SMITH AFFILIATED CAPITAL

August Investment Review 2026

Doing the Fed's Work for It

Overview

August told two different stories. The first two weeks brought relief: a weak jobs report (the economy added just 23,000 jobs in July, with prior months revised down by 103,000 combined) and mild inflation data (prices up 3.4% year-over-year, or 2.5% excluding food and energy) pulled September rate-hike odds from about 72% down to roughly 32%, sparking rallies in stocks and bonds. The second half reversed much of that: growing worry over the federal deficit — the national debt topped $40 trillion — combined with renewed U.S.-Iran fighting near the Strait of Hormuz to push oil and bond yields sharply higher. Oil prices rose 5.7%, and the 30-year Treasury yield briefly touched 5.30%, its highest since 2007. Treasury Secretary Bessent tried to calm bond markets mid-month by having the government buy back more of its own debt, offering only brief relief. The month closed with Fed Chair Warsh's first major speech since taking office, at the Fed's annual Jackson Hole conference, which markets read as clearly signaling he's still inclined to raise rates. Short-term yields jumped by the most on a Jackson Hole speech day since 1996, and September hike odds rose to roughly 66-68%. One caveat: barely 100 days into the job, it's still unclear whether Warsh's comments reflect where the full Fed committee stands or just his own view.

Chair Warsh's refusal to give markets hints about future rate moves remains this Fed's defining trait, and this year's main source of market swings, leaving investors to guess at the path ahead. Even so, most investments still finished August higher: US bonds, stocks, gold, silver, riskier ("high yield") bonds, and emerging-market assets all posted gains.

Macro View	MTD (%)	YTD (%)	1Y (%)	10Y (%)	10Y STD (±)
DJIA	1.47	11.79	18.62	13.52	15.21
S&P 500	2.72	13.12	20.35	15.35	15.36
NASDAQ	3.99	13.90	23.64	18.65	18.71
Equity EM Mkts.	3.39	24.33	39.64	9.71	17.74
EM Bond Mkt.	0.74	1.45	5.03	3.08	7.25
US High Yield	0.98	2.58	4.77	5.26	7.16
Commodity	7.39	32.06	42.79	8.11	13.93
COMEX Silver	14.60	(8.40)	55.71	11.15	30.76
COMEX Gold	8.93	(0.90)	21.33	10.65	14.63
BRENT OIL	5.66	125.19	111.07	19.53	41.59
Dollar Index	(0.49)	1.12	1.69	3.55	6.50

Taxable Markets

Treasury bond yields swung sharply over the month. They started near July's levels (10-year at 4.71%, 30-year at 5.25%), fell after the weak jobs report, then rose back up as deficit worries and Middle East tensions took over. Much of that rise came from the "real yield" — the return investors demand after accounting for inflation — suggesting investors want more compensation to lend the government money long-term. Despite that back-and-forth, bonds still delivered modestly positive returns once interest payments are included: the broad bond market gained 0.39%, Treasuries gained 0.31%, and high-quality corporate bonds gained 0.43%. The extra yield corporate bonds pay over Treasuries stayed narrow and stable all month, a sign of investor confidence. Companies issued a record amount of new bonds in August, driven largely by technology and telecom companies funding AI infrastructure, and we expect similarly heavy issuance in September. With yields near multi-year highs, we see the recent volatility as an opportunity to buy quality bonds rather than a reason for concern. We favor a mix of shorter-term Treasuries, inflation-protected bonds, and short-term mortgage-backed securities, while staying patient for opportunities to more corporate bonds given their prices remain relatively expensive.

US Fixed Income	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Agg. Bond	0.03	0.36	0.39	(0.31)	5.85	5.01
US Treasury	0.00	0.31	0.31	(0.53)	5.71	4.61
US Agency	(0.14)	0.34	0.20	0.45	3.39	4.65
Tax.Muni	0.02	0.39	0.41	(0.10)	7.51	5.35
Agency MBS	0.10	0.42	0.52	0.07	5.67	5.29
Gov/Credit	0.01	0.34	0.35	(0.45)	5.96	4.92
TIPs	(0.08)	0.12	0.04	0.51	4.31	4.72
Corporate	0.03	0.41	0.43	(0.40)	6.59	5.49
AAA Corp	0.26	0.37	0.64	(2.39)	10.31	5.36
AA Corp	0.00	0.39	0.39	(1.75)	7.64	5.40
A Corp	(0.02)	0.40	0.38	(0.51)	6.56	5.36
BBB Corp	0.07	0.43	0.50	0.03	6.33	5.65

Tax-Exempt Markets

Municipal bonds lagged Treasuries and taxable bonds in August, losing about a quarter of a percent for the month. Nearly all of that came from longer-term bonds — 30-year munis fell 0.75% and 15-year bonds fell 0.82% — while shorter-term munis gained ground (1-year +0.37%, 5-year +0.52%). The gap was starkest right after the Treasury announced it would buy back more long-term government debt: Treasury prices rose that week while comparable municipal bonds barely moved. We see that gap as an opportunity — longer-term municipal yields look unusually attractive relative to shorter ones, and mid-grade (single-A rated) bonds look cheap versus top-quality (AAA rated) bonds in the 12–13-year range. Credit quality bears watching but isn't a broad concern: downgrades outpaced upgrades last quarter, concentrated in school districts and small, rural governments rather than the market overall — most states remain financially healthy, with tax collections up more than 7% from a year ago. Demand stayed steady: investors added money to municipal funds every week in August, and this year's heavy new-bond supply (already over $410 billion, about 10% ahead of last year's pace) was absorbed without much trouble. Into September, issuance should slow seasonally while cash from maturing bonds returns — a constructive setup, with long-term yields still paying more than usual to extend. We lean slightly into maturity extensions to capture significant yield with moderate duration risk, while staying selective on credit quality.

Municipal Market	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Muni Agg	(0.60)	0.38	(0.23)	0.20	6.88	3.98
1Y (1-2)	(0.01)	0.37	0.37	1.71	1.29	2.78
3Y (2-4)	0.12	0.37	0.49	1.23	2.42	2.83
5Y (4-6)	0.16	0.36	0.52	0.42	3.79	3.05
7Y (6-8)	0.14	0.37	0.51	(0.05)	5.00	3.48
10Y (8-12)	(0.19)	0.36	0.17	(0.64)	6.28	3.81
15Y (12-17)	(1.19)	0.37	(0.82)	(1.21)	7.93	4.28
30Y (22+)	(1.14)	0.40	(0.75)	0.67	11.00	4.84
AAA	(0.73)	0.37	(0.36)	(0.37)	7.18	3.86
AA	(0.60)	0.37	(0.23)	0.10	6.78	3.87
A	(0.51)	0.38	(0.13)	0.60	6.79	4.18
Gen. Oblig.	(0.65)	0.37	(0.29)	(0.19)	6.67	3.79
Revenue	(0.59)	0.38	(0.21)	0.33	6.99	4.06

Equity Markets

U.S. stocks posted their first winning month since May. The Nasdaq led with a 3.99% gain and the S&P 500 rose 2.72%, but the Russell 2000 (smaller company stocks) badly lagged at just 1.01%, showing August's rally stayed narrow. Microsoft alone accounted for more than half of the S&P 500's entire third-quarter gain, and the largest tech companies as a group were responsible for the index's whole gain this quarter — meaning the rest of the market was a drag. Zooming out, the full quarter looks different: energy (+20.4%), financials (+7.6%), and health care (+7.5%) have outperformed technology, which remains down for the quarter (-2.1%) despite August's rebound — a sign strength is broadening beneath the mega-cap headlines. Much of the strength built through August 25, after which renewed U.S.-Iran fighting and Chair Warsh's hawkish tone triggered a sharp pullback — the Dow, S&P, and Nasdaq each fell more than 2% into month-end. Still, the major indexes closed meaningfully higher, having weathered a six-month war, elevated oil, and rising bond yields largely on the strength of earnings.

Precious Metals and Digital Assets

Precious metals kept climbing sharply in August. Gold gained 8.93% to close near $4,451 an ounce (up from July's $4,008), while silver surged 14.60% to around $67 an ounce. Both moves were driven by renewed worry about government debt and money-printing — a classic move when investors lose confidence in paper currency — fueled by the Treasury's buybacks, the $40 trillion debt milestone, and stubborn inflation. The trend also reflects a longer shift: foreign central banks have sold over $300 billion of Treasury bonds since April 2025 while steadily buying gold instead, helping explain why gold has stayed strong even as bond yields rise. Both metals gave back some gains in the final week as Chair Warsh's hawkish tone raised the odds of a rate hike.

Digital assets moved even more sharply: bitcoin started August near $64,000, then rallied to test $80,000 as money flowed back into bitcoin funds and regulatory rules became clearer — a reminder that digital assets behave more like a bet on investor risk appetite than a true inflation hedge, unlike gold and silver's steadier climb. We hold a small position in gold-mining stocks as a long-term diversifier, and treat digital assets as a small, opportunistic position rather than a core holding.

Outlook

September will still be about the Federal Reserve. The August jobs report (due September 4) and inflation report (September 11) are the last major data points before the Fed's next meeting on September 16-17, where markets now see roughly a 66-68% chance of a rate hike. One wrinkle: the inflation report due before that meeting won't include the Fed's preferred measure, which isn't published until after the decision. It's also unclear whether Chair Warsh's hawkish Jackson Hole tone reflects where the full Fed committee stands or just his own view; comments from other Fed officials in the coming days should offer more clarity. Beyond the Fed, geopolitics remains a genuine wildcard — a lasting Iran resolution would likely push oil and inflation expectations lower, while further escalation would do the opposite — and the run-up to November's midterm elections adds another layer of noise. We enter September constructive on income levels across fixed income, equities, and precious metals, and continue to see the recent volatility as opportunity more than risk, even as we stay prepared for sharp moves in either direction as the Fed's lack of clear guidance keeps markets guessing.

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