Prime Capital FINANCIAL

MONTH IN REVIEW

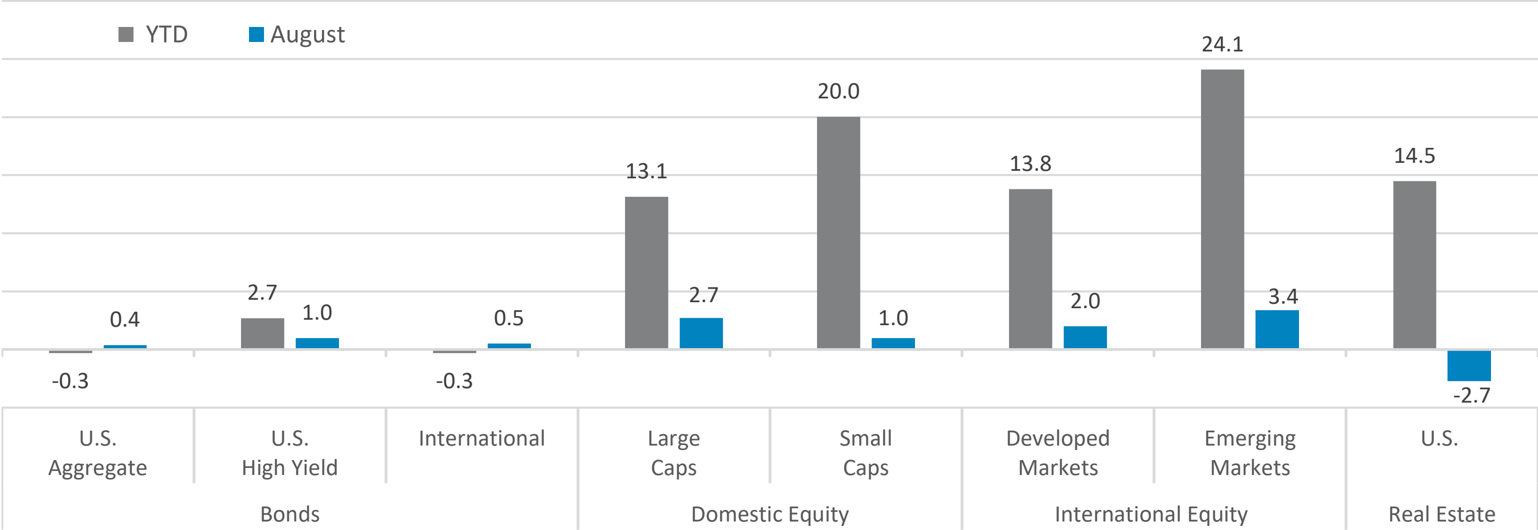
AUGUST 2026

Quick Takes

- **Equities Rotated.** Stocks rebounded in August as strong tech earnings drove a recovery in the sector and a renewal in U.S.-Iran hostilities drove energy stocks higher, with emerging market's energy exposure propelling its leading returns further.
- **Inflation & Interest Rates.** The yield curve rose in August, with the 30Y Treasury touching 5.33%, its highest since 2007 as rising concerns over fiscal responsibility, softer foreign demand, and heavy AI-related corporate issuances pressured the long-end of the curve, while hawkish remarks from Fed Chair Warsh late in the month lifted front-end yields.
- **Warsh Opens the Door.** In late August, Fed Chair gave his inaugural Jackson Hole speech, in which the market interpreted his remarks as hawkish, sending short-yields higher, raising expectations of a September rate cut to 50%, and producing a late-month slide in equities.
- **Earnings Season Strength.** As the Q2 earnings season wound down, the S&P 500 grew earnings by ~50% YoY, or ~32% when excluding gains on equity investments, with over 85% of names beating on the bottom-line. Strong AI earnings growth continued, with tech stocks rallying throughout the month.

Asset Class Performance

Equities rose across the board in August, with U.S. stocks rebounding from their tech-driven slump in July. Internationally, developed markets notched their second month of 2% gains while emerging markets rallied on rising energy prices. The global bond selloff hit long-dated debt hardest, while short-duration high yield largely escaped.



Source: Bloomberg, Goldman Sachs Investment Research, as of September 1, 2026. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

Prime Capital FINANCIAL

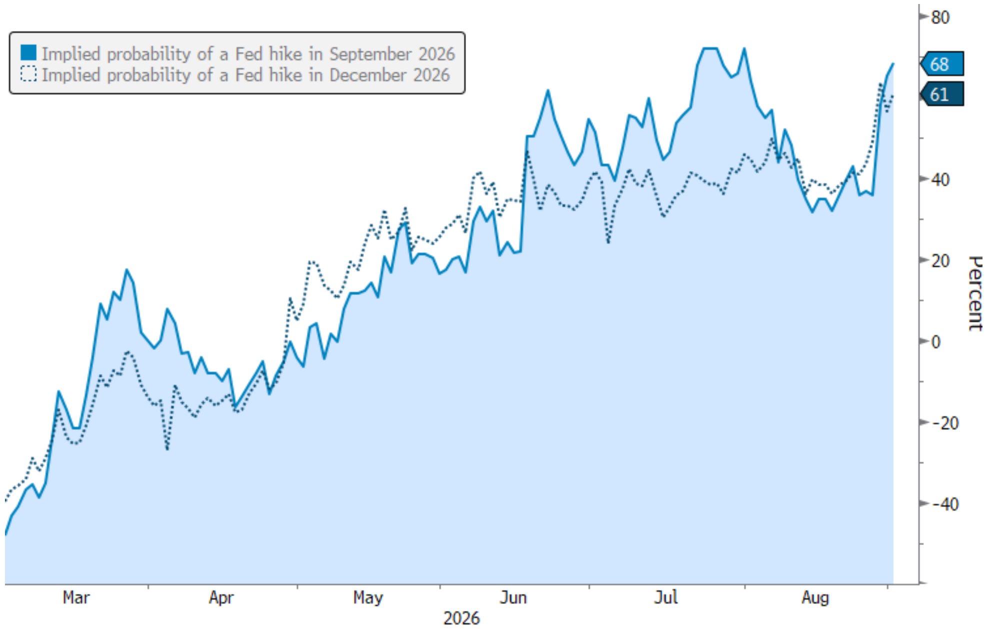
August 2026

Markets & Macroeconomics

Q2 earnings deliver; long-dated bonds don't

Futures-Implied Rate Hike Probability

Warsh's Jackson Hole speech sends rate hike odds above 60%.



Source: Bloomberg

Headlines in August were dominated by two things: a global sovereign bond selloff concentrated in long-dated Treasuries and a strong Q2 earnings season that revalidated AI as the market driver. The 30-year extended its recent selloff to 5.33%, a 19-year high, on weakening foreign demand, long-duration supply from AI-related corporate issuances, and fiscal concerns. Treasury doubled buyback operations to $4 billion on August 19, and the relief lasted two sessions. The bear steepener flattened into month-end when Warsh's Jackson Hole speech signaled that rate hikes may be back on the table in 2026, sending the 2Y to 4.32% and September rate hike odds to 60%. On inflation, CPI rose 0.1% month-over-month and 3.4% YoY against core at 2.5%, a gap that is almost entirely energy. PPI was flat month-over-month but ran 4.7% YoY with core at 4.2%, leaving a wide wedge between producer and consumer prices. Oil prices climbed back above $85/barrel, sending gas prices back above $4.10/gal. Likewise, a resumption in the Iran War and stubborn inflation renewed consumer concerns over their finances, sending the University of Michigan's consumer sentiment survey down to 51.7 from its 55.2 reading in July. Retail sales followed a similar trend, declining 0.6% YoY, the most since 2025, though analysts warned that the decline could be related to Amazon.com moving its annual Prime Day. In the labor market, the July jobs report showed a 23,000-job decline, missing estimates of +80,000, with the unemployment rate falling to 4.1% as a decline in the labor force participation rate offset job losses. May and June's job figures were revised down a combined 103,000 jobs, suggesting that labor market could be less stable than previously thought. The S&P 500 rose 2.7%, its first monthly gain since May. Q2 earnings grew 50.4% YoY, though the figure is inflated by unrealized equity gains from Alphabet and Amazon. Excluding those gains, the index grew earnings 32%, with 86% of companies beating EPS estimates. Tech stocks, and more specifically AI-related names, recovered in August from their summer selloff as they posted strong earnings, with Nvidia's Q2 earnings report driving the index higher after showing 106% revenue growth and guiding Q3 above consensus, boosting AI names across the board.

<u>Bottom Line:</u> The setup into September is a solid earnings picture that's at odds with a historically weak midterms season, while a global bond selloff further complicates matters.

S&P 500 vs 10Y Treasury Yields 1Y

Stocks rebound in August on strong earnings.

Source: Bloomberg

August 2026

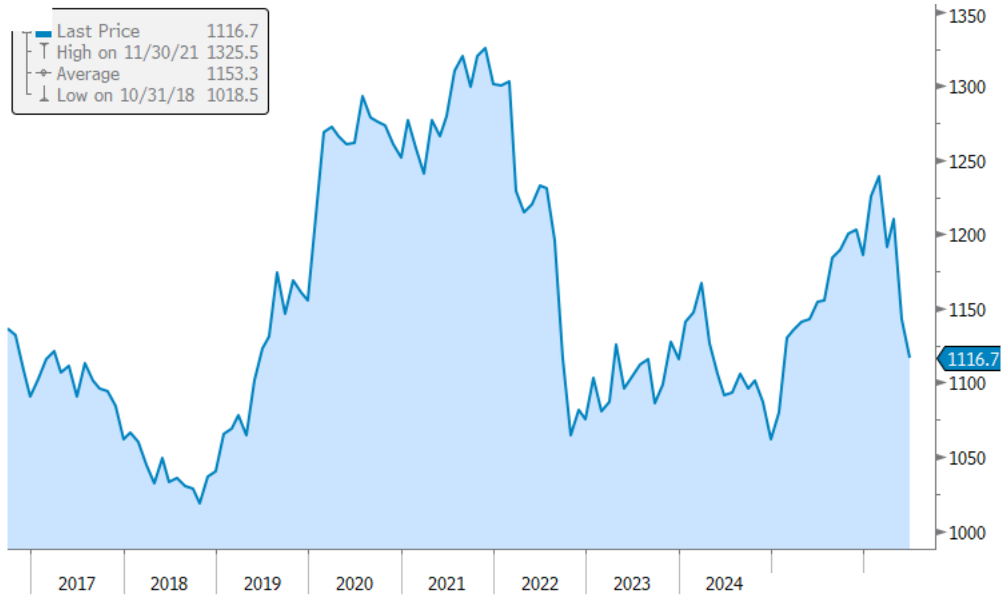
What's Ahead

The Long End Loses Japan

For nearly 3 decades, the Bank of Japan held the country's overnight rate at or near near-zero, helping make Japan the world's largest creditor nation for years. At such a low policy rate, Japanese life insurers, banks, and pension funds had no domestic way to match their multi-decade liabilities, turning them into massive buyers of U.S. Treasuries and other foreign bonds. At the long-end specifically, Japanese demand became a staple of U.S. Treasury auctions, acting as a reliable backstop when domestic buyers stepped away. However, that arrangement is now unwinding. Japan's 10-year yield nearly crossed 3% in August, its highest since 1996, while the 30-year set a record near 4.18%. The move followed Prime Minister Sanae Takaichi's promises of tax cuts and higher spending in a country whose debt already runs over twice the size of GDP. A weak yen made the situation worse, driving up the import costs and stoking inflation that pressured Takaichi's approval ratings, leading her government to reverse course and signal support for a rate increase as early as September. These higher domestic yields have reduced Japanese appetite for U.S. bonds, with official data showing net sales of $18.7 billion in foreign debt through August 22, the largest year-to-date reduction since 2022. Additionally, the cost of currency hedging for Japanese investors has climbed high enough to potentially erase the extra yield that Treasuries offer. The shift has placed upward pressure on Treasury yields, with the 30Y closing at 5.31% on August 17, the highest since 2007. To counter it, Treasury Secretary Scott Bessent announced that the U.S. would at least double the amount of long-end debt buybacks from $2B to $4B and lift their frequency from two to four per quarter. Yields fell for one session before rebounding the next morning. The overall buyback allocation remained at $38 billion for the quarter, meaning that the Treasury reallocated capital rather than increasing the amount, a short-term measure against $40 trillion of U.S. debt that demands larger debt issuance each year. For U.S. investors, the main risk is that Japan moves away from being one of the biggest long-term debt buyers, creating a substantial supply and demand imbalance that pushes borrowing costs, mortgage rates, and the governments own interest bill higher. The Bank of Japan and U.S. Federal Reserve both make their next rate decision in mid-September, with markets pricing over a 50% chance for the first Fed rate hike since 2023.

Japan's Holdings of U.S. Treasuries (USD)

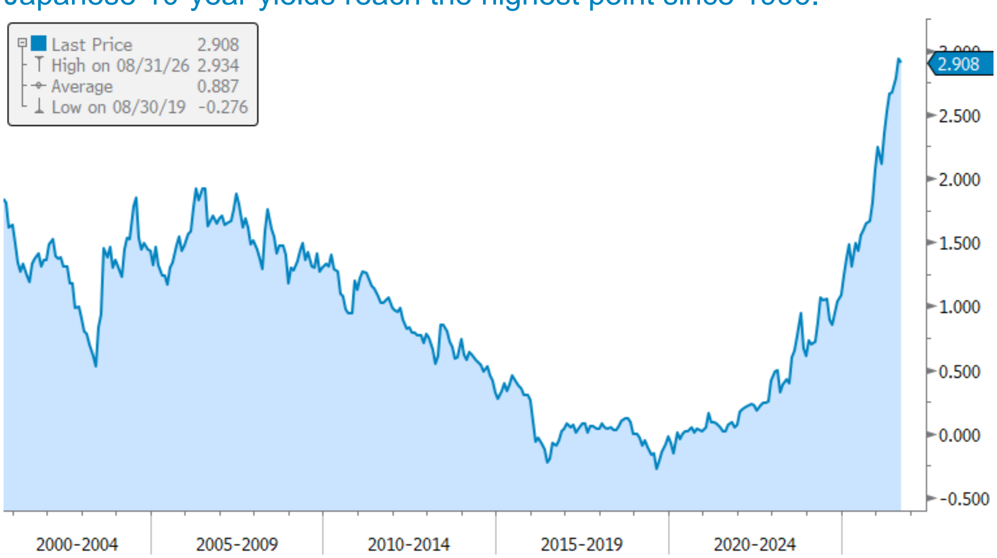
Japan reduces its Treasury holdings at the fastest rate since 2022.



Source: Bloomberg

Japanese 10-Year Government Bond Yield

Japanese 10-year yields reach the highest point since 1996.



Source: Bloomberg

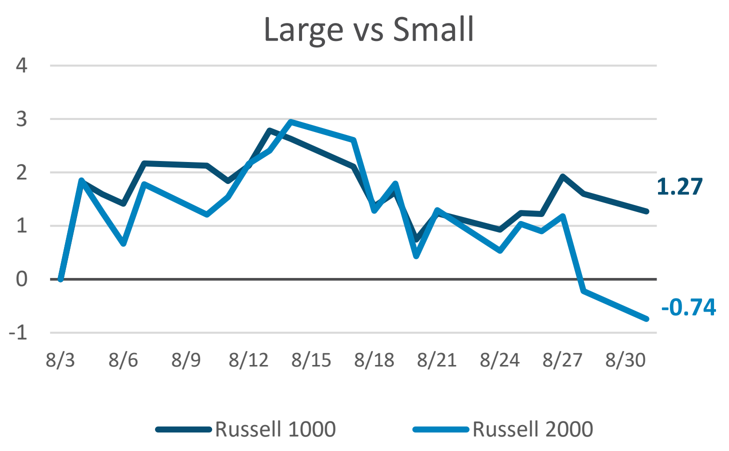
<u>Bottom Line:</u> Japan's three-decade run as the world's supplier of cheap long-duration capital is ending, and U.S. Treasuries are repricing as its biggest foreign buyer steps back.

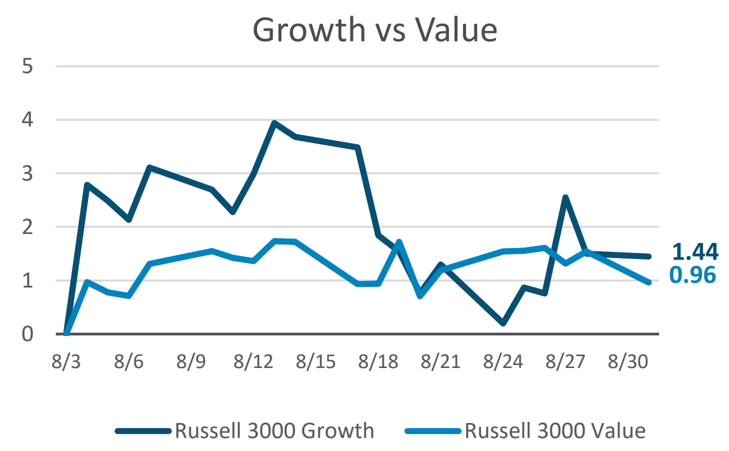
August 2026

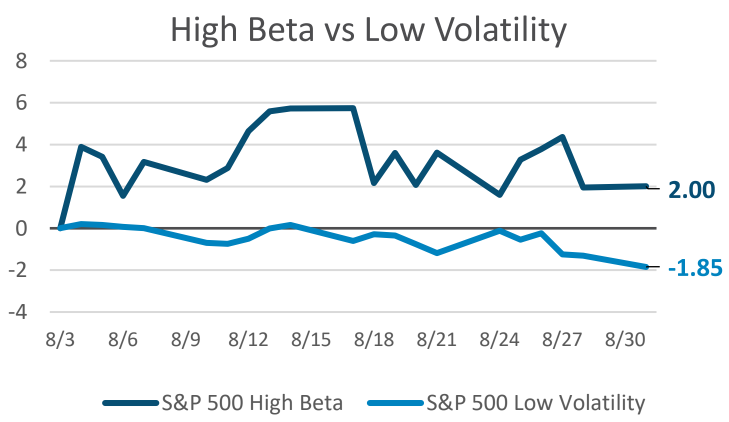
Equity Themes

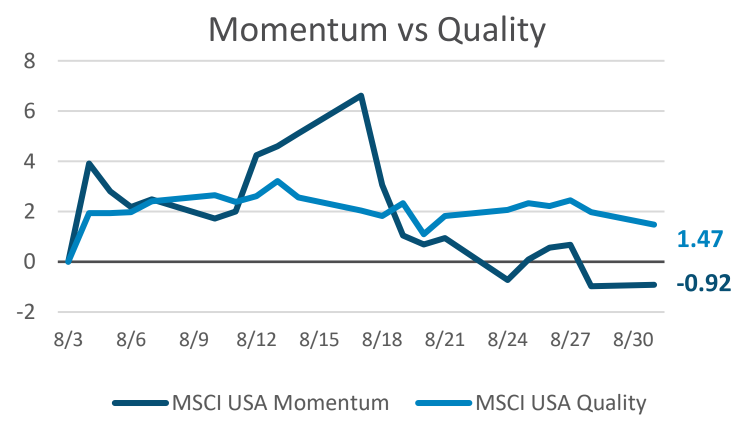
What Worked, What Didn't

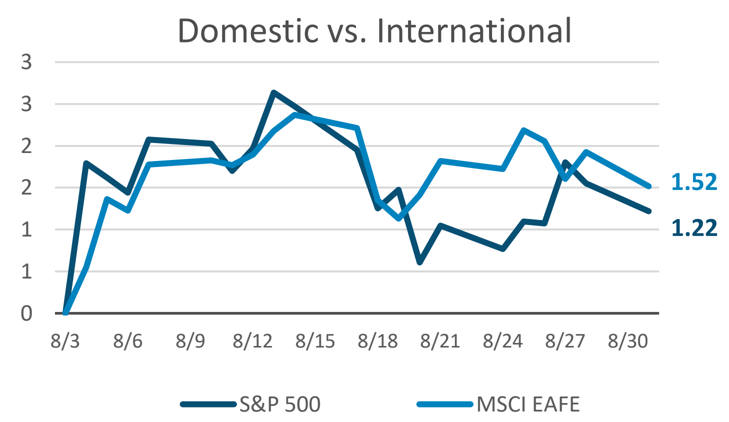
- **Large Caps Outperformed Small while Growth Beat Value.** A rebound in tech stocks drove growth outperformance while bond yields dampened the broader market.
- **High Beta and Quality Outperformed.** Rallying tech drove high beta above low vol while risker momentum stocks gave way for quality to outperform.
- **International Over Domestic, Emerging Tops Developed.** International markets continued their outperformance versus the U.S., while a rebound in tech boosted emerging markets past developed.

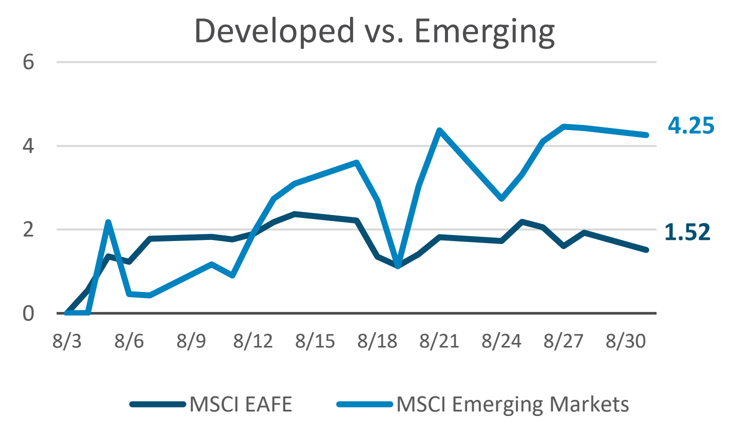












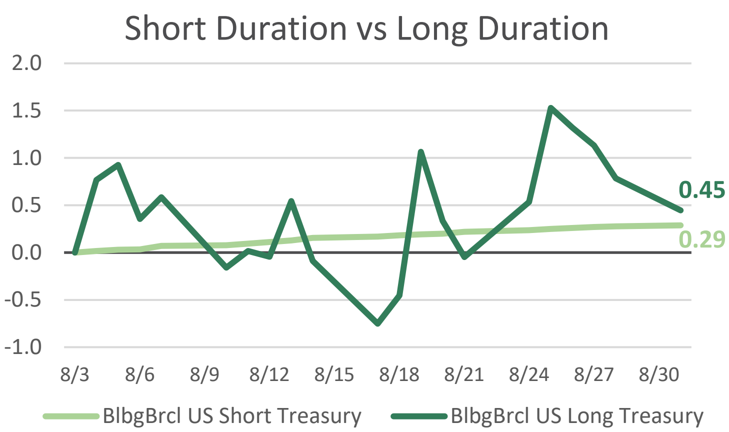
Source: Bloomberg.

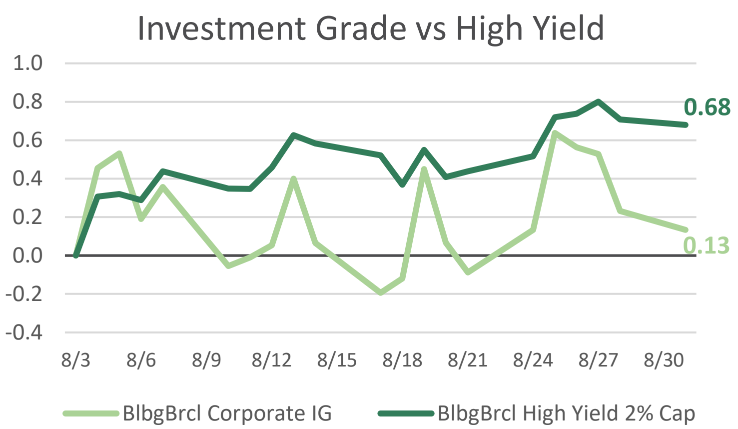
August 2026

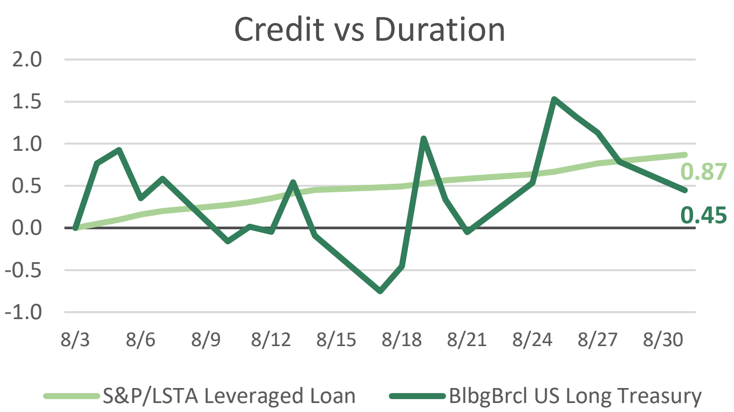
Bond Themes

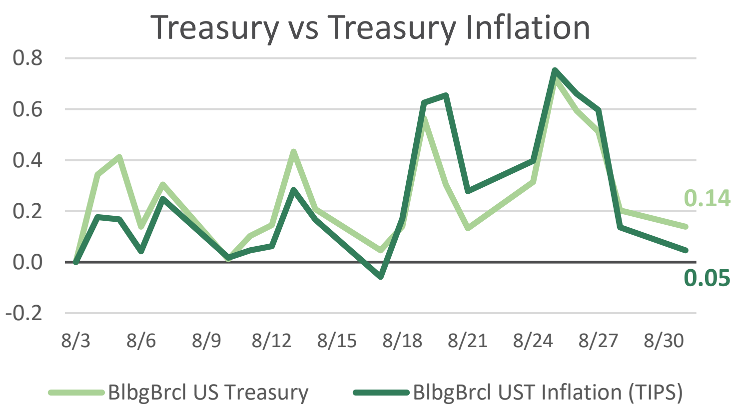
What Worked, What Didn't

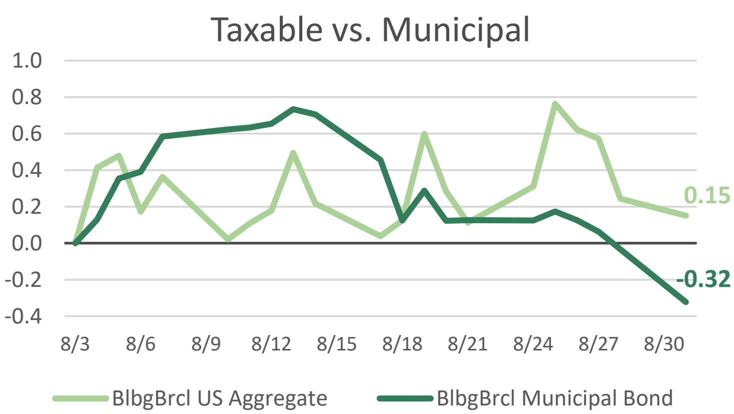
- **Long Duration Outperformed Short while High Yield Beat Investment Grade.** Rising expectations of a rate hike sent short-duration yields higher, while high yield's lower duration sent it above IG.
- **Credit Beat Duration, Treasuries Over TIPS.** Rising yields at the long end of the curve hindered duration, with Treasuries winning over TIPS as Warsh's Jackson Hole speech sent real yields higher.
- **Taxable Over Munis and Domestic Beat International.** Taxable bonds continued their streak of outperformance versus munis, while international bonds barely topped U.S. bonds.

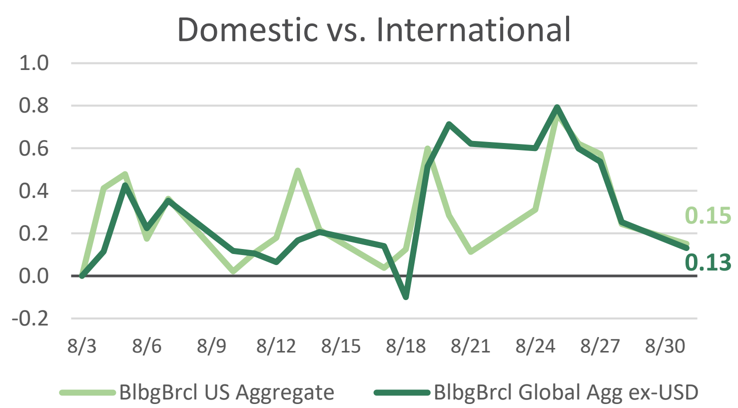












Source: Bloomberg.

August 2026

Asset Class Performance

The Importance of Diversification. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

	Aug-03	Aug-04	Aug-05	Aug-06	Aug-07	Aug-10	Aug-11	Aug-12	Aug-13	Aug-14	Aug-17	Aug-18	Aug-19	Aug-20	Aug-21	Aug-24	Aug-25	Aug-26	Aug-27	Aug-28	Aug-31	Aug	YTD	
High	LCG 2.16	LCG 2.84	IBD 0.26	LCV 0.00	MCG 2.46	LCV 0.29	MCG 0.46	EM 1.57	RE 1.33	SCG 0.75	EM 1.07	USB 0.10	EM 1.18	EM 0.77	SCG 1.24	RE 0.63	EM 1.72	MCG 0.38	LCG 1.76	LCV 0.29	HYB 0.09	EM 4.20	SCV 23.18	High
	MCG 2.09	SCG 2.68	IEQ 0.10	IEQ -0.07	SCG 1.53	MCG 0.06	EM 0.40	MCG 0.93	LCG 1.00	SCV 0.29	MCG 0.31	LCV 0.04	RE 0.99	IBD 0.06	MCG 0.99	LCV 0.40	IEQ 0.72	MCV 0.26	EM 0.66	HYB -0.16	IBD 0.08	LCG 1.52	EM 23.12	
	SCG 2.04	EM 2.61	USB 0.05	HYB -0.08	IEQ 1.11	MCV -0.09	SCG 0.31	RE 0.92	MCV 0.83	RE 0.16	IBD 0.03	HYB -0.10	MCV 0.85	RE -0.01	IEQ 0.83	USB 0.21	LCG 0.65	LCV 0.07	MCG 0.61	IEQ -0.28	LCG -0.03	IEQ 1.35	LCV 22.99	
	SCV 1.45	MCG 2.27	RE 0.02	USB -0.29	EM 0.95	HYB -0.16	SCV 0.30	SCG 0.80	MCG 0.62	MCV 0.16	HYB -0.13	IBD -0.14	LCV 0.79	HYB -0.19	EM 0.75	HYB 0.11	SCG 0.64	HYB -0.03	SCG 0.44	RE -0.35	USB -0.08	LCV 1.05	MCV 21.10	
	MCV 1.02	MCV 1.43	HYB -0.04	LCG -0.31	LCG 0.89	LCG -0.35	MCV 0.27	LCG 0.66	60/40 0.40	MCG 0.10	LCG -0.17	RE -0.37	IBD 0.71	IEQ -0.29	MCV 0.61	MCV -0.10	60/40 0.51	LCG -0.07	SCV 0.18	USB -0.35	EM -0.18	60/40 0.82	SCG 16.88	
	LCV 0.96	IEQ 1.23	60/40 -0.11	60/40 -0.33	MCV 0.78	60/40 -0.35	IBD 0.18	SCV 0.43	SCV 0.37	IBD 0.02	IEQ -0.17	MCV -0.65	SCG 0.53	USB -0.34	LCG 0.47	IBD -0.14	USB 0.47	SCG -0.10	60/40 0.13	60/40 -0.47	60/40 -0.21	HYB 0.63	IEQ 13.65	
	60/40 0.70	60/40 1.16	LCV -0.19	MCV -0.34	SCV 0.76	USB -0.37	USB 0.08	IEQ 0.38	LCV 0.36	IEQ -0.05	60/40 -0.19	60/40 -0.72	SCV 0.52	60/40 -0.40	SCV 0.45	IEQ -0.19	IBD 0.37	EM -0.12	USB -0.03	MCV -0.64	IEQ -0.25	MCV 0.58	RE 10.16	
	IEQ 0.42	SCV 1.12	LCG -0.33	IBD -0.38	60/40 0.69	IEQ -0.50	IEQ 0.07	60/40 0.36	EM 0.33	LCV -0.05	USB -0.24	SCV -0.89	USB 0.48	LCG -0.69	LCV 0.44	60/40 -0.22	HYB 0.28	SCV -0.13	HYB -0.04	EM -0.70	MCG -0.32	MCG 0.39	60/40 8.81	
	EM 0.36	LCV 0.94	SCG -0.42	SCV -0.56	LCV 0.56	IBD -0.53	HYB 0.04	MCV 0.15	USB 0.27	60/40 -0.08	SCG -0.24	IEQ -1.09	60/40 0.45	MCV -0.77	60/40 0.35	SCV -0.33	SCV 0.26	USB -0.15	IBD -0.10	SCV -0.71	SCG -0.51	IBD 0.19	LCG 3.89	
	HYB 0.27	USB 0.41	EM -0.42	SCG -0.63	IBD 0.55	SCV -0.55	60/40 0.03	HYB 0.13	IBD 0.25	HYB -0.10	SCV -0.43	LCG -1.61	IEQ 0.36	SCV -0.80	HYB 0.06	SCG -1.09	MCG 0.11	60/40 -0.16	MCV -0.15	IBD -0.72	LCV -0.55	USB 0.15	MCG 2.73	
	USB 0.23	IBD 0.39	MCV -0.44	RE -0.90	RE 0.48	SCG -0.55	LCV -0.15	USB 0.11	HYB 0.23	EM -0.11	LCV -0.75	SCG -1.64	HYB 0.23	LCV -1.00	IBD 0.03	LCG -1.10	RE 0.07	IBD -0.35	IEQ -0.23	LCG -0.92	MCV -0.57	SCG -0.33	HYB 2.45	
	IBD 0.17	HYB 0.30	MCG -0.79	MCG -0.92	HYB 0.19	EM -0.72	LCG -0.46	LCV -0.06	IEQ 0.18	USB -0.22	MCV -0.86	MCG -2.25	LCG -0.33	MCG -1.07	RE -0.05	MCG -1.31	LCV -0.02	IEQ -0.50	LCV -0.34	MCG -1.70	SCV -0.60	SCV -1.18	USB -0.18	
Low	RE 0.13	RE -0.10	SCV -0.83	EM -1.07	USB 0.17	RE -1.28	RE -0.75	IBD -0.34	SCG 0.09	LCG -0.29	RE -0.87	EM -2.94	MCG -0.40	SCG -1.96	USB -0.14	EM -1.50	MCV -0.09	RE -0.68	RE -0.91	SCG -2.07	RE -0.77	RE -2.47	IBD -1.59	Low

Legend

60/40 Allocation (60/40)	Large Growth (LCG)	Mid Growth (MCG)	Small Growth (SCG)	Intl Equity (IEQ)	U.S. Bonds (USB)	Intl Bonds (IBD)
	Large Value (LCV)	Mid Value (MCV)	Small Value (SCV)	Emg Markets (EM)	High Yield Bond (HYB)	Real Estate (RE)

Source: Sources for this market commentary derived from Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees and do not necessarily represent performance of specific mutual funds andor exchange-traded funds recommended by Prime Capital Financial. The performance of those funds in February may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate. 080223006 - MAH