

August 2026 Monthly Macro Letter

The Earnings Put

The market no longer counts on the Fed to protect asset prices. It counts on earnings.

August 2026

EXECUTIVE SUMMARY

- The Treasury intervened directly in the bond market. On August 11 it announced a buyback program for long-dated bonds as the 10-year rose from 4.0% to 4.7% and the 30-year touched 5.31%, its highest in nineteen years.
- Long-term rates are rising in every major economy at once, for the first time in a generation — a global repricing of the cost of money.
- The new Federal Reserve chairman has deliberately dismantled the expectation that the central bank will rescue markets. The Fed put is gone.
- Despite all of it, the great technology companies hold: earnings are growing at a record pace and the AI investment cycle is real, financed, and sold before it exists. The market no longer counts on the Fed. It counts on earnings.

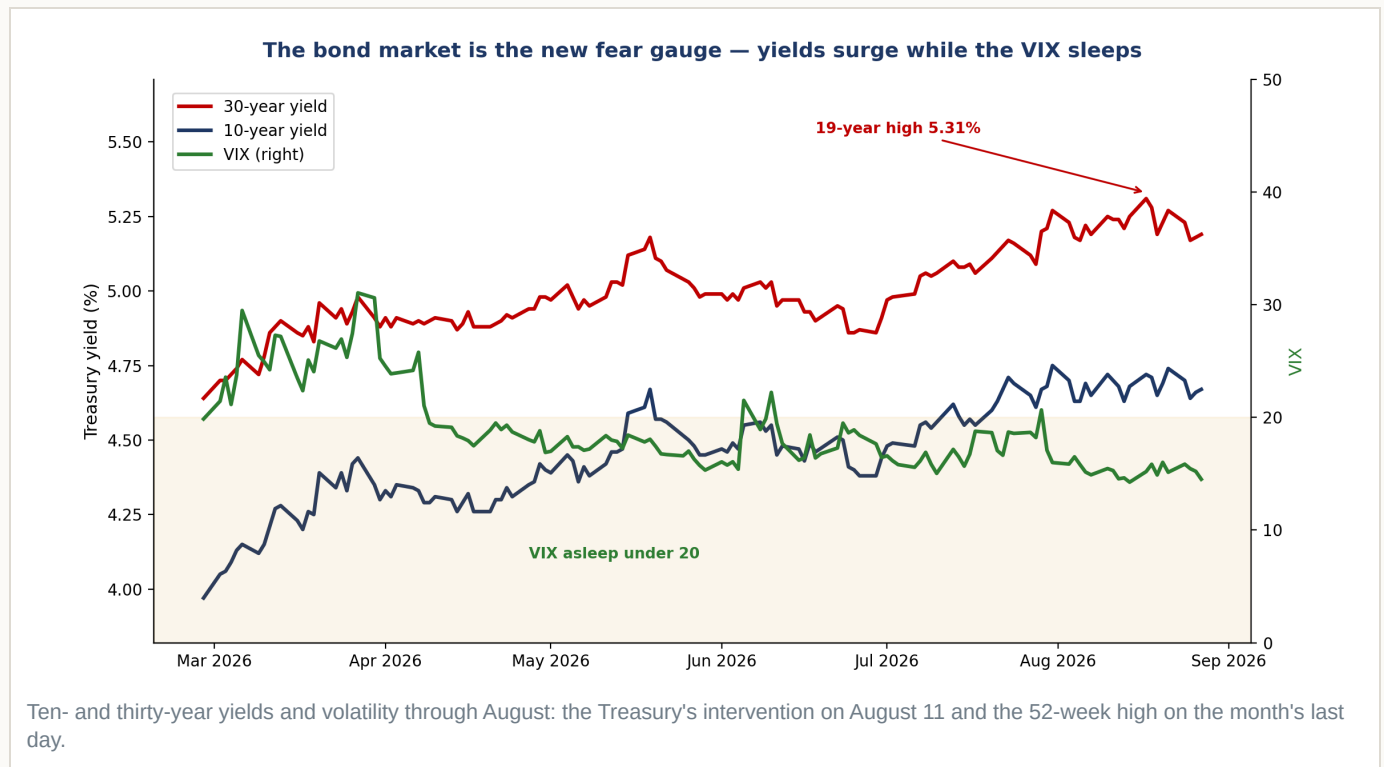
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The Treasury Intervenes In The Bond Market

To understand what this means, it helps to recall the mechanics. The U.S. government must refinance a debt of more than thirty-five trillion dollars and finance annual deficits near two trillion. The buyers of that debt, pension funds, foreign central banks, reserve managers, came to demand a larger premium for long maturities, because the supply of bonds grows faster than the demand for them. The result is a yield curve that steepens "from the outside": the Fed can control short rates, but long rates are dictated by the market. When the Treasury buys back its own long bonds, it is removing supply to hold up the price, something historically only the Fed did, and a signal that the government understands the problem as structural, not passing.

The signal for risk assets is twofold. On one hand, higher long rates compress equity multiples and raise the cost of credit, a steady pressure on the most indebted companies and on rate-sensitive sectors such as real estate and utilities. On the other, the Treasury's willingness to intervene sets a practical ceiling on stress in the bond market: the government has demonstrated it will not permit a disorderly surge in long rates. For high-growth technology companies, which carry little debt and generate abundant cash, the environment is less hostile than it looks. They depend on earnings, not on credit.



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Debt Sustainability And The Global Rate Rise

The Treasury's intervention is the symptom; the disease is arithmetic. Federal debt exceeds thirty-five trillion dollars and grows by roughly two trillion a year, deficits of 6% to 7% of GDP in an economy at full employment, unprecedented in peacetime. Each percentage point of higher rates adds hundreds of billions to the annual cost of carrying that debt; interest already consumes more of the federal budget than defense, and with each refinancing the bonds issued at 1% or 2% during the pandemic are replaced by bonds at 4% or 5%. It is a self-feeding cycle: larger deficits require more issuance, more issuance pressures rates, higher rates enlarge the deficit. August's intervention was the acknowledgment that the market, on its own, no longer absorbs that supply without a premium.

The sustainability question is not whether the United States can pay. It can, because it issues the world's reserve currency. The question is at what cost and with what consequences. The historical paths are well known: inflation that erodes the real value of the debt, "financial repression" that obliges banks and funds to buy government bonds at yields below inflation, or the fiscal adjustment that no democratic government makes voluntarily. The gold and bitcoin markets, as we discuss below, are already voting for the first.

And the phenomenon is not American. For the first time in a generation, long-term rates are rising simultaneously across every major economy. In Japan, the thirty-year bond has reached record highs and the central bank, which held rates at zero for decades, has abandoned control of the curve. It is the end of the world's largest monetary experiment, and it matters for all the Japanese capital invested abroad, which now has a reason to come home. In the United Kingdom, the thirty-year gilt yield is at its highest since 1998, and the government faces the same fiscal dilemma with less room. In Germany, the country that financed itself at negative rates for a decade, a trillion-euro rearmament and infrastructure program has lifted its borrowing cost to the highest since the euro crisis. France and Italy pay rising premiums over Germany. The global bond market was one block of low rates for fifteen years. It has become one block of high rates.

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Rates rise globally as the Fed steps back

The implications are profound and, in part, favorable to the assets we prefer. First, the "free money" that sustained unproductive companies and excessive leverage is over everywhere, capital has a cost again, and the market's natural selection works again: companies that generate cash and grow prosper; those that depend on cheap refinancing suffer. Second, the competition for capital between indebted governments and productive companies favors the latter: an investor who can own a company growing earnings at thirty percent has no reason to finance a government at five. Third, the repatriation of Japanese and European capital is a headwind for U.S. bonds, one more reason for long rates to stay high, but not for the shares of the companies that dominate global technology, whose demand is worldwide and whose earnings do not depend on public financing.

The New Fed: Warsh At Jackson Hole

On the last Friday of August, the new Federal Reserve chairman, Kevin Warsh, gave his first major speech, at the annual Jackson Hole symposium. The tone was explicitly hawkish: inflation remains persistent, and the Fed will not ease financial conditions to rescue markets. The probability of a rate hike at the September 15 and 16 meeting, as priced by the futures market, jumped from the low thirties to about 64%, today, the hike is the base case. For the first time in two years, a rate increase is a live possibility. The two-year yield, the most policy-sensitive tenor, trades just below 4.35%, a level that has acted as resistance repeatedly over the past two years; a break above 4.4% would confirm that the market has fully repriced the Fed's direction.

What has changed is deeper than one meeting. For fifteen years investors operated with the so-called "Fed put", the conviction that the central bank would step in to support asset prices in any serious decline. Warsh is deliberately dismantling that conviction. His argument, which we share: a central bank that protects markets feeds bubbles and loses credibility in the fight against inflation. Warsh's Fed wants to be predictable in its rule and unpredictable in its rescue.

The equity reaction was remarkably contained: the index gave back less than one percent. That calm is the summer's most important piece of information. A market that absorbs a hostile Fed without panic is a market supported by earnings, not by liquidity. We call it the "earnings put": the protection comes from the growth of corporate results, not from the central bank. It is a sturdier base, but also a more demanding one: earnings must keep delivering, quarter after quarter.

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Nvidia And The Monetization Of Artificial Intelligence

It is worth explaining what NVIDIA is for those who follow it from a distance, because no other company touches so many points of today's economy. NVIDIA designs the processors, the GPUs, that train and run virtually every artificial-intelligence model in the world. It does not manufacture the chips: production belongs to TSMC in Taiwan; the memory that feeds them comes from Micron, SK Hynix and Samsung; the lithography machines that etch the circuits are ASML's; the networks that connect tens of thousands of chips into a single computer are Broadcom's; the servers are assembled by Dell and Supermicro; the power comes from utilities now building plants for data centers. And the buyers are the large clouds and the AI laboratories. When NVIDIA speaks, that entire chain, from Taiwan to the utilities of Ohio, adjusts its plans. That is why a company worth five trillion dollars, the most valuable in the world, is still the thermometer of an entire sector.

NVIDIA's results at the end of August answered the question that had dominated the market since July: demand for AI infrastructure is real and still accelerating. Data-center revenue grew above expectations, and the company did something rare for an enterprise of its size: it set a floor of 70% growth for the next twelve months. A five-trillion-dollar company promising to grow 70%, with the visibility of signed contracts, not projections, is a fact without parallel in market history, and it explains why the market values it at a multiple below that of companies growing in the single digits. The point that most caught our attention was the chief financial officer's comment on memory: the shortage of high-bandwidth memory chips has become the bottleneck of the entire cycle, confirmation that demand exceeds production capacity across the whole chain, not only at NVIDIA.

The next question, who pays for all of it?, began to be answered the same day. Salesforce raised its guidance by a historic margin, driven by its customers' adoption of AI: evidence that the technology is beginning to generate revenue at the software layer, not only the hardware layer. And OpenAI's advertising business has reportedly reached an annual run rate of one billion dollars, a new revenue layer being built on top of the computing capacity NVIDIA sells. It is the demand side paying the bill for the investment.

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The most concrete monetization examples come from the three great clouds, which are at once the largest buyers of chips and the first to charge for artificial intelligence. Microsoft sells AI in two layers: Azure, whose revenue grows above 30% a year with AI a growing share and capacity sold before it is installed, and Copilot, charged per user inside Office, the fastest-adopted subscription product in the company's history. Amazon turned AWS into the platform where enterprises run their models, with in-house chips (Trainium) that cut the cost per query and a book of multi-year contracts that re-accelerated the division's growth. Alphabet monetizes at both ends: Google Cloud, growing about 30% a year, and Gemini integrated into search and advertising, the ad business the pessimists declared threatened by AI accelerated instead of shrinking. In common, all three report the same phenomenon: demand for AI exceeds installed capacity, and the bottleneck is physical (power, chips, memory), not commercial.

The legitimate worry is the financing of that investment. The big four, Microsoft, Alphabet, Amazon and Meta, will spend on the order of 400 billion dollars in 2026 on data centers, and part of it has come to be financed with debt: Meta has issued tens of billions in bonds, Oracle has taken on real leverage to build capacity for OpenAI, and off-balance-sheet structures, special-purpose vehicles, long-term leases, proliferate. The scale frightens in absolute terms but loses its dimension against the size of the companies: the four together are worth more than twelve trillion dollars and generate hundreds of billions of operating cash a year; their net debt, even after the recent issuance, is a small fraction of market value, and three of the four hold more cash than debt. The balance-sheet risk is concentrated in the second tier (Oracle, CoreWeave and the leveraged data-center builders), not in the big four. The right question is not whether they can pay, but whether the capital invested will earn a return: and here the recent facts answer.

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It is worth explaining how these structures work, because the logic is that of a real-estate transaction, and much of what is written about "big-tech debt" confuses the owner of the building with the tenant. Take the largest example, Meta's data center in Louisiana, a project on the order of thirty billion dollars. Meta did not build it with its own debt. A special-purpose entity was created, the equivalent of a real-estate SPV, that owns the land, the buildings and the electrical infrastructure; a large investment fund (Blue Owl) holds most of that entity, and Meta a minority stake. It is the SPV that borrows: it issued about twenty-seven billion dollars in bonds, bought by fixed-income managers, secured by the asset itself, exactly as a mortgage on a logistics warehouse is secured by the warehouse. Meta, in turn, signs a long-term "built-to-suit" lease of nearly twenty years: the building is constructed to the tenant's specification, and the tenant commits to pay rent for the full term. On Meta's balance sheet, what appears is not debt: it is the obligation to pay rent, booked as a lease liability, the same line any company records for renting an office.

Who carries the risk, then? The bondholders, whose collateral is double: the building and the lease of a first-class tenant. It is the classic structure of a commercial property let to a AAA tenant on a "triple net" lease, in which the tenant pays rent, taxes, insurance and maintenance. The investor buys, in practice, a stream of rents guaranteed by Meta. There is one additional detail typical of these deals: Meta provides a residual-value guarantee, if, at the end of the lease, the building is worth less than projected, Meta covers the difference. It is the equivalent of a tenant committing to buy the property back at a floor price at the end of the term: it protects the lender against obsolescence, which in a data center is the central risk, since today's chips are worth little in ten years while the building, the power and the cooling last for decades.

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There is one gear in this machine that deserves special attention, because it runs against the intuition of anyone who comes from the physical world: the useful life of the chips. The classic objection to data-center financing is that, unlike a building, chips become obsolete in a few years, and an asset that loses value quickly is poor collateral. NVIDIA's chief executive answered that with an argument the market has come to take seriously: the chips are not static hardware. The same GPU installed in 2023 runs today two to four times faster than when it was bought, because NVIDIA continuously updates the software that drives it, the CUDA platform, the compilers, the inference libraries, and every update is free to whoever already owns the chip. Prior-generation processors remain fully occupied in data centers at rental prices that stay high. A NVIDIA chip ages, in practice, like an aircraft or a well-located property: it loses value slowly, earns for years, and keeps a liquid secondary market, not like a mobile phone.

That argument underpins the cycle's most ambitious financial structure: a program of about five hundred billion dollars, organized by the major banks, to finance the purchase of NVIDIA chips by the AI laboratories, with the chips themselves as collateral, the equivalent of aircraft finance, where the bank lends against the plane because it knows the plane holds value and can be redeployed to another operator. If the chips stopped being worth anything in three years, the program would not exist; it exists because the lenders accepted the durability thesis. And NVIDIA itself, with one of the largest cash positions in the corporate world, has begun using its balance sheet as the anchor of these operations: it invests directly in the laboratories and the computing providers that buy its chips, securing demand and, at the same time, a stake in the fastest-growing companies in history. It is a rare position of power, the supplier that finances its customers and is their partner. It is also the point that demands vigilance: vendor financing was, in the telecom cycle of 2000, the sign of excess. The difference, so far, is in demand: in that cycle the installed capacity sat idle; in this one it is sold before it exists.

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The effect for Meta is the same a retailer obtains by leasing its stores instead of buying them: the balance sheet stays light, capital remains free for the core business, and the cost of the building becomes an operating expense spread across twenty years. The effect for the system is that the debt exists, but it sits in the building rather than in the company, and it is serviced by the rent. The rating agencies already add these leases to corporate debt when they assess the companies, so the "engineering" is less a trick than a division of labor: credit funds finance real estate, and technology companies pay rent for it. And this is where the scale of the profits changes the conversation: a thirty-billion contract spread over twenty years is rent on the order of a billion and a half to two billion a year, for a company generating close to a hundred billion dollars of operating cash annually and growing at double digits. When earnings grow at that speed and generate mountains of cash, the weight of these obligations is limited: the big four could pay every data-center lease they hold with a fraction of a single year's cash. The balance sheet is not the risk; the return on invested capital is the question, and so far the answer is favorable. On the tenant side, the picture has changed quickly: the AI laboratories signing the largest leases, OpenAI, Anthropic, xAI, are today the fastest-growing companies of all time, with revenues multiplying year over year and the capital of partners such as SoftBank, NVIDIA, Microsoft and Amazon behind their commitments. What would have been a speculative tenant three years ago is today a tenant with billion-dollar revenue and first-tier sponsors.

The debate over whether hundreds of billions a year of data-center investment is a bubble will continue, but the recent facts weigh against the pessimistic thesis: installed capacity is sold before it is ready, component prices are rising, and the companies that use the technology are beginning to show results. Our underlying reading is unchanged: a company growing earnings at thirty percent a year is worth more and covers its cost of capital in two months, which is why we prefer growth companies to fixed income, even with rates at current levels.

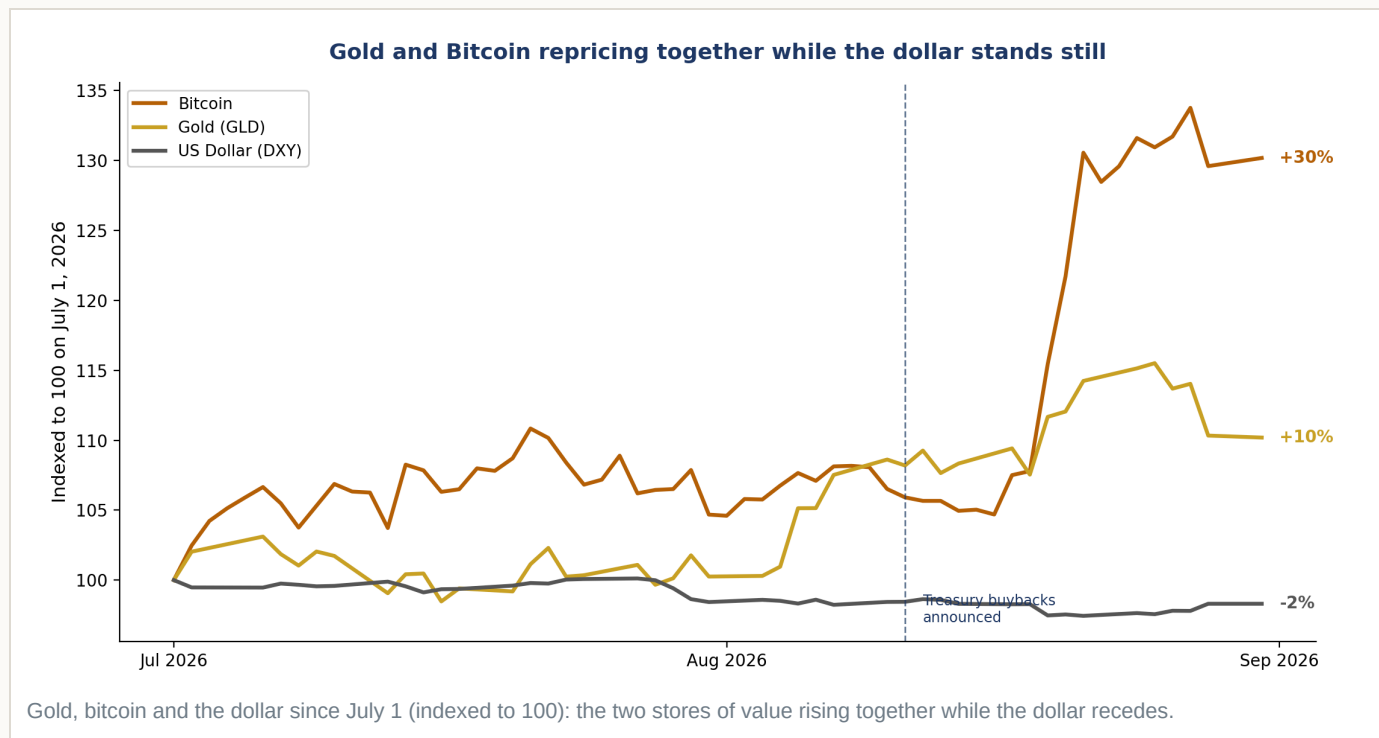
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Gold, Bitcoin And The Dollar

A quiet pattern gained force this summer: gold and bitcoin rose together while the dollar stood still. Since the start of July, bitcoin is up about 30%, gold 10%, and the dollar index is down 2%. It is the typical behavior of a market questioning the future value of the currency when the Treasury itself must buy back its debt, the so-called "debasement trade," the bet on the gradual devaluation of fiat currencies.

The logic is simple. When a government finances growing deficits by issuing debt that the market absorbs only at ever-higher rates, two exits remain: reduce the deficits, or allow inflation to erode the real value of the debt over time. History suggests the second. The central banks of emerging countries such as China, India, Turkey and Poland have been buying gold at a record pace for three years, precisely for that reason: to diversify reserves away from the dollar. Bitcoin, in turn, attracts the private capital that makes the same calculation with an asset of fixed supply and global liquidity.

This is not a panic; it is a gradual repositioning of stores of value. For an investor in growth equities, the pattern is in fact favorable: companies that generate cash in dollars and grow faster than inflation are, themselves, a hedge against currency devaluation. What loses in this environment is idle money and long-dated fixed income.



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Geopolitics And Oil

The Middle East ceasefire, described by the American president himself as "hanging by a thread," broke on the last day of August: U.S. forces struck Iranian rocket launchers on Larak Island, at the mouth of the Strait of Hormuz, the first known American attack inside Iran since late July. Oil rose about 3% on the news, the barrel closed August higher, and rose a further 5% on the first trading day of September as the escalation continued.

The Strait of Hormuz is the artery through which roughly one-fifth of the world's oil and one-quarter of its liquefied natural gas pass. There is no alternative route of equivalent capacity: the Saudi and Emirati pipelines that bypass the strait move a fraction of the volume. That is why every threat to navigation there transmits immediately to the price, not because supply has fallen, but because the market prices the probability that it will. This is what we call the kinetic premium: the part of the oil price that reflects not supply and demand but the risk of projectiles hitting ships.

Four factors cushion the shock, and explain why oil rises 3% and not 30%. The first is American production: the United States produces more oil today than any country in history, above thirteen million barrels a day, and shale responds to higher prices in months, not years. The second is OPEC's spare capacity, which Saudi Arabia and the Emirates maintain precisely for episodes like this. The third is new: the agreement between the United States and Venezuela, which reopens the world's largest oil reserves to the market. With sanctions relief and the return of the major oil companies to the country, Venezuelan production, which had fallen to a fraction of what it once was, is growing again, heavy crude, the type the Gulf Coast refineries were built to process, a few days' sailing away and through no strait at all. It is new supply in the western hemisphere, beyond the reach of any conflict in the Persian Gulf.

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Geopolitics And Oil

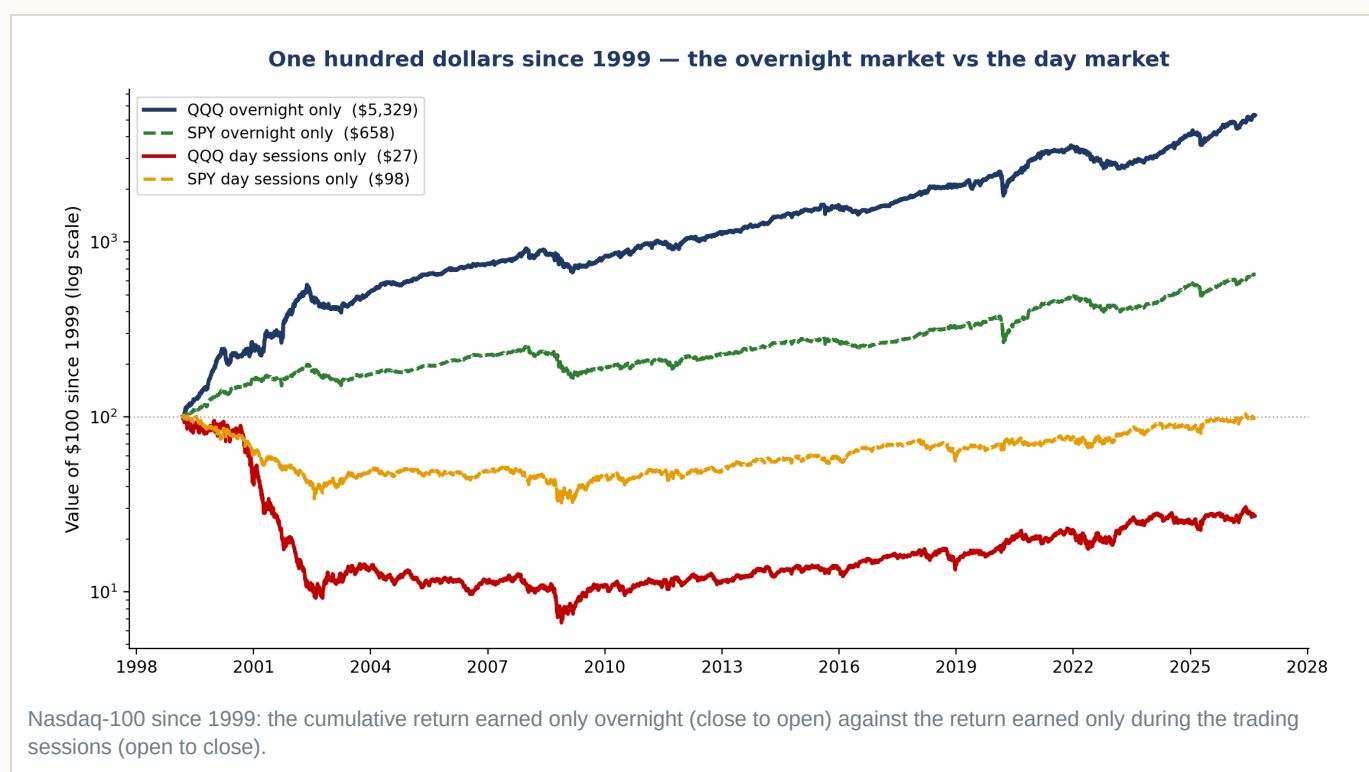
The fourth factor is on the demand side, and it is the most structural of all: China, the world's largest oil importer, is reducing its dependence at a speed few foresaw. More than half of new cars sold in the country are electric or hybrid; the truck fleet is migrating to natural gas and electricity; and the solar and wind capacity installed each year exceeds that of the rest of the world combined. The result is that Chinese gasoline demand has already passed its peak and the country's total oil demand grows little or not at all, a complete contrast with the two decades in which China explained half the growth in world consumption. Today's supply shocks therefore meet a looser market than those of 2008 or 2022: the marginal buyer of oil is disappearing, and the risk premium dissipates faster than before.

What more expensive oil does, however, is feed the link that connects geopolitics to the Fed. Energy weighs directly on inflation indices and, with a lag of weeks, on everything that is transported; oil ten percent more expensive adds about half a percentage point to annual inflation. At a moment when the central bank is looking for reasons to keep its hawkish stance, the Strait of Hormuz provides them. For the dollar, the effect is ambiguous: the United States is a net energy exporter, which supports the currency in supply shocks, one more reason the dollar does not fall despite the deficits. And for technology shares the effect is indirect but real: oil does not change NVIDIA's earnings, but it changes the rate that discounts them. It is through that channel, and only that one, that the war reaches the Nasdaq.

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Where Returns Are Born

A study we conducted recently deserves to be shared, because it changes how one looks at the market. Since 1999, all of the Nasdaq-100's gain, and more, has occurred between one day's close and the next day's open. Had an investor bought the index at every close and sold at every open over twenty-seven years, he would have multiplied his capital more than fifty times. Had he done the opposite, bought at the open and sold at the close, every day, he would have lost about seventy percent of his capital. The S&P 500 shows the same anatomy.



The reason is structural. The news that moves markets, corporate results, economic data, policy decisions, geopolitical events, is released mostly outside trading hours, and the price adjusts at once at the open. The session itself is dominated by noise: short-term moves cancel each other out. August was a perfect example: the best days arrived as opening gaps. The conclusion for any long-term investor is the same as ours: the returns belong to whoever is positioned before the news arrives, not to whoever tries to react to it during the day.

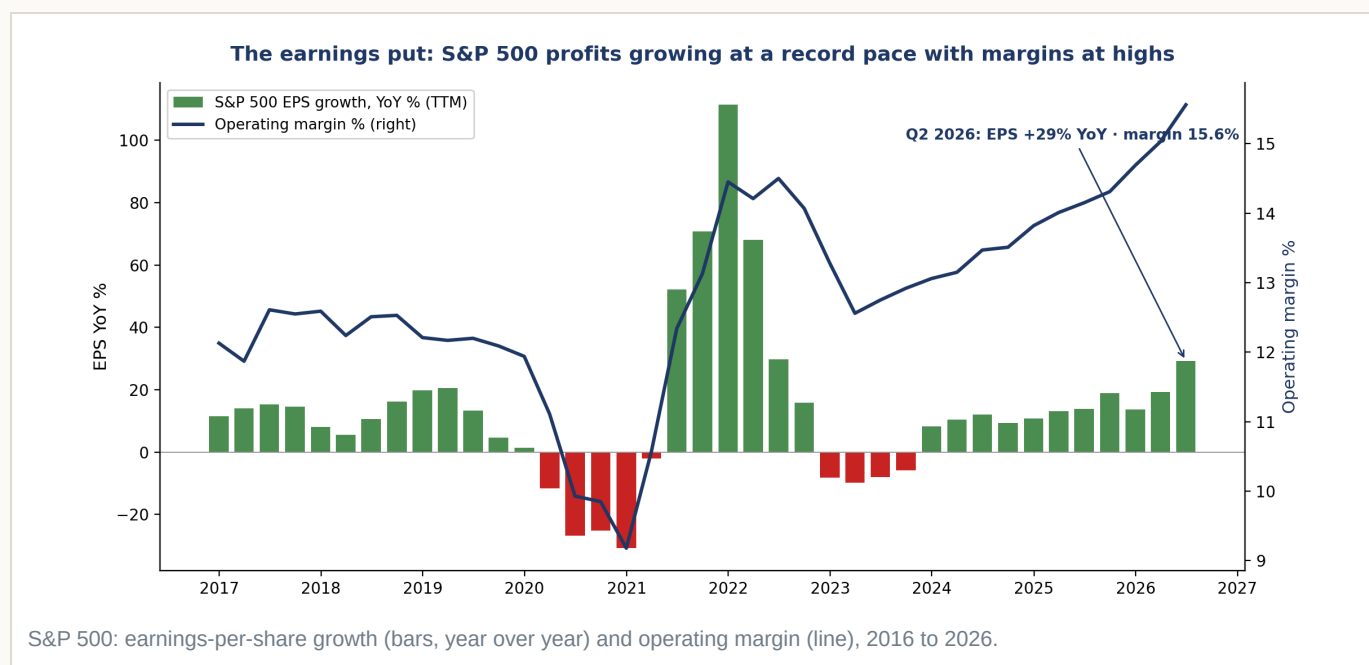
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Valuation: Is The Market Expensive?

It is the question we hear most, and it deserves an answer with numbers. The Nasdaq-100 trades today at about 27 times projected earnings for the next fiscal year, a high multiple by historical standards. But the multiple alone says nothing: what matters is what one buys with it. The same companies carry projected earnings growth of about 30% for the coming year. The relationship between the two, the so-called PEG, the multiple divided by the growth, sits below 1, the level investors traditionally consider reasonable. In other words: the market pays a high price, but it pays for even higher growth.

The classic bearish argument compares the "earnings yield" of stocks (the inverse of the multiple: about 3.6%) with the ten-year Treasury yield (4.76%): by that measure, stocks would yield less than fixed income for the first time in two decades. The argument fails on one essential point: the bond's yield is fixed, and the stocks' grows. A company increasing earnings at thirty percent a year doubles its yield in less than three years, which is why, in our accounting, the growth covers the cost of capital in two months. The comparison makes sense only for companies that do not grow; for the technology leaders, growth defines value.

Earnings, for their part, are delivering. The chart below shows S&P 500 earnings growth quarter by quarter over the last decade: in the second quarter of 2026, earnings grew 29% over the prior year, the strongest pace in the series outside the post-pandemic recovery, with operating margins at record highs above 15%. That is the "earnings put" in numbers: the market's protection is the expansion of results.

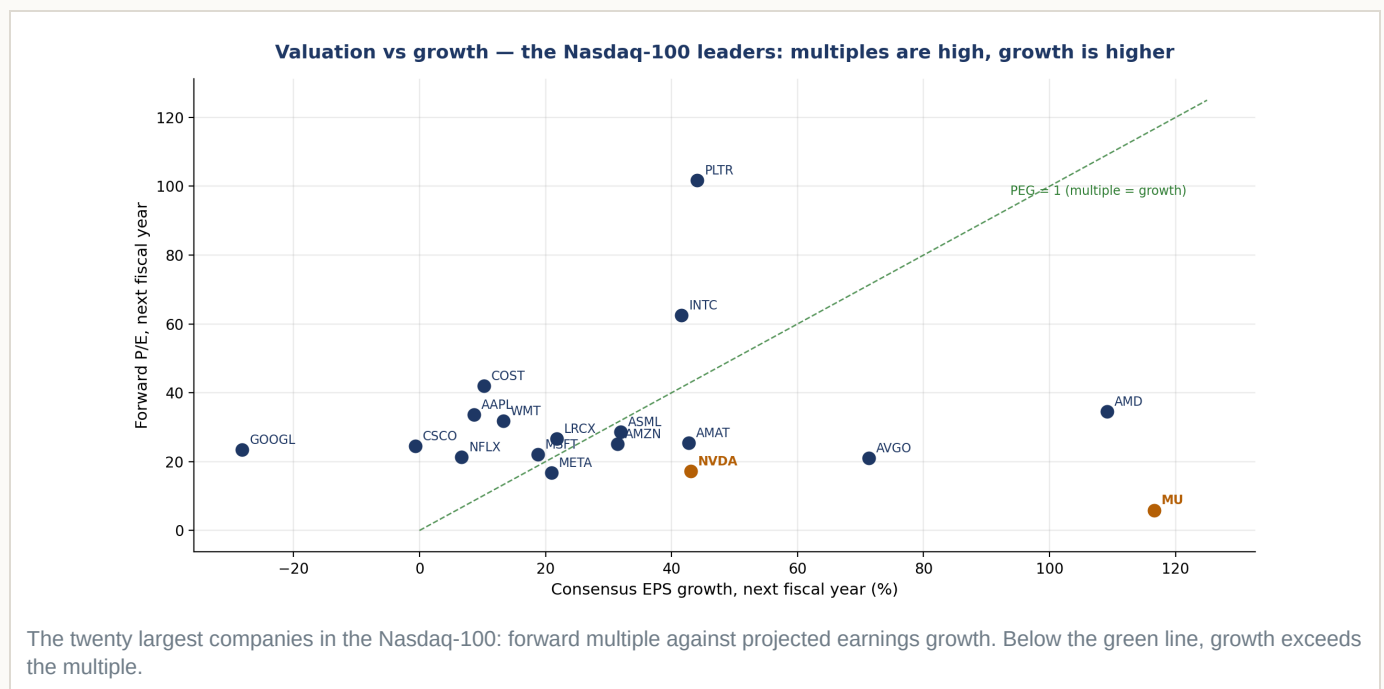


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Valuation: Is The Market Expensive?

The second chart shows where the value sits inside the index. Each point is one of the twenty largest companies in the Nasdaq-100, positioned by expected earnings growth (horizontal axis) and the multiple the market pays (vertical axis). The green line marks the point where the multiple equals the growth. The pattern is revealing: the market pays more for stability, Apple at 34 times with 9% growth, Costco at 42 times with 10%, and discounts growth: NVIDIA at 17 times with 43% growth, Broadcom at 21 times with 71%, and Micron, the extreme case, at less than 6 times next year's earnings with projected growth above 100%. The memory shortage NVIDIA described in its results is the reason for that growth, and the market still treats it as a passing cycle, not the structural shift we believe it to be.

The honest caveat: a market supported by earnings is a demanding market. Current valuations presuppose that the growth materializes; a quarter of disappointment among the AI leaders would have an amplified effect, because the index's concentration in its ten largest companies has never been higher. That is exactly why August, the shock in Korea's semiconductor sector, the wait for NVIDIA's results, was so volatile, and why the resolution was so powerful.



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The Calendar Ahead

September is, historically, the hardest month of the year for U.S. equities, the only one with a negative average return over the last three decades, with the weakness concentrated in the second half. This year the calendar concentrates the risks: employment data on September 4, inflation on September 10, the Fed meeting on September 15 and 16 (the first truly uncertain rate decision in two years), and the quarterly options expiration on September 18.

Our View In Summary

We enter September with a clear reading: the artificial-intelligence investment cycle is real and accelerating; the equity market has come to rest on earnings, not on liquidity; the Fed is a near-term risk, not a support; the bond market has found a practical ceiling in the Treasury's willingness to intervene; the geopolitical premium has returned to oil; and global capital is repositioning stores of value away from currencies. It is an environment that rewards the companies that grow and punishes leverage in fixed income. That is reason for caution in the short term and optimism in the medium term.

Thank you for your continued trust and partnership.

Flavio Lobato

Managing Member, Lobato Advisory Group