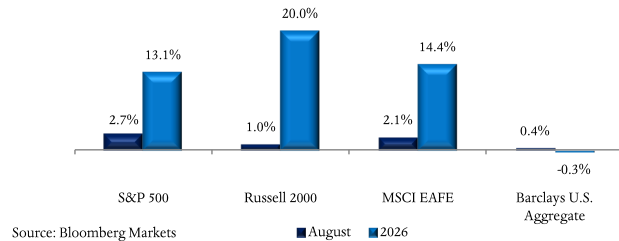




MARKETS

Equity markets rallied in August as a stellar second quarter earnings season triumphed over rising bond yields and renewed Middle East hostilities. The S&P 500 index rebounded +2.7% (+13.1% ytd) while the tech-heavy Nasdaq 100 gained +4.2% (+17.1% ytd), snapping a two month losing streak. Notably, the semiconductor sector, which previously had led the way higher, rose a mere +2.0% after correcting -25.0% between mid June and late July. Conversely, software stocks surged +16.3%, recovering half of their losses since the April lows as solid fundamentals allayed fears of AI disintermediation. From a factor perspective, growth reasserted itself, with the Russell 1000 Growth index (+3.7%) outpacing Value (+2.0%), though the latter's year-to-date lead remains commanding (+23.1% vs. +4.1%). Sector leadership again came from energy (+7.0% in August; +44.2% ytd, nearly double any other sector) as hostilities in the Middle East resumed, followed by technology (+6.2%) and materials (+5.9%), while rate-sensitive utilities (-4.8%) and industrials (-2.6%) lagged. Small-caps in the Russell 2000 edged higher (+1.0% for the month; +20.0% ytd) topping flagship benchmarks in 2026.

Foreign stocks, as measured by the MSCI EAFE index, rose +2.1% in August (+14.4% ytd), aided once again by a softer US Dollar. Europe's Stoxx 600 added +0.5% (+12.9% ytd), a fifth consecutive monthly gain, though dispersion was wide as Germany's DAX (+2.5%) outperformed and France's CAC 40 (-2.1%) lagged on renewed fiscal concerns. Japan's Nikkei 225 recovered +3.1% (+32.9% ytd), with banks leading on a more hawkish Bank of Japan. Emerging markets rebounded +3.4%, featuring AI-heavy Taiwan (+7.0%), while Korea trailed despite SK Hynix and Samsung Electronics announcing greater shareholder capital returns. In China, the Shanghai Composite pivoted into positive territory +4.1% (+2.1% ytd) on local semiconductor enthu-



siasm, even as the Hang Seng slipped -1.2%, with domestic demand proxies continuing to lag.

Fixed income markets remained in uncertain flux. Fed Chairman Warsh's hawkish Jackson Hole address lifted the probability of a September rate hike from 36% to 67%, pushing the 2-year US Treasury yield up to 4.34%. Concurrently, the 30-year yield touched 5.34% intra-month, its highest since 2007, before trading lower at 5.24% after the Treasury announced it would at least double its buybacks to \$4+ billion per operation starting on September 9. The 10-year yield rose to 4.77%, a 19-month high, and has since breached 4.80%. The Bloomberg US Aggregate index recovered +0.4% in August (-0.3% ytd), while credit outperformed (+1.0%; +2.6% ytd) as high yield spreads narrowed to a twelve-month low. The US dollar weakened for a second month (DXY -0.5%) as the "debasement trade" resurfaced. The Japanese yen, having briefly strengthened to 155 versus the greenback, due to an intervention coordinated with the US Treasury, retraced above 160 by month-end.

Commodities rose +7.9% on average for a second consecutive month (+27.3% ytd), testing their March 2022 highs. Gold surged +10.1% to \$4,448/oz (+3.1% ytd), silver +15.6% and gold mining equities +33.0%, while bitcoin (+25.4%) posted its best month since November 2024. WTI crude was little changed (+1.3% to \$85.76) as a late-month military escalation spike partially reversed when Iran resumed talks with Oman; prices have since rebounded above \$90 per barrel.

GEOPOLITICS

June's memorandum of understanding between the US and Iran expired in mid-August without a durable framework. In turn, hostilities between the two countries resumed, with Iranian attacks on tanker vessels crossing the Strait of Hormuz, which remains largely closed, and a Houthis strike on a Saudi refinery. Washington subsequently pivoted from military to economic coercion. On August 24, US Treasury Secretary Besent announced expanded secondary sanctions threatening to sever Iran's trading partners, notably China, Turkey and India, from the global financial system, alongside the blacklisting of 60 Iranian entities. Meanwhile, Saudi Arabia, Pakistan and Turkey signed the Mecca Joint Defense Agreement, a mutual pledge consistent with the US administration's aim of shifting regional security burdens to allies.

UNITED STATES

US macroeconomic data remained mixed, though current activity surprised to the upside. Core consumer prices decelerated to 0.2% sequentially, lowering annual inflation (ex-food and energy) to 2.5%. However, the Fed's preferred core PCE measure held at 3.3% and August's oil rebound will pressure headline readings going forward. The labor market showed signs of stability with August hires jumping to 162,000 coupled with a 55,000 upward revision to the prior two months. Unemployment remaining steady at 4.1%, its lowest since early 2025. Activity indicators firmed further, with the composite PMI climbing to 56.0, the highest since 2022, on services strength, while the manufacturing PMI moderated to 54.6%, still solidly expansionary. Consumer confidence eased to 89.4, depressed by gasoline prices above \$4 per gallon and other inflationary effects, which major consumer-facing companies have described as "choiceful" trading down in price.

In his Jackson Hole address, Fed Chairman Warsh warned that softer inflation prints may not reflect genuine improvement, leading markets to price an interest rate increase at the September 15-16 meeting. By con-

August 2026 Economic Statistics

	Aug-26	Dec-25	Dec-24
Federal Funds Target Rate	3.50 - 3.75%	3.50 - 3.75%	4.25 - 4.50%
Consumer Confidence Index	89.4	91.8	104.7
Manufacturing PMI Index	54.6%	52.7%	49.3%
Unemployment Rate	4.1% (est.)	4.3%	4.2%
JPY / USD	159.73	158.71	157.18
USD / EUR	1.1616	1.1552	1.0353
Gold / oz.	\$4,448.29	\$4,669.56	\$2,623.81
Oil (WTI)/bbl	\$85.76	\$101.38	\$71.72

Sources: see disclosure *

trast, the Treasury has been remarkably active, unveiling a bond buyback expansion, joining the yen intervention and reportedly weighing the use of the \$950 billion Treasury General Account to fund the purchases, even as the national debt surpassed \$40 trillion.

EUROPE

European economic activity held up, with the flash composite PMI edging higher, consistent with roughly 1.4% annualized GDP growth, and the Commission's economic sentiment indicator rising to 98.4, its highest since January, near its long-term average of 100. Inflation, however, re-accelerated to 3.3% from 2.9% on rising energy prices, while the core reading eased to 2.4%. A September ECB interest rate hike is nearly fully priced by the market, with another expected by year-end. This has driven the 10-year German Bund yield to 3.32%, its highest since 2011.

In the United Kingdom, second quarter GDP grew +0.4% sequentially, above Bank of England expectations, while unemployment held at 4.9%. With the government's energy price cap set to rise 3.6% in October, 10-year gilt yields reached 5.20%, the highest since 2008. Attention will now turn to Prime Minister Burnham's first budget and whether it brings more borrowing or higher taxes.

ASIA

The Bank of Japan signaled an acceleration of its interest rate normalization path after core CPI rose to 1.8% year-over-year in July, still below target but firming. A

September hike now expected with the policy rate seen reaching 1.5% by year-end. The 10-year JGB yield rose to 2.95%, its highest since 1996, amid a concurrently looser fiscal stance. The late-July US/Japan coordinated yen intervention, the first since 1998, proved fleeting. After strengthening to 155 vs. the Dollar, the yen weakened back above 160 as markets questioned the authorities' capacity for sustained action.

China's domestic demand continued to weaken. July retail sales rose just +0.6% year-over-year, with industrial output +4.5%. Meanwhile, fixed asset investment has contracted -6.7% year-to-date with property investment down -19.0%, and unemployment at 5.2%. The Politburo called for faster fiscal support deployment, yet bond issuance remains below quota.

OUTLOOK

Global corporate earnings, which have been on an accelerating path in 2026, are expected to grow by 34% for the full-year, led by energy and technology. Credit markets are supported by this increased profitability, driving high yield spreads to twelve-month lows. Yet the recently discussed tension between an unprecedented AI capital expenditure cycle (estimated to breach \$1 trillion 2027) and the unresolved question of monetization, has grown more acute. The hyperscalers are now re-investing the entirety of their formidable cash flows yet still require capital from debt and equity markets. More than half of this year's mega-cap technology bond issuance carry 10- to 50-year maturities that compete directly with the US Treasury for investor capital. The frontier AI model developers OpenAI and Anthropic remain far from profitability and dependent on prospective public offerings. Further, the web of "circular financing" linking chipmakers, cloud providers and their largest customers means that a failure along the chain could lead to contagion. Meanwhile, the economics of the product itself continue to compress: a benchmark index of large language model token prices has more than halved from its summer high, and open-source alternatives are increasingly adequate for most tasks. While broad equity market valuation measures such as price-to-

sales and market capitalization-to-GDP exceed their 2000 peaks, the S&P 500's forward P/E has compressed to 19.5 from 22.0 at the start of the year and large swaths of non-technology stocks remain at compelling valuations. This reinforces our preference for quality, breadth and geographic diversification over concentration.

Global sovereign bond yields continue to rise, flashing a cautious yellow signal that investors should prudently heed. The US Treasury's expanded buybacks and Dollar Yen intervention each bought a few days of relief before fading, a reminder that market manipulations treat symptoms rather than causes. Long-dated yields in the US, Germany, the UK and Japan simultaneously sit at their highest levels in fifteen to thirty years, reflecting fiscal deficits on top of imprudent debt loads, energy-driven inflation and heavy corporate issuance rather than growth optimism alone. History cautions that most major equity setbacks, were preceded by rising rates, for which traditional asset allocations are not prepared for. For investors that require income, we maintain our short-duration bond bias, where coupons drive returns, and continue to favor floating rate and select higher-yielding credits over investment grade, where tight spreads and heavy hyperscaler supply offer little cushion.

We reiterate the case for alternative diversification across asset classes. The traditional 60/40 stock/bond asset allocation model is improperly positioned, while a combination of equities, Treasury bills, hedged strategies and precious metals should provide resilience. Gold's +10% August rebound came despite rising yields and a hawkish Fed, underpinned by renewed central bank buying, from Korea to India, and speculative positioning that remains light. Meanwhile, precious metal mining equities, though up more than 30% in August, still trade at historically low multiples of prospective earnings. For longer-duration capital, we continue to find compelling private-market opportunities in cybersecurity, water infrastructure and battery storage. Lastly, our proprietary efforts to source direct investments continue to gain traction, with several interesting small and middle-market prospects.

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*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.