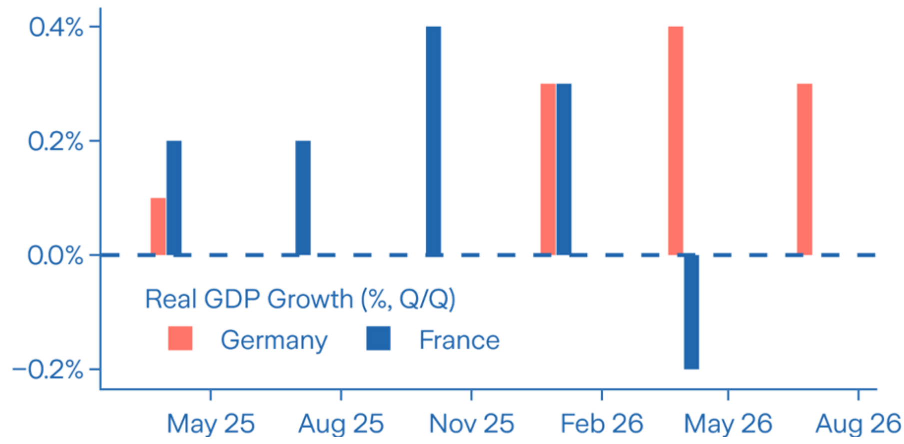
Equities grind higher, as spectacular tech earnings are a reminder of an intact growth story.

Quarterly results from Nvidia and Salesforce were remarkable, as was positive forward guidance, supporting the equity bull market.

August marks the third consecutive record for US Investment Grade credit supply

Heavy supply is likely to continue in September. While investor demand remains strong and index credit spreads tight, the weakest borrowers are vulnerable to any further rise in bond yields.

Franco-German divergence



Source: Bloomberg

Germany's fortunes are improving, as many forward-looking indicators suggest growing economic activity, particularly in manufacturing. Last week it was the ifo's turn, where the survey rose both for broad expectations and current conditions. Yet the picture remains complicated and unbalanced. Q2 GDP growth was revised up to 0.3% QoQ, with exports and government spending the main drivers. Germany's fiscal spending on defence and infrastructure are clearly benefiting the economy, while many German firms benefit from downstream demand for AI infrastructure components. The same cannot be said for domestic consumption, or the broader service sector, which are struggling. Rising unemployment, continued difficulties in sectors such as automobiles, rising energy prices and geopolitical angst are all weighing on consumer confidence. Separately, the French economic picture is deteriorating. Q2 GDP was revised down to 0% from 0.2% QoQ, while Q1 figures were revised down to -0.2% QoQ from -0.1%. This complicates the current government's intention to reduce the deficit to 5% of GDP from 5.1% last year. The looming French Presidential election next April further reduces the scope for much needed political compromise around budget tightening. We are wary of French sovereign debt and see scope for yields to continue to widen vs. other Eurozone issuers. Global bond weakness and ECB rate hikes alongside balance sheet run-off are adding to this pressure.

US

The Fed seems inclined to hike rates

Kevin Warsh's first Jackson Hole speech as a Fed chairman came with a hawkish tilt. While acknowledging that recent inflation prints have been better than expected Warsh also emphasised that underlying trends have not meaningfully improved. Despite the recent slowdown in the labour market, Warsh noted that he was impressed by the overall performance of the economy and he would be hard pressed to describe broad financial conditions as restrictive. Overall, the Fed seems to be inclined to hike rates later this year if incoming data do not deteriorate significantly. Meanwhile, personal income and spending have grown by 0.4% MoM and 0.2% MoM in July, respectively, with real spending being flat. However, PCE Core inflation remains elevated at 3.3% YoY, the same as in June. Consumer confidence has ticked down in August according to the Conference Board's latest survey, driven by a setback in expectations. On a more positive note, the employment situation has recovered somewhat from its post-Covid low.

Asia

A Tale of Three Central Banks

Three central banks around the region announced rate decisions last week, against three very different backdrops. The Bank of Korea delivered a back-to-back 25bp hike, taking policy rates to 3% amid strong growth fuelled by semiconductor manufacturing and exports. With 2.8% YoY inflation being above the 2% target but edging lower, the move was pre-emptive. The Central Bank of the Philippines likewise delivered a 25bp hike. Driven by energy price shocks, inflation in the Philippines at 6.5% YoY and core at 4.2% is much higher than the central bank's 2-4% target range. Meanwhile, the Bank of Thailand kept rates on hold to support growth. In Thailand, the energy shock appeared to have a much higher impact on growth than inflation. Overall, regional rate hikes reflect idiosyncratic drivers in each country rather than a synchronised cycle. For now, easing Middle East tensions should reduce energy pressures, keeping most central banks in wait-and-see mode. However, hawkish repricing of Fed and ECB paths suggests Asia's hiking cycle may not be over.

Equities

A tug-of- war between stellar tech earnings and a hawkish Fed

A dull 0.3% gain for the MSCI Equity Index masked an interesting week, where two of the biggest drivers of stocks, earnings and policy rates, were in focus. On the positive side, much anticipated earnings from the world's largest company, Nvidia, were again remarkable, with USD 96bn in quarterly revenues and a 75% gross margin. Even more impressive was the guidance for the coming quarter which confirms our own view that the tech boom has further to run. To that point, a real surprise were earnings from cloud software company, Salesforce. Although Nvidia's stock only tacked on a further 1.3% gain for the week, Salesforce jumped 23% and is up over 70% from June lows. While software has been an unloved segment of technology, the numbers show monetisation of the tech build-out which is enticing investors back. The mood was dented on Friday, however, as the Fed Chair reinforced his inflation-fighting intent and market pricing of a September rate hike rose notably. For now, we continue to see strong fundamental drivers for stocks and remain positive, amidst very choppy summer trading.

Credit

Record supply but risks from higher yields remain

Corporate bond spreads were broadly tighter last week, led by USD Investment Grade (IG) and High Yield (HY). US IG issuance reached USD 163bn so far in August, a third consecutive record month, with AI deals continuing to dominate the calendar. The fund flow picture weakened however in credit, as HY funds saw outflows on both sides of the Atlantic, with US HY funds shedding USD 1.5bn in their largest weekly outflow since May. US IG funds saw a material slowdown in inflows, in contrast to Treasury funds that attracted USD 4.0bn Inflows. Investors favoured government bonds to credit at current higher yields and tight spreads. Moreover, lower-quality segments remain under stress, with US CCC spreads widening by 235bp year-to-date, despite US HY index spreads tightening modestly. We attribute this primarily to funding costs and the effect of higher real yields on the weakest borrowers, which remain vulnerable to any further rise in government bond yields or credit spreads. All in all, at current tight spread levels, credit markets remain vulnerable to bond yields.

US CMBS

Resilience persists as Commercial Real Estate recovery is underway

Spreads of US non-agency commercial mortgage-backed securities (CMBS) continued to move in a narrow range in August. Primary markets maintained a brisk pace during the month, with yearly 2026 issuance on pace to see the highest volumes since 2021. On a total return basis, the Bloomberg US non-agency CMBS index lagged Treasuries and Investment Grade corporate bonds in August, but on a year-to-date basis CMBS are still outperforming, partly thanks to their resilience during the volatile months of March and July. Looking ahead, we continue to view bond yield volatility as the main downside risk for CMBS. This is likely to exacerbate the bifurcation between the solid performance of newly issued deals and the rising delinquencies and downgrades of older deals in the retail and office segments. Encouragingly, a commercial real estate (CRE) recovery appears to be still underway, with Federal Reserve data indicating further easing of lending standards for CRE loans during Q2 along with stronger loan demand, as well as a pick-up in bank CRE lending growth.

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 US economy.
- Eurozone inflation is released on Tuesday and is expected to rise to 3.3% YoY due to higher energy prices. Eurozone-wide unemployment is expected to stay low at 6.3%. Italian and Spanish PMI data is also due.
- For Switzerland, CPI, GDP and PMI data will be published.
- Manufacturing PMIs across Asia, Japan's household spending, Korea's exports and Australia's GDP are key to watch.

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