FE Investments

WEEKLY MARKET COMMENTARY BY ROB GLEESON

21 August 2026

BONDS SELL OFF WHILE FUND MANAGERS KEEP FAITH IN EQUITIES

This week the sixty-day "ceasefire" between Washington and Tehran expired with talks stalled and manners abandoned. The White House announced what it called the most crushing economic campaign ever waged on Iran and threatened to bomb Oman, the mediator, while Tehran promised to go fully offensive. Oil rose a fourth week, the energy price cap pushed British inflation to 2.9%, and governments kept borrowing into the storm, with America's debt passing $40tn. Bond investors strongly objected. Thirty-year Treasury yields touched 2007 highs, gilts passed 5% and Japan neared 3%, and a doubling of Treasury buybacks bought a rally that lasted a day.

Equity investors tell a different story, even after a soft week for shares. Bank of America's August survey, taken largely before the ceasefire lapsed, found fund managers holding their least cash in nearly three decades and more in equities than at any time since 2021, with a record share expecting no downturn at all. One market is charging for the risks ahead. The other is positioned as though there aren't any.

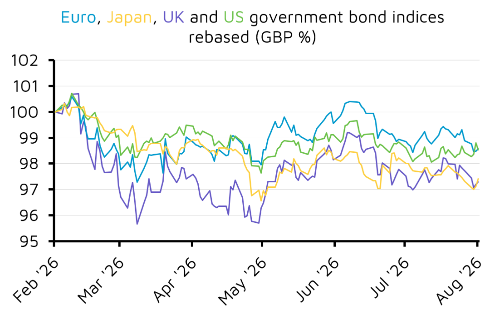
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+0.22%	-1.75%	-3.77%	-1.01%	+3.55%	+0.03%	+0.07%	+5.85%	+4.24%	+0.27%	+1.00%

BONDS: THE PRICE OF LONG-TERM BORROWING GOES UP EVERYWHERE

Long-dated government debt sold off around the world this week. The thirty-year Treasury yield hit 5.34%, its highest since 2007, ten-year Gilts passed 5% and German long yields reached levels last seen in 2011. Expensive oil, swelling deficits and record bond sales by tech firms funding AI all played a part, and America's debt passed $40tn. The US Treasury responded by at least doubling its buybacks of long-dated bonds, which pulled yields down and the dollar with them, though the relief faded within a day.

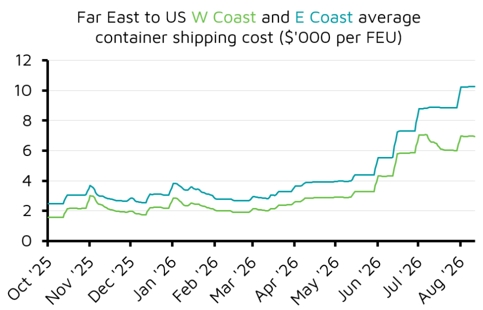
Japan shows the strain most clearly. Its ten-year yield reached 2.93%, the highest since 1996 and close to the 3% assumed in the government's budget. The yen has given back half the gains from July's joint American and Japanese intervention, trading near ¥159, and its weakness is feeding inflation. The Bank of Japan's published board opinions turned hawkish, and markets put even odds on a September rate rise, with some banks expecting a faster series. Weak second-quarter growth complicates the choice.



ENERGY: OIL FLOWS THIN AND EVERYTHING MADE FROM IT COSTS MORE

Brent continued its rise to about $94 on Thursday, a three-week high, after the US–Iran ceasefire lapsed with talks stalled. Tanker transits of the Strait of Hormuz have dwindled to a handful a day from about 130 before the conflict, though more oil is moving than the count suggests, as a few vessels shuttle repeat runs and some sail with transponders off. China, meanwhile, has resumed building its oil stockpiles and lifted refinery runs for the first time since the war began, even as it eases curbs on fuel exports.

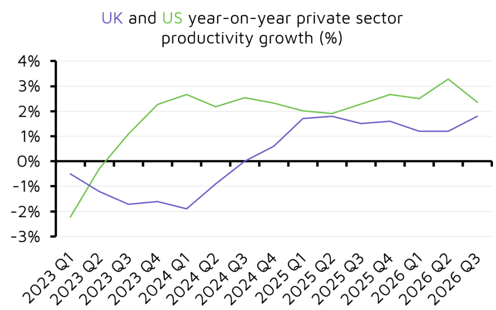
The sharpest strain is in refined products. American diesel has risen 8% in a month to $5.47 a gallon and trades about $100 a barrel above crude, triple last year's average premium. The shortage has spread to lubricants, with high-grade base oils for motor oil trebling in price since the war began. Moving anything costs more too. Chartering a supertanker has never cost more, container rates from Asia to America's east coast have more than trebled in a year, and attacks on Black Sea ports have pushed wheat towards three-year highs.



UK: BRITAIN WORKS BETTER BUT HIRES LESS

There is good news at home. The economy grew 0.4% in the second quarter, a resilient showing given higher energy prices, with services leading and business investment up 1.7%. Better still, productivity is stirring after years of post-2008-crisis stagnation. Private sector productivity rose 1.8% year on year on Morgan Stanley's figures, extending gains that began in 2024 and narrowing the gap with America. Some economists credit early AI adoption, since IT and professional services have grown output without adding staff, though others find the evidence patchy.

Cracks showed elsewhere. Cisco grew quarterly revenue 17.6% and guided above forecasts, yet its shares fell over 4% after hours, having already gained 60% this year. Sandisk and Western Digital beat estimates and still dropped 13% and 19%. Cost is biting too. Anthropic's flagship costs over two and a half times as much to use as OpenAI's, and Ramp payments data show firms capping AI budgets and trading down to cheaper rivals.



Data sourced from FE Analytics, Morgan Stanley, Xeneta