August 2026 Market Recap

By Clay Finck

The Big Picture

Markets continued to spend time testing whether the AI trade still has room to run. Nvidia's blowout earnings late in the month reignited enthusiasm for chipmakers and hyperscalers. That optimism was met with a more hawkish Federal Reserve, as new Chair Kevin Warsh used his Jackson Hole speech to deliver his clearest warning yet that stubborn inflation could force a rate hike, catching bond markets off guard and pushing yields higher into month-end.

Geopolitical risk resurfaced as well, with a fresh U.S.-Iran exchange of fire on the final trading day of the month pulling stocks off their highs.

Taken together, August captured the tug-of-war defining this market: bulls pointing to strong earnings and AI enthusiasm as reasons for optimism, bears pointing to a hawkish Fed, rising yields, and renewed Middle East tensions as reasons for caution. For now, the bulls have the upper hand, but the stakes are rising heading into the Fed's September meeting.

What Moved Markets in August

August saw the S&P 500 touch a fresh all-time high early in the month before drifting slightly lower, though it still finished August ahead of July's close. The Nasdaq led the major indexes as tech shares resumed their leadership role.

Nvidia's earnings release on August 27 was the standout event of the month, with the chipmaker beating analyst expectations and forecasting strong revenue growth ahead. Shares jumped nearly 9% on the news, lifting the Nasdaq more than 1.5% in a single session and boosting technology shares in Europe and Asia as well. The results helped ease lingering concerns about whether heavy AI infrastructure spending is translating into returns, and reinforced technology's position as the market's clear leadership sector for the year.

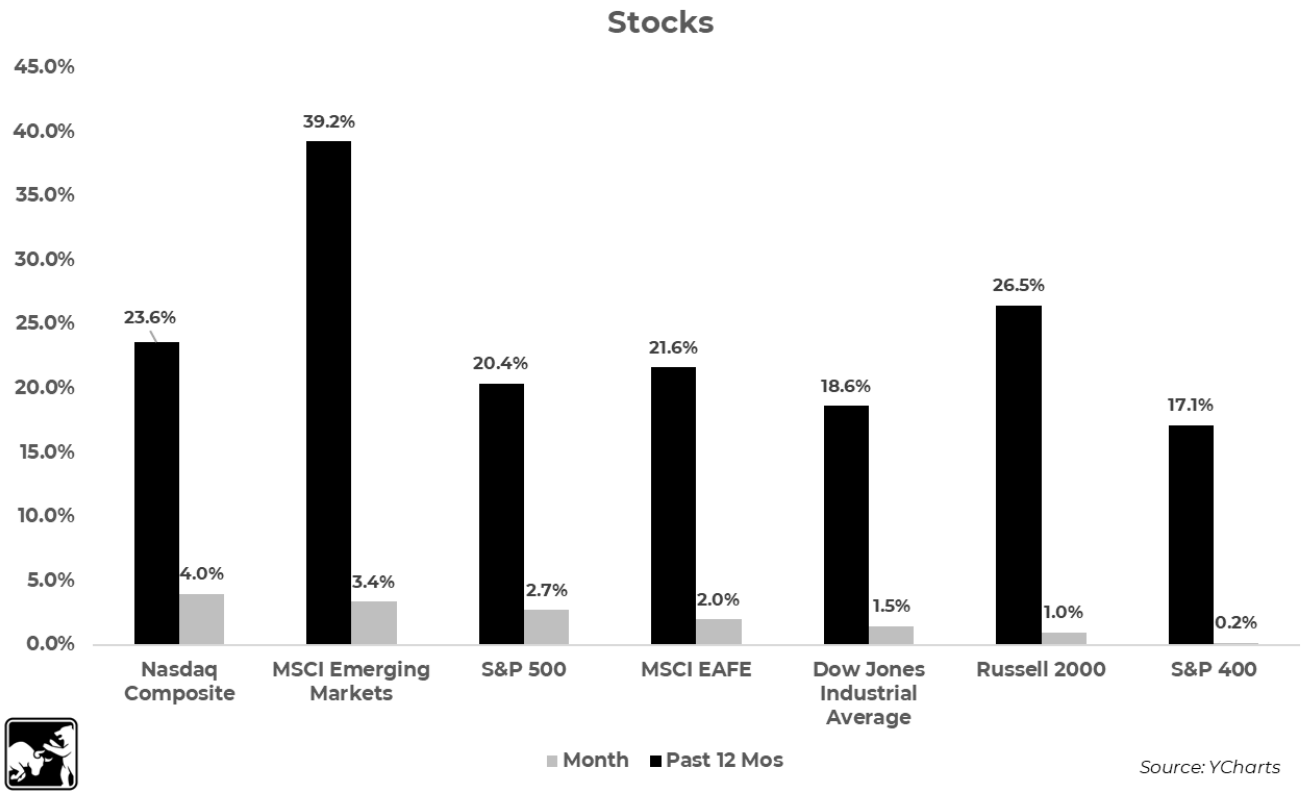
The U.S.-Iran conflict flared again over the final weekend of August, when U.S. Central Command confirmed a strike on Iranian rocket launchers on Larak Island, the first publicly acknowledged U.S. strike on Iranian positions since late July. Tehran reported a retaliatory attack on U.S. forces, and the news sent stocks lower on the last trading day of the month while driving a notable rally in energy prices.

Against that backdrop, Federal Reserve Chair Kevin Warsh used his keynote address at the Fed's annual Jackson Hole symposium on August 28 to deliver a notably more hawkish message than his muddled July press conference. Warsh reaffirmed the Fed's commitment to its 2% inflation target and argued that recent PCE and CPI readings, while improved, do not yet show meaningful progress. Traders responded by pushing

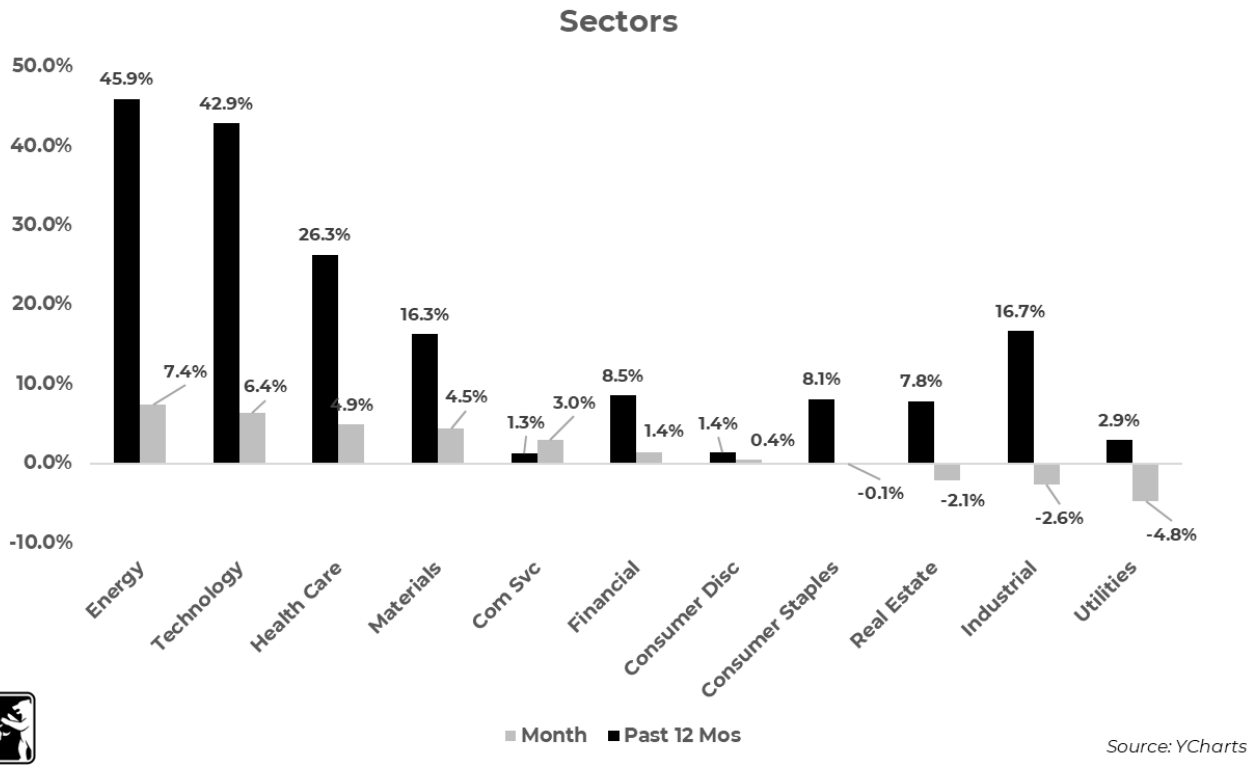
the probability of a September rate hike to roughly 56%, up sharply from about one-third before the speech, while the two-year Treasury yield climbed to its highest level since late July.

Performance Snapshot

Equity markets posted decent gains in August despite the late-month volatility. The Nasdaq Composite led the way, up 4.0% for the month, while the S&P 500 gained 2.7%. Trailing 12-month returns remain impressive across the board, with the MSCI Emerging Markets Index up 39.2% and the Russell 2000 up 26.5%.

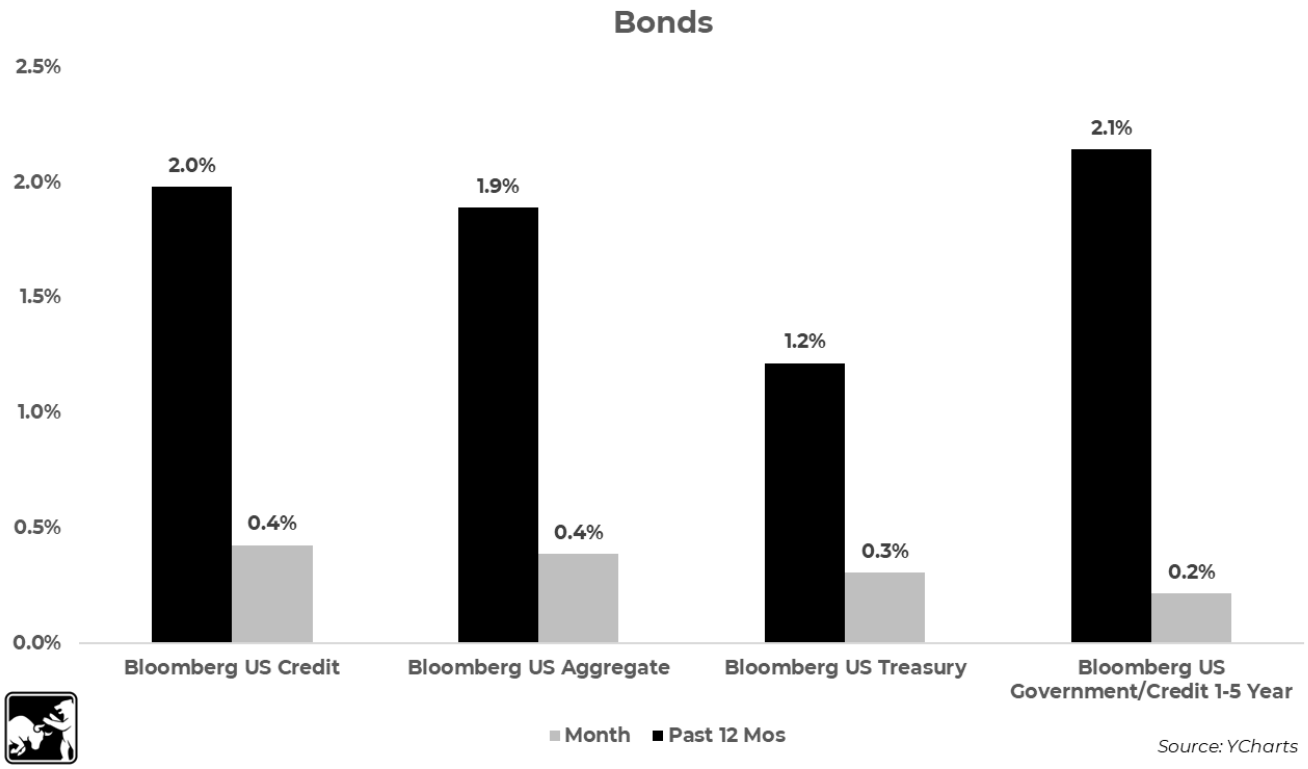


At the sector level, Energy led the way in August, climbing 7.4% for the month as renewed Middle East tensions pushed oil prices higher, closely followed by Technology, up 6.4% on the back of Nvidia's earnings beat. Rate-sensitive sectors lagged as yields rose, with Utilities the weakest performer, down 4.8% for the month. Energy remains the standout leader over the trailing 12 months as well, up 45.9%.



Source: YCharts

Fixed income posted modest gains in August, with the Bloomberg US Aggregate up 0.4% for the month even as Treasury yields moved higher following Warsh's Jackson Hole remarks. Trailing 12-month returns remain positive but modest across all categories, reflecting the higher-rate environment of the past year.



Final Thoughts

Looking ahead, all eyes turn to the Fed's September 15-16 meeting. Warsh's Jackson Hole remarks turned what looked like a settled question into a coin flip on whether the Fed raises rates for the first time in years. Layer in an unresolved conflict in the Middle East and increasingly stretched valuations in parts of the AI trade, and September looks like it could test investor conviction more than any month so far this year.

Markets have shown a consistent ability to shrug off bad news this year, buying dips rather than extending them. Whether that pattern holds once the Fed moves from talk to action may be the real test of this bull market's conviction. Our approach doesn't change with the headlines: we build portfolios designed to hold up across a range of outcomes, not just the one that seems most likely today.

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