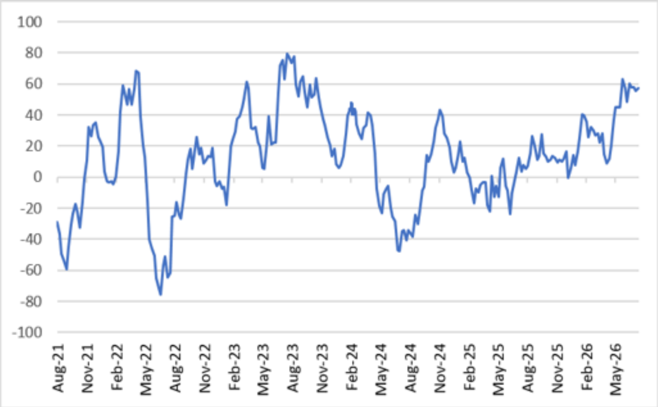
Market Review – August 2026

US economy and corporate earnings prove resilient in July

Global sharemarkets navigated a challenging backdrop through July, supported by a resilient US economy and one of the strongest corporate earnings seasons in recent years. This occurred despite ongoing uncertainty in the Middle East, rising interest rates and changing communication style from the US Federal Reserve. Investors increasingly focused on economic fundamentals, with strong earnings growth, healthy consumer spending and continued business investment helping offset geopolitical concerns.

The resilience of the United States remained a feature of financial markets during July. Economic data generally exceeded expectations, supported by steady consumer spending, a healthy labour market and ongoing business investment. The strength of recent economic activity is reflected in the Citi Economic Surprise Index below, where a reading above zero indicates economic data is being released ahead of consensus forecasts. The continued run of stronger-than-expected economic data has reinforced the view that the US economy remains more resilient than many anticipated at the beginning of the year.

US Citi Economic Surprise Index



Source: Bloomberg, Shaw and Partners

US Corporate earnings also continued to surprise positively. By the end of July, 60% of S&P 500 companies had reported, with 87% exceeding earnings forecasts. Overall earnings growth was running at approximately 27% year-on-year, materially above the 14% growth rate expected at the beginning of the year.

While questions remain regarding the ultimate return on the substantial capital being invested in artificial intelligence (AI), the latest earnings season provided some of the clearest evidence to date that AI-related investment is contributing to revenue growth, particularly through cloud computing and digital infrastructure. This helped reinforce investor confidence and supported market sentiment through much of the month.

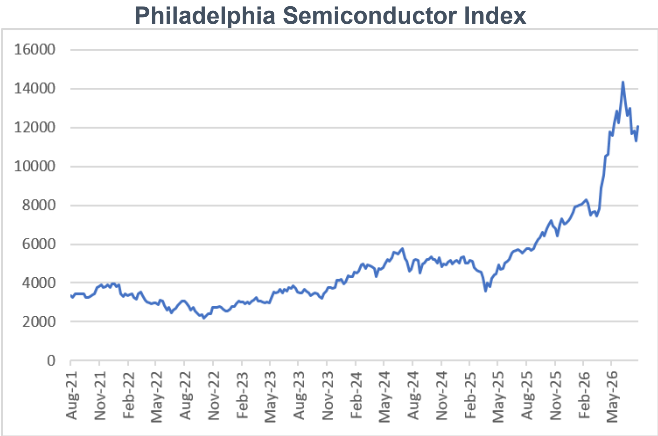
International Equities

Global sharemarkets [1] were relatively flat during July in local currency terms, although returns were weaker for New Zealand investors following a stronger New Zealand dollar. The New Zealand dollar gained 3.7% versus the US dollar in July. Performance across regions was mixed, with European markets outperforming, while Japan, emerging markets and several large US technology companies experienced weaker returns.

A key driver of global equity markets during the month was the continued strength of the US earnings season. Much of the market's attention remained focused on the Magnificent Seven companies, comprising Nvidia, Microsoft, Alphabet, Amazon, Meta, Apple and Tesla. Results from Microsoft, Alphabet, Amazon and Meta highlighted continued growth in cloud computing, digital advertising and AI-related services.

Microsoft delivered the standout result of the earnings season. Following its earnings announcement, the company added approximately US$500 billion in market value in a single trading session, the largest one-day increase in corporate value recorded to date. The result reflected investor confidence that AI-related investment is beginning to generate meaningful commercial benefits through growth in cloud computing services and AI-enabled productivity tools. Similar themes were evident at Alphabet and Amazon, where strong cloud growth provided further evidence that AI infrastructure spending is translating into higher revenues.

A feature of recent market performance has been the volatility of semiconductor companies. The Philadelphia (PHLX) Semiconductor Index (PHLX), which includes companies such as Nvidia, Broadcom and AMD, has experienced large swings over recent months as investors continue to assess the likely winners and beneficiaries of the AI investment cycle.
The graph below highlights the performance of the semiconductor sector over recent months. After leading global sharemarkets through much of the AI-driven investment cycle, semiconductor companies experienced increased volatility during July as investors reassessed growth expectations and the sustainability of AI-related spending. After rising 100% since the beginning of the year, PHLX has fallen 20% from its peak.



Source: Bloomberg, Shaw and Partners

Australasian Equities

New Zealand's sharemarket [2] gained 0.6% in July despite rising interest rates and growing expectations of further monetary policy tightening. While economic activity remains uneven, recent data suggests the domestic economy continues to recover gradually. Business confidence has continued to improve from the lows experienced over the past two years, while several forward-looking indicators point to improving economic momentum.

The improving tone of economic data was also reflected in several company trading updates during the month. Logistics company Mainfreight provided a significantly stronger-than-expected update, reporting broad-based revenue growth across divisions and regions.

Several other New Zealand companies also provided encouraging updates during July. Skellerup upgraded earnings guidance, while Fletcher Building increased earnings expectations despite subdued construction market conditions. Infratil continued to benefit from growing demand for digital infrastructure, with a further increase in the valuation of its CDC data centre investment highlighting the strength of ongoing demand for AI-related infrastructure.

Top performers for the month included Mainfreight (+13.7%), SkyCity (+12.7%), and Fletcher Building (+7.7%), whilst Port of Tauranga (-9.0%), Gentrack (-7.2%), and Chorus (-5.7%) performed the worst.

Australian equities [3] rose 2.3% during July, outperforming most major markets and benefiting from its perceived defensive characteristics and relatively limited exposure to the AI investment theme. Healthcare companies were among the stronger contributors to market performance, while company updates generally pointed to resilient trading conditions despite ongoing pressure from higher interest rates and an uneven economic backdrop.

Among the better-performing companies in July included Woodside (+16.8%), CSL (+7.3%), and National Australia Bank (+9.2%). Property, mining and resource stocks were amongst the worst performing stocks in July, including Goodman Property (-4.4%), Lendlease (-6.2%), and ILUKA Resource (-14.4%).

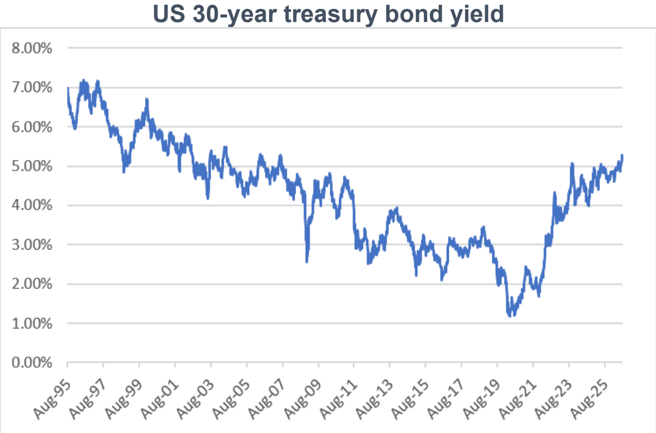
Fixed income and cash markets

The Bloomberg Global Aggregate Bond Index (New Zealand dollar hedged) fell 1.1% in July as global interest rates moved higher. Stronger-than-expected economic data, resilient US labour markets and significant investment in artificial intelligence (AI) infrastructure led investors to reassess the likelihood that interest rates may remain higher for longer than previously anticipated.

The scale of AI-related spending continues to support economic growth and business investment, while also adding to concerns that inflation pressures may remain elevated.

One of the most important developments during the month was the continued rise in longer-term US interest rates. The US 30-year Treasury interest rate rose above 5.2% during July, its highest level since 2007. As highlighted in the graph below, longer-term interest rates have moved steadily higher in recent months as investors responded to resilient US economic growth, ongoing government spending and uncertainty regarding the future path of interest rate adjustments by the US Federal Reserve (Fed).

US 30-year treasury bond yield



Source: Bloomberg, Shaw and Partners

An important factor influencing market expectations has been a change in communication style by the Fed under new Chair Kevin Warsh. Rather than providing explicit forward guidance regarding the future direction of the Federal Funds Rate, the Fed has increasingly adopted a data-dependent approach and reduced its level of communication regarding future interest rate settings. As a result, markets have become increasingly sensitive to economic releases and inflation data as investors continually reassess the likely timing and magnitude of future Fed interest rate adjustments.

New Zealand's fixed income market [4] fell 1.0% during July as domestic interest rates moved higher alongside global markets. Attention remained focused on the Reserve Bank of New Zealand (RBNZ), which increased the Official Cash Rate (OCR) by 25 basis points to 2.50% during the month. The decision reflected concern that inflation pressures may prove more persistent than previously anticipated.

The RBNZ appears increasingly focused on inflation expectations and the risk that inflation becomes embedded in wage and pricing behaviour. Policymakers have provided clear guidance that further OCR increases are likely in the coming months, although the pace and extent of future increases will depend on inflation outcomes. Recent economic data presents a mixed but gradually improving picture of the New Zealand economy, leaving the RBNZ balancing signs of improving activity against its objective of returning inflation sustainably to the target range.

Conclusion

The absence of a significant disruption to global energy supplies and the continued resilience of the US economy helped support investor confidence during July. Strong corporate earnings reinforced the view that economic activity and business investment remain robust.

While rising bond yields and uncertainty around future interest rates may contribute to market volatility, the overall backdrop remains constructive. Continued economic growth, healthy corporate profitability and ongoing investment in technology provide a supportive foundation for global sharemarkets.

As always, and particularly during periods of heightened uncertainty, we encourage investors to focus on their longer-term goals, remain patient during short-term market fluctuations, and maintain a portfolio aligned with their objectives and risk tolerance.

1 MSCI ACWI Index in local currencies
2 S&P NZX 50 gross index
3 S&P ASX 200 total return Index
4 Bloomberg NZ Bond Composite 0+ Yr Index

Indices for Key Markets

As at 31 July 2026	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.
S&P/NZX 50 Index	0.6%	6.3%	2.4%	7.6%	5.1%	2.5%
S&P/ASX 200 Index (AUD)	2.3%	4.1%	2.9%	6.0%	10.4%	8.0%
MSCI ACWI Index (Local Currency)	-0.3%	4.9%	9.1%	22.4%	18.5%	11.7%
MSCI ACWI Index (NZD)	-3.4%	4.6%	11.0%	22.5%	20.6%	14.7%
S&P/NZX 90 Day bank bill Total Return	0.2%	0.6%	1.2%	2.7%	4.3%	3.7%