CAIM CROWN AGENTS INVESTMENT MANAGEMENT

Capital Markets Monthly FIXED INCOME

September 2026

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More Hawkish Federal Reserve Keeps Upward Pressure on Bond Yields

US Treasuries delivered weak returns in August as a sharp late-month sell-off overwhelmed earlier gains. Yields initially declined on the back of softer economic data, including weaker-than-expected employment indicators and a modest easing in CPI inflation, reinforcing expectations that policy rates had likely peaked. However, sentiment reversed abruptly in the final days of the month, with yields rising across the curve as investors reassessed the outlook for monetary policy following a hawkish Jackson Hole speech from Federal Reserve Chair Kevin Warsh. In his first appearance at the symposium as Chair, Warsh argued that while the labour market remains consistent with full employment, inflation is still running above the Fed's 2% target and there is insufficient evidence that underlying price pressures are easing at the required pace. He reaffirmed the Fed's commitment to restoring price stability, warned that further policy tightening could be necessary if progress on inflation stalls, and notably declined to provide forward guidance on future rate decisions. While Warsh also highlighted the transformative potential of artificial intelligence to boost productivity and long-term growth, markets focused on his higher-for-longer policy stance, driving yields higher despite the softer macroeconomic backdrop.

UK Gilts delivered modestly positive returns in August, although performance remained below the level of coupon income as higher yields weighed on capital returns. Markets were increasingly focused on the UK's inflation outlook, with headline CPI accelerating from 2.6% to 2.9% and core inflation remaining stubbornly elevated at 2.6%, highlighting the persistence of underlying price pressures. A key risk for the months ahead is the sharp rise in global LNG prices, to which the UK remains particularly exposed given its reliance on imported gas. Sustained increases in energy costs could feed through to both household bills and broader inflation, potentially reversing recent progress on disinflation. Against this, the domestic growth outlook remains subdued, which is likely to limit the Bank of England's willingness to tighten policy in the near term. As a result, we expect no change in the Bank Rate at the September MPC meeting. However, should inflation continue to rise, particularly as a result of higher energy prices, the Bank may face renewed pressure to resume tightening during the fourth quarter despite the weak economic backdrop.

European sovereign bond markets have increasingly differentiated between Italy and France as their fiscal positions have moved in opposite directions. Italy's debt-to-GDP ratio has declined from 154% in 2020 to 139%, supported by a primary budget surplus and a substantial reduction in the fiscal deficit under Prime Minister Giorgia Meloni's government. This improvement in fiscal metrics has been accompanied by greater market confidence in Italy's policy framework and debt sustainability. By contrast, France's debt burden has continued to rise, while its budget deficit remains above 5% of GDP, drawing greater attention to the country's fiscal outlook. Political fragmentation, repeated budget stand-offs and the approaching presidential election may complicate efforts to deliver meaningful fiscal consolidation, particularly given resistance to spending restraint and welfare reforms. We expect the ECB to hike the target rate from 2.25% to 2.5% at the upcoming meeting on 10th September.

Japanese Government Bonds continue to present an attractive opportunity (for longer-dated issues) despite the prospect of further policy normalisation by the Bank of Japan. The Japanese yen remains materially undervalued on most long-term measures, providing a potential source of additional return for unhedged international investors should the currency strengthen from current levels. At the same time, the JGB yield curve remains exceptionally steep by historical standards, offering meaningful compensation for extending duration. Long-dated Japanese government bonds now provide some of the highest nominal yields available in Japan for more than a decade, creating an attractive entry point for investors seeking high-quality sovereign exposure. While inflation has become more entrenched and wage growth has improved, much of the expected policy tightening appears already reflected in market pricing. We expect the Bank of Japan to deliver a further rate hike at its meeting on 18 September, continuing its gradual transition away from ultra-accommodative monetary policy. However, the combination of an undervalued currency, elevated long-end yields and a steep yield curve provides a compelling foundation for long-term returns. In our view, these factors more than compensate for the risk of modest additional policy tightening and support a constructive outlook for long-dated JGBs.

Chinese government bonds delivered a largely stable performance during July, with yields remaining broadly unchanged as subdued inflation pressures were offset by a still-challenging economic backdrop. While economic growth indicators continued to provide a mixed picture, bond markets appeared to take comfort from expectations that policymakers would maintain targeted fiscal and monetary support measures while refraining from large-scale stimulus. Inflation remained muted, reinforcing the view that monetary policy is likely to remain accommodative for an extended period. In currency markets, the renminbi strengthened modestly against the US dollar, with USD/CNY declining from 6.75 to 6.71 during the month. The move was driven primarily by broad-based US dollar weakness and a modest improvement in sentiment towards Chinese financial assets, reflecting expectations that policy support and gradual economic stabilisation will help underpin market confidence.

Emerging market debt delivered a relatively strong performance during August, with the JPMorgan EMBI Global Index returning +0.9%. Credit spreads also continued to tighten, with the JPMorgan EMBI Global spread narrowing from 227 basis points to 217 basis points, reflecting resilient investor demand for emerging market credit and a stable fundamental backdrop. The combination of spread compression and carry more than offset the impact of modest moves in underlying US Treasury yields, resulting in positive total returns across the asset class. While valuations remain relatively full by historical standards, the tightening in spreads suggests that markets remain comfortable with the macroeconomic and credit outlook for emerging market sovereign issuers. Carry continues to provide an important source of return, particularly in an environment where many emerging market economies have already made substantial progress in bringing inflation under control and maintaining fiscal discipline.

The following chart shows the yield on 5-year UK Gilts and UK Natural Gas Futures:

5-Year UK Gilts and UK Natural Gas Futures

Source: Bloomberg Finance L.P., 31 August 2026.

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Capital Markets Monthly
FOREIGN EXCHANGE

September 2026

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Slow and Inconclusive End to Summer for the US Dollar

August was marked by broad US dollar weakness, a failed attempt to support the Japanese yen through coordinated intervention, and strong performance from commodity-linked currencies. Although hawkish comments from Federal Reserve Chair Kevin Warsh helped the dollar recover late in the month, investor sentiment remained broadly negative.

Dollar Weakness Remained the Dominant Theme

The dollar came under pressure after Treasury Secretary Scott Bessent announced an acceleration of longer-dated Treasury bond buybacks, a move interpreted by markets as an effort to lower borrowing costs and potentially tolerate a weaker dollar. The announcement pushed the dollar to a three-month low and drove bearish positioning to its weakest levels since the Iran conflict.

A partial recovery emerged near month-end after Fed Chair Kevin Warsh signalled that inflation remained too persistent to justify rate cuts. While his comments lifted the Bloomberg Dollar Spot Index, they failed to reverse the broader downward trend.

Yen Intervention Proved Ineffective

The Japanese yen was the weakest-performing G10 currency, falling 1.43% against the dollar despite the first coordinated US-Japan FX intervention in 15 years. Initial gains quickly faded as investors remained focused on yield differentials and capital flows.

By mid-month, the yen had surrendered much of its intervention-related rally, highlighting market scepticism about policymakers' ability to support the currency without more significant monetary policy changes. The Swiss franc increasingly replaced the yen as the preferred carry-trade funding currency.

Commodity Currencies Outperformed

Commodity-linked currencies were the strongest beneficiaries of the weaker dollar and improving risk appetite.

- Australian dollar (AUD): +2.12%
- Norwegian krone (NOK): +1.42%
- Canadian dollar (CAD): +1.16%

Investors continued to favour currencies linked to commodities and global growth as confidence in the dollar deteriorated.

Euro Supported by Stronger Growth

The euro gained 0.78% against the dollar, supported by stronger-than-expected eurozone growth. Second-quarter GDP rose 0.4%, double consensus forecasts, prompting economists to revise 2026 growth expectations higher and boosting confidence in the region's economic outlook.

Mixed Performance Elsewhere in Europe

The Swedish krona fell 0.40%, remaining the weakest G10 currency year-to-date. The Swiss franc was largely unchanged, declining just 0.09%, though it attracted increased interest as a carry-trade funding currency.

Technical Picture Remained Bearish

The US Dollar Index (DXY) repeatedly failed to sustain gains above 100.00 and later broke below both its 100-day and 200-day moving averages, reinforcing bearish sentiment and accelerating selling pressure. The index fell to a low of 98.55 before recovering following Warsh's hawkish Jackson Hole remarks.

Despite the rebound, the DXY ended the month around 99.40, leaving the dollar below its early-August levels and signalling that investors remained unconvinced a durable recovery was underway.

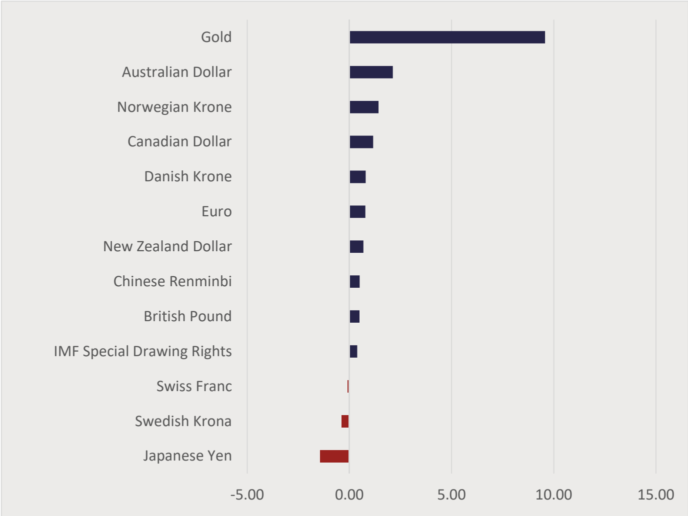
Conclusion

August was defined by dollar weakness, ineffective yen intervention, and gains in commodity currencies. Although hawkish Fed rhetoric helped stabilise the dollar late in the month, bearish sentiment remained dominant. Commodity-linked currencies continued to benefit from shifting global macro expectations, while the dollar ended the summer lacking a clear catalyst for a sustained recovery.

Looking ahead, investors will closely watch central bank meetings, particularly in Japan, where a 50bp rate hike, once considered unthinkable, may become the Bank of Japan's only remaining option.

The following chart shows the yield on the August performance vs the USD.

August performance vs. USD (%)



Source: Bloomberg Finance L.P., 31 August 2026.

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Capital Markets Monthly
EQUITIES

September 2026

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United States

Earnings Strength Offsets Higher Yields

U.S. equity markets reached fresh record highs in August, supported by strong corporate earnings and optimism that Middle East tensions would ease, although some of these gains faded later in the month. Fiscal concerns remained in the background, while rising corporate borrowing, particularly by hyper-scalers funding AI-related capex, added upward pressure to long-term Treasury yields.

U.S. economic data released during August presented a mixed but broadly resilient picture. The Federal Reserve's preferred inflation measure (PCE) was reported at 3.7% YoY through July, well above the Fed's 2% target, reinforcing concerns that disinflation had stalled. Furthermore, several Fed officials expressed the view that inflation remained "sticky" and insufficiently controlled. Monetary policy was also a key focus, with market expectations shifting from gradual policy easing to possible tightening following the Jackson Hole speech from Fed Chair Warsh.

Payroll growth disappointed, with headline employment declining and previous months revised lower, although weakness was concentrated in leisure and hospitality and local government education, which could see a rebound. By contrast, construction and other goods-producing sectors recorded solid job gains, while the unemployment rate fell to 4.1%, its lowest level since early 2025. Inflation data was more encouraging, with core CPI holding at its slowest annual pace since March 2021. Combined with a benign PPI release, the data suggested that underlying price pressures continue to moderate, reducing the immediate need for further monetary tightening.

Corporate earnings continued to provide a strong tailwind for U.S. equities. With the majority of earnings by market capitalisation having reported, earnings results materially exceeded expectations, supported by revenue growth and strong margins which had broadened. Nvidia delivered a moderate revenue beat, with revenue guidance for the current quarter also coming slightly ahead of expectations. This signalled greater optimism that current growth in AI demand would continue into next year. The software sector, which had faced concerns around AI-related business model disruption, delivered an encouraging set of results.

Outside of technology, Caterpillar raised sales guidance whilst pushing back on concerns that data-centre demand is slowing. US retail earnings supported the theme of a resilient consumer supported by a still-healthy labour market and wage growth, despite ongoing concerns about inflation and fuel prices. Guidance was largely maintained rather than reduced, suggesting management teams remained constructive on the outlook, even while acknowledging macroeconomic uncertainty.

US equities rose in August as strong earnings and AI-driven growth supported sentiment. Market leadership broadened beyond mega-cap technology, with mid- and equal-weight stocks outperforming. Energy led sector gains on higher oil prices, while Healthcare and Technology also advanced. Rising bond yields weighed on rate-sensitive sectors and tempered broader market gains.

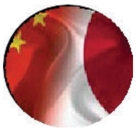
Europe

Germany Leads as Political Risks Weigh on France

European equities advanced on strong earnings and resilient economic data, despite higher energy prices fuelling inflation concerns. Gains eased later in the period as energy prices and bond yields rose, while the ECB left rates unchanged but signalled a likely September hike.

Earnings revisions continued to improve amid resilient growth, with broader sector participation supporting the market. Higher nominal growth remains a key tailwind for European earnings, while elevated oil prices and a more supportive FX backdrop provide additional support.

European equities rose in August, led by Germany on stronger economic data, while France lagged amid fiscal and political uncertainty. Sector performance presented a mixed picture. Materials led gains, with the technology sector rebounding from July losses. Defensive sectors, including real estate, utilities and consumer staples were laggards.



Developed Asia

Earnings and Currency Tailwinds Support Japan

Hong Kong equities were weaker in August as soft economic data and higher global bond yields weighed on sentiment, although policy support expectations and resilient earnings helped limit losses.

Japanese equities advanced on strong April-June corporate earnings with increased breadth, a weaker yen and resilient domestic demand. However, rising 10-year Japanese Government Bond yields reached multi-decade highs, and expectations of further Bank of Japan policy tightening tempered gains.

Emerging Markets

Equity

Emerging market equities rebounded in August, outperforming developed markets after two consecutive months of declines. The recovery was driven by strong gains in Korea and Taiwan as positioning pressures eased and investor confidence in the AI investment cycle improved. Continued AI-related capital spending, robust second-quarter earnings guidance, and shareholder return initiatives further supported sentiment.

Regional performance was mixed. CEEMEA was the strongest-performing region, while Emerging Asia recovered from July's weakness, led by Korea and Taiwan. Latin America lagged, with declines in Brazil and Colombia weighing on returns.

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