Macro Outlook Summary

August 2026

The list of problems and negative feedback loops facing investors is growing. To help understand how they may interact with financial markets we group them into slow, medium and fast burn issues.

Government bond yields are touching highs and DM central banks are contemplating hikes to head off inflation. High interest costs add indebtedness so the fight against inflation has a cost not only to the consumer but to the government as well. Deterioration in borrower quality takes time to materialise and even longer for investors to recognise. DM government debt has continued to grow through bad times and good which is the hallmark of a bad borrower. We talk about this from time to time as the issue comes to the fore and it is a profoundly serious issue but reasonably well covered in the media. Bad borrowers are deeply disliked by bond investors but this is a slow burn issue. Deteriorating demographics in DM countries and the increasing tax burden on the working class is another example. Markets can ignore these issues for a long time and they do, until one day they don't and the narrative hits the headlines.

A medium burn issue is the Gulf War and its impact on global supply chains, energy costs and inflation. Markets try to engage with these issues but erratically because the timeline of the issue and its true consequences are often perceived very differently across the investor community. Many thought the US strikes on Iran would achieve their aim quickly. After all, no one in their right mind takes on the US in war. But so far it hasn't worked out like that. Another example is the growing appeal of nationalism and tariffs to the electorate. It is easy for the narrative to mislead and misrepresent as was also the case with Brexit. These are all medium burn issues.

The ones which tend to mark the tipping point for a market and trigger a sea change in investor behaviour are the fast burn. Fast burn issues tend to grab the headlines and hold on. SK Hynix and the collapse of equities in South Korea has done just that. The rapid deterioration in sentiment towards AI infrastructure buildout is related. A great deal of hot money has been poured into these themes and it has tight stops behind it. Any spiral of unwind can quickly become self-feeding.

Post-2008 after 18 years of almost uninterrupted bull markets, real investor fear is a thing of the distant past. But because real investment fear is only remembered by older generations and is unknown to so many wealth owners today perhaps that provides some of the conditions for it to return.