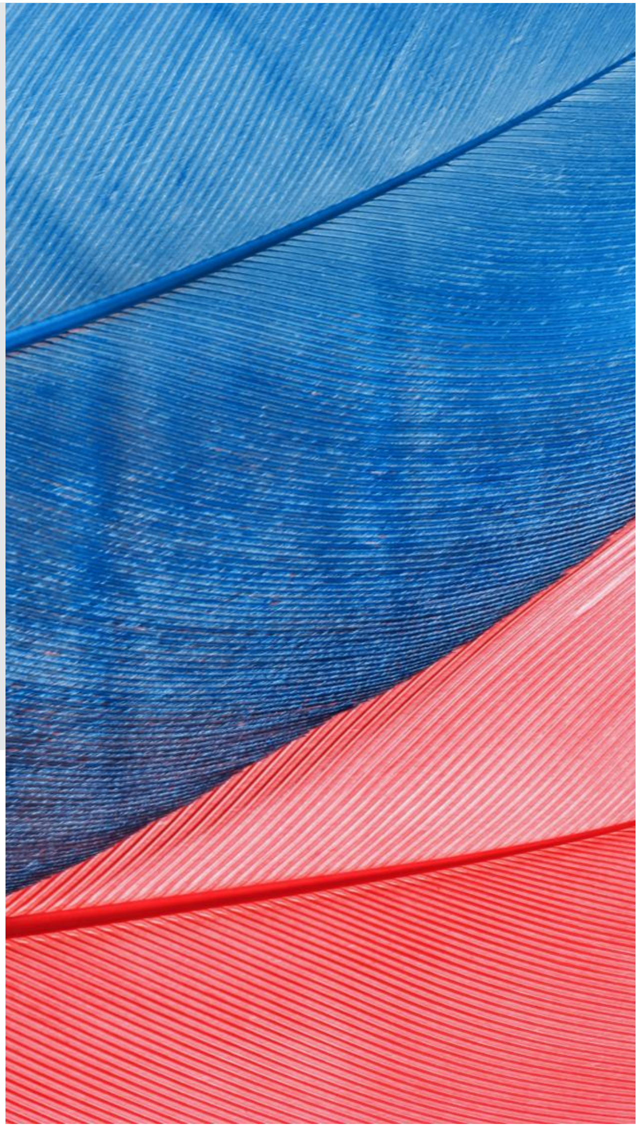
TELOMERE | Capital

Market **Update**

The dark side of the momentum

August 2026

Editorial



July looked calm from a distance and was anything but underneath. Headline indices barely moved, yet the makeup of the market changed. The average stock had a good month while the most crowded positions came apart, and leadership drifted away from US technology toward Europe and other markets investors had stopped paying attention to.

Bonds were the harder place to be. Long yields rose across developed markets, pushed by energy prices and heavy government and corporate issuance rather than by any move from the Fed, which held again with a visible hawkish minority. Fixed income offered little shelter on the days equities struggled.

The pages that follow take three threads: the unwind in momentum and why it says more about leverage than about artificial intelligence, a central bank that has stopped offering guidance and what that does to bond risk, and the shifting relationship between equities and bonds that is quietly changing how portfolios should be built.

We wish you a pleasant and insightful read.

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Global **Markets**

Global	Last	YTD	MTD
MSCI World	4,847.9	10.5%	0.5%
MSCI ACWI	1,120.5	11.6%	0.1%
MSCI Emerging Markets	1,665.9	20.3%	-3.0%

United States	Last	YTD	MTD
Dow Jones Industrial	52,485.0	10.2%	0.4%
S&P 500	7,489.7	10.1%	-0.1%
S&P 500 Equal Weight	8,705.9	13.2%	1.0%
NASDAQ 100	28,274.2	12.4%	-6.6%
Russell 2000	2,931.3	19.0%	-3.0%

Europe	Last	YTD	MTD
Euro STOXX 600	649.2	12.4%	1.3%
Euro STOXX 50	6,358.0	12.3%	0.6%
DAX	25,629.2	4.7%	2.5%
CAC 40	8,509.6	7.1%	1.3%
FTSE 100	10,868.1	11.5%	3.6%
Swiss Market Index (SMI)	14,346.1	11.3%	1.1%

Sectors (US)		YTD	MTD
Communication Services		-2.0%	-0.5%
Consumer Discretionary		-0.9%	-0.8%
Consumer Staples		10.2%	2.0%
Energy		33.9%	12.3%
Financials		3.7%	6.2%
Health Care		5.3%	1.9%
Industrials		19.8%	-4.0%
Materials		11.0%	-2.1%
Real Estate		13.3%	2.7%
Technology		16.6%	-3.0%
Utilities		5.2%	-2.2%

Commodities & Metals	Last	YTD	MTD
Gold (XAU)	4,046.2	-6.3%	1.0%
Silver (XAG)	57.6	-19.6%	-1.7%
Copper	646.6	13.8%	4.4%

Currencies (vs USD)	Last	YTD	MTD
EUR	1.15	-1.9%	0.9%
CHF	0.81	-1.9%	0.1%
GBP	1.35	0.1%	1.7%
JPY	157.4	-0.4%	3.3%
BTC	62,899	-28.2%	7.3%

Fixed Income	Last	YTD	MTD
US Treasury	2,414	-0.8%	-1.1%
EUR Treasury	246	-0.5%	-1.7%
Global Aggregate	498	-0.7%	-0.5%
US Corporate	3,516	-0.8%	-1.7%
Global EM USD	1,396	0.7%	-1.3%
Global High Yield	1,897	1.9%	-0.3%

Interest Rates (US)		Last month	End 2025
3 Months	3.75%	3.81%	3.63%
12 Months	4.03%	3.97%	3.47%
5 Year	4.45%	4.23%	3.73%
10 Year	4.73%	4.47%	4.17%

Price / Earnings Ratios		End 2025	End 2024
S&P 500	27.56	27.39	26.47
Euro STOXX 50	18.24	17.46	13.96
Swiss Market Index (SMI)	20.53	19.92	18.98

Data at close of 31/07/2026

Macroeconomic **Indicators**

Central Banks Targets Rates	Last	Q2 2026	Q1 2026	Q4 2025
United States	3.75%	3.75%	3.75%	3.75%
Eurozone	2.40%	2.40%	2.15%	2.15%
Switzerland	0.00%	0.00%	0.00%	0.00%
United Kingdom	3.75%	3.75%	3.75%	3.75%
Canada	2.25%	2.25%	2.25%	2.25%
Japan	1.00%	1.00%	0.75%	0.75%
China (3M SHIBOR)	1.43%	1.44%	1.51%	1.60%

Inflation (CPI - YoY)	Last	Q2 2026	Q1 2026	Q4 2025
United States	3.50%	3.50%	3.30%	2.70%
Eurozone	2.90%	2.80%	2.60%	2.00%
Switzerland	0.40%	0.50%	0.30%	0.10%
United Kingdom	2.60%	2.60%	3.30%	3.40%
Canada	2.80%	2.80%	2.40%	2.40%
Japan	1.70%	1.70%	1.50%	2.10%
China	1.00%	1.00%	1.00%	0.80%

Unemployment	Last	Q2 2026	Q1 2026	Q4 2025
United States	4.20%	4.20%	4.30%	4.40%
Eurozone	6.30%	6.30%	6.30%	6.30%
Switzerland	3.10%	3.10%	3.00%	3.00%
Canada	6.50%	6.50%	6.70%	6.80%
Japan	2.50%	2.50%	2.70%	2.60%
China	5.00%	5.00%	5.40%	5.10%

Gross Domestic Product (YoY)	Last	Q2 2026	Q1 2026	Q4 2025
United States	2.10%	2.10%	2.70%	2.00%
Eurozone	0.80%	N/A	0.80%	1.50%
Switzerland	0.50%	N/A	0.50%	1.00%
Canada	1.70%	N/A	0.50%	1.00%
Japan	3.60%	N/A	3.60%	3.70%
China	4.30%	4.30%	5.00%	4.50%
India (Real GDP)	7.80%	N/A	7.80%	8.00%

Producer Price Index (PPI - YoY)	Last	Q2 2026	Q1 2026	Q4 2025
United States	5.50%	5.50%	4.30%	3.10%
European Union	6.20%	N/A	3.70%	0.30%
Switzerland	-2.10%	-2.10%	-2.70%	-1.80%
Canada	12.43%	12.43%	8.60%	4.05%
Japan	7.10%	7.10%	2.90%	2.40%
China	4.10%	4.10%	0.50%	-1.90%
India	9.87%	9.87%	3.98%	0.30%

Purchasing Managers' Index	Last	Q2 2026	Q1 2026	Q4 2025
United States	55.6	53.3	52.7	47.9
Eurozone	51.9	50	50.7	51.5
Switzerland	53.2	54.3	53.3	46.4
Canada	53.5	53	50	48.6
Japan	54.5	54.8	51.6	50
China	49.2	50.3	50.4	50.1
India	53.5	54.2	53.9	55

Core Inflation (Core CPI - YoY)	Last	Q2 2026	Q1 2026	Q4 2025
United States	2.60%	2.60%	2.60%	2.60%
Eurozone	2.50%	2.40%	2.30%	2.30%
Switzerland	0.30%	0.30%	0.40%	0.50%
Canada	1.80%	1.80%	1.90%	2.50%
Japan	1.20%	1.20%	1.40%	1.50%

Consumer Spending (PCE - YoY)	Last	Q2 2026	Q1 2026	Q4 2025
United States	3.29%	3.29%	3.25%	2.97%

Data as of 04/08/2026
N/A: Not yet reported or Public Holiday

July **Macro News**

- Escalation in the Middle East put the spotlight back on energy as a driver of inflation. US-Iranian hostilities resumed mid-month and shipping through the Strait of Hormuz slowed sharply.

- The US June CPI fell by 0.4% compared to the previous month (the largest single-month drop since April 2020) taking the annual rate down to 3.5%, lower than the expected 3.8%. Core inflation remained at 2.6%. This reduced the immediate pressure for a rate hike in July.

- The Federal Reserve voted to keep interest rates at 3.50–3.75%, acknowledging that inflation remains too high but offering no guidance on future rates. The ECB kept its deposit rate unchanged at 2.25%.

- In Japan, the BoJ held its newly raised policy rate at 1% at its late-July meeting, after lifting it to that level in June. Both Japan and the US intervened in FX markets to support the yen, raising questions over whether FX policy alone can secure a durable strengthening of the currency.

Momentum broke in July, **the market didn't**

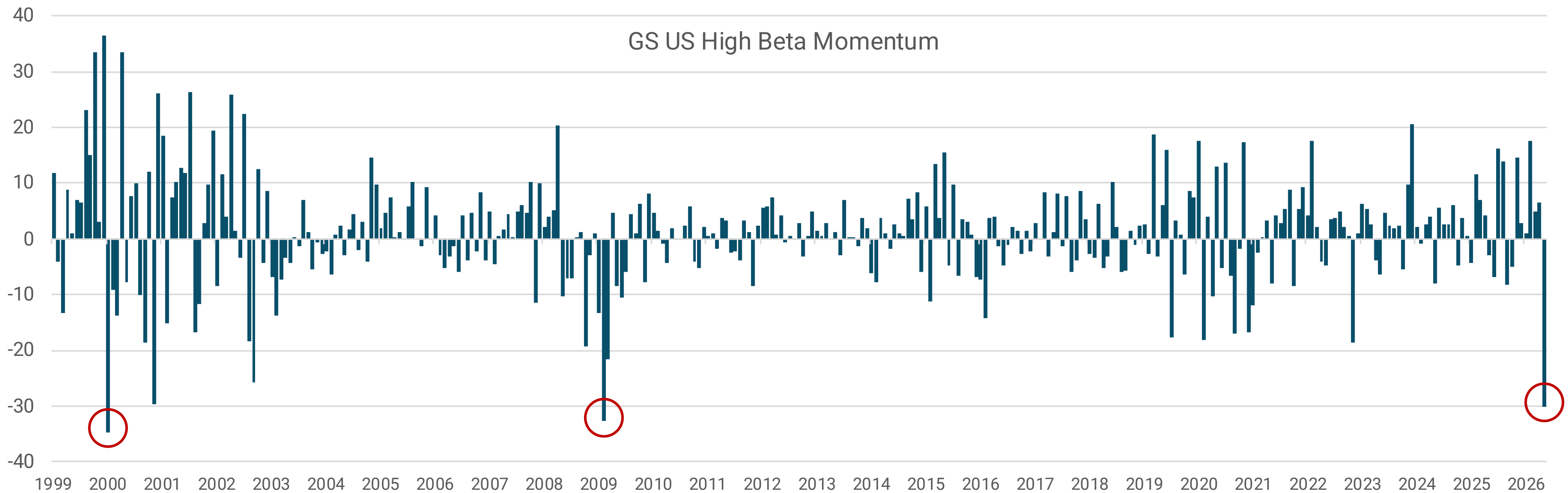
One of the fastest factor unwind on record hit the most crowded positions in equities and left the earnings story untouched.

The momentum strategy is simple: own what has been going up. In the US, it was up 30-40% this year, so by June, almost every leveraged book held the same names. Then *Situational Awareness*, a 45 billion USD hedge fund, was margin-called and forced to cut its public positions. It had been running at roughly four times leverage and was forced to liquidate three quarters of its holdings within a day. With everyone already long, there were no buyers.

We have seen this before: each time, a crowded factor has given back months of gains in days, while the index has barely flinched. Each time, the cause has been positioning rather than profits.

The fundamentals are holding up. Even after the drop, chips are still up close to +60% for the year, and the vast majority of S&P 500 companies that reported Q2 earnings exceeded expectations. July repriced crowding, not AI.

Owning last year's high-performing stocks is as much a bet on other people's leverage as it is on the companies themselves. A diversified portfolio spread across the wider market remained flat or increased over the month.



Source: Bloomberg

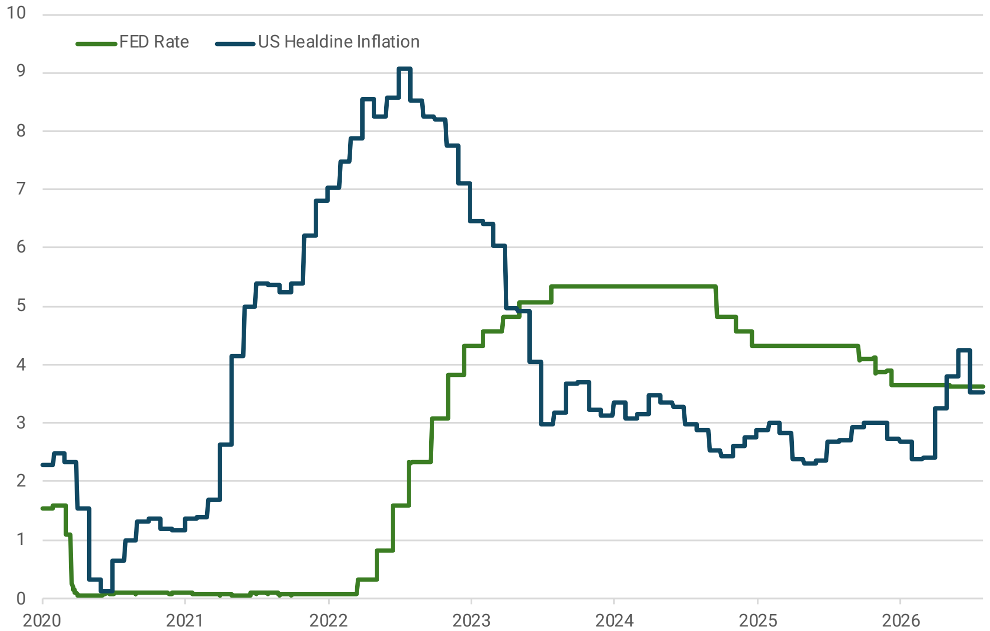
The Fed did nothing and said nothing, **they still shook markets**

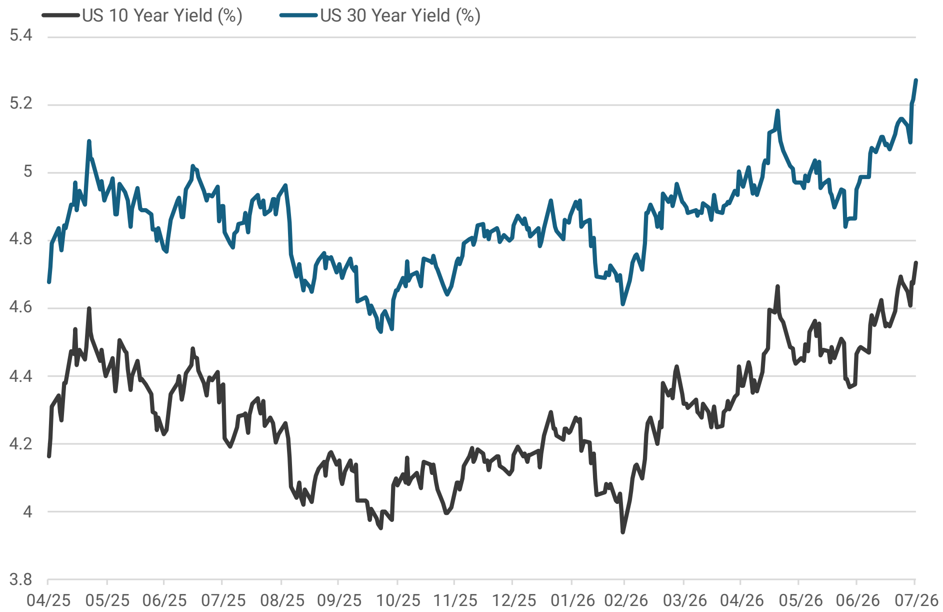
Three officials voted to raise rates, and the debate has quietly flipped from when cuts arrive to whether hikes do.

Policy stayed at 3.50% to 3.75% for a fifth straight meeting, but the vote was 9-3; that is the largest bloc of dissents pointing the same way since 2016. Going in, markets put the odds of a hike at roughly a third, the widest uncertainty around a Fed meeting in three decades. Kevin Warsh then declined to explain the committee's reading of inflation at all.

The silence is deliberate. Warsh wants markets to form their own view rather than trade his hints, so he has stripped out the guidance his predecessors leaned on. Guidance is a young tool. The Fed did not announce its rate decisions at all until 1994, and investors inferred policy from its market operations. Warsh is pulling back toward that older model at an awkward moment, with inflation above 2% for more than five years and crude up more than 20% in July due to the conflict in Iran.

For portfolios, the practical change is that rate risk now runs both ways. A rate increase is no longer an unlikely event, so long-term bonds are no longer a reliable hedge against equity weakness; they are now a risk position. We would rather be paid to wait at the short end than lend to a central bank for thirty years that has stopped telling anyone what it intends to do.





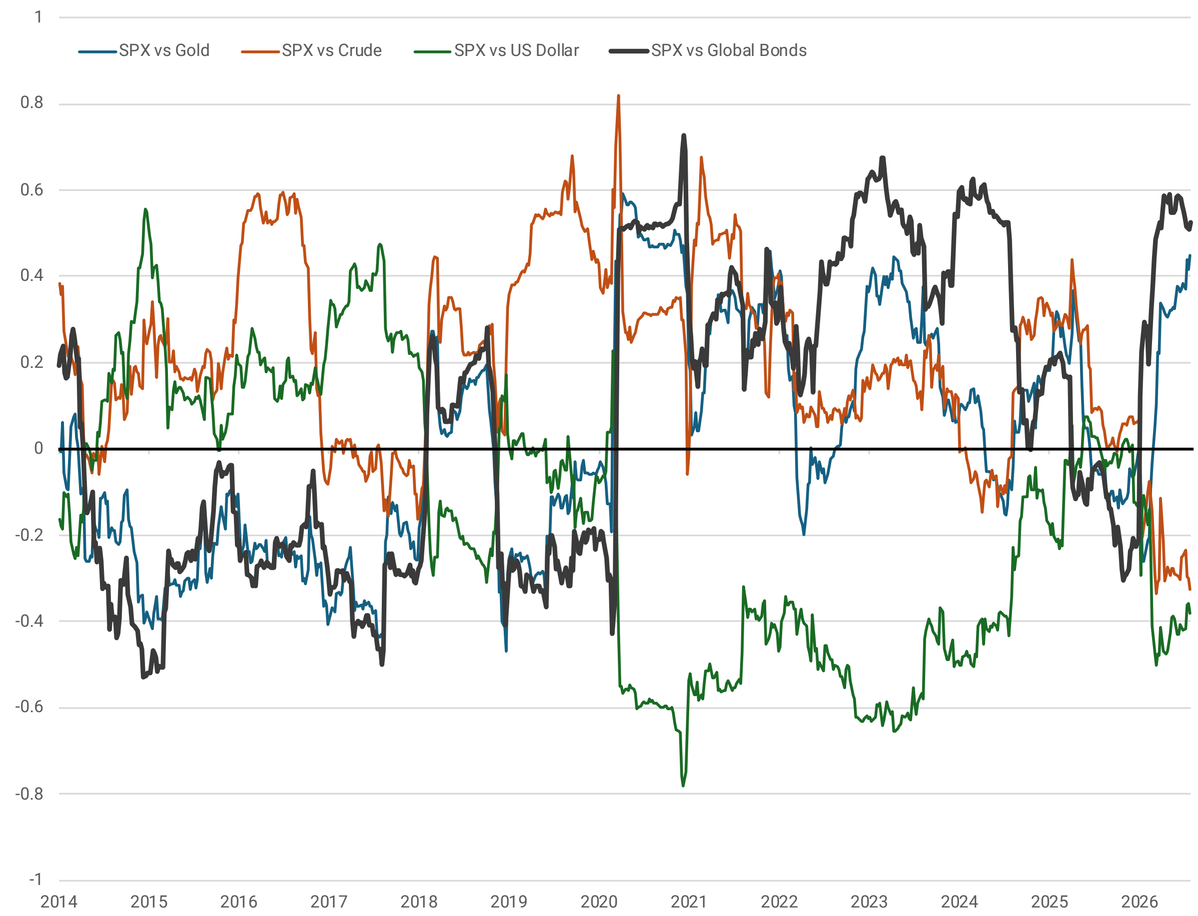
Bonds have stopped cushioning equities, and **2026 keeps proving it**

The hedge that has defined portfolio construction for the last twenty years is now failing at the very moment when we need it most.

The 40-day correlation between the S&P 500 and bonds is at a particularly high level. July provided a clear illustration of this. On the day of the Fed meeting, 30-year yields reached their highest level since 2007, while the S&P 500 fell 1.5% – with both asset classes declining during the same trading session.

The driver is which risk dominates the news. When inflation uncertainty outweighs growth uncertainty, stocks and bonds move together, because neither asset benefits from higher inflation. Growth surprises push them in opposite directions. Since 2022 the news flow has been about prices, tariffs, energy and now AI-driven cost pressure, so the two have kept moving in lockstep.

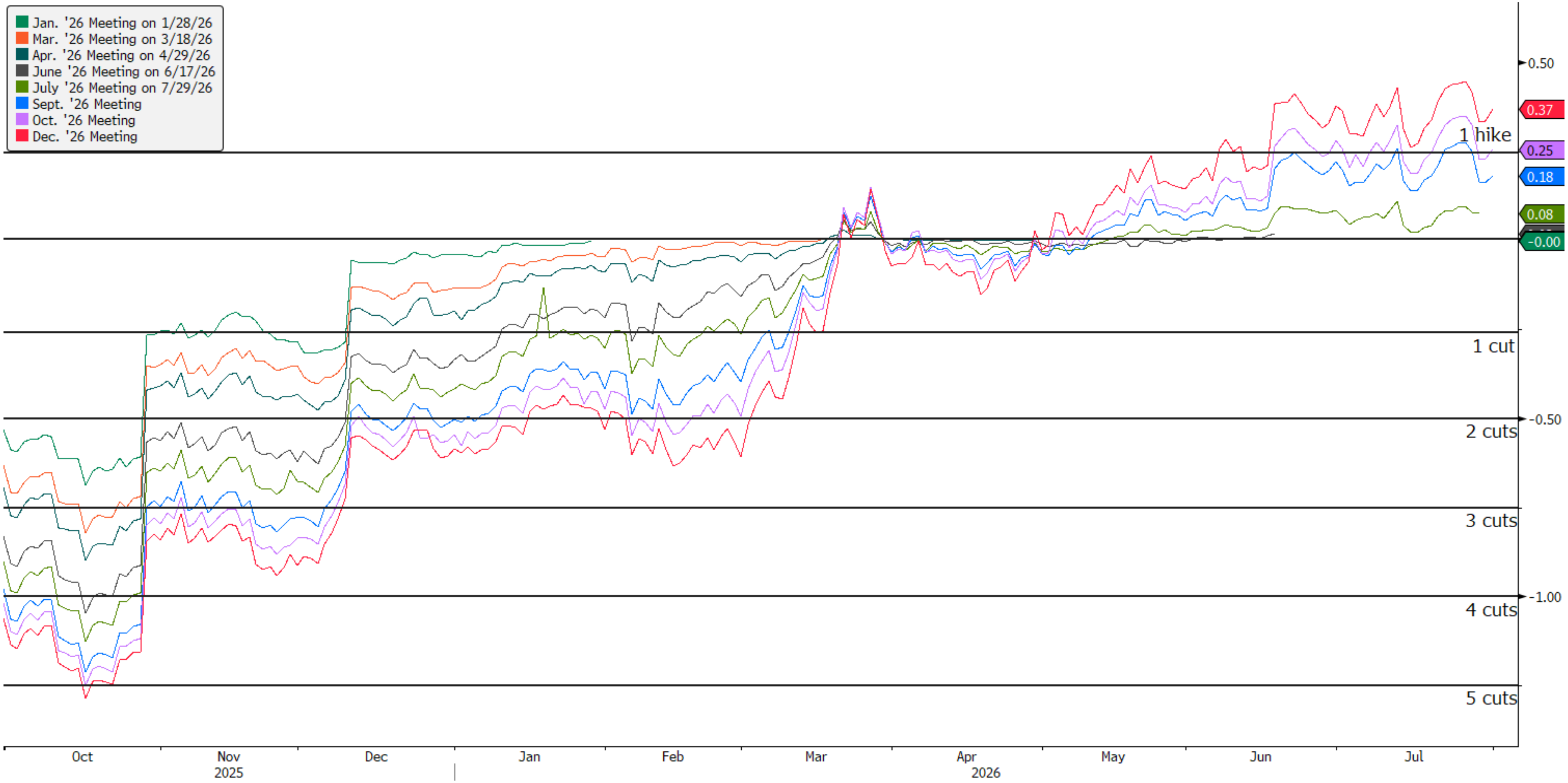
The negative stock-bond correlation of 1998 to 2021 was the anomaly, not the norm. Bonds still earn a real yield today and still belong in portfolios. What they no longer do is reliably rescue a bad equity month, which is why we have been adding genuinely separate return sources, gold and trend-following among them, and treating cash as a position rather than a residual.



Source: Bloomberg

US Short Term Rates **Expectations**

Markets are discounting rate hikes by the ECB and the BoE, and, more importantly, not only ruling out Fed rate cuts in 2026 but beginning to price in the possibility of a rate hike.



Asset **Allocation**

	Underweight		Neutral		Overweight
Asset classes					Cash
	Fixed Income				
			Equities		
	Alternatives				
				Commodities	
Fixed Income					Investment Grade
		High Yield			
		Sovereign			
	Inflation Linked				
			Emerging Markets		
Equities			Switzerland		
			United States		
				Eurozone	
					China
					Japan
				Emerging Markets	
Sectors			Information Technology		
		Healthcare			
				Financials	
			Consumer Discretionary		
			Industrials		
			Consumer Staples		
			Communication Services		
			Energy		
			Materials		
			Utilities		
	Real Estate				

Fixed-income allocation

Our selection focuses on the highest-quality issuers offering attractive risk-adjusted returns.

Equities

This context leads us to a more prudent approach to equities, where sector and regional diversification is more important than ever. We reduced our allocation to the United States following the ongoing turbulence caused by the new administration.

Alternative investments

In the current interest rate environment, our approach remains focused on carry strategies through bonds. We thus maintain an underweight allocation to alternative investments, capitalizing on the stability and predictable returns offered by bond instruments.

Commodities

In response to heightening geopolitical fragmentation and the escalating risk of currency debasement, we have established a commodities allocation, beginning with precious and strategic metals.

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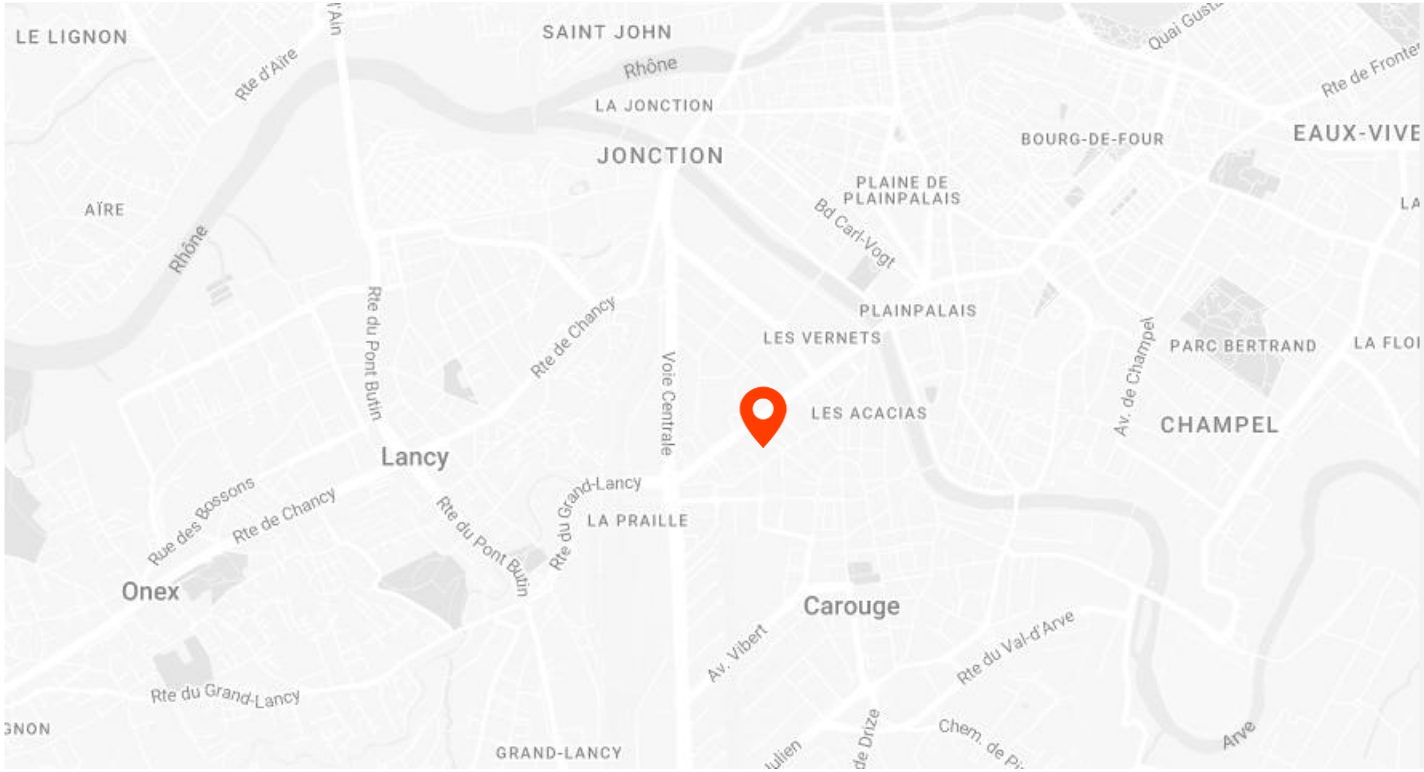
A DIFFERENT APPROACH TO WEALTH MANAGEMENT



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