MONTHLY REVIEW – AUGUST 2026

OUR PERSPECTIVE: THE PRICE OF SECURITY

“The structural backdrop for U.S. inflation increasingly suggests that the long run equilibrium range is migrating from roughly 1.5–3.5% toward 3.5–4.5%, with a significant risk of episodes of inflation above 5%.” ~ Lacy Hunt, Hoisington Investment Management Company, Quarterly Review and Outlook, Q2 2026

An excellent piece from Lacy Hunt and Van Hoisington this quarter reaches almost exactly the same conclusion as our Fiscal Age thesis: the economic regime changed during the pandemic, and it is unlikely to change back.

The easiest way to understand why is through the production function. Economic output is ultimately determined by labour, capital, natural resources and technology/productivity.

As the charts below show: between 1990 and 2020, almost everything went right.

Globalisation introduced hundreds of millions of workers into the global economy. China became the factory of the world. Supply chains were optimised around just-in-time production. Energy and capital became progressively cheaper, while technology and scale increased efficiency.

In economic terms, aggregate supply shifted to the right.

At the same time, falling interest rates, financialisation and expanding credit supported demand. The result was a 4-decade Disinflationary Boom: output and asset prices increased, while the real cost of producing goods continued to fall.

That world is behind us.

The new objective is no longer efficiency at any cost. It is security at (almost) any cost.

Globalisation is giving way to friend-shoring and localisation. Just-in-time has become just-in-case. Ageing populations and tighter immigration constrain labour supply. Governments want domestic semiconductor production, energy security, larger defence industries, resilient electricity grids and control over critical infrastructure.

> **Financial Repression** can be defined as an implicit transfer of wealth from savers to the government, typically achieved by holding interest rates below inflation, destroying the purchasing power of savings while simultaneously reducing the real value and servicing burden of government debt.

All this may be strategically sensible. Almost none are cheap.

Hoisington describes an economy becoming simultaneously more labour-, capital-, energy- and resource-constrained. AI may ultimately deliver enormous productivity gains, but first requires extraordinary quantities of capital, electricity, semiconductors, data centres and infrastructure.

Our second chart therefore captures the essence of the Fiscal Age: the supply curve shifts left. Prices rise and potential output contracts.

That creates an uncomfortable policy dilemma. Higher prices should eventually destroy demand, but short-term, populist governments are unwilling to tolerate the economic pain required for that adjustment. Fiscal stimulus can support growth and employment, but it cannot manufacture skilled workers, electricity, copper or semiconductors overnight.

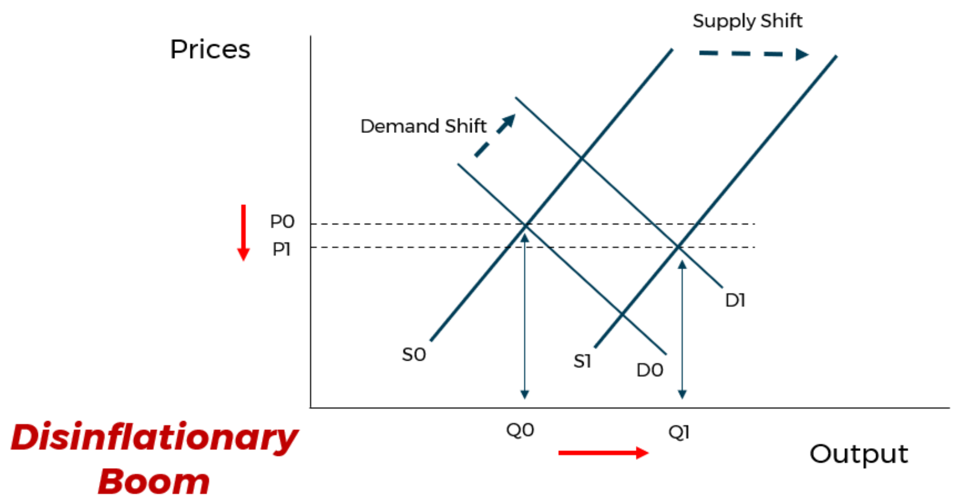
The consequence is potentially more inflation, higher interest rates, greater interest expense and ultimately the inevitability of financial repression.

The great economic dividend of globalisation was cheaper production.

The price of resilience will be inflation.

Exhibit 1: *Globalisation resulted in a meaningful shift in the supply-curve, introducing efficiencies and reducing costs, resulting in increased demand and driving the Deflationary Boom of the last 3 decades.*

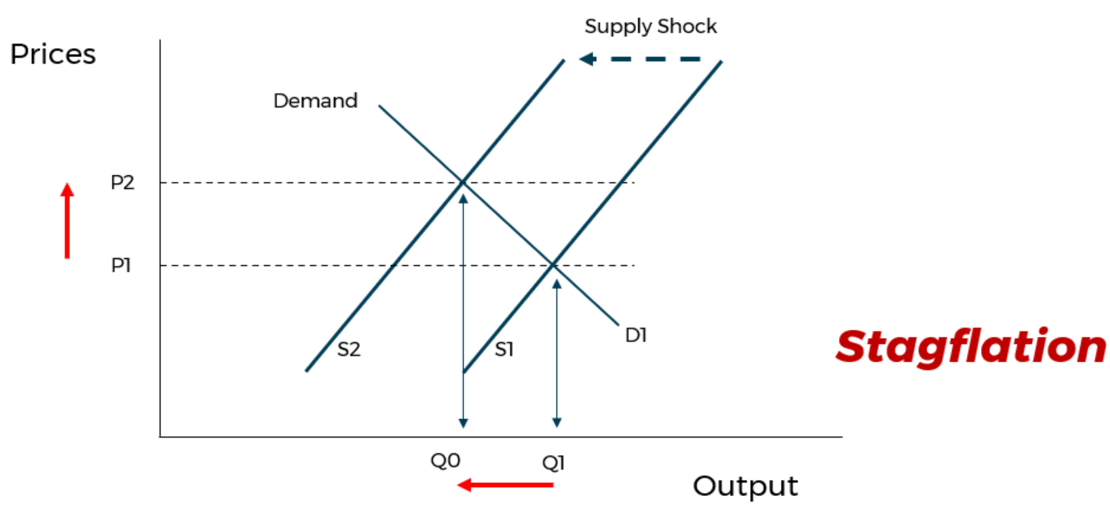
1990 to 2020



Source: Shard Capital, 30/08/2026

Exhibit 2: *During the [Fiscal Age](#) supply costs are likely to increase, and alongside constraints, we are likely to experience a meaningful shift to the left. This will drive an inflationary regime and structurally higher cost of capital.*

2020 and beyond...



Source: Shard Capital, 30/08/2026

MARKET REVIEW

Deflationary Boom Assets

Risk assets advanced in August despite a volatile macro backdrop. Global equities rose 2.82% (USD), led by Emerging Markets 3.44% (USD), Japan 3.34% (USD) and the Nasdaq 3.99% (USD). The Magnificent 7 gained 4.44% (USD), supported by another strong Nvidia earnings report and continued confidence in AI-related capital expenditure. U.S. equities gained 2.94% (USD), although valuations remain elevated and increasingly reliant on strong earnings delivery. India remained the laggard at -0.40% (USD), while China gained just 0.67% (USD). Corporate credit produced modest positive returns, while EM hard- and local-currency debt returned 0.74% and 1.02% in USD-terms, respectively.

Deflationary Bust Assets

Government bonds were mixed. U.S. Treasuries returned 0.31% as weak July payrolls initially pushed yields lower, before hotter inflation data and a hawkish Jackson Hole speech from Fed Chair Kevin Warsh reversed the move. The 10-year Treasury yield ended near 4.75%, its highest since January 2025. Gilts gained 0.18% (GBP), while euro-area government bonds fell 0.59% (EUR), reflecting renewed inflation and fiscal concerns.

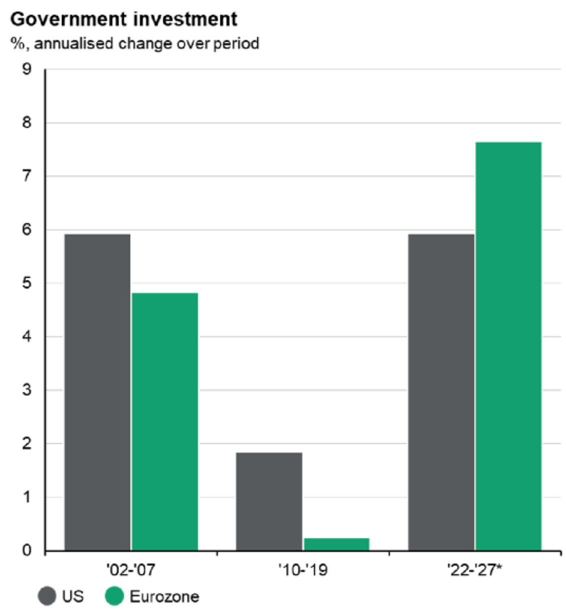
Inflationary Boom Assets

Commodities remained strong. Copper rose 4.41%, industrial metals 2.71% and energy 3.16%, while Brent added 0.41% to $90.49. Copper benefited from tariff uncertainty, AI-related infrastructure demand and constrained non-U.S. supply, while oil remained supported by renewed U.S.-Iran tensions. Managed futures were mixed: the broader CTA index gained 1.75%, but the SG Trend Indicator fell 1.13%, suggesting cross-asset reversals challenged pure trend-following strategies.

Inflationary Bust Assets

Precious metals were August's standout performers. Gold surged 9.67% to $4,437/oz and the broader precious-metals index gained 10.32%. Geopolitical uncertainty, fiscal concerns, a softer dollar and renewed "debasement" demand outweighed the headwind from rising real yields. Inflation-linked bonds were mixed: UK linkers gained 0.90%, U.S. TIPS were broadly flat and euro linkers fell 0.24%. Inflation anxiety nevertheless intensified: U.S. PCE inflation reached 3.7%, while UK household inflation expectations rose sharply during August.

Exhibit 3: *We expect a meaningful rise in government investment to be sustained well beyond 2027, which will most likely support higher prices and a higher cost-of-capital. The resulting productivity gains and Return on Investment remains to be the unknown.*



Source: OECD, J.P. Morgan Asset Management, Guide to the Markets – UK, 27/08/2026.

CONTACT US

For further information on any of our services, or if you would like to arrange a meeting with an investment manager to see how we can work with you, please get in touch.

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