CALADO CAPITAL

Week in review and ahead (vol.34-26)

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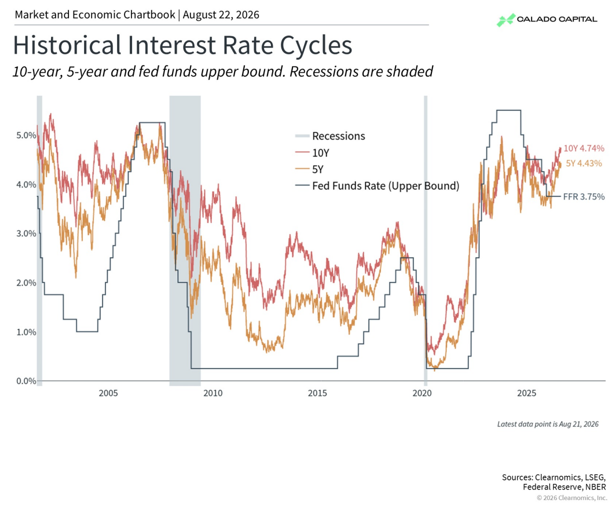
Week in review

Markets finished the week lower as bond yields continued to climb both in the U.S. and globally, while the conflict with Iran showed little sign of de-escalation following the formal expiration of the ceasefire outlined in the Memorandum of Understanding. Rising yields and persistent geopolitical uncertainty weighed on investor sentiment throughout the week.

In response to the sharp increase in long-term borrowing costs, the U.S. Treasury intervened through purchases of long-dated bonds and announced an expanded bond buyback program aimed at alleviating upward pressure on yields. Equity markets initially welcomed Treasury Secretary Scott Bessent's actions, which were presented as an effort to help a seasonally thin summer market return to a more orderly equilibrium. His remarks that he possessed "asymmetric information" and that markets had "gotten a little ahead of themselves" were widely interpreted as a direct challenge to the so-called bond vigilantes that had been driving higher yields.

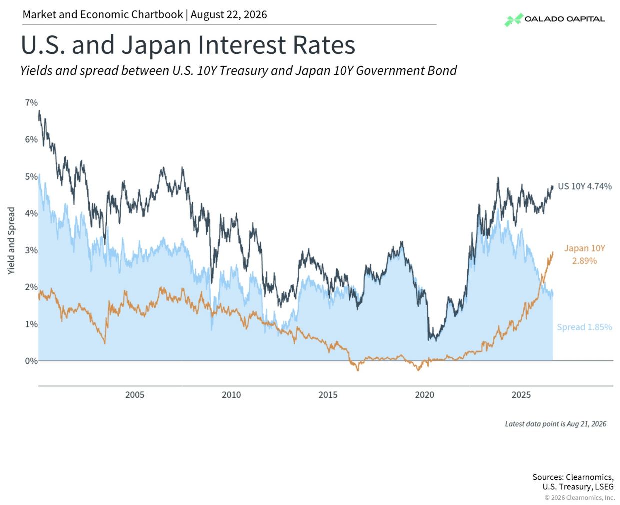
The relief rally, however, proved short-lived. Long-end Treasury yields soon resumed their upward trajectory, erasing much of the initial optimism surrounding the buyback announcement. As a result, the market's confrontation with increasingly restrictive financing conditions remains unresolved, and investors continue to question whether policy actions alone will be sufficient to stabilize longer-term interest rates.



U.S. equities moved lower across the board. The S&P 500 declined 1.4% for the week, while the technology-heavy Nasdaq Composite fell 2.1%. The Dow Jones Industrial Average and Russell 2000 also posted losses of 0.9% and 1.7%, respectively. Although market volatility increased from its lowest levels of 2026, it remained subdued by historical standards despite ongoing geopolitical risks and growing concerns that a bear steepening of the yield curve could further tighten financial conditions.

International equity markets were generally weaker, although a few notable exceptions emerged. Hong Kong's Hang Seng Index advanced 3.6% as investors responded positively to easing inflation data and renewed strength in technology shares. Meanwhile, the UK's FTSE 100 outperformed many developed-market peers, benefiting from its heavier exposure to mining, energy, and other traditionally defensive sectors, which were supported by firmer commodity prices.

Elsewhere, most major equity markets across Asia and Europe recorded weekly declines. Japan's Nikkei 225 fell nearly 4%, as rising government bond yields strengthened expectations for tighter monetary policy and triggered a broad selloff in technology stocks, reversing much of the previous week's gains. Overall, higher yields, geopolitical uncertainty, and concerns over the trajectory of global inflation remained the dominant themes driving market performance.

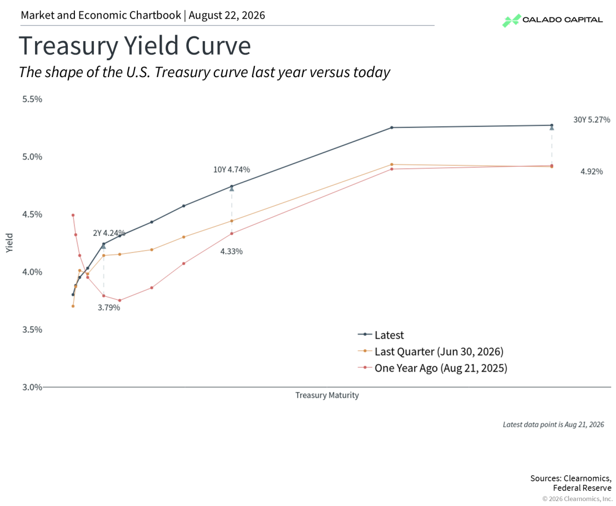


Week in review – US macroeconomics

With the economic calendar light last week, market attention centered on the release of the July FOMC meeting minutes, and a somewhat surprisingly by a notable Treasury announcement on long term bond buybacks and a mixed batch of July housing data.

The minutes from the Federal Reserve’s July meeting revealed a committee more divided than at any point in years. Policymakers voted 9-3 to hold rates steady, the most fractured decision in years, with three regional Fed presidents dissenting in favor of a quarter-point hike. More telling was the tone of the discussion, as a number of officials indicated that further tightening could become necessary should inflation fail to decline as anticipated, underscoring a hawkish bias consistent with Chair Warsh’s repeated emphasis on restoring price stability. While the softer July inflation and labor data appear to support a continued hold, the minutes make clear that the bar for additional hikes may be lower than markets are pricing.

Separately, the Treasury Department, surprisingly moved to address the recent climb in long-term borrowing costs, announcing it would roughly double the size of its long-end liquidity-support buybacks, to at least $4 billion per operation from $2 billion, targeting the 10- to 30-year sectors where yields had reached nearly two-decade highs. Long-dated yields initially eased on the news before reversing, as investors questioned whether the operations could do more than temporarily steady the market. Notably, the intervention sits awkwardly alongside Chair Warsh’s stated approach of leaning on market signals, and the long end of the curve in particular, to help provide the reaction function guiding Fed policy. If the Treasury is actively managing down the very yields the Fed intends to read as a barometer of financial conditions and fiscal risk, that signal becomes harder to interpret, an added complication for a market already navigating a federal reserve that has stepped back from forward guidance.



On the data front, the July housing figures were mixed. Building permits, a forward-looking gauge, rose to 1.44 million, topping the 1.37 million expected and improving sequentially. Housing starts, however, disappointed, fell to 1.24 million against the 1.35 million expected and down from 1.42 million previously, a reminder that elevated mortgage rates and stretched affordability continue to weigh on residential construction.

Corporate earnings

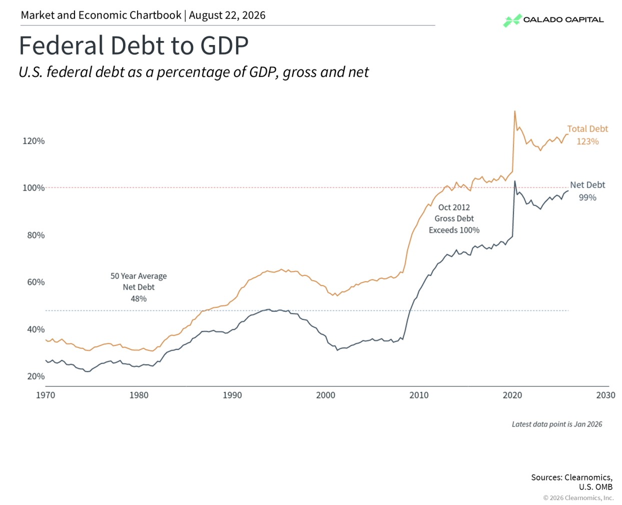
With the second-quarter reporting season winding down, the week's corporate calendar was headlined by the big-box retailers, offering a timely read on the health of the US consumer. According to SA News (Seeking Alpha), all twelve of the notable companies reporting last week, spanning the consumer discretionary, consumer staples, information technology, industrials, and financials sectors, beat consensus earnings estimates, with eleven delivering year-over-year profit growth. Top-line results were similarly firm, as did eleven of the twelve topped revenue expectations and all twelve grew revenue from a year earlier.

Beneath the beats, however, the retail results painted a more cautious picture of the consumer. Walmart, Target, Home Depot, and Lowe's collectively pointed to a clear trade-down dynamic, with shoppers visiting stores more frequently but spending less per trip and gravitating toward lower-priced items, a sign that spending remains resilient but increasingly price-sensitive, or, as Bloomberg put it, that consumers are "still buying for the right price." Notably, Walmart beat estimates, yet its shares fell roughly 9% on a softer forward outlook, while Home Depot and Lowe's flagged that larger home-improvement projects remain under pressure amid stretched housing affordability, echoing the softness seen in the week's retail sales and sentiment data. With the season nearly complete, market attention now turns to a pivotal slate of results across enterprise software, cybersecurity, retail, and semiconductors, headlined by Nvidia, for the latest read on AI monetization trends and the durability of the consumer.

Week ahead

The week ahead will be dominated by the Federal Reserve's annual economic symposium in Jackson Hole, where markets are attaching significant importance to Chair Warsh's address for greater clarity on the policy outlook, even as he is unlikely to offer explicit forward guidance. Setting the stage beforehand will be the July reading of the PCE price index, the Fed's preferred inflation gauge, which could meaningfully shape the tone of the speech. Alongside it, markets will receive July personal income and spending, offering a timely read on the health of the consumer, as well as July durable goods orders and the second estimate of second-quarter GDP.

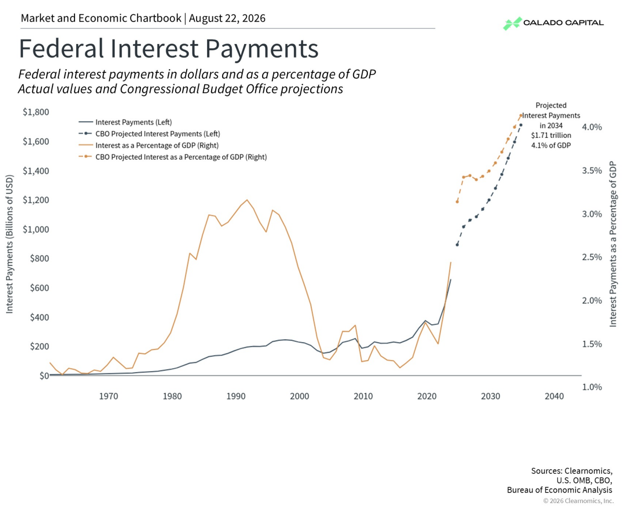
Also in focus will be the Bureau of Labor Statistics' annual benchmark revision to nonfarm payrolls. The release carries added weight this year given the controversy surrounding last year's revision, when payroll growth for the year through March 2025 was marked down by roughly 911,000, nearly a million jobs, fueling accusations of unreliable data and ultimately contributing to a change in leadership at the BLS. With the labor market already showing signs of softening, another sizable downward revision would further complicate the Fed's assessment and could sharpen the debate over the timing of its next move.



Number of the week: $40 trillion

The US federal debt crossed $40 trillion for the first time last week, a record milestone reached just as the Treasury moved to double its buybacks of long-dated bonds in an effort to steady yields near two-decade highs. The two developments are inseparable. A widening deficit, compounded by a surge in issuance to help fund the AI infrastructure buildout, has flooded the market with long-term supply, and investors have responded by demanding greater compensation, in the form of higher term premia, to absorb it. The buybacks are one lever to relieve that pressure, and the Treasury retains others, but with supply this heavy, whether the intervention can durably lower the long end remains an open question, as the initial dip in yields that followed the announcement quickly reversed.

The more fundamental issue, however, lies beyond the Treasury's toolkit. With no indication that Congress intends to rein in the deficit anytime soon, the structural supply of Treasuries is set to keep growing, which suggests markets will continue to demand higher risk premia to fund it. For a Fed Chair who has signaled a preference for letting the market help set the reaction function, that leaves the long end of the curve as both the key barometer and the source of the tension. The more the government leans on financial engineering to manage its borrowing costs, the harder it becomes to read the very signal the Fed intends to follow.



If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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