ASSET ALLOCATION INSIGHTS

Monthly Update | Issue 112 | August 2026

Positioning portfolios in a more volatile environment

Source: iAI generated

Key takeaways

- So far, August has been a round trip, not a trend. The S&P 500 set an all-time closing high of 7,798.99 on 12 August on soft CPI and PPI data, then gave much of those gains back in the week to 21 August as long-end yields hit multi-year,and in some cases multi-decade, highs.
- The bond market, not the Fed, set the tone. A supply-driven repricing at the long end drove the equity reversal, and the Treasury's decision on 19 August to double its long-dated buybacks was the event that stopped it.
- Looking ahead, the near-term backdrop could stay volatile for equity markets. August and September are seasonally challenging, and political uncertainty could rise ahead of the US midterms, so some consolidation after the strong run would not surprise us. Beyond the noise, resilient growth and robust earnings support a constructive 12-month outlook. We expect the Fed, SNB and BoE to hold in H2, while the ECB and BoJ each deliver at least one hike.
- We make one change to our asset allocation preferences grid. The underweights in EUR, CHF, GBP and EM currencies against the dollar all move to neutral, the JPY already resting there. Meanwhile, we stay neutral equities, overweight cash, underweight fixed income, overweight gold and commodities and neutral hedge funds.

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THE BIG PICTURE

Equities: a strong start of the month but volatility is now picking up

After a strong earnings season pushed US equities to record highs in August, markets paused last week as attention shifted from corporate profits to the bond market.

Long-term Treasury yields moved sharply higher, reviving concerns about whether the economy and financial markets can continue to absorb elevated borrowing costs. The 30-year Treasury yield briefly reached its highest level since 2007.

What makes the move particularly striking is the backdrop. A weak July payrolls report, softer inflation data, and declining expectations for further Federal Reserve rate hikes would normally push bond yields lower – not higher.

The absence of an obvious macroeconomic catalyst also caught policymakers' attention. The Treasury Department responded by announcing larger buybacks of long-dated government bonds beginning next month.

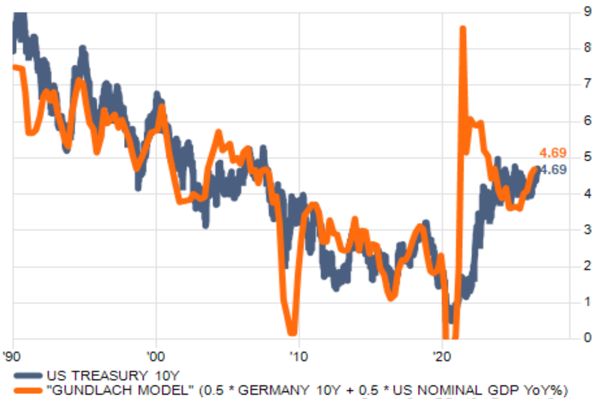
The announcement initially provided relief: the 30-year yield fell 10 basis points on Wednesday, its largest one-day decline in more than a year. But the respite was brief, with long-term yields recovering much of that decline by the end of the week.

What's behind the move higher in long-term yields?

US long-term yields are rising for fundamental reasons:

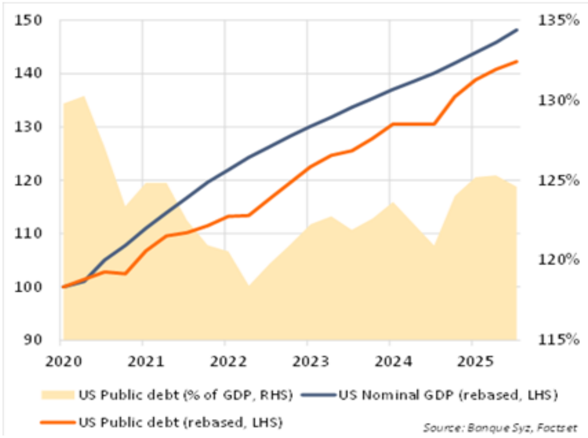
- Resilient economic growth and inflation dynamics have led to an acceleration of nominal GDP growth measured over the past year
- Public deficit remains wide and has been deteriorating this year to -6% of GDP. Public debt is surging, even if no faster than the GDP which keeps debt-to-GDP ratio behaved for the time being
- A global trend: higher nominal GDP growth and surging public debt are also pushing yields higher in Japan and in Europe.
- Uncertainty around the Fed policy under new Chair Kevin Warsh also increases the term premium on long-dated bonds.

"Gundlach Model" for UST 10y and US Treasury 10-year yield



Source: FactSet, Syz Bank

US Nominal GDP & Public Debt level (rebased at 100= Jan 2020) and US Public Debt-to-GDP ratio (%)



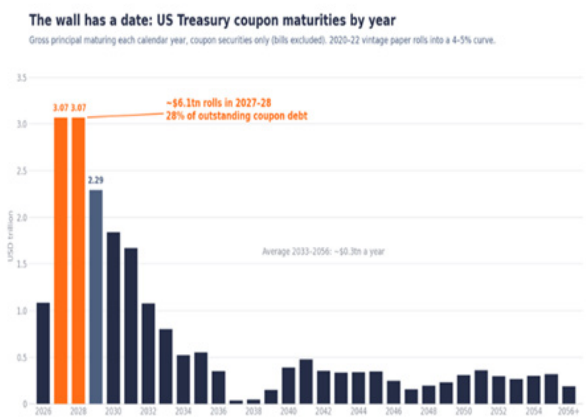
Source: FactSet, Syz Bank

But the rise in yields is also supply problem:

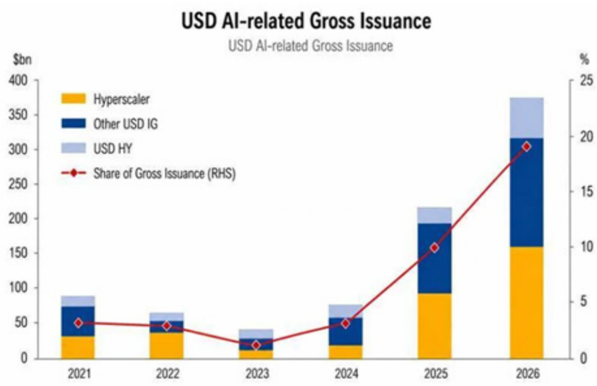
The world is being asked to absorb two structural waves of long-duration paper at once: the ever larger supply from Sovereigns and the recent surge in hyperscalers' issuance:

- OECD central governments issued around $17tn in 2025 and are on track for roughly $18tn this year. The refinancing wall is also unusually large: around $6.1tn of US government debt is scheduled to mature in 2027–28 and will need to be rolled over.
- The AI build-out, a new disruptive trend of the bond market: Goldman Sachs' credit team counts roughly $489bn of AI-related supply so far this year, already well beyond their full-year 2025 estimate of $322bn. AI issuance is now a material source of duration supply, and it partly substitutes for, or crowds out, other investment-grade borrowers.

→ **Those supply dynamics combine with fundamental drivers to exert structural upward pressures on long-term yields that government interventions will find hard to control.**



Source: Bloomberg, US Treasury, Syz Bank



Source: Goldman Sachs

Gold: the debasement trade returns

Gold gained 5.56% on the week and 13.3% over one month, yet is up only 7.0% year to date. The entire 2026 return has been generated in the last month; the metal spent the first seven months giving back part of its exceptional 2025 (+65%). Silver is starker still: +18.3% over one month and still −3.0% for the year.

The catalyst was fiscal, not monetary. The Treasury buyback announcement revived concerns about the financing of the debt and about the dollar, which has fallen 0.8% month to date to multi-month lows. Spot gold reached USD 4,677 on 25 August, its highest since mid-May, and is tracking its strongest calendar-month gain since September 1999. ETF inflows have picked up alongside, which suggests broader participation than a purely tactical move.

What sits ahead

Two points of framing for the coming fortnight, both of which cut against the reflexive reading.

- **Jackson Hole is a hawkish risk this year, not a dovish one.** Markets price roughly a 40% probability of a rate hike in September against 60% for no change. Chair Warsh, in office since May, speaks on 28 August, three weeks before the FOMC. Inflation is running near 3.4%, three regional presidents dissented in favour of immediate tightening in July, and the minutes flagged an expected step-down in inflation while explicitly keeping a hike on the table if it fails to arrive. The 2024 and 2025 precedent of a dovish signal from Wyoming is not the relevant base case.
- **The fiscal channel has displaced the growth channel as the main macro driver.** For most of the post-2022 period, the question was what the Fed would do about growth and inflation. In August, the question became who buys the duration. Until there is a credible longer-term fiscal plan, the term premium, and therefore equity multiples, small-cap financing costs and the dollar, is the variable to watch.

The hinge: can the buyback programme anchor the long end?

The decisive variable this quarter is whether the Treasury can hold the long end against structural supply. The programme becomes effective on 9 September, and the market has already given its verdict: at least $4bn per operation is small against $5.9tn of tradable 10 to 30-year Treasuries, and the intervention was erased within a day.

The second hinge is the Federal Reserve under Chair Warsh. Futures fully price a 25-basis point hike before year end, against our call of no change in 2026. A hawkish Jackson Hole would break that call, tighten liquidity conditions from neutral, and bring the equity consolidation forward. Both hinges are about the price of duration, which is why we would rather express risk through alternatives than through fixed income this month.

OUR TOP-DOWN CORE SCENARIO

Global growth and inflation perspectives

The latest escalation in the Middle East is pushing energy prices higher again, which will dampen global growth, additionally to weaker than expected macro data in the US and China.

We expect the latest escalation to be settled and energy prices to moderate towards the end of Q3, so the global growth trend is dampened but not derailed. This should allow inflation pressures and second-round effects to recede.Supportive fiscal policies, including additional fiscal spending to cushion the negative energy impacts, in combination with a re-stabilisation of the trade system and still strong capex spending, should help to tone down the negative impacts of the Middle East crisis on growth.

Central banks outlook

Latest CPI prints mostly confirmed that the price spikes of the first energy surge are over and the pressure in the price pipeline abated. Yet the latest escalation in the Middle East now threatens to interrupt the trend of easing price pressures.This led inflation expectations to increase again, adding pressure on central banks to act. Weaker-than-expected macro data in the US subsequently dampened the inflation outlook. We assume the de-escalation of the Middle East conflict will take place in Q3, which should reduce the need for further rate hikes globally.

We forecast the Fed, SNB, and the BoE to keep their key rates stable in H2. On the other hand, we expect the ECB and the BoJ to conduct at least one rate hike in H2.

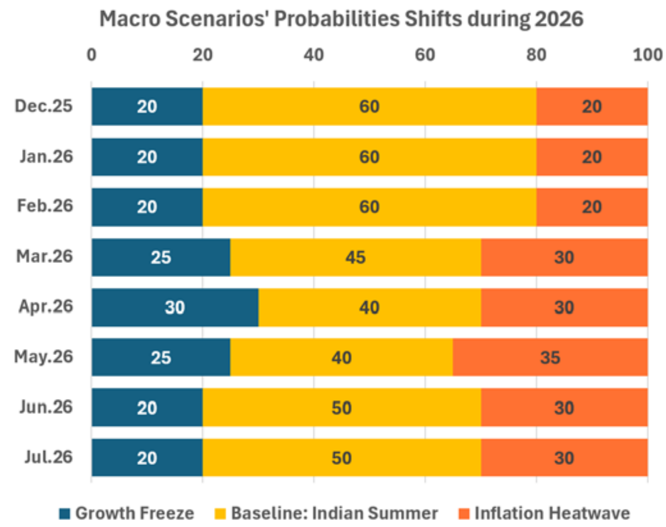
Politics

The re-escalation of the Middle East crisis has increased geopolitical uncertainty, but we still expect the parties involved to have sufficient incentives to reach a new ceasefire agreement in Q3, which should allow the Strait of Hormuz to reopen.Apart from the energy price surge, fiscal policy remains expansive and supports growth in 2026 in the US, China, and Europe, with new tariff refunds providing additional support in the US. The current energy crisis has allowed several governments to introduce additional stimulus to mitigate the negative impact of higher energy prices on their economies.The Middle East crisis, US tariffs, and retaliatory measures continue to hamper global trade momentum, but the negative impacts are fading. The latest UMCA negotiations will show if the US is willing to start a next round of new tariff disputes.

Our core and alternatives top-down scenarios

The starting point for positioning is our three-scenario framework. Despite the renewed escalation in the Middle East and the move in long yields, the probabilities are unchanged this month.

- **Indian Summer for 2026 (baseline, probability 50%):** global growth recovers from the energy price shock, with investment and fiscal spending supportive. The US keeps growing on fiscal stimulus, re-leveraging and AI productivity gains, the Eurozone recovers, and China and emerging markets ride a global capex cycle. Inflation abates over time, though the US, Eurozone, and UK run above target.
- **Inflation Heatwave (probability 30%):** a new geopolitical eruption delivers another energy shock, or stimulus, re-leveraging and AI capex push growth into an overheating boom; the Fed falls behind the curve and must catch up.
- **Growth Freeze (probability 20%):** US consumption freezes, the AI capex cycle breaks down on disappointing returns or drives layoffs, financial instability produces a credit crunch, austerity returns, or China chokes the global capex cycle.



Growth freeze probability: 20%

- **"Freeze-Risks"** to our baseline scenario (triggering low growth and low inflation):
- **US** lower & middle income classes freeze their consumption
- **US AI investment** cycle leads firms to layoff employers to justify investments
- **US AI capex** cycle breaks down as expectations cannot be met (disappointing returns)
- **Financial system instabilities** lead to a **credit crunch**
- **Fiscal debt** starts to backfire, "austerity" comes back in the USA or Europe
- **China's involution policy** chokes domestic growth and global capex cycle

Indian summer for 2026 Scenario probability: 50%

Our baseline growth:

- **Global** growth to recover from energy price shock and trade system ruptures, investment and fiscal spending stay supportive
- **US** economy keeps growing well thanks to balanced fiscal stimulus, releveraging & (AI) productivity gains
- **Eurozone** gets back to recovery after digestion of energy price shock
- **China and EM** lower trade uncertainty & a global capex cycle

Inflation:

- **Globally**, inflation will abate over time thanks to lower oil prices and the moderation of demand
- **US, Eurozone and UK** will experience above central bank target inflation, followed by **Japan**
- **China and Switzerland** will face weaker, below target inflation

Inflation heatwave probability: 30%

"Heatwave-risks" to our baseline scenario (triggering high inflation & mostly high growth):

A **new strong geopolitical eruption** could lead to another **energy price inflation shock**

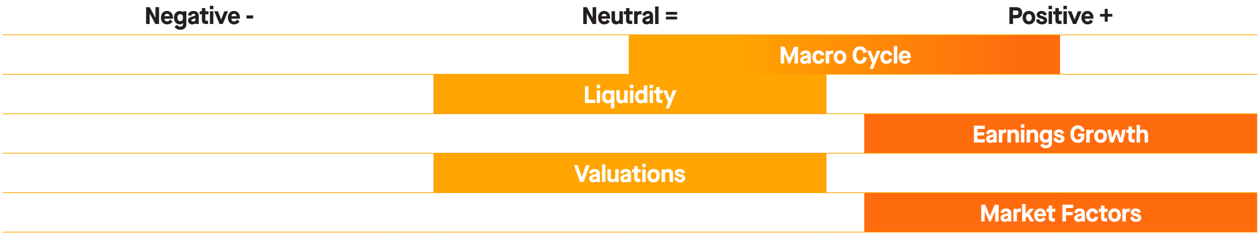
More **fiscal stimulus, re-leveraging** of households and firms, **AI capex** pushes growth into a **boom** that lets **inflation surge (overheating)** – also due to a lack of productivity gains

US central bank becomes too "dovish" and gets "behind the curve" and **needs to catch up finally**

Stark **escalation of trade disputes** could derail supply chains and push goods prices up

THE WEIGHT OF THE EVIDENCE

Our preferences rest on five indicators, four macro and fundamental and one of market dynamics. There are no changes to any of the five pillars this month.



- **Macro cycle (MODERATELY POSITIVE, unchanged):** the global economy is resilient, with data beating expectations in the Eurozone and Japan, but disappointing in the US and China. Housing is the clearest casualty of the long end, with starts down 12.4% in July. Eurozone flash PMIs point to improving growth at the start of H2. Middle East tensions and the energy price surge balance the positive cyclical factors, so the pillar stays where it is.
- **Liquidity (NEUTRAL, unchanged):** the link between our global M2 proxy and the S&P 500 is intact and financial conditions remain accommodative, but Fed Treasury purchases are slowing, and major central banks are expected to raise rates. Futures fully price a 25-basis point Fed hike before year end, one ECB hike is fully priced with a 68% probability of a second, and we expect the BoJ to hike in H2.
- **Earnings growth (POSITIVE, unchanged):** Q2 2026 was one of the strongest seasons of the past decade, with 88% of the S&P 500 beating estimates. Nine of eleven sectors delivered double-digit earnings growth, and the median stock grew earnings 14% year on year. For 2026, consensus expects EPS growth of 32% in the US, 18% in Europe and 19% in Japan, and the bar for Q3 is now high.
- **Valuations (NEUTRAL, unchanged):** estimates are rising faster than share prices, which limits multiple expansion. Higher real yields remain the key risk, partly mitigated by the Treasury's expanded long-dated buybacks.
- **Market factors (POSITIVE, unchanged):** the US raw score is unchanged at 91 with ten of eleven indicators positive, and the European score rose to 60 on improving participation. Syz Symphony indicators were steady, keeping the model at a 100% equity allocation, split 75% US and 25% Europe.

Indicator*	USA	Europe
Trend	NEUTRAL	POSITIVE
Technicals	POSITIVE	NEGATIVE
Market Breadth	POSITIVE	POSITIVE
Sentiment	POSITIVE	NEGATIVE
Volume	POSITIVE	POSITIVE
Aggregate	POSITIVE	POSITIVE

**as of 21.08.2026*

TACTICAL ASSET ALLOCATION (TAA) DECISIONS

The weight of the evidence leads us to stay NEUTRAL on equities, balancing a constructive earnings outlook against the headwind from higher real rates. The grid is unchanged apart from currencies. In the model portfolios (reference: Balanced USD), since 21 August:

- **Equities remain NEUTRAL,** balancing a constructive earnings outlook against the pressure from higher real rates. The backdrop is supported by AI-related investment, broader earnings participation, near-record margins and resilient management confidence. For 2026, consensus expects EPS growth of 32% in the US, 18% in Europe and 19% in Japan. The S&P 500 trades at 20x forward earnings, while Europe, Japan and Asia remain closer to historical averages.
- **Fixed income remains UNDERWEIGHT,** driven by a negative view on government bonds. They remain exposed to energy volatility, public debt dynamics and uncertain central bank commitment to fighting inflation. We prefer credit and EM debt, where carry remains attractive, with short-to-medium term maturities that limit sensitivity to interest rate volatility and duration risk.
- **FX moves to NEUTRAL on the USD,** as Fed rate hike expectations and the US yield curve drifted lower and the Middle East flight-to-safety premium faded. EUR, CHF, GBP, EM currencies and JPY are now all neutral versus the dollar, although we still see structural USD depreciation over the longer term.
- **Commodities and gold stay OVERWEIGHT.** Commodities remain a hedge against renewed geopolitical escalation and energy price spikes, while gold is still preferred as an inflation hedge, supported by rising demand and lower Treasury yields reducing its opportunity cost. Hedge funds stay neutral.

ASSET ALLOCATION GRID - TACTICAL ASSET ALLOCATION (TAA) – 21 AUGUST 2026

	Underweight -	Neutral =	Overweight +
Asset Classes			Cash
		Equities	
	Fixed Income		
		Alternatives	
Fixed Income	Govies 1-10		
	Govies 10+		
		Corporate IG (local)	
		High Yield (local / global hdg)	
		EM Debt	
Equity		United States	
		Eurozone	
		UK	
		Switzerland	
		Japan	
		Emerging Markets	
		China	
Alternatives		Hedge Funds	
Commodities			Gold
			Commodities
Forex (vs. USD)		EUR	
		CHF	
		GBP	
		JPY	
		EM Currencies	

Arrows show our latest TAA moves.

Asset classes views

Equities

We maintain a neutral equity exposure, balancing a constructive earnings outlook against the headwind from higher real rates.

The outlook remains constructive, supported by AI-related investment, broadening earnings participation across sectors and regions, near-record margins and resilient management confidence. For 2026, consensus expects EPS growth of 32% in the US, 18% in Europe and 19% in Japan.

Valuations remain supported by earnings growth, with forward estimates rising faster than share prices. The S&P 500 trades at 20x forward earnings, while Europe, Japan and Asia remain closer to historical averages.

The main risk remains a further rise in real yields, increasing discount-rate pressure, although the Treasury's expanded long-dated buybacks provide some support at the long end.

Fixed Income

We maintain an overall underweight stance on Fixed Income, due to a negative view on Government bonds. We keep our constructive stance on Credit and EM debt with short-to medium term duration.

Government bonds remain under pressure from volatile energy prices, public debt dynamics, and questions on the commitment of central banks to take actions for containing inflationary pressures. They are less attractive than IG credit in a scenario of rangebound or rising rates. They still don't bring diversification in multi-asset portfolios.

EM debt remains our favoured segment of the Fixed Income market. EM debt faces some geopolitical uncertainties and the impact of oil price volatility on energy producers, but it remains supported by robust fundamentals.

Credit markets remain supported by the positive economic backdrop. The absolute yield carries for IG and HY credit is attractive. Focusing on short-to-medium term maturities limits the sensitivity to interest rate fluctuations.

Forex & Commodities

We reduced our USD overweight to neutral as key rate hike expectations for the Fed and the US yield curve drifted lower and the "flight to safety due to the Middle East conflicts abated.

We have shifted now all currencies into a neutral position (EUR, CHF, GBP, EM) vs. the USD, except the JPY which was already neutral.

Over the longer-term, we still see the USD in a depreciation trend due to structural factors.

Although we see a weaker longer-term outlook for the energy complex, we prefer to maintain an exposure as a hedge against renewed geopolitical escalations and energy price surges. Commodities stay overweight.

Over the longer-term, gold remains one of our preferred exposures, as an inflation hedge and due to rising demand. Shorter-term, lower US Treasury yields have reduced the opportunity cost of holding gold.

INVESTMENT CONCLUSIONS

- ☑ The Treasury's buyback announcement provided temporary relief, but the structural forces keeping long rates elevated remain in place, and we continue to expect the 10-year to trade within a 4.5% to 5.0% range through year end.
- ☑ Higher yields improve the medium-term return outlook through a better income cushion, but with yields range-bound, the scope for capital gains is limited. We favour short duration within investment grade and high yield, and we do not count on government bonds to hedge equities: with US inflation above 2%, the equity and bond correlation is positive and carry rather than duration has driven returns this year.
- ☑ For equities the near-term backdrop could stay volatile. August and September are seasonally challenging and political uncertainty could rise into the US midterms, so some consolidation after the strong run would not surprise us. Beyond the noise, resilient growth and robust earnings support a constructive 12-month outlook. We expect the Fed, SNB and BoE to hold in H2, while the ECB and BoJ each deliver at least one hike.The currency market delivered this month's warning: the dollar followed the 10-year yield down but not up, and after the buyback announcement the Swiss franc gained more than 2% against the dollar in 24 hours while the euro gained 1.2%. Investors frightened of financial repression and debasement are choosing the ultimate hard currency. We still see the dollar in a structural depreciation trend, with the franc prevailing against both it and the euro.
- ☑ Three developments would change our mind: if structural supply overwhelms the buybacks and the 10-year breaks above our range; if Chair Warsh validates the hike the market prices at Jackson Hole; or if the Middle East fails to de-escalate and the energy product crisis deepens. We stay invested, and the grid change is deliberately narrow, because the honest reading of August is that the market has repriced the credibility of fiscal and monetary policy rather than the outlook for growth or earnings.

Welcome to Syzerland®

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