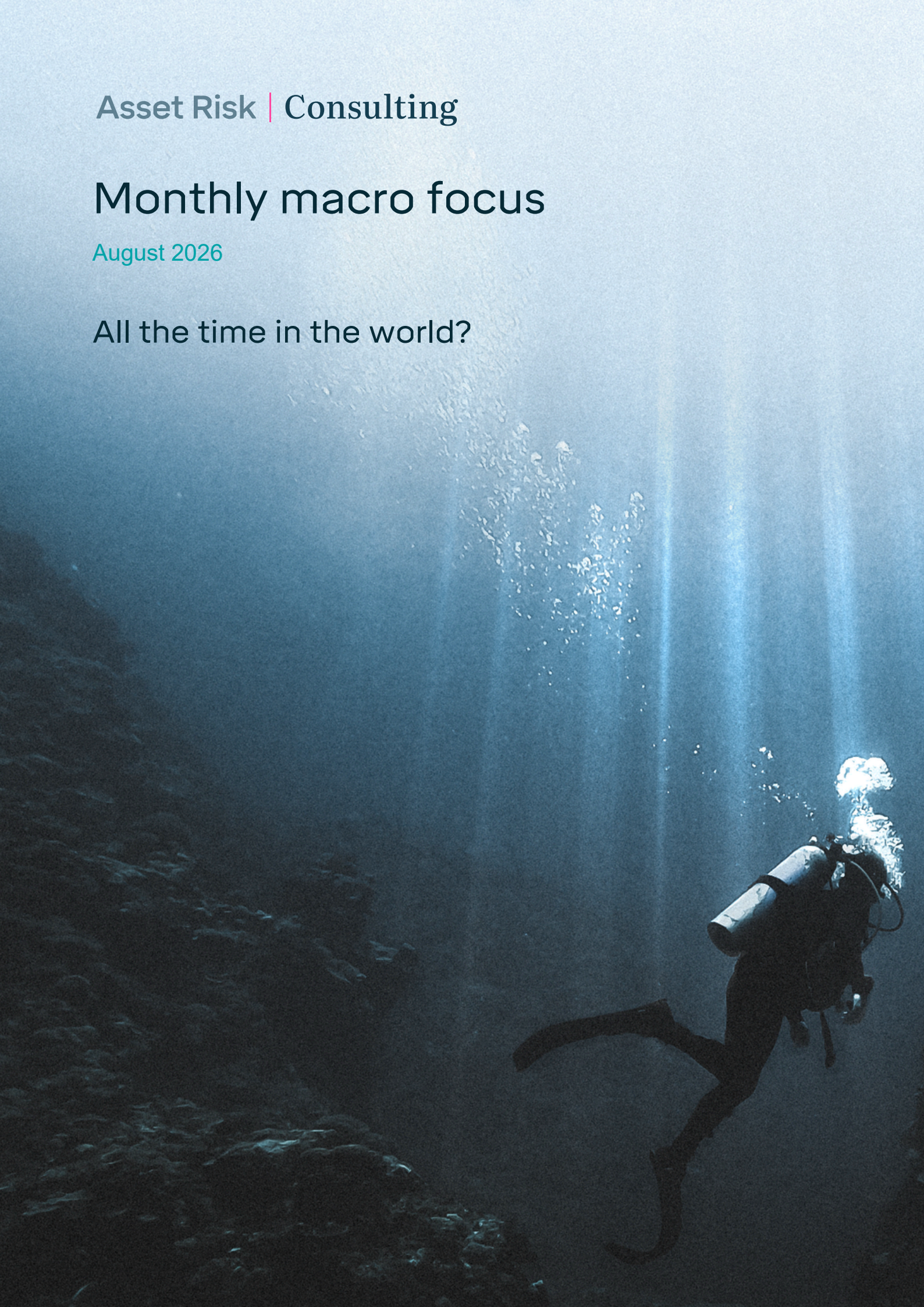


Asset Risk | Consulting

Monthly macro focus

August 2026

All the time in the world?



Macro focus

All the time in the world?

Investors do not need to become climate scientists. They do need to recognise that visible environmental change can lead to changing voter preferences, and changing voter preferences can lead to changing government policy.

August is traditionally a quiet month for geopolitics, with much of Europe taking its summer holidays. Not this year. Trade negotiations between the United States and Canada became sufficiently heated that anyone holidaying nearby might reasonably have visited both Lake Ontario and Lake America. If there were ever a month to reflect on climate change, however, it is after a summer marked by record temperatures, drought and flooding.

My own holiday was wet, albeit by design. I spent much of it scuba diving in the Maldives. Even by local standards, the weather was unusually rainy. Meanwhile, Japan experienced severe flooding and large parts of Europe endured exceptional heat and drought.

Eat. Sleep. Dive. Repeat. It was tremendous. Schools of fish, coral gardens, manta rays gliding past in the blue. It is hard not to think of Louis Armstrong's *What a Wonderful World*.

Summer holidays are never complete without a sizeable stack of books. One of mine was *This Changes Everything*, Naomi Klein's call to action on climate change, first published more than a decade ago. Reading it in the Maldives felt particularly poignant. Sea-levels rising poses an obvious long-term challenge for the Maldives. Much of the country sits only just above sea level and remains one of the world's most climate-vulnerable nations. Coral bleaching is already visible in some areas as warmer waters place additional stress on reef systems.

Looking out across the Indian Ocean, I found myself thinking less about climate science and more about time.

Climate change is measured in decades and tangible indisputable change longer still.

Financial markets tend to discount cash flows over decades so heavily that they barely matter in today's valuations. At a sufficiently high discount rate, even very large costs occurring 75 years from now become almost irrelevant in present value terms.

So markets are actually being rational, if unsatisfactorily so. There is, however, a catch. Climate change itself may be a distant problem. The response to it may not be.

Investors are often less exposed to the environmental risk than they are to the policy, regulatory and behavioural changes that emerge from attempts to address it.

The book makes a compelling case that meaningful change ultimately requires regulation. Looking back ten years later, there is evidence to support that argument.

One of the quieter environmental success stories has been in global shipping. Historically, ships burned bunker fuel with sulphur concentrations far higher than would be permitted in road transport. The industry did not voluntarily transition away from it. Regulators intervened. International rules introduced in 2020 reduced the permitted sulphur content of marine fuel dramatically, forcing operators either to adopt cleaner fuels or install emissions-cleaning technology.

The result has been a substantial reduction in sulphur oxide emissions, with associated benefits for air quality and human health. In other words, the industry changed remarkably quickly once the economics changed with it.

Some things have changed since Klein's book was published. Generative artificial intelligence scarcely featured in public debate a decade ago. Today it dominates technology discussions and investment flows. It promises significant productivity gains, but it also requires enormous computing infrastructure and energy consumption. Whether AI ultimately becomes part of the solution or part of the problem remains to be seen.

Other things have changed rather less. Global emissions remain high. Air travel rebounded after Covid. Consumption continues to grow. My own carbon footprint this year will not be helped by several long-haul flights, however worthwhile those journeys may have been.

I would like my children to have the opportunity to visit the Maldives and dive with manta rays and whale sharks. They probably will. The generation after them may as well. Beyond that, I am less certain. I will continue recycling, walking when practical and using public transport. I will also continue boarding aircraft to visit remarkable parts of the world. This contradiction is hardly unique to me.

The uncomfortable reality is that individual action can only achieve so much. History suggests that large-scale environmental improvements tend to occur when regulation changes the rules of the game. Until the costs of inaction become impossible to ignore, politicians may continue to treat climate risks in much the same way as investors do: as somebody else's problem, deferred far enough into the future to be discounted today.

So can investors afford to ignore the environment? Maybe. The more relevant question is whether they can afford to ignore society's response to it.

The trouble with climate change is that it always appears to be tomorrow's issue, right up until it becomes today's. The same is often true of regulation. Investors do not need to predict where sea levels will be in 2100. They do need to pay attention to observable environmental change and the political response it provokes. History suggests that voters rarely demand action until a problem becomes visible. When they do, governments can move surprisingly quickly.

We behave as though we have all the time in the world.

We don't.



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What should investors do?

- Avoid assuming climate risks are too distant to matter.
- Pay attention to observable environmental change.
- Watch voter behaviour, not just weather patterns.
- Expect regulation to arrive unevenly and often suddenly.
- Be wary of business models dependent on environmental costs remaining externalised.
- Look for beneficiaries as well as losers.

Market commentary

August saw global equity markets regain positive momentum, supported by resilient economic growth and a strong second-quarter earnings season

Technology companies remained a key driver of market performance, supported by continued investment in artificial intelligence (AI). Geopolitical tensions in the Middle East remained elevated, with Brent crude oil continuing to trade around \$90 per barrel and contributing to ongoing inflation concerns. Markets were further influenced by hawkish comments from Federal Reserve Chair Kevin Warsh at the Jackson Hole Symposium, reinforcing expectations that interest rates could remain elevated for longer. Government bond yields remained volatile throughout the month, while equities advanced broadly across both developed and emerging markets

In the US, CPI rose by 0.1% in July and 3.4% over the previous 12 months. Federal Reserve Chair Kevin Warsh noted at the Jackson Hole Symposium that inflation remained above the Federal Reserve's 2% target and that underlying inflation pressures had shown limited signs of improvement. Total nonfarm payroll employment increased by 162,000 in August, and the unemployment rate was unchanged at 4.1%.

Economic resilience continues despite persistent inflation and higher rate expectations

In the UK, economic activity remained resilient, with real GDP growing by 0.4% in the three months to June. The CPI rose by 2.9% in the 12 months to July 2026, up from 2.6% the previous month. Labour market conditions remained relatively stable. The unemployment rate rose to 4.9%, up from 4.7% a year earlier. UK equities posted modest gains during August but lagged most major markets, with the basic materials sector proving the strongest performer.

US inflation remains above target, UK growth holds up and emerging markets lead gains

In the Eurozone, inflation is expected to rise to 3.3% in August from 2.9% in July, driven largely by higher energy prices. Labour market conditions remained stable, with the unemployment rate unchanged at 6.3% in June. European equities edged higher during the month, supported by gains in the information technology, communication services and financials sectors. Markets increasingly anticipated the ECB to hike rates in September.

Emerging markets outperformed developed markets during August, supported by a weaker US dollar and improving corporate earnings. Asian markets led gains, with Taiwan benefiting from continued strength in AI-related technology stocks.

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