Markets advance despite familiar tensions

Bonds provided solid returns as Treasury yields moved lower, led by declines at the longer end of the yield curve.

The month of August reminded many investors that the markets rarely move in a straight line. A combination of encouraging economic fundamentals, uncertainty in the bond market and renewed geopolitical turmoil led to increased volatility and shifting market leadership. But the underlying backdrop reinforced that the US economy continues to expand at a sustainable pace.

According to Raymond James Chief Investment Officer Larry Adam, “While higher interest rates and inflation concerns created bouts of volatility during the month, the fundamental backdrop remains supportive. Economic growth continues to exceed expectations, corporate earnings remain healthy and the consumer has shown remarkable resilience."

Consumer spending was essentially flat in real terms in July, while the labor market lost jobs for the first time since February. On the other hand, corporate investment remained consistent thanks to continued spending on AI infrastructure. Inflation, energy prices and geopolitical tensions once again joined forces to create headwinds as the Federal Reserve held interest rates steady, but under a watchful eye.

Equities saw a shift in leadership, with value-oriented sectors like health care, materials and energy outperforming as high-flying growth stocks consolidated. Corporate earnings growth was robust across a range of sectors, mirroring the broadening seen throughout the market.

Bonds provided solid returns as Treasury yields moved lower, led by declines at the longer end of the yield curve. We’ll dive into more details below, but first, let’s look at how August wrapped up.

	12/31/25 Close	8/31/26 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	48,063.29	53,185.90	5,122.61	+10.66%
NASDAQ	23,241.99	26,370.89	3,128.90	+13.46%
S&P 500	6,845.50	7,686.14	840.64	+12.28%
MSCI EAFE	2,892.71	3,246.34	353.63	+12.22%
Russell 2000	2,481.91	2,956.45	474.54	+19.12%
Bloomberg Aggregate Bond	2,348.85	2,343.86	-4.99	-0.21%

*Performance reflects index values as of market close on August 31, 2026.

Equities push past headwinds

Many equity benchmarks saw positive outcomes despite a host of adverse factors at play during the month of August. The market returned double-digit gains year-to-date, supported by earnings growth and performance broadening beyond the familiar mega-cap tech giants. Small caps and emerging markets equities led the way, up over 20%.

A new trade war with Canada

Trade talks between the US and Canada collapsed, prompting President Trump to impose a 50% Section 338 tariff on $20 billion worth of Canadian goods, the first-ever use of such authority. It targets alcohol, lumber, dairy and textiles. Canada has responded by announcing retaliatory tariffs. The administration also authorized Section 232 tariffs on polysilicon, affecting unmanned aircraft systems and drones.

Treasuries

The announcement of doubling buybacks of long-term bonds hinted at bringing long rates down as the clash between fiscal and monetary policy stands to introduce yet another source of volatility to the market. We are now more than three years into an elevated rate environment, which continues to support the role of fixed income as an important source of portfolio diversification and income generation.

Consumer sentiment on shaky ground again

The preliminary Consumer Sentiment Index (CSI) came in weaker than expected, with both major components deteriorating from last month's numbers. Inflation expectations edged higher for the one-year projection while the five-year projection remained unchanged. The Federal Open Market Committee (FOMC) will likely weigh these sentiment metrics when considering its strategy on managing inflation in the near term.

A return to economic pressure against Iran

August saw the US pivot toward a familiar strategy against Iran, with military action still part of the backdrop but increasingly replaced by economic pressure. This more closely aligns with the Obama years and Trump's first term, though Iran has proven to be quite resilient to such action, even in the face of 90% annual domestic inflation. Notably, Iran's ability to export crude oil through land borders with seven neighboring countries helps it circumvent the US naval blockade.

AI booms on the global stage

Economies closely tied to semiconductor and electronics manufacturing have proven to be powerful beneficiaries of the AI buildout. Korea and Taiwan both reported growth, but were eclipsed by Malaysia and Vietnam, where growth accelerated past trend levels. China's economy has profound structural imbalances, but weakness in consumption has been offset by strength in export activity.

The bottom line

Despite several familiar tensions being navigated by the market, fundamentals and broadening performance across industries previously out of the spotlight continue to drive the markets forward. While inflation has yet to cease its role as a looming boogeyman casting shadows across the economic landscape, consumer activity remains resilient.

This material is for informational purposes only and is not a recommendation. Investing involves risk, and investors may incur a profit or a loss. All expressions of opinion reflect the judgment of the Raymond James Chief Investment Officer and are subject to change. There is no assurance the trends mentioned will continue or that the forecasts discussed will be realized. Past performance may not be indicative of future results. Economic and market conditions are subject to change. Diversification does not guarantee a profit nor protect against loss.

The Dow Jones Industrial Average is an unmanaged index of 30 widely held stocks. The NASDAQ Composite Index is an unmanaged index of all common stocks listed on the NASDAQ National Stock Market. The S&P 500 is an unmanaged index of 500 widely held stocks. The MSCI EAFE (Europe, Australasia and Far East) index is an unmanaged index that is generally considered representative of the international stock market. The Russell 2000 is an unmanaged index of small-cap securities. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. An investment cannot be made in these indexes. The performance mentioned does not include fees and charges, which would reduce an investor's returns.

Companies engaged in business related to a specific sector, including the technology sector, are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. Income from municipal bonds is not subject to federal income taxation; however, it may be subject to state and local taxes and, for certain investors, to the alternative minimum tax. Income from taxable municipal bonds is subject to federal income taxation, and it may be subject to state and local taxes. Treasury securities are direct obligations of the United States Government. If bonds are sold prior to maturity, you may receive more or less than your initial investment. US government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government.

Investing in oil or the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors. Investing in small-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. The prices of small company stocks may be subject to more volatility than those of large company stocks. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

Material created by Raymond James for use by its advisors.