

The Way We See It

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Have Trump's policies awakened the Bond Vigilantes?

Bond vigilantes re-emerge as deficits collide with tightening liquidity.

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Review of Developments

- Global Economies
August updates and Q4 Forecasts

Region	Q4 2026 GDP Forecast (Ann. / YoY)	Headline Inflation (August / YTD Avg)	Q4 2026 Headline Inflation Forecast	Core Inflation (August / YTD Avg)	Budget Deficit (% of GDP)
United States	1.9% – 2.2%	3.3% / 3.5%	2.6% – 2.9%	2.5% / 2.7%	~6.0%
China	4.3% – 4.6%	0.7% / 0.8%	1.0% – 1.3%	0.8% / 0.8%	~7.3%
Eurozone	0.9% – 1.1%	3.3% / 2.8%	2.1% – 2.3%	2.8% / 2.6%	~3.4%
Japan	0.7% – 0.9%	2.6% / 2.6%	2.0% – 2.2%	2.3% / 2.4%	~5.5%
Asia / EM Bloc	4.5% – 4.7%	3.6% / 3.6%	3.0% – 3.3%	~3.1% / ~3.2%	~4.5%

Source: Google. (2026, September 7). *Global macroeconomic outlook and inflation forecasts* [Large language model]. <https://gemini.google.com/>

Global economic conditions remain broadly subdued, with only a few sectors—most notably AI-related semiconductor investment and defence spending—continuing to expand at scale. Outside these pockets of strength, activity across major economies has softened, reflecting weaker demand, tighter financial conditions and persistent core inflation.

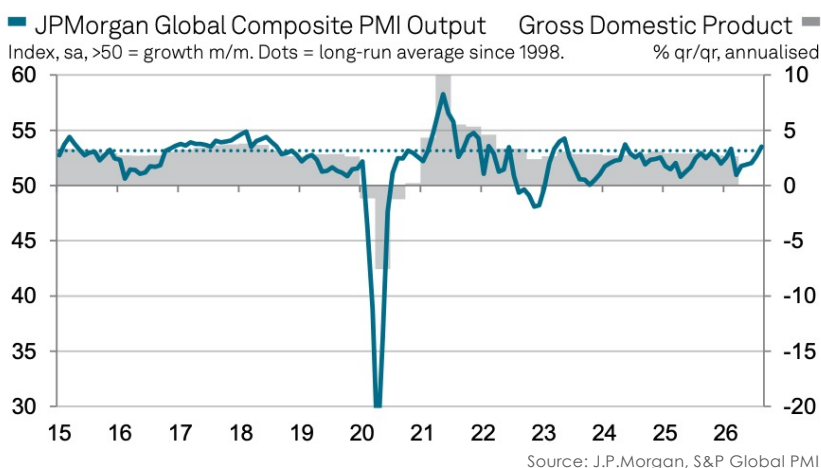
A meaningful portion of this inflation stickiness reflects policy-driven uncertainty. Shifts in US tariff policy have complicated supply-chain planning and raised input-cost volatility for global manufacturers. The conflict in Iran has pushed energy and petrochemical

prices higher, feeding through to transport, fertiliser and industrial production. Meanwhile, tighter US immigration rules have contributed to short-term labour shortages in lower-skilled segments, adding modest wage pressure and constraining service-sector capacity.

These inflationary forces, combined with widening US fiscal deficits and intense capital demand from the AI infrastructure build-out, have driven long-dated Treasury yields higher. Rising term premia have tightened financial conditions globally, weighing on investment and consumption while complicating disinflation efforts. Energy-price volatility continues to distort headline inflation, and core measures remain sticky. US core PCE inflation is holding at 3.3%, and Federal Reserve Chair Kevin Warsh has reiterated the Fed's commitment to restoring inflation to its 2% target. Bond markets interpret this stance as signalling a credible risk of further policy tightening.

Inflationary forces and widening fiscal deficits have driven long-dated TSY yields higher.

J.P.Morgan Global Composite PMI™



Geopolitical risk remains elevated. Conflicts in the Middle East, ongoing tensions in Ukraine and East Asia, and instability in Cuba and Greenland threaten supply chains, commodity flows and regional security. These developments reinforce the importance of resilience, diversification, and disciplined risk management within strategic asset allocation frameworks.

- Global Markets Review of the Month of August 2026

Global markets regained composure in August 2026 following July's sharp, margin-call-driven sell-off in overheated semiconductor memory and AI-chip names. Equity sentiment improved meaningfully, supported by resilient earnings and a rotation back into fundamentally stronger sectors. Although renewed Gulf tensions lifted oil prices and pushed long-dated bond yields higher, risk assets broadly held firm.

US equities advanced 2.8%, helped by technology's heavy index weighting and solid corporate results. Global equities rose 2.6%, with ex-US markets gaining 2.2%. Emerging markets outperformed, rising 3.4%, led by Korea and Taiwan's technology stocks. Asia ex-Japan rallied 3.3%, while China eased 0.3% after last month's strong 9% rebound.

Near-term performance of various asset classes

Asset Class	US Equities	Global Equities	Global ex US Equities
Index	MSCI USA	MSCI World	MSCI World ex USD
1 month	2.76%	2.60%	2.21%
3 months	1.78%	2.44%	4.18%
YTD	13.04%	13.40%	14.32%
FY 2025	17.75%	21.60%	32.55%

Asset Class	US Corporate	US Treasury	US Aggregate
Index	Bloomberg US Corporate	Bloomberg US Treasury	Bloomberg US Agg
1 month	0.43%	0.31%	0.39%
3 months	-1.06%	-0.53%	-0.68%
YTD	-0.40%	-0.53%	-0.31%
FY 2025	7.77%	6.32%	7.30%

Asset Class	Global Govt Bonds	Global Aggregate	GEM Equities
Index	Bloomberg Global TSY	Bloomberg Global Agg	MSCI EM
1 month	0.35%	0.45%	3.40%
3 months	-0.80%	-0.79%	-1.10%
YTD	-0.86%	-0.30%	24.35%
FY 2025	6.82%	8.17%	34.36%

Asset Class	Asia ex Japan Equities	China A	China Offshore
Index	MSCI AC AxJ	MSCI China A Onshore	MSCI China
1 month	3.30%	3.12%	-0.34%
3 months	-1.23%	-3.96%	1.01%
YTD	26.37%	6.85%	-7.53%
FY 2025	33.02%	30.26%	31.42%

Asset Class	Global Commodities	Gold	USD
Index	CBR	Spot Price	Norm. Broad USD Index
1 month	6.61%	9.92%	-1.77%
3 months	7.92%	-2.10%	-0.26%
YTD	37.86%	2.98%	-1.29%
FY 2025	0.37%	65.51%	-7.24%

Source: GOJI, MSCI, Bloomberg; data as of 31/8/2026

Global markets regained composure in August following July's sell-off; China remains a laggard.

Fixed income delivered modest but positive returns. US Treasuries gained 0.3%, and the US Aggregate Bond Index rose 0.5%. Global government and aggregate indices increased 0.4% and 0.5%, respectively, reflecting stabilising rate expectations despite upward pressure from energy markets.

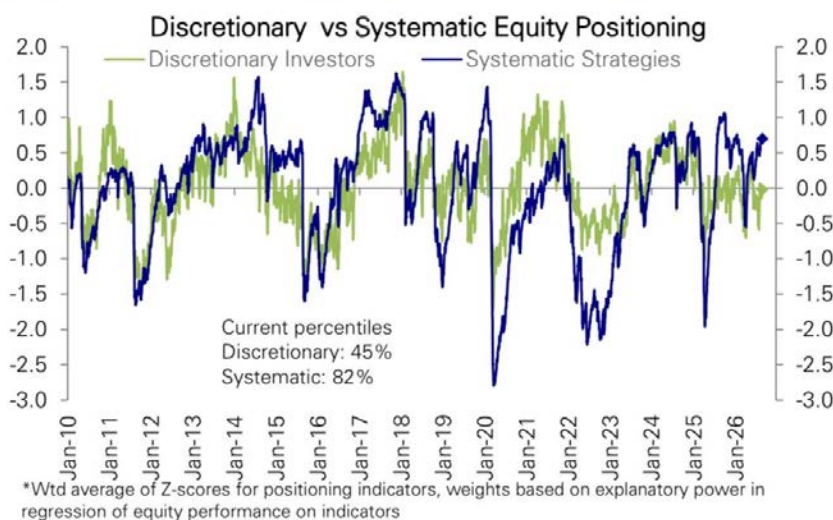
Commodities rebounded sharply, driven by oil's recovery amid geopolitical uncertainty. The US dollar weakened slightly over the month, offering marginal support to non-US risk assets.

Market Outlook

Rest of the Year 2026, and beyond

Year-to-date to end-August, equities have been led by a strong rally in semiconductor and AI-related stocks, despite a sharp July correction when crowded chip and AI-infrastructure positions unwound and briefly pushed major tech indices into correction territory; technology still anchors 2026's gains, while traders and quant funds stay constructive and long-term fundamental investors maintain fairly neutral exposure to risk assets.

Discretionary vs Systematic Equity Positioning



Source: Deutsche Bank Asset Allocation

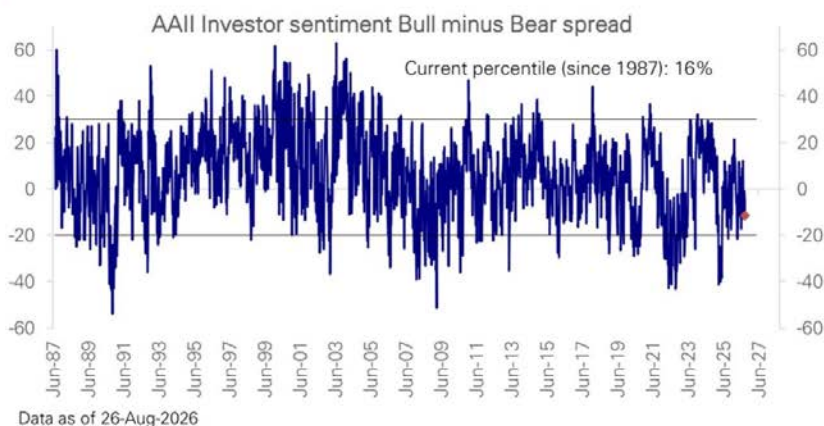
Surveys indicate that fundamental investors are broadly neutral. Their caution reflects several persistent concerns: US core inflation remains

Long-term fundamental investors maintain fairly neutral exposure to risk assets.

elevated; long-dated bond yields continue to rise; Gulf tensions add uncertainty to energy markets; and questions persist over the long-term returns on hyperscalers' AI capital expenditure. Valuations are another constraint, with equities appearing stretched relative to historically high real yields. In contrast, declining equity-market volatility has encouraged systematic funds to rebuild overweight positions, with some now significantly exposed.

Sentiment softened in August, with the Fear & Greed Index oscillating between Neutral and Fear. Technically, US indices remain in long-term uptrends, holding above their 200-day moving averages.

Investor Sentiment



Source: Barron's, Haver Analytics, Deutsche Bank Asset Allocation

Looking into 2027 market forecast, we asked Gemini to run a forecast on the macro baseline (various parameters in different countries / regions), with cross-checking against OpenAI and Claude.

2027 Macro Forecasts: Growth, Inflation & Rates

Region	2027 GDP Growth Forecast (YoY)	2027 Headline Inflation Forecast	2027 Core Inflation Forecast	Current Cash Rate (Sep 2026)	Central Bank Cash Rate (End-2027)	Budget Deficit (% of GDP)
United States	1.7% – 2.0%	2.2% – 2.5%	2.3% – 2.5%	3.50% – 3.75%	3.25% – 3.50%	~6.2%
China	4.2% – 4.5%	1.2% – 1.6%	1.0% – 1.3%	1.40% (7-day Rev. Repo)	1.30% – 1.40% (7-day Rev. Repo)	~7.5%
Eurozone	1.1% – 1.3%	2.0% – 2.2%	2.0% – 2.2%	2.25% (Deposit Rate)	2.00% – 2.25%	~3.1%
Japan	0.8% – 1.1%	1.9% – 2.1%	1.8% – 2.0%	1.00%	0.75% – 1.00%	~5.0%
Asia / EM Bloc	4.3% – 4.6%	2.8% – 3.2%	2.8% – 3.0%	~4.50% (Reg.I Weighted)	3.75% – 4.25% (Reg. Weighted)	~4.2%

Note. Adapted from Global Economic Outlook: 2027 Macro Baseline, by Gemini, 2026, Google (<https://gemini.google.com>). Data reflects September 2026 YTD realized indicators and consensus 2027 macroeconomic projections.

Readers are reminded that the above do not represent GOJI's view, and AI can make mistakes.

Feed & Greed Index



Source: CNN Business
Last update August 31 at 8:00:00 PM ET

GOJI: we actually expect modest rate hike, after mid-term election.

The Way We See It

- Global Markets and Investment Thematics

At GOJI, our investment framework is built on a dual approach—balancing short-term tactical agility with long-term strategic discipline. We distinguish between tactical positioning (3–6 months) and strategic allocation (1–2 years), allowing us to navigate evolving market dynamics with precision.

Long-Term Neutral Risk Stance

Since March, GOJI has maintained a neutral long-term risk posture. Elevated valuations, subdued growth, and geopolitical uncertainty dominate the landscape. Optimism around pro-growth policies and AI investment persists, but risks are not fully priced. Prudence is warranted.

We remain modestly underweight high-beta growth assets. Allocations to cash and high-quality bonds preserve capital, enhance resilience, and maintain flexibility. This balanced stance enables selective opportunity capture while mitigating downside risk.

Short-Term Positioning

GOJI expects volatility to persist, with year end levels likely within ± 10 per cent of current indices. Near term, we advise neutrality in equities and readiness to add long-dated government bonds.

With US 10-year yields nearing 5 per cent and 30-year yields approaching 5.5 per cent, government bonds are increasingly attractive. We caution against low-quality corporates and illiquid private credit.

Equity preferences:

- Value over Growth
- Asia and emerging markets over Europe, where structural headwinds persist.

FX positioning should remain neutral. Short-term strategy emphasises balance, diversification, and discipline to withstand volatility while capturing regional opportunities.

GOJI: we keep both our LT and ST views unchanged at the moment.

Special Section: How Poor and Desperate Trump Team's economic policies led to Dollar Debasement.

In this month, we, at GOJI, wish to focus on the half-hazard, almost amateurish, shooting-from-the-hip economic policies of the Trump administration.

Recent announcements by Trump & Vance, together with ill-thought-out policies announced by the heads of the US Treasury, the US Fed, culminated in a financial farce of gigantic proportions.

This resulted in a continuation of the Dollar Debasement theme which emerged last year.

Let us objectively look at them:

1) Scott Bessent:

In August, the Treasury Secretary Bessent intervened twice in the US dollar and Treasury bond (T-bond) market in order to try to prevent long-dated bond yields from rising excessively. Here is a sketch of the two events :

- a. First, Bessent extended a USD swap line to the Bank of Japan (BoJ) so that the latter can access the USD without having to sell part of their large holding in US T-bonds. Had the BoJ executed the latter, the USD would have weakened and US bond yields could have risen. It has always been Bessent's obsession to try to arrest or slow down the ascent of yields US long-dated bonds. In this particular instance, the intervention was successful in the first 24 hours but failed only the day after.
- b. Second, Bessent again intervened in the US T-bond market by implementing a duration swap, selling short-dated T-bills in order to buy illiquid long-dated T-bonds. Again, this announcement worked for 24 hours, with yields of long-dated bonds falling some 7-10bps. Nevertheless, yields immediately rose back, 24 hours after, to levels which prevailed some 48 hours before that. The failure can be explained by the intervention itself

Bessent intervened the USD and TSY markets.

(bond vigilantes do not like this temporary and artificial government action), combined with the pitiful small size of the proposed purchase of long-dated T-bonds by Bessent (\$4 bn, an amount which pales into insignificance against the \$150bn daily trading of long-dated T-bonds in the secondary market!).

2) Kevin Warsh:

Since his appointment as Chairman of the Fed, Warsh has been very critical of the disappointing inflation combatting track record of the Fed under the leadership of Jay Powell. To be fair, the underlying core inflationary pressures in the US appear to be firstly caused by the massive fiscal spending programs implemented by both Republicans and Democratic governments since the Covid crisis. Secondly, a shortage of both skilled and unskilled workers in the US appeared to have kept wages high and rising. Thirdly, the core inflation rate under Trump 2.0 has worsened because of a much more restrictive immigration policy, higher and constantly changing tariffs, plus the senseless US-Israeli war against Iran (after America stole / confiscated the oil reserves from Venezuela).

Consequently, if Warsh wishes to use the blunt tool of monetary policy to bring the core PCE inflation rate down from 3.3% to 2% pa quickly, we have little doubt that he would need to engineer a recession to achieve it. In other words, the Fed Fund rate will need to be raised by at least 200-300 basis points. The political and economic will to do so is, in our opinion, close to zero.

In actual fact, we believe that Warsh, instead of acting like a show pony, should heed the wise advice and thinking of other core members of the Fed, ie, Jay Powell (who remains a permanent voting member of the FOMC), John Williams (NY Fed chief and Fed playmaker), C Waller and others, who voted to hold the cash rate constant at 3.75% pa for now.

3) Vance & Trump:

Both have publicly warned Warsh that he has to cut rates in order to boost the housing sector (Vance's

Warsh has no political and economic will to hike rate aggressively.

plea) or else Trump will put quotas on all exports from countries which record a trade surplus vis-à-vis the US.

Another hilarious moment is that as soon as Trump saw the incredibly high August non-farm payroll employment data on Friday 4/9, he immediately demanded a rate cut. Why? Because the US has the best economy in the world! (can someone please explain these idiotic nonsenses to us?).

As we discussed above (under the Warsh heading), the reasons for the stubborn high core inflation in the US have principally been caused by the poor policies implemented by Trump. There is not much the Fed can do to fix the inflation problem in the short term. Unless they are prepared to accept the cost of a recession. In other words, should they truly want to bring the core inflation down to 2% pa, cash rates would have to be raised at least by 200-300 bps to force significant cutbacks in domestic demand. Surely, this is tantamount to a political suicide, especially under the growth-chaser Trump? Zero chance of occurring!

4) Dollar Debasement & Investment Implications

The above confusing and nonsensical policies implemented or recommended by the top government economic decision makers of America (including Trump!) encouraged investors and punters to diversify away from the USD and US government debt since last year.

We know that the total US government debt has already exceeded \$40 trillion, and that the annual interest bill alone, based on a 4% pa interest rate, costs \$1.6 trillion and rising (that's about \$11 billion per day of interest cost)!

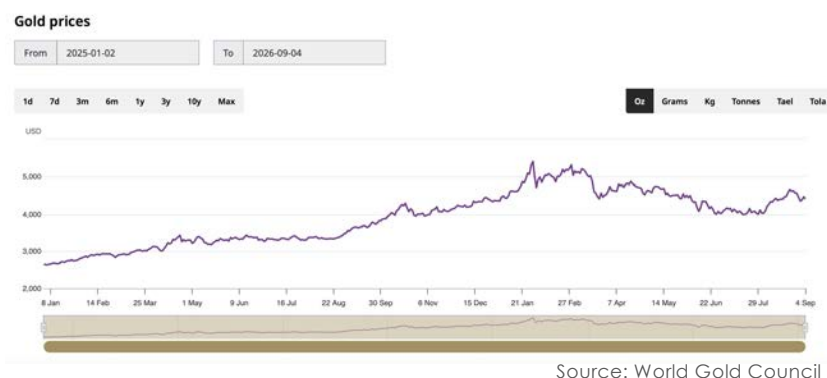
Of course, no one is thinking that the US government would soon default! The latter can always resort to their money printing machine to pay debtors. Hence, the Dollar Debasement thematic.

Thus, precious metals, other real assets and crypto assets have all benefited from a re-rating over the past 12 months.

Vance and Trump forcefully told Walsh to cut rates - loud and clear!

All of the above have led to the Dollar Debasement thematic.

Movement of DXY and Gold since 2025



Dollar Debasement:
- precious metals,
other real assets and
crypto assets have all
benefited from a re-
rating over the past 12
months.

Our Closing Thoughts

Obviously, the more insane and desperate the policy making machine in the US continues, the greater the diversification out of dollar asset liabilities into alternatives, including the above-named assets and non-USD currencies.

Another consequence is the probable continuing reduction in the exposure to debt liabilities in an inflationary environment, in favour of equities and other assets (physical and others) which benefit from inflation.

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