BEA MPF e - Newsletter

August 2026

Message from the Investment Manager

Market performance rotated from technology-led leadership towards value and cyclical sectors

U.S. equities experienced notable sector rotation during the month. Higher energy prices, resilient corporate earnings and continued economic expansion supported value-oriented sectors, particularly energy and financials. Meanwhile, large-cap technology and semiconductor stocks saw profit-taking amid concerns over the sustainability of AI-related capital expenditure. Economic data pointed to a softer labour market, with non-farm payrolls unexpectedly declining by 23,000 in July and second-quarter GDP growth slowing to an annualized rate of 1.5%. The Federal Reserve kept the policy rate unchanged at 3.50%-3.75% at its July meeting, while Chair Kevin Warsh reiterated that policymakers must continue to address persistent inflationary pressures.

European equities remained resilient, supported by solid corporate earnings and improving economic activity. Market leadership shifted towards cyclical and value sectors, with Financials and Energy outperforming Technology stocks. Eurozone GDP grew by approximately 0.4% quarter-on-quarter in the second quarter, accelerating from the previous quarter, while the July Manufacturing PMI rose to a three-month high of 51.9, driven largely by the clearing of backlogged orders. Inflation increased to 2.9% in July, mainly due to higher energy and services prices. The European Central Bank maintained its deposit facility rate at 2.25% and remained attentive to energy price volatility and inflation risks.

Japanese equities delivered mixed performance during the month. Financials, Industrials and undervalued value sectors performed well, while semiconductor and AI-related stocks came under pressure. Japan's economy expanded by 0.3% quarter-on-quarter in the second quarter, below market expectations, although the July Manufacturing PMI rose to 54.5, indicating continued resilience in industrial activity. The Bank of Japan left its policy rate unchanged, but some policymakers expressed concerns that a weaker yen and stronger AI-related demand could increase the risk of inflation exceeding its target.

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China's economy continued to lose momentum in July, with most indicators pointing to weakness across the manufacturing, services and construction sectors. Industrial production growth slowed to 4.5% year-on-year, although high-tech manufacturing output remained strong, growing 16.9% from a year earlier, highlighting the economy's dual-track recovery. Fixed-asset investment weakened during the first seven months of the year, with property development investment falling 19.2%, weighing on overall economic growth. Markets expect policymakers to step up fiscal and monetary support measures to stabilize growth in the second half of the year.