MONTHLY MARKET UPDATE | AUGUST 2026

Hatch Financial Planning

Interest rates could remain higher for longer.

Information contained in this report current as at 14 September 2026.

August presented an interesting picture for global financial markets, with fixed income and share markets sending different signals to investors. Government bond yields moved higher in Australia, Europe and Japan – in some cases reaching levels not seen since the global financial crisis. Investors became more concerned about fiscal sustainability, persistent inflation, a rise in the price of oil following renewed tensions in the middle east and the prospect of rates remaining higher for longer. Credit markets, however, remained orderly, while shares were broadly constructive, albeit with more nuanced signals through the US reporting season.

The Australian share market increased 1.62% in August 2026 whilst the broader global developed markets index (MSCI World Index) returned 2.58% in USD. However, because the Australian dollar strengthened significantly against the US dollar and major currencies over the course of August, the return in Australian dollar terms was 0.53%. The interest rate sensitive listed property sector decreased by -6.67% in Australia and -3.15% for global property.

In Australia, households spent more than expected and prices rose faster than expected, which makes life difficult for the Reserve Bank of Australia (RBA). At the same time, high interest rates are clearly biting: house prices keep falling and consumers are feeling less confident. The monthly NAB survey of businesses points the same way, suggesting the economy is slowing and giving the RBA reason to leave interest rates unchanged. The survey's measure of how businesses are currently trading fell to -1 from +4, meaning more firms are doing it tough. It is the first negative reading since 2020, with profits and sales at their weakest since the pandemic. Business confidence, which is a better guide to what comes next, fell again to -8 from -6. Profit margins are being squeezed, which is surprising given how much prices have risen. Businesses are paying more for supplies but are not passing all of it on to customers. New orders were flat and firms are running slightly below the very busy levels of recent months, though still busier than usual.

The RBA's dilemma is that inflation came in hotter than expected in July. Overall prices were 3.5% higher than a year earlier, down from 3.8%, but above the 3.3% economists had forecast. The "underlying" measure, which strips out one-off price swings to show the true trend, stayed at 3.6% and has been creeping up since mid-2024. Petrol was the main reason prices rose during the month and the cost of services such as insurance, rents and healthcare also stayed high. The difficulty for the RBA is that inflation is still too high even though interest rates are already doing their job: the housing market has cooled after this year's RBA hikes and tax changes and the job market is weakening, with unemployment rising to 4.5% in July. In short, prices are rising faster in the

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short term while the signs that usually point to future price pressure are fading. That makes a rate cut unlikely soon and keeps another rate rise possible, however does not suggest a long run of rate rises ahead.

In the US data released through August pointed to an economy that remained resilient. The key releases included employment data, Inflation, retail sales, and GDP revisions. An important message was that the labour market was stronger than expected, while inflation was still running above the Federal Reserve's 2% objective. The August employment report showed nonfarm payrolls rising by 162,000, the unemployment rate unchanged at 4.1%, and the labour force participation rate edging up to 61.6%. Prior months were also revised higher. The June data was lifted from 20,000 to 31,000 and July from a 23,000 decline to a 21,000 gain, leaving employment 55,000 higher than previously reported. This changed the policy interpretation: rather than signalling a labour market that was clearly rolling over, the data suggested a still-resilient labour market with enough strength to keep the Federal Reserve cautious.

The reacceleration in the producer price index (PPI) which shows what companies pay for their inputs, was not surprising given the rebound in commodity prices, which have moved above their 2026 highs. US inflation remains uncomfortably above the Federal Reserve's 2% objective and the preferred measure tells a less comfortable story. Renewed conflict in the Middle East has pushed West Texas Intermediate back above USD 100 a barrel for the first time since May. The national average petrol price reached USD 4.27 a gallon and diesel is rising at its fastest annual pace since 2022. That shock is visible at the wholesale level. As mentioned above, producer prices remain higher over the year at 5.4%, the strongest annual reading of 2026, with final-demand energy up 4.2% and diesel alone up 24.1%. It confirms the impulse is energy-led rather than broad-based. The Federal Reserve held the funds rate at 3.50–3.75% at every meeting this year. Chair Kevin Warsh's Jackson Hole address made clear he is not persuaded that underlying trends have improved. Futures and prediction markets now put the odds of a 0.25% increase in monetary policy on 16 September above 75% and bond markets have moved accordingly.

The eurozone economy outpaced forecasts in the June quarter, adding 0.4%. The bloc has now strung together four straight quarters of growth averaging roughly 0.3%. The standout shift has come from Germany. After three years of going almost nowhere, it ranked among the region's principal engines of growth over the first half of 2026, with the lift in defence and infrastructure outlays finally feeding through and likely to underpin activity into next year. France has travelled in the opposite direction, registering flat output across the same six months. That is an unwelcome backdrop for the coming budget talks. Assembling a credible austerity package is hard enough without a stagnant economy and harder still with a presidential contest due in 2027. Against that setting, a fresh widening in French bond spreads shapes as a genuine risk over the second half. A 0.25% tightening of monetary policy took the ECB's policy rate to 2.50% largely on the back of higher oil prices. Among the G4 central banks, the ECB has taken the firmest line this year, even though Europe's inflation impulse can be traced almost wholly to the energy shock emanating from the Middle East. It was the Bank's second move since hostilities between the US and Iran broke out in February and it leaves the deposit rate sitting at the top of the range widely regarded as neutral. The ECB raised its growth projections for 2026 and 2027 and nudged up inflation forecasts for 2027 and 2028. For 2027 and 2028, the inflation forecast was revised upwards to 2.5% and 2.1%, respectively. Core inflation is expected to come in at 2.5%, 2.6% and 2.3% in 2026, 2027 and 2028, respectively. ECB President Lagarde characterised the risk picture as stagflationary - upside risks to prices alongside downside risks to growth. European bond markets read the press conference as hawkish and yields moved higher (prices fell).

In China, headline growth remains within the official target, however the sharp slowdown in the second quarter and persistent weakness in domestic demand reinforce the case for more policy support. Strong export growth whilst positive overall delivered few spillovers to the broader economy, providing scant support to investment spending, household income or consumption. Persistent industrial overcapacity is still discouraging capital expenditure. The headline CPI inflation rose to 0.8% year-on-year in August, up from 0.5% in July. Food (30% of the CPI basket) and housing (22%) have acted as persistent drags whilst higher tech input prices and energy prices have offset the drags. Tech prices led communication appliance prices to a 10.6% increase over the year, while transportation fuels rebounded to 8.3% amid fuel price hikes in August. Other subindices such as clothing (1.3%), daily use products and services (0.7%), tourism (2.7%), and healthcare (2.7%) generally showed low, but positive, inflation. The policy backdrop should remain supportive however the scale of additional stimulus will likely remain limited.

Company profit reporting season in Australia was generally better than expected. Most companies earned more than analysts had forecast and paid larger dividends to shareholders, even though their sales were only in line with expectations. They managed this mainly by cutting costs, which protected profits when sales were soft. Share prices swung sharply on the day results were announced, producing some large winners and losers. The tone about the year ahead was more cautious, as analysts lowered their profit forecasts for the 2027 financial year, partly because a stronger Australian dollar reduces the value of profits companies make overseas. Health care was the strongest part of the market over the month, rising 18.1%, led by blood products group CSL (up 39.4%) and protective glove maker Ansell (up 26.1%). Retailers and other consumer-facing companies were the weakest, falling 7.3%, dragged down by JB Hi-Fi (down 16.7%) and Wesfarmers, the owner of Bunnings and Kmart (down 11.1%). Smaller and medium-sized companies did noticeably better than the market's 20 largest companies, whose share prices were broadly flat or lower. Gold rose strongly after data shifted expectations for interest rates around the world, which supported mining companies generally, while the Australian dollar moved higher.

The global outlook remains fragile. Inflation pressures remain too high for central banks to declare victory. For investors, the combination of resilient equity markets, elevated inflation and ongoing geopolitical risk suggests that volatility is likely to remain a feature of markets through the remainder of 2026.

Returns 31st August 2026

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

Australian Bonds
Bloomberg AusBond Composite 0+Y TR AUD

International Bonds Hedged
Bloomberg Global Aggregate TR Hdg AUD

Australian Listed Property
S&P/ASX 200 A-REIT TR

International Property Hedged
FTSE EPRA/Nareit Dv REITS TR Hdg AUD

Australian Shares
S&P/ASX 200 TR AUD

Emerging Market Shares
MSCI EM NR AUD

International Shares
MSCI World Ex Australia NR AUD

RETURNS TO THE 31ST AUGUST 2026

	1 month	3 months	6 months	1 year	3 years	5 years	7 years	10 years
Australian Cash	0.38	1.11	2.19	4.05	4.16	3.33	2.60	2.25
Australian Bonds	-0.22	0.30	0.53	0.57	3.32	-0.13	0.14	1.58
International Bonds Hedged	0.16	-0.35	-1.19	1.79	3.52	-0.39	0.18	1.26
Australian Listed Property	-6.67	-5.12	-5.81	-15.50	6.85	2.89	11.08	4.74
International Property Hedged	-3.15	2.12	2.65	11.49	9.35	1.54	8.37	3.62
Australian Shares	1.54	4.54	0.32	4.40	11.24	7.81	13.44	9.36
Emerging Market Shares	1.30	-0.83	7.45	27.17	19.15	8.61	11.54	9.81
International Shares	0.53	2.74	9.36	10.02	16.22	11.71	15.50	13.63

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