

Monthly Market Commentary

AUGUST 2026

WIP EQUITY STRATEGY		S & P 500		MSCI ACWI	
-6.5%	58.5%	1.5%	21.4%	1.4%	23.5%
August	1 Year	August	1 Year	August	1 Year

NOTE SUMMARY

August delivered a market of many parts. The S&P 500 rose on mega-cap technology, a rebound in software and continued strength in energy, while rate-sensitive sectors and the companies supplying the AI buildout fell as long-term interest rates rose. The WIP Equity Strategy fell by -6.5% and has delivered a 1 year return of 58.5%. The economy underneath is sound: payrolls, private demand and business activity all strengthened in August. The month's defining move was in the bond market, where the 10-year Treasury yield climbed toward 4.8% on the demand for capital rather than on inflation. A September rate hike, if it restores confidence in the Fed, could bring long-term rates down and relieve pressure on both bonds and equities. We reduced risk slightly during the month and remain cautious until the direction of long-term rates is settled.

A TALE OF MANY MARKETS

This month, the S&P 500 was carried by the largest technology companies by weight, by a sharp rebound in enterprise software, and by energy, which rose 7.0% on renewed tension in the Middle East. Rate-sensitive securities fell as long-term interest rates rose, with Utilities down 4.8% and Industrials down 2.6%; the rate sensitive memory, storage and semiconductor equipment companies behind the AI buildout also fell. August marks the 1-year anniversary of the WIP Equity Strategy. In that year, the strategy delivered a return of 58.5% to investors, compared to 21.4% from the S&P 500 and 23.5% from the MSCI All Country World Index.

2026 has been a year with an unusual number of independent forces moving markets at once. Tariff policy has shifted repeatedly and now sits on the Federal Reserve's list of inflation risks. A conflict in the Middle East produced an oil shock in March, a fragile ceasefire in June and renewed strikes in August. Inflation has changed direction three times. A new Fed chairman has delivered a hawkish dot plot, three dissents for a hike, and much to the markets bemusement, a stated preference for saying less. Federal debt has passed \$40 trillion while corporate borrowing runs at a record pace, and the two are competing for the same long-term lenders.

Each of these would be a defining theme in an ordinary year. This year they arrived together, and in August several of them moved at the same time. What has not moved is the economy underneath them. August payrolls rose by 162,000, three times the consensus, and the unemployment rate held at 4.1%.¹ The broadest measure of underemployment fell to its lowest level in more than a year, and

¹ U.S. Bureau of Labor Statistics, The Employment Situation — August 2026 (released September 4, 2026). Nonfarm payrolls rose 162,000 against a Dow Jones consensus of 53,000, and the unemployment rate held at 4.1%. Available at www.bls.gov/news.release/empsit.nro.htm.

the pace of layoffs this year is the slowest in four. Private demand, the sum of consumer spending and business investment, grew at a 4.2% annualized rate in the second quarter², and business activity in August reached its strongest reading since early 2022. Corporate earnings continue to beat estimates. Against this backdrop volatility remains elevated as US Treasury yields are breaking above 4.7%, a threshold above which near term equity moves are uncertain.

THE LONG ENDS JOURNEY INTO NIGHT

The most important number in August was not a stock price. It was the 10-year Treasury yield, which rose to 4.75% on August 31, near its high for the year, in a month when inflation cooled and the Fed held rates steady.³

That looks odd only if you think inflation is what moves long-term rates. Right now, it is a small part. The bond market's own inflation forecast (the 10-year breakeven inflation rate) has risen by only nine basis points since the Middle East conflict began in February, hardly a siren of concern for inflation, and a fraction of the move in the 10-year yield over the same period.⁴ The rest comes from the demand for capital. The largest technology companies have issued \$219 billion of investment-grade bonds this year to fund the AI buildout, against roughly \$230 billion of 10- to 30-year bonds the Treasury issues every quarter.⁵ When private borrowers of that size compete with the U.S. government for the same lenders, investors demand more to lend long, whatever inflation does next month. The Treasury's unusual mid-quarter announcement that it would at least double its buybacks of long-dated bonds was aimed squarely at that problem.⁶

This is why a rate hike in September may not do what most investors expect. A hike raises short-term rates directly. But if it convinces the market that the Fed is focused on holding inflation down, the extra compensation investors demand for lending long can fall, and the 10-year can decline. We saw a version of that on August 28: Chairman Warsh said the Fed was ready to raise rates if inflation did not move toward target, and the 30-year yield fell during his remarks while the 2-year rose.⁷

The demand for capital from deficits and the AI buildout is structural, and no Fed decision changes it. What a hike can change is credibility. A Fed that raises rates and gives investors confidence anchors inflation expectations, and anchored expectations are what bring the long end down. That outcome helps everyone at once: bondholders, because long-dated Treasuries recover; the inflation picture, because the Fed's commitment is no longer in question; and equities, because the rate that discounts future earnings falls. This is a remarkably unusual sequence of potential events, but one growing in likelihood this month.

² U.S. Bureau of Economic Analysis, Gross Domestic Product (Second Estimate), 2nd Quarter 2026. Real final sales to private domestic purchasers — the sum of consumer spending and gross private fixed investment — increased 4.2 percent at an annual rate. Available at www.bea.gov/data/gdp/gross-domestic-product.

³ Board of Governors of the Federal Reserve System, H.15 Selected Interest Rates — Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity (series DGS10). The 10-year constant-maturity yield was 4.75 percent on August 31, 2026. Available at fred.stlouisfed.org/series/DGS10.

⁴ Vanjani, Karishma, "Why Warsh Could Pause the Bond Market's Unraveling," Barron's, September 2, 2026; underlying data from Federal Reserve Bank of St. Louis, 10-Year Breakeven Inflation Rate, retrieved from FRED, September 4, 2026.

⁵ Bank of America and U.S. Department of the Treasury, as cited in Barron's, September 2, 2026.

⁶ CNBC, interview with Treasury Secretary Scott Bessent, August 20, 2026.

⁷ CNBC, "Treasury yields tread water ahead of Warsh's Jackson Hole speech," August 28, 2026.

WHERE WE STAND

Our view of the bull market did not change this month. The data on the U.S. economy continue to support its trajectory. We did reduce risk slightly in August in response to the rise in volatility, consistent with our process. With the 10-year Treasury yield above 4.75%, a threshold above which valuations come under pressure, we remain cautious in the near term. The September Fed decision should settle the direction of long-term rates one way or the other, and our positioning will follow the signals.

Our May rebalance nearly tripled the strategy's energy exposure and exited precious metals entirely. Energy has now been the best-performing sector in the market for three consecutive months, and August's renewed tension in the Strait of Hormuz pushed WTI crude back toward \$86 and Brent above \$90. We do not treat this as a geopolitical trade. Producers are still returning capital rather than chasing volume, which keeps supply tight even when the headlines are quiet.

PROCESS OVER PREDICTION

The Federal Reserve's July meeting produced three dissents in favour of a rate hike, the most one-sided disagreement on the committee since 2016. Chairman Warsh has said the Fed will speak less and let the data do the talking. Markets are pricing a meaningful chance of a hike in September.

We do not know whether the Fed hikes, and we do not know whether the market's August verdict on the suppliers holds. We do know our process reduced risk in February and March when stress signals triggered and added it back when they cleared. That same monitoring is running now. If long-term rates keep rising and leadership keeps narrowing, the signals will tell us before the rationale does.

As always, we will continue to evaluate new opportunities with discipline, manage risk thoughtfully, and allow fundamentals to determine where we invest.

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