

# Weekly CIO Letter

25 AUG  
2026

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## One Global Expansion, Four Different Cycles

The world's largest developed economies are expanding at the same time, but increasingly for different reasons. That divergence is becoming more important for equities, currencies and interest rates.

**ASTRO  
WALLENIOUS**  
INVESTMENTS

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# Executive Summary

The global economy entered the final weeks of summer with an unusual combination.

Growth is accelerating across the major developed economies, yet the expansion is becoming less synchronized beneath the surface.

S&P Global's August flash surveys showed business activity across the United States, eurozone, Japan and United Kingdom—the G4—expanding at the fastest collective pace since April 2022. The United States recorded the strongest composite PMI at 56.0, followed by Japan at 53.4, the United Kingdom at 52.5 and the eurozone at 52.1.

That is the encouraging part.

The more important development is how growth is being generated.

During the second quarter, manufacturing benefited significantly from precautionary inventory accumulation as companies reacted to supply disruptions, energy-price risk and geopolitical uncertainty. In July and August, that impulse weakened. Services have increasingly taken over as the principal source of growth in the United States and United Kingdom.

Europe is following a different path. Manufacturing activity has strengthened, particularly in Germany, while Japan is combining firm domestic demand with an increasingly powerful export and industrial cycle.

Hard data broadly support the survey evidence. Euro-area GDP expanded 0.4% quarter over quarter in the second quarter, after stagnating in the first, while employment increased 0.1%.

The global economy is no longer behaving like a single cycle led predominantly by the United States.

It increasingly resembles several regional cycles operating simultaneously.

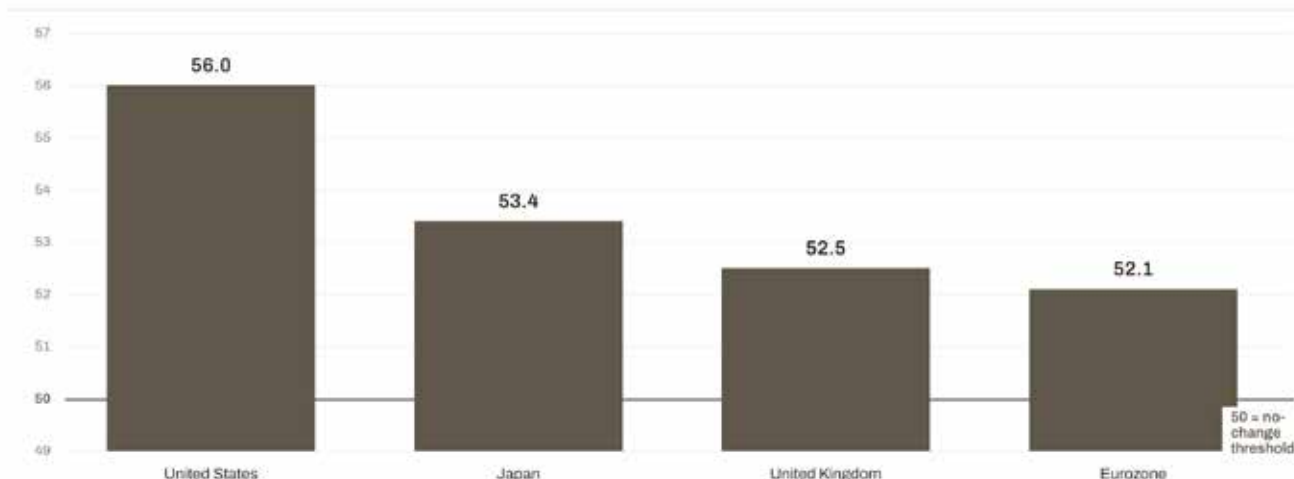
For investors, that distinction matters more than the headline level of global growth.

## The Expansion Is Broad — But Its Engines Are Different

G4 ADVANCED ECONOMIES

### Flash composite PMI

August 2026. Readings above 50 indicate expansion.



Source: S&P Global flash composite PMI, August 2026.

## 1. Growth Is Rotating From Inventories Toward Final Demand

The distinction between manufacturing-led and service-led growth deserves attention.

In the second quarter, industrial activity received support from companies building precautionary inventories in response to supply-chain disruptions and fears of further price increases.

That behavior can lift production temporarily without necessarily indicating stronger final demand.

The August surveys suggest that this effect is beginning to fade.

Across the G4 economies, manufacturing-output growth slowed to its

weakest pace since March, while service-sector activity accelerated to its fastest pace since May 2023.

The United States provides the clearest example.

Its composite PMI rose from 54.5 in July to 56.0 in August, the strongest since April 2022. Yet manufacturing growth slowed markedly while services accelerated to their fastest rate since December 2024. Employment in the survey increased at its strongest pace since January 2025.

The United Kingdom showed a similar pattern: services strengthened while factory-output growth fell to a five-month low.

Europe is different.

The eurozone composite PMI reached 52.1, but manufacturing remained an important contributor. German factory output expanded at its strongest rate since January 2022, while the broader region recorded its first increase in employment this year.

Japan is different again.

Manufacturing has become one of the strongest parts of the economy, supported by a weak yen, improved supply conditions and increasingly strong foreign demand. Japanese

factory export orders increased in August at the fastest pace since January 2018.

This is a healthier global signal than one economy carrying the entire expansion.

But it also means that investors should expect regional earnings leadership to diverge.

A U.S. service company, a German industrial producer and a Japanese exporter may all benefit from global growth while responding to entirely different economic variables.

That creates opportunities for diversification that did not exist when markets were trading predominantly around one common macro factor.

## 2. Global Trade Is Recovering — But Technology Is Doing Much of the Work

The improvement in global activity is increasingly visible in international trade.

S&P Global's worldwide manufacturing survey showed the new-export-orders index rising from 49.4 in June to 50.0 in July, signaling stabilization after two months of contraction.

At that level, S&P estimates the survey is broadly consistent with

merchandise trade expanding at an annual rate of approximately 6%. Export conditions during 2026 have so far been the strongest in five years.

Yet the recovery is far from evenly distributed.

Asia is capturing a disproportionate

share.

Taiwan led the improvement in July, while Japan, South Korea, India and Vietnam also registered strong export performance. North American goods exports, by contrast, weakened.

South Korea provides unusually clear hard-data evidence.

Korean exports reached US\$98.96 billion in July, up 63.0% from a year earlier and marking a record for the month. The trade surplus reached US\$30.39 billion.

Semiconductors alone generated

US\$41.2 billion of exports.

That means one product category represented approximately 41.6% of total Korean exports during the month.

The momentum has continued.

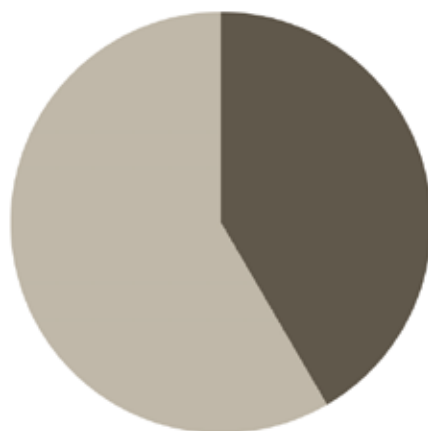
During the first twenty days of August, Korean exports were already 56.0% higher than a year earlier, while semiconductor exports reached a record US\$26.0 billion for that period.

This is an extraordinary industrial cycle.

#### SOUTH KOREA

### July 2026 export mix

Total exports: \$99.0bn.



■ Semiconductors

**41.6%** \$41.2bn

■ Other exports

**58.4%** \$57.8bn

Source: Ministry of Trade, Industry and Energy (South Korea), July 2026 trade statistics.

## Technology Is Supporting Growth — And Increasing Concentration

The trade data reinforce the importance of technology investment, but the investment conclusion should be more nuanced than simply increasing ex-

S&P Global reports that technology equipment became one of the fastest-growing categories of global exports in July, with growth accelerating to the strongest pace since the pandemic-related technology surge of 2021.

The opportunity therefore extends beyond software and the largest technology platforms.

The investment chain includes:

semiconductors;

manufacturing equipment;

power systems;

electrical infrastructure;

cooling;

networking;

industrial machinery;

logistics.

But concentration creates risk.

A semiconductor cycle that represents more than 40% of one major exporting economy's monthly exports can produce very strong operating leverage on the way up.

It can produce the opposite effect when demand normalizes.

Investors should distinguish between structural technology demand and cyclical inventory or capacity expansion.

Both can be profitable.

They should not be valued as if they carried the same risk.

### 3. Growth Is Broadening Faster Than Monetary Policy Is Converging

The expansion may be increasingly global.

Inflation is not.

That difference makes monetary policy increasingly regional.

In the United States, July consumer inflation offered some relief.

Headline CPI increased 0.1% in July and slowed to 3.4% year over year, from 3.5% in June. Core CPI rose 0.2% during the month and slowed from 2.6% to 2.5% year over year.

The August PMI surveys also indicated slower selling-price inflation, even as economic activity accelerated.

The eurozone faces a different combination.

GDP has improved and companies returned to hiring, but annual inflation increased slightly to 2.9% in July, with services and energy providing the largest contributions.

Japan presents perhaps the clearest contrast.

Official Japanese CPI inflation increased from 1.6% in June to 1.9% in July. Inflation excluding fresh food increased to 1.8%, while inflation excluding fresh food and energy rose

from 1.7% to 1.9%.

The increase occurred just as economic momentum strengthened.

S&P Global reported that Japanese selling-price inflation remained close to survey records in August, with both goods producers and service companies continuing to raise prices rapidly.

The global monetary cycle is therefore becoming harder to describe with one directional forecast.

The United States is experiencing stronger growth alongside improving inflation at the margin.

The eurozone is recovering while inflation remains above target.

Japan is strengthening while domestic price pressures are becoming more persistent.

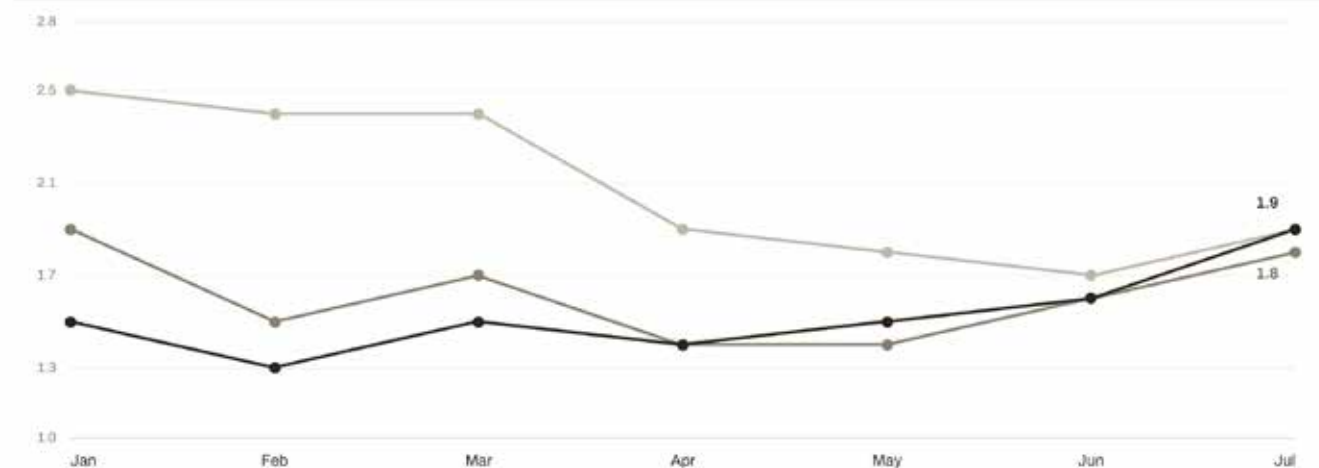
That is a fundamentally different environment from synchronized easing.

JAPAN

**Consumer price inflation**

January to July 2026, year-over-year change in percent.

— All items — Ex fresh food — Ex fresh food &amp; energy



Source: Statistics Bureau of Japan, Consumer Price Index, July 2026.

# Implications for Markets and Portfolios

## Global Equities

Broader economic growth strengthens the case for geographic diversification, but it does not justify indiscriminate rotation away from the United States.

The U.S. economy continues to generate the strongest aggregate business momentum among the G4.

What has changed is the relative opportunity set.

European industrial activity is recovering.

Japanese manufacturing and exports are strengthening.

Asian technology supply chains are

participating disproportionately in the global capital-investment cycle.

A diversified global equity portfolio can therefore increasingly access different sources of earnings growth, rather than merely holding different countries exposed to the same macro factor.

The distinction remains quality.

Companies should still be evaluated according to balance-sheet strength, free cash flow, pricing power and their ability to finance growth without relying excessively on favorable capital markets.

## United States

U.S. business momentum remains the strongest among the major developed economies.

At the same time, market expectations must account for the possibility that strong growth delays monetary easing.

Stronger economic data can support corporate earnings while simultaneously increasing discount rates.

That combination favors companies capable of generating earnings growth rather than those dependent primarily on multiple expansion.

## Europe

Europe's improving manufacturing cycle is potentially important because the region has substantially greater exposure than the U.S. market to:

industrial companies;

banks;

capital goods;

infrastructure;

defence;

automotive manufacturing.

Germany's industrial improvement is constructive, but it should not be extrapolated across the entire region. France continued to contract in August, while much of the acceleration in services occurred outside the two largest euro-area economies.

Europe currently supports sector selection more strongly than a broad regional call.

## Japan

Japan combines strong industrial momentum with unusually complex currency dynamics.

A weak yen supports exporters and raises the value of foreign revenues when translated back into yen.

It also increases imported costs and contributes to domestic inflation.

If persistent inflation leads the Bank of Japan toward further normaliza-

tion, part of the currency advantage supporting exporters could diminish.

Japanese equities may therefore benefit from stronger nominal growth while facing greater currency and interest-rate volatility.

That is a different investment proposition from the deflationary Japan of previous decades.

## Fixed Income

The case for a single synchronized global duration position has weakened.

In the United States, disinflation and softer labor data argue for eventual monetary flexibility.

Stronger August activity argues against assuming that easing must come quickly.

In Europe, inflation remains close to 3%.

In Japan, inflation has accelerated alongside growth.

Duration should increasingly be treated as a regional allocation decision, rather than a single global bet on lower rates.

## Foreign Exchange

Policy divergence makes currencies more relevant to cross-border returns.

If Japan continues moving toward higher rates while other economies eventually ease, the yen could become less reliable as a permanently cheap funding currency.

Conversely, continued economic strength in the United States can support the dollar even if inflation

moderates.

Currency volatility may rise even in an environment of relatively stable global growth because monetary-policy paths are moving further apart.

For long-term investors, this reinforces the value of holding multiple currencies rather than attempting to forecast a single exchange-rate turning point.

# Risks to the Central Thesis

The first risk is that the summer acceleration proves temporary.

S&P Global explicitly notes that favorable weather, the FIFA World Cup and U.S. 250th-anniversary events contributed to service-sector activity. These effects may fade as autumn approaches.

The second risk is supply.

Supplier delivery times across the G4 deteriorated in August to among the weakest readings since 2022. Persistent disruptions in the Strait of Hormuz, Red Sea, Rhine or Panama Canal could revive inflationary pressure and limit production.

The third risk is energy.

Brent averaged approximately US\$83.73 in July but had moved back above US\$90 by the time of the August PMI report. Another sustained energy shock could quickly reverse part of the recent improvement in consumer

inflation.

The fourth risk is concentration.

A global trade recovery led heavily by technology equipment and a limited group of Asian exporters is more fragile than a broad increase in final demand across industries.

The fifth risk is that stronger growth becomes a monetary-policy problem.

If economic activity remains firm while inflation stays above central-bank targets, markets may need to reprice expectations for lower policy rates.

The principal risk is not that the expansion disappears immediately.

It is that stronger growth and persistent supply constraints prevent the monetary relief markets expect from arriving on schedule.

# Our Perspective

At Astro Wallenius, we believe the most relevant feature of the current environment is no longer simply economic resilience.

It is divergence within that resilience.

The United States is increasingly service-led.

Europe is experiencing a meaningful industrial improvement.

Japan is benefiting from manufacturing, exports and a weak currency.

Asia's technology supply chain is capturing an extraordinary share of the global investment cycle.

These economies can all grow simultaneously without producing the same investment outcome.

That distinction matters.

For several years, portfolios were heavily influenced by common

macro factors:

global inflation;

synchronized central-bank tightening;

U.S. dollar strength;

technology concentration.

The next stage may be less uniform.

Geographic diversification becomes more valuable when economies are driven by different forces—not merely because different countries appear on a portfolio statement.

That is the environment now beginning to emerge.

It does not require abandoning the strongest markets.

It requires understanding which economic engine each investment depends upon.

# Final Thoughts

The global economy is expanding.

But it is no longer expanding in one way.

American services are accelerating.

European manufacturing is recovering.

Japanese factories and exports are strengthening.

Asian technology trade is booming.

And inflation is producing increasingly different monetary-policy constraints across regions.

For investors, this is a more complex environment.

It may also be a more fertile one.

When global markets move around a single narrative, diversification often provides less protection than expected.

When economic cycles begin to diverge, differences between countries, currencies and sectors become economically meaningful again.

The next phase of the global cycle is unlikely to reward a portfolio built around one interest-rate forecast, one region or one source of earnings growth.

The expansion is broadening.

Its leadership is rotating.

Portfolio construction should recognize both.

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