GLOBAL MARKET INTELLIGENCE

The World in 5 Minutes

"Hormuz remains without a deal and under threat of total closure: Brent jumps 6.6% to $94, Wall Street pulls back from highs and gold extends its rally"

The week answered the question the previous one left open: the preliminary agreement Iran and Oman announced on August 5 over Hormuz still has no signed joint statement. The tone hardened too: Tehran threatened to close the strait entirely if Washington imposes the sanctions package it calls an "economic D-Day," and on August 21 Trump admitted that Iran "is not ready to make the right deal."

On the ground, the chokehold isn't easing: according to Lloyd's List, transits fell to 73 vessels in the week of August 10-16, from 91 the week before, and more than 80% of crude, LNG and LPG is moving with AIS transponders switched off. In the Red Sea, the Houthis claimed a new missile attack on a Saudi vessel on August 18. The market, which had started pricing a reopening, is unwinding that bet.

It is unwinding it forcefully: Brent rose 6.6% to $94.39, reversing much of the decline from earlier in the month. The Baltic Dry Index moved the other way, for reasons unrelated to the conflict: it slipped 0.8% to 2.841 points despite firm capesize rates, held up by iron ore demand and a tropical depression in the South China Sea.

Equities took the hit despite a solid macro backdrop. The S&P 500 fell 1.43% to 7,674.37 and the STOXX 600 snapped its winning streak with a 0.56% decline to 654.18, even with eurozone PMI at its highest since November. In the U.S., the composite PMI rose to 56.0, a high since April 2022, and jobless claims fell to 206.000: both prints were overshadowed by geopolitical noise.

The curve moved with the risk premium. The 10-year Treasury rose to 4.74% and the 2-year to 4.24%, paring back rate-cut bets ahead of Jackson Hole. The sell-off was sharper in the UK: the 30-year gilt rose 14 basis points to 5.81% on its own fiscal doubts. The dollar fell again (DTWEXBGS, -0.7%) and gold logged its fifth straight weekly gain (+3.9%, to $4.528).

Credit didn't confirm the tension: HY widened just 3 basis points to 270 and IG to 81. Global equity funds took in $22.010M in the week through August 19 (Refinitiv/LSEG Lipper; BofA did not publish verifiable Flow Show figures), bonds logged their twentieth straight week of inflows and gold its sixth; only financials saw meaningful outflows (-$1.590M).

RESEARCH TEAM VIEW

What to watch in the days ahead

- Jackson Hole, August 27-29: Kevin Warsh, Powell's successor as Fed Chair since May, gives his first speech as Chair on Friday the 28th. It is the most important monetary-policy event in the near term.
- Hormuz: escalation risk if Washington imposes the sanctions package Iran has already called a "declaration of war"; Tehran threatens to close the strait entirely.
- U.S.-China trade: the 7.5% tariff over "overcapacity," reported on August 24, could be formalized ahead of the September 24 Trump-Xi summit.
- Red Sea: watch the Saudi naval coalition being prepared after the August 18 Houthi attack; a new incident would push up the maritime risk premium.
- Macro calendar: consumer confidence (August 25) and July durable goods (August 26), the last data points before Jackson Hole.

QUANTITATIVE MODEL

Knightford Global Risk Index · as of 2026-08-21

Global risk rises, but stays in the neutral range

WEEK
+2.5

4 WEEKS
-4.3

INTERNAL DISPERSION
55%

CONFIDENCE SCORE
72/100

Why this reading this week?

The KGRI rises 2.5 points to 53,4, though it stays well below the 57.7 from four weeks ago. Two blocks explain it at once: market reaction, which worsens sharply to 53.0 out of 100 on the favorable scale —the S&P 500 gives back ground from its record the week before—; and the geopolitical block, which the team raises to 78.8 —still below the 81.7 of week 30, but above the 76.8 of week 33— as the Iran-Oman deal over Hormuz remains unsigned and Iran's rhetoric of total closure escalates. Credit cushions it, staying eased at 26.5 without confirming the tension, while monetary policy remains, unchanged, 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 (53.4)
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

51.7

Neutral

Fed net liquidity stays tight: the balance sheet falls to $6,746 trillion and bank reserves to $2,935 trillion, though the Treasury drains a bit less than the week before. The ON RRP remains nearly empty; the block rises 1.5 points.

Conf. 100   ▴ 1.5

VSMPI · 10%
Visual Sigma® Monetary Policy Index

74.1

High

Unchanged: Fed at 3.75% and ECB at 2.25%, with no major central bank meeting. Still by far the most restrictive block in the model.

Conf. 100   = 0.0

VSEAI · 14%
Visual Sigma® Economic Activity Index

61.0

High

No new monthly releases; the only fresh data point is jobless claims, down to 206,000. The U.S. composite PMI rose to 56.0, a high since April 2022, though it isn't part of the block's quantitative catalog.

Conf. 72   ▴ 0.3

VSIPI · 6%
Visual Sigma® Inflation Pressure Index

62.5

High

The block that rises most (+5.4 points): breakevens jump sharply —10-year from 2.27% to 2.34%, 5-year from 2.24% to 2.34% — pulled up by the Brent surge. July CPI and core PCE don't move this week.

Conf. 80   ▴ 5.4

VSCCI · 8%
Visual Sigma® Credit Conditions Index

26.5

Low

Corporate credit eases: the Baa-10-year spread falls 6 bps to 1.63 and the Aaa-10-year to 1.18, while HY rises to 270 bps and IG to 81. The block improves 0.7 points and does not confirm the geopolitical tension.

Conf. 54   ▾ 0.7

VSFSI · 12%
Visual Sigma® Financial Stability Index

23.5

Low

Rises 1.7 points, pushed up by the VIX at 15.13 (14.25 the week before) after the Hormuz escalation; the NFCI, STLFSI4 and KCFSI remain untensioned and the 2s10s slope stays positive.

Conf. 76   ▴ 1.7

VSGRI · 14%
Visual Sigma® Geopolitical Risk Index

78.8

High

Hormuz still has no signed joint statement —transits fell to 73 vessels, from 91 the week before, per Lloyd's List— and Tehran threatens total closure. Team-scored block, higher after the rhetorical escalation.

Conf. 30 ⚠   ▴ 2.0

VSMRI · 18%
Visual Sigma® Market Reaction Index

53.0

Constructive

▴ high = favorable (the only inverted index). The block that worsens most (-8 points): the S&P 500 gives back 1.4% from its prior record and both broad and tech volatility jump; only a weaker dollar softens the decline.

Conf. 66   ▾ 8.0

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   45%

The Iran-U.S. standoff stays stuck, with neither a deal nor a break: Hormuz remains depressed and the Red Sea blocked. Brent trades between $88 and $100, Wall Street trades sideways awaiting Jackson Hole, and Warsh keeps a balanced tone. The KGRI ranges between 50 and 58.

BULL CASE   28%

Iran and Oman resume and sign the August 5 joint statement; transits normalize and the U.S. eases sanctions. Brent falls below $85, the KGRI drops below 48 and Warsh leaves room for rate cuts.

BEAR CASE   27%

Washington imposes the "economic D-Day" and Iran closes the strait entirely, or a larger Houthi attack hits the Red Sea. Brent tops $105, CPI picks up the energy shock and the KGRI climbs 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

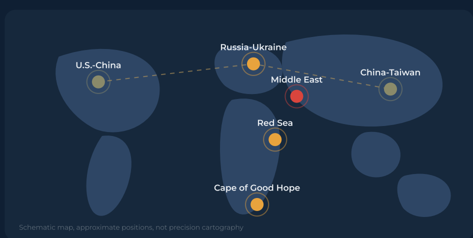
The preliminary Iran-Oman agreement from August 5 remains unsigned. Per Lloyd's List, transits fell to 73 vessels (from 91 the week before) and more than 80% of crude, LNG and LPG is moving with AIS switched off. Tehran threatens total closure if the U.S. imposes its "economic D-Day."

Red Sea · Bab el-Mandeb — HIGH

The Houthi blockade on Saudi ports, in place since July 20, remains active: on August 18 they claimed a new missile attack on a Saudi vessel. Saudi Arabia is preparing its own naval coalition.

Routing · Cape of Good Hope — HIGH

With Hormuz not reopened and Bab el-Mandeb blocked, the detour remains the norm, with higher freight costs and 8 to 12 extra days of transit.



China-Taiwan — MEDIUM

Taiwan announced a record defense budget on August 20 (about $35 billion for 2027, above 3% of GDP), amid sustained Chinese air and naval pressure.

Russia-Ukraine — HIGH

Combined drone and missile attacks almost every night: the one on August 21-22 struck 41 locations and killed a railway worker in Kyiv. No diplomatic progress this week.

U.S.-China trade — MEDIUM

Washington drafted a new 7.5% tariff over Chinese "overcapacity" —reported on August 24— up to the agreed 20% ceiling, ahead of the September 24 Trump-Xi summit.

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 2026-08-21)

SCON	24%	Intensity of international geopolitical conflict	92 · Very high
SGEO	20%	Global geoeconomic fragmentation	80 · Very high
SENE	18%	Energy and strategic commodity risk	76 · High
SSUP	14%	Global supply chain risk	91 · Very high
SSOV	12%	Sovereign risk and international sanctions regime	42 · Neutral
SUNC	12%	Structural geopolitical uncertainty	77 · 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 is that nothing new has actually happened on the ground —Hormuz is still at the same 73 vessels— and yet the price has moved 6.6%. What's changed is the tone: Tehran no longer talks about a deal, it talks about total closure. The market is pricing the August 5 window closing. On top of that, gilts have sold off more than Treasuries: the market is starting to distinguish who can afford the risk premium and who can't. We're rebuilding part of the energy hedge we trimmed, and waiting for Warsh's debut at Jackson Hole."

MARKET DATA · WEEKLY CLOSE

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

S&P 500	7,674.37	▾ -1.43%	Pulls back from its prior record; the Hormuz escalation outweighs a four-year high in PMI.
STOXX EUROPE 600	654.18	▾ -0.56% week over week	Snaps its winning streak despite a strong eurozone PMI (52.1, a high since November).
VIX	15.13	▴ +0.88	Rises with the rhetorical escalation over Hormuz; still near the low end of the year.
UST 10-YEAR	4.74%	▴ +0.06	Rises despite the strong jobs data; the market pares back rate-cut bets ahead of Jackson Hole.
EURO AAA CURVE, 10-YEAR	3.27% (e, Δ)	▴ +0.06 *(e)*	Official ECB level; weekly change estimated from the German Bund, with no exact comparable in the AAA series.
HY CORPORATE SPREAD	270 bps	▴ +3 bps	Moderate uptick; still near decade lows, not confirming the geopolitical tension.
DOLLAR (FED BROAD INDEX)	118.06	▾ -0.7% week over week	The DTWEXBGS, now with an August reading, falls for a second week.
EUR/USD	1.1684	▴ +0.9% week over week	The euro strengthens amid broad dollar weakness.
GOLD (SPOT)	$4,528	▴ +3.9% week over week	Fifth straight weekly gain; GoldPrice.org and Kitco differ ($4.528-$4.603) given the lack of a single spot close.
BRENT	$94.39	▴ +6.6% week over week	Rebounds as the Iran-Oman deal remains unsigned and Iran threatens total closure.
JGB 10-YEAR	2.88%	= +0.00	Japan MOF, official data; nearly unchanged, though the 30-year rises 4 bps to 4.04% on fiscal doubts.
BALTIC DRY INDEX	2,841	▾ -0.8% week over week	Slight pullback despite firm capesize rates, held up by iron ore and a tropical depression in the South China Sea.

"Dollar" uses the DTWEXBGS, now with an August reading. Euro AAA and JGB curves use official data; only the weekly change in the euro AAA curve is estimated (e) from the German Bund.

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 September 17	unchanged this week	unchanged; next meeting September 19	holds rates this week

Fed balance sheet: $6,746 trillion (Aug. 19); Treasury General Account at $953,612M and reverse repo nearly empty ($200M).

WHERE DID THE MONEY GO THIS WEEK?

Week through August 19 (Refinitiv/LSEG Lipper; BofA did not publish verifiable Flow Show figures).

INFLOWS

Global equities	+$22,010M
Bonds	+$15,420M
Money market funds	+$3,710M
Gold and metals	+$2,040M
Technology	+$1,550M

OUTFLOWS

Financials	-$1,590M

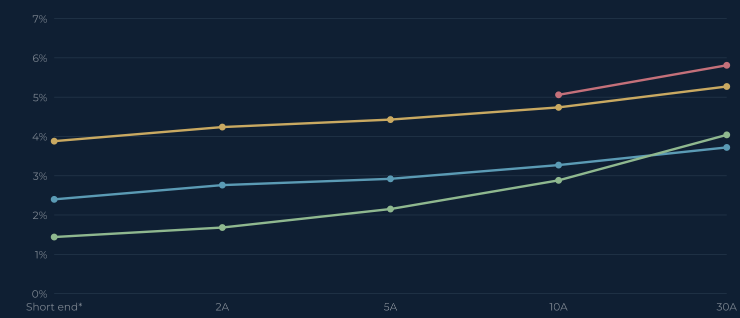
Twentieth straight week of bond inflows and sixth for gold: flows aren't rotating toward geopolitical risk. Financials is the only category with meaningful outflows.

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): 3.88 · 4.24 · 4.43 · 4.74 · 5.27%
- Euro area (ECB, AAA curve): 2.40 · 2.76 · 2.92 · 3.27 · 3.72%
- United Kingdom (gilts): 5.06 · 5.81%
- Japan (Ministry of Finance): 1.44 · 1.68 · 2.15 · 2.88 · 4.04%

*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 put risk premium back into sovereign curves, led by the UK. In the United States the 2-year rose to 4.24% and the 10-year to 4.74%, as the market pared back Fed rate-cut bets ahead of Warsh's debut at Jackson Hole. The sell-off was sharper in the UK: the 30-year rose 14 basis points to 5.81%, hit both by Middle East tension and its own fiscal doubts, while the 10-year barely moved (+1.8 bps) to 5.06%. The euro area rose too: the 10-year Bund moved up in line with the rest of the block to around 3.2%-3.3%. Japan was the relative exception: the 10-year barely moved (2.88%), though the 30-year rose 4 basis points to 4.04% amid its own fiscal doubts. The team reads the UK overreaction as a sign the market is starting to differentiate between issuers by fiscal headroom, not just by the shared geopolitical shock.

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 53,4. The recommendations below develop the page 1 positioning framework for this range, for equities and fixed income.

Equities

Neutral, not chasing the drop

We keep the neutral stance of recent weeks. The KGRI rises to 53.4 but stays in neutral territory, and the S&P 500's 1.4% pullback from its record comes alongside a composite PMI at a four-year-plus high: this isn't a fundamentals correction, it's a geopolitical risk repricing. Keep European defense and aerospace; no urgency to rebuild technology until we see Warsh's tone at Jackson Hole.

Fixed income and credit

Duration extension pauses, it does not reverse

This week's rise in short and long rates —sharper in gilts than in Treasuries— argues for pausing, not reversing, the tactical extension into the two-to-five-year bucket started weeks ago: the cause is geopolitical, not a shift in the Fed's cycle. In credit, HY at 270 basis points still doesn't pay enough for the risk latent in Hormuz and the Red Sea: we keep our preference for investment grade.

TRADE OF THE WEEK

Energy hedge · rebuild part of the trimmed position

With Brent up 6.6% on the week and the Iran-Oman deal still unsigned, the team recommends rebuilding part of the energy and shipping hedge that had been trimmed while awaiting the joint statement. The reason: Tehran has gone from conditioning the reopening to threatening total closure if Washington imposes its sanctions package, and transits verified by Lloyd's List (73 vessels in the week of August 10-16) show no improvement. Exit the hedge if the joint statement is signed or if Hormuz transits sustainably exceed eighty a day.

Note on this edition. This week we were able to access the ECB Data Portal and Japan's Ministry of Finance live, so the euro AAA and JGB curves no longer carry the (e) flag on their level (only the euro AAA curve's weekly change remains estimated, see the market-table footnote). BofA Global Research did not publish verifiable Flow Show figures this week; this edition's fund flows use Refinitiv/LSEG Lipper as an alternative source, stated explicitly in the relevant section.

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 (AAA curve) and Japan's Ministry of Finance (JGB): sovereign debt curves, official weekly data. Bundesbank and Investing.com: German Bund and UK gilt, used to estimate weekly changes flagged (e). Refinitiv/LSEG Lipper: weekly fund flows (replacing BofA Global Research's Flow Show, unavailable with verifiable figures this week). Baltic Exchange: freight index. Lloyd's List Intelligence and Al Jazeera: Hormuz and Red Sea transits. CNBC, Bloomberg, Reuters, CNN, Al Jazeera, Ukrainska Pravda, Washington Post and Newsweek: Iran-Oman-U.S. negotiations, Houthi attacks, Russia-Ukraine, Taiwan's defense budget and U.S.-China trade. S&P Global: August flash PMI. U.S. Bureau of Labor Statistics: weekly jobless claims. Federal Reserve: change in chairmanship (Kevin Warsh) and the Jackson Hole calendar. 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