GLOBAL MARKET INTELLIGENCE

The World in 5 Minutes

"The market prices in peace in Hormuz before it arrives: Wall Street hits a record and Brent falls 7% while the strait stays nearly shut"

The week of August 3-9 turned on a single question: can Hormuz reopen through diplomacy? On August 5, Iran and Oman announced a preliminary agreement on the transit route through the strait, with the joint statement in its final drafting stage and Washington aiming for a formal announcement in the coming days. The deal seeks to restore the June 17 ceasefire, but Tehran has conditioned it on "third parties not obstructing the process."

On the ground, the chokehold remains almost total: on August 5 only two vessels crossed Hormuz, against the 130-140 a day before the crisis, and on the 3rd a projectile struck the bulk carrier *Minoan Pioneer*. In the Red Sea, the Houthi blockade on Saudi ports has stabilized at around 266 weekly transits. The market, then, is not pricing a reopening already achieved: it is pricing the probability that one arrives.

And it is pricing it forcefully. Brent gave up more than 7% on the week to around $82, reversing much of July's escalation. The Baltic Dry Index moved for reasons unrelated to the conflict: it rose 13.1% to 3.089 points, its highest since June 3, on capesize demand after Typhoon Dolphin in the western Pacific, not because of the Cape of Good Hope.

The week's other trigger came Friday from the U.S. labor market. July payrolls surprised with a **loss of 23.000 jobs** —against an expected gain of 83.000— and dragged down May and June figures by a combined 103.000; the unemployment rate fell to 4.1% on lower participation, not more hiring. The S&P 500 closed at a record 7,757.64, up 3.58% from the prior Friday, with the Nasdaq rising 5%. In Europe, the STOXX 600 hit a record 660.25 points, a fourth straight week of gains, led by technology and healthcare with energy the laggard.

The curve followed the turn. The 10-year Treasury fell to around 4.65% and the 2-year to 4.19%, its lowest since July 17, as the market went back to pricing Fed cuts. The dollar fell to two-month lows and the euro touched seven-week highs at 1.156. Gold rose 6.5% to $4,305, near its all-time high from January.

Credit confirmed the calm: high yield tightened to 270 basis points and investment grade to 78, both near decade lows. BofA's fund flows were broad-based, with one exception: technology suffered its first outflow in six weeks, a nuance that matters in a market trading at records.

RESEARCH TEAM VIEW

What to watch in the days ahead

- Hormuz: the joint Iran-Oman statement is in its final drafting stage; Washington is aiming for a formal announcement in the coming days. It is the most important catalyst for Brent and the KGRI.
- Wednesday, August 12, U.S. July CPI. After the payrolls scare, it decides whether the Fed can look past energy-driven inflation or gets caught between weak employment and high prices.
- Tehran conditions the deal on "third parties not obstructing the process": the clause has already stood down four planned U.S. strikes. A serious incident could break the negotiation without warning.
- Red Sea: the Houthi blockade on Saudi ports turns three weeks old. If Hormuz reopens but Bab el-Mandeb stays shut, the relief in freight rates will only be partial.
- With the market already pricing Fed cuts, Jackson Hole later this month gains importance as the next monetary-policy event to watch.

QUANTITATIVE MODEL

Knightford Global Risk Index · as of 2026-08-07

Global risk retreats to the neutral range

WEEK
-4.9

4 WEEKS
+2.6

INTERNAL DISPERSION
56%

CONFIDENCE SCORE
72/100

Why this reading this week?

The KGRI falls 4.9 points to 52,4. The move is explained by three blocks at once: market reaction, which improves sharply to 56.0 out of 100 on the favorable scale after the S&P 500 record; credit, which eases to 21.2 with spreads near decade lows; and the geopolitical block, which the team scores at 76.8 —below the 81.7 of week 30— as it reflects the preliminary Iran-Oman agreement on Hormuz, even though the strait remains almost fully shut on the ground. Liquidity contains it, weakening by 2.7 points on Fed balance sheet runoff, and monetary policy, still the most restrictive block in the model.

Technical note: weighted average of the eight sub-indexes with VSMRI inverted · confidence 72/100 reflecting indicators without a free data source.

What is the KGRI? A 0-100 index that summarizes global market risk by combining eight Visual Sigma® "thermometers" (liquidity, monetary policy, activity, inflation, credit, financial stability, geopolitics and markets), weighted by relative importance and compared with their own history.

POSITIONING FRAMEWORK

Research team view: what to do at each KGRI range, reviewed weekly

0-20	Very low	Overweight risk, maximum exposure to equities and cyclicals, minimal hedging.	
20-40	Low	Maintain full exposure, favor quality, no additional hedging needed.	
40-60	Neutral	Neutral exposure with quality selectivity; partial tactical hedging against surprises.	◂ we are here (52.4)
60-80	Elevated	Reduce beta, add quality and duration, activate hedges (options, gold).	
80-100	Extreme	Defensive mode, maximum cash and hedging, minimize risk exposure.	

THE EIGHT VISUAL SIGMA® · KGRI COMPONENTS

Level 0-100 and weight in the KGRI. Color follows the direction of risk.

VSLI · 18%
Visual Sigma® Liquidity Index

48.4

Neutral

Fed net liquidity is tightening again: the balance sheet keeps running off and the Treasury General Account keeps absorbing cash. The ON RRP is nearly empty and M2 grows at a moderate pace; the block gives back three points on the week.

Conf. 100 ▾ 2.7

VSMPI · 10%
Visual Sigma® Monetary Policy Index

74.1

High

Still the most restrictive block despite the market turn. Fed at 3.75% and ECB at 2.25%: no central bank moved rates this week.

Conf. 100 ▴ 2.4

VSEAI · 14%
Visual Sigma® Economic Activity Index

61.0

High

July payrolls surprised with a loss of 23.000 jobs and downward revisions of 103.000 for May-June. Unemployment fell to 4.1% on lower participation, not hiring.

Conf. 72 ▾ 0.3

VSIPI · 6%
Visual Sigma® Inflation Pressure Index

55.5

Neutral

Pressure is easing: breakevens fall with the Brent slide, and the payrolls scare shifts the market's focus from inflation to growth. July CPI, due Wednesday the 12th, will be the test.

Conf. 80 ▾ 8.0

VSCCI · 8%
Visual Sigma® Credit Conditions Index

21.2

Low

Credit eases sharply: HY OAS falls to 270 basis points and IG to 78, near decade lows. Until credit confirms the geopolitical tension —and this week it eased instead— there is no systemic stress to classify.

Conf. 54 ▾ 8.6

VSFSI · 12%
Visual Sigma® Financial Stability Index

33.4

Low

No deterioration: the NFCI, STLFSI4 and KCFSI remain accommodative, the 2s10s curve keeps a positive slope (46 bps) and the VIX falls to 14.90, its lowest since before Hormuz.

Conf. 76 ▾ 1.9

VSGRI · 14%
Visual Sigma® Geopolitical Risk Index

76.8

High

Hormuz nearly shut —two vessels on August 5, versus 130-140 before the crisis — but Iran and Oman announced a preliminary route agreement. Team-scored block, lower on the diplomatic track.

Conf. 30 ⚠ ▾ 4.9

VSMRI · 18%
Visual Sigma® Market Reaction Index

56.0

Constructive

▴ high = favorable (the only inverted index). The S&P 500 closes at a record and both broad and tech volatility sink. By far the block that improves most this week.

Conf. 66 ▴ 14.0

What do these numbers mean? Every indicator runs from 0 to 100 on actual data; in the seven risk blocks a high number is bad news, but in market reaction it is the reverse, so always read the color, not just the figure. Confidence shows how much of the block is covered by free official sources: paid indicators (CDX, MOVE, Citi, Conference Board, ISM) are not estimated, they are deducted from confidence.

RESEARCH TEAM VIEW · QUALITATIVE

Not model output; analyst judgment, reviewed weekly

BASE CASE 50%

The Iran-Oman deal is formalized but implementation is gradual: Hormuz reopens partially and Bab el-Mandeb stays blocked. Brent trades between $78 and $90, the S&P 500 consolidates near highs and the Fed reaches September with room to cut. The KGRI ranges between 48 and 56.

BULL CASE 30%

The deal is ratified without incidents and Hormuz transits normalize within weeks; the Houthi blockade lifts in parallel. Brent falls below $75, the KGRI drops below 45 and the Fed gains explicit room to cut in September.

BEAR CASE 20%

"Third parties" obstruct the process —as has already happened four times with suspended strikes— or a serious incident breaks the negotiation. Brent rebounds above $100, CPI picks up the new energy scare and the KGRI climbs back above 65.

GLOBAL GEOPOLITICAL RISK MAP

Research team view. List curated manually each week; not VSGRI output (see next page).

● Very high ● High ● Medium

Middle East · Strait of Hormuz — VERY HIGH

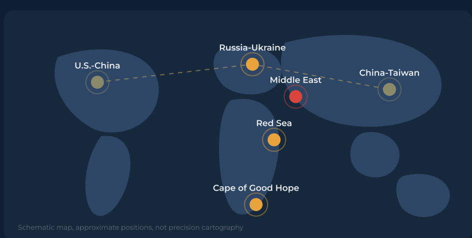
Transit near zero: only two vessels crossed on August 5, against the 130-140 a day before the crisis. On the 3rd a projectile struck the bulk carrier Minoan Pioneer. Despite this, Iran and Oman announced a preliminary agreement on the transit route, with the joint statement in its final stage.

Red Sea · Bab el-Mandeb — HIGH

The Houthi blockade on Saudi ports, in place since July 20, remains in force. Tanker traffic fell 42% and has stabilized at around 266 weekly transits; China-linked vessels keep crossing normally.

Routing · Cape of Good Hope — HIGH

The detour still adds 8 to 12 days of transit and pushes up full-container freight rates. A Hormuz reopening would reverse part of the extra cost, but without a signed deal the long route remains the norm.



China-Taiwan — MEDIUM

No verified escalation; Chinese military activity near Taiwan remains below late-2025 levels after the May Xi-Trump summit. Taiwan approved $25 billion in additional defense spending for 2026-2033.

Russia-Ukraine — HIGH

A week of intense cross-strikes: at least 27 dead across both countries. Russia advances slowly on the ground while keeping up several weekly waves of long-range drones and missiles.

U.S.-China trade — MEDIUM

A 12.5% Section 301 tariff on forced-labor goods took effect July 24, raising the effective tariff rate by 2.5 points. Despite that, Chinese equities keep drawing inflows this week.

Context for the week under review, updated manually by the team. Not VSGRI output (see the quantitative breakdown on the next page).

QUANTITATIVE MODEL

VSGRI, breakdown of its six components (as of 2026-08-07)

Component	Weight	Description	Score
SCON	24%	Intensity of international geopolitical conflict	94 · Very high
SGEO	20%	Global geoeconomic fragmentation	78 · High
SENE	18%	Energy and strategic commodity risk	68 · High
SSUP	14%	Global supply chain risk	95 · Very high
SSOV	12%	Sovereign risk and international sanctions regime	35 · Low
SUNC	12%	Structural geopolitical uncertainty	74 · High

0-100 scale; a higher value means greater risk pressure. The percentage shows its relative weight. Block scored by the team from verified facts of the week: with no freely available quantitative source, its confidence is 30/100.

OUR READ · RESEARCH TEAM VIEW

"What stands out this week is the gap between what is happening in the strait and what the price is doing. Hormuz is more shut than ever —two vessels in a day, against the usual 130 or 140—; on paper, Brent falls 7% because Iran and Oman have announced a preliminary agreement. The market is buying the negotiation headline, with the fourth suspension of a U.S. strike as proof that the process can reverse at any moment. On top of that, a payrolls scare has done more to pull down the 10-year than the Fed has. The team halves the energy hedge opened in July and extends duration in the two-to-five-year bucket."

MARKET DATA · WEEKLY CLOSE

Live from FRED, the ECB Data Portal and Japan's Ministry of Finance, with no analyst intervention.

S&P 500
7,757.64
▲ +3.58%
Record close after the July payrolls surprise; U.S. equity benchmark.

STOXX EUROPE 600
660.25
▲ +1.7% week over week
All-time high, fourth consecutive weekly gain; technology and healthcare lead, energy is the laggard.

VIX
14.90
▼ -1.09
Expected 30-day implied volatility; lowest level since before the Hormuz episode.

UST 10-YEAR
4.65% (e)
▼ -0.10
Falls sharply Friday after the jobs report; the market goes back to pricing cuts.

EURO AAA CURVE, 10-YEAR
3.15% (e)
▼ -0.06
ECB data portal did not publish this week; estimated from the general sovereign curve.

HY CORPORATE SPREAD
270 bps
▼ -9 bps
The wider the spread, the greater the default fear; it eases and stays near decade lows.

DOLLAR (FED BROAD INDEX)
99.56 (e, DXY)
▼ -0.5% on Friday
Two-month low; the Fed's broad dollar index (DTWEXBGS) has not yet published the August reading.

EUR/USD
1.1530
▲ 7-week high
The most heavily traded currency pair in the world; touched 1,156 in Friday's session.

GOLD (SPOT)
$4,305
▲ +6.5% week over week
Near all-time highs; $900M of inflows into gold funds this week, per BofA.

BRENT
$82 (e)
▼ -7% week over week
Falls sharply after the preliminary Iran-Oman agreement on the Hormuz transit route.

JGB 10-YEAR
2.80% (e)
= unchanged
Japan's Ministry of Finance did not publish this week; holds at elevated levels for the recent series.

BALTIC DRY INDEX
3,089
▲ +13.1% week over week
Highest since June 3; driven by Typhoon Dolphin and capesize vessel demand.

"Dollar" uses the Fed's DTWEXBGS; with no August reading yet, it is replaced by the DXY (e). The ECB and Japan's Ministry of Finance did not publish: the euro AAA curve, the JGB and Brent are flagged (e).

MONETARY POLICY AND LIQUIDITY

FED	BCE	BOE	BOJ
3.75%	2.25%	3.75%	1.00%
target rate, upper bound	deposit facility	bank rate	policy rate
unchanged; next meeting in September	unchanged this week	holds rates this week	holds rates this week

Fed balance sheet: $6,749 trillion (August 5); Treasury General Account at $907,324 billion and reverse repo nearly empty ($1,450 billion).

WHERE DID THE MONEY GO THIS WEEK?

Fund flows, week through August 5 (BofA Global Research, The Flow Show).

INFLOWS

Money market funds / cash	**+$53,700M**
Global equities	**+$32,900M**
Bonds	**+$23,100M**
Gold	**+$900M**
Digital assets	**+$600M**

OUTFLOWS

Technology	**-$700M**

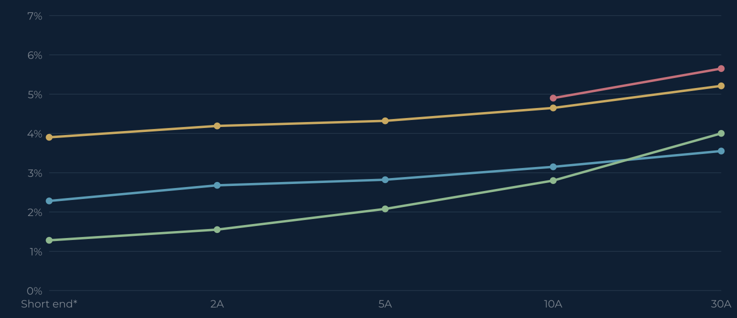
A week of broad-based inflows, not rotation: almost everything captures flow at once, with technology the only relevant redemption, snapping a six-week run of inflows. Emerging market equities take in $8.6 billion this week but annualize an outflow of $55 billion, the worst since 2015.

YIELD CURVES, CROSS-COUNTRY COMPARISON

United States, euro area, United Kingdom and Japan; official data from each treasury or central bank.

Full curve · U.S., euro area, U.K. and Japan

Yield (%) by maturity



- United States (Treasury): 3.90 · 4.19 · 4.32 · 4.65 · 5.21%
- Euro area (ECB, AAA curve): 2.28 · 2.68 · 2.82 · 3.15 · 3.55%
- United Kingdom (gilts): 4.90 · 5.65%
- Japan (Ministry of Finance): 1.28 · 1.55 · 2.08 · 2.80 · 4.00%

*The short end is not the same maturity across the four regions; from two years onward the tenors are identical. For the United Kingdom only the two points verified this week are shown: the full gilt curve has no free machine-readable source.

▸ Research team read

The week moved curves in the opposite direction from July, with a common thread: less risk premium. In the United States the 2-year fell to 4.19%, its lowest since July 17, and the 10-year to around 4.65%; the 2s10s slope widens to 46 basis points, consistent with a market putting Fed cuts back on the calendar. In the United Kingdom the 10-year fell more than ten basis points to 4.90% as Bank of England tightening expectations eased, though the 30-year stays under pressure from the fiscal doubts that drove it to its highest since 1998 just days earlier. Japan is the exception: the 10-year holds near 2.80%, because its pressure is structural and unrelated to the Hormuz episode. The team believes the U.S. two-to-five-year bucket best captures the asymmetry: if the deal is confirmed, there is more room for yields to keep falling than to reverse.

What is the yield curve? The interest government debt pays by maturity. Normally the long end pays more than the short end (a positive slope); when it inverts, the market is usually pricing a slowdown.

RESEARCH TEAM VIEW · QUALITATIVE

Recommendation, idea selection and scenario probability; analyst judgment

Current KGRI range. Neutral (40-60), at 52,4. The recommendations below develop the page 1 positioning framework for this range, for equities and fixed income.

Equities

From cautious to neutral, not chasing the record

We trim July's modest underweight toward a neutral stance. With the KGRI back at 52.4 and the S&P 500 at highs, the room to chase the rally is smaller than the room to protect the gains: this week's tech outflow, the first in six, matters more than the record headline. Keep European defense and aerospace, and start rebuilding some quality technology if the August 12 CPI does not surprise to the upside.

Fixed income and credit

Extending duration starts to make sense

The drop in short rates —the 2-year at its lowest since July 17— and the return of rate-cut expectations change the calculus from July. We start a tactical extension into the two-to-five-year bucket, pending confirmation from the August 12 CPI. In credit, HY at 270 basis points still does not pay enough for the latent geopolitical risk: we keep our preference for investment grade.

TRADE OF THE WEEK

Energy hedge · take partial profits, don't close it out

The energy and shipping hedge opened in July has worked as insurance: with Brent down 7% on the preliminary Iran-Oman agreement, the team recommends banking half the position and letting the rest run. The reason not to close it out entirely: Tehran conditions the reopening on "third parties not obstructing the process," a clause that has already blocked a planned U.S. strike four times. A single serious incident —like the one suffered by the *Minoan Pioneer* on August 3— can reverse oil in a single session. Exit the remainder if Hormuz transits sustainably exceed eighty a day or if the joint statement is signed.

Note on this edition. No edition was published for week 31 (July 27-August 2); this issue compares directly with week 30, whose team-assigned geopolitical score (VSGRI 81.7) is kept as the starting reference. The ECB Data Portal and Japan's Ministry of Finance did not publish their curves this week; those values are flagged (e) and estimated from specialist financial press.

Sources. Federal Reserve Bank of St. Louis (FRED): policy rates, Treasury curve, VIX, ICE BofA spreads, financial conditions indexes, monetary aggregates, S&P 500 and the broad dollar index. European Central Bank Data Portal and Japan's Ministry of Finance: euro-area AAA and JGB curves (no publication this week; values estimated and flagged (e)). BofA Global Research (The Flow Show): weekly fund flows. Baltic Exchange: freight index. Lloyd's List Intelligence, Windward and Hormuz Strait Monitor: Hormuz and Red Sea transits. Bloomberg, Reuters, CNBC, CNN, Al Jazeera and Axios: Iran-Oman-U.S. negotiations and market closes. U.S. Bureau of Labor Statistics: July nonfarm payrolls. Knightford AM Visual Sigma® engine (KGRI and the eight sub-indexes), computed under the methodological catalog (Volume II) using ten-year historical percentiles. Catalog indicators without a free public source (CDX IG and HY, MOVE index, Citi Economic Surprise, Conference Board LEI, ISM) are neither estimated nor interpolated: they reduce the confidence level of the corresponding block, as the methodology requires. Figures flagged with (e) are team estimates pending confirmation from an official source.

Iciar Temprano
Head of Research and Quantitative Management