In collaboration with: J.P.Morgan ASSET MANAGEMENT

# Monthly Investment Insights

**AUGUST 2026**

**TOPIC 1:**

## US mid-term elections may create short-term noise but fundamentals matter more

With the United States (US) mid-term elections approaching, political headlines may increase market volatility but history suggests election uncertainty is unlikely to be the main driver of long-term market performance.

### What you can do

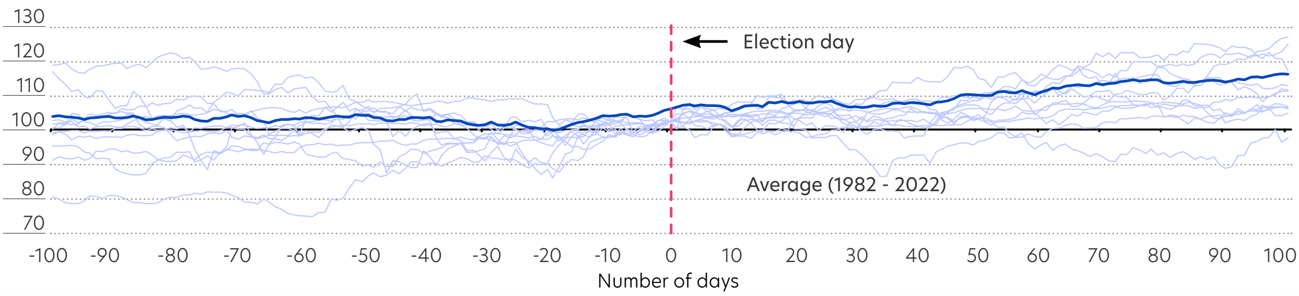
Stay focused on long-term investment goals by maintaining a diversified portfolio and avoiding decisions based solely on short-term political noises.

- The US mid-term elections are approaching in November, and the upcoming political campaigning could potentially trigger some market volatility. While election uncertainty may weigh on sentiment in the short term, history suggests it has rarely been the primary driver of long-term market performance.
- Markets are typically guided by fundamentals such as corporate earnings, economic growth, and monetary policy. Elections can influence specific sectors and sentiment, but the broader market direction is typically shaped by profits, interest rates, inflation, and valuations. Put simply, politics may set the mood, but fundamentals set the market direction.
- Financial markets are typically wary heading into US mid-term elections given the uncertain outlook and political implications. While US equities have historically delivered positive returns during mid-term years, gains were generally lower and volatility was higher than in non-midterm years. However, this generalisation hides certain coincidental factors. In recent mid-term election years where market performance was negative, the underperformance was due to broader macroeconomic conditions, such as aggressive Federal Reserve (Fed) rate hikes or major economic downturns.
- Importantly, equities have historically performed better after mid-term elections as political uncertainty fades (Figure 1). Delving deeper, investors have historically favoured a divided government, where political power is split between the two parties. This tends to reduce the likelihood of major policy changes and provide businesses with a more predictable operating environment. While a divided US Congress does not guarantee stronger market returns, investors often view it as a stabilising backdrop for risk assets.
- Rather than reacting to election headlines, investors should remain focused on key drivers of markets – monetary policy, labour market conditions, corporate earnings, and valuations. A disciplined, diversified investment approach has consistently delivered better portfolio outcomes than trying to time markets around political events.

Figure 1:

**S&P 500 volatility before mid-term elections is typically temporary, with returns improving after**

Indexed to 100 on the date of election, election day = 0, 1982 - 2022




**Source:** FactSet, Standard & Poor's J.P. Morgan Asset Management.

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TOPIC 2:

# AI's next bottleneck: building the infrastructure behind AI growth

The next phase of artificial intelligence (AI) growth is broadening investment opportunities beyond hyperscalers and semiconductors to the infrastructure enabling AI adoption at scale.

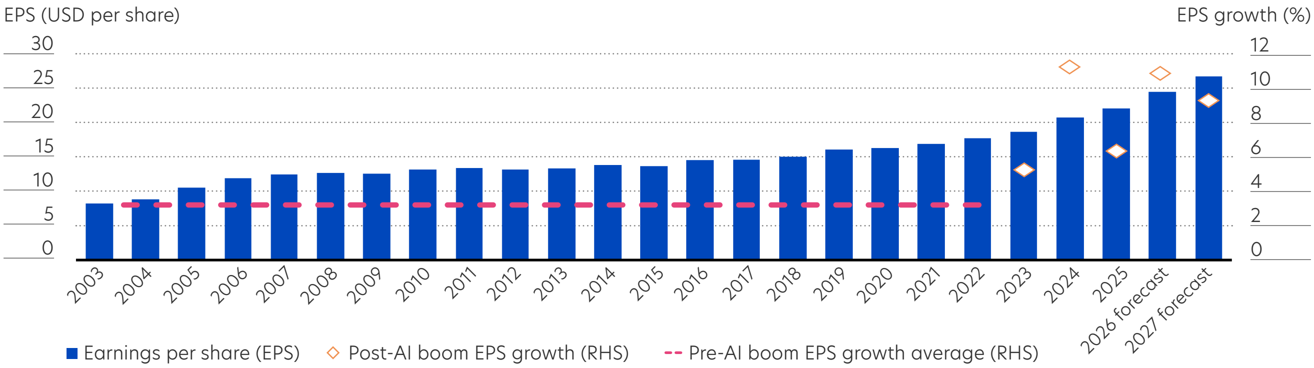
### What you can do

Avoid concentration risks and diversify AI exposure beyond semiconductor companies by considering other beneficiaries of the AI infrastructure buildout, particularly the picks-and-shovels of power infrastructure, advanced cooling systems, and connectivity.

- AI is entering a new phase of development. After the initial excitement around breakthrough models and eye-catching product demonstrations, attention is increasingly shifting toward the infrastructure required to train, run, and scale AI at commercial levels. For investors, this means investment opportunities are expanding beyond the semiconductor companies that have dominated headlines.
- One of the key bottlenecks is power. AI data centres consume significantly more electricity than traditional computing as companies deploy higher-density servers and larger computing clusters. In many regions, the challenge is shifting from securing enough chips to securing reliable power. This creates potential opportunities across utilities, power generators, grid operators, and electrification solutions, including companies involved in transformers, switchgear and high-voltage equipment. Utilities, for example, has seen improving earnings momentum since the start of the AI-boom (Figure 2).
- Beyond power, cooling and optical networking infrastructure within data centres are becoming increasingly important. Rising computing intensity is driving demand for advanced cooling systems, while the need to move large volumes of data quickly between processors are supporting opportunities in optical components, high-speed interconnects, and networking equipment.
- Early in the AI cycle, financial markets rewarded companies building AI capabilities, particularly hyperscalers and semiconductor companies benefitting from strong demand. Looking ahead, the investment opportunities are likely to broaden toward the wider ecosystem that enables AI adoption.
- Investors should recognise that the AI investment opportunity is no longer limited to hyperscalers or semiconductor companies, as the infrastructure buildout extends into other picks-and-shovels prerequisites. Diversifying exposure into power infrastructure, electrification, advanced cooling, and connectivity providers can help capture the broader AI investment theme while managing concentration risk.

Figure 2:

**S&P 500 utilities earnings jumped significantly after AI boom**




**Source:** FactSet, Standard & Poor's J.P. Morgan Asset Management.

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TOPIC 3:

# A revival in capital market activity

## The financials sector may benefit from a revival in capital market activity amid the AI investment cycle, supporting earnings beyond lending.

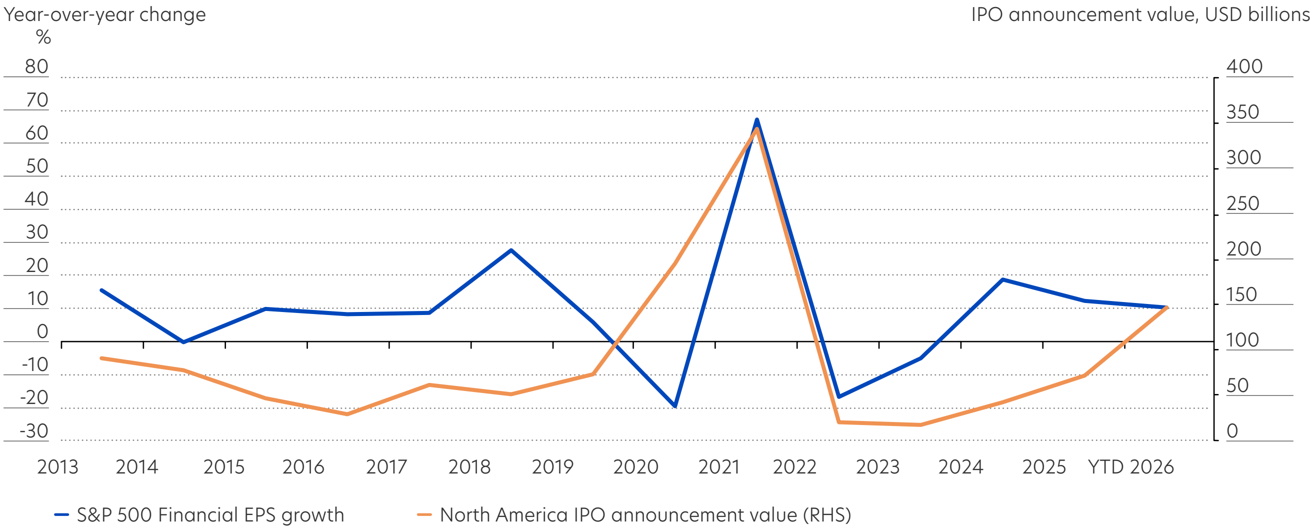
### What you can do

For investors with heavy exposure to technology stocks, consider diversifying into the financials sector that may benefit from increasing initial public offerings (IPO) and deal flows.

- Recent earnings from large US banks have been driven less by a rebound in lending and more by improving capital market activity. Investment banking, trading, and wealth management revenues have strengthened, leading to strong earnings and profits despite uneven performance in the traditional rate-sensitive parts of the business. For investors, this shift matters because future bank earnings may increasingly depend on capital market activity and deal flow rather than loan growth.
- One potential catalyst is a recovery in the IPO market. After several years of subdued issuance due to higher interest rates, market volatility, and valuation uncertainty, improving sentiment has encouraged companies to revisit listing plans. If market conditions remain supportive, a backlog of potential equity issuers could gradually return.
- An IPO recovery can have a broader impact on bank revenues beyond underwriting fees. Increased issuance can lead to higher advisory activity, secondary trading volumes as new shares come to the market, and client engagement across institutional and wealth management platforms. While IPO activity and financials sector earnings have not always moved exactly in tandem, stronger capital market conditions have historically supported revenue growth opportunities (Figure 3).
- Looking ahead, the AI cycle could further underpin equity issuance activity as companies seek capital to fund AI-related investments and infrastructure expansion. As a result, investors should look beyond current earnings and monitor management commentary on deal pipelines, mandates and client risk appetite.
- In short, large-cap banks may offer an alternative avenue to participate in the broader AI investment cycle through increased fee growth from capital market activity, while allowing investors to diversify and avoid concentration risk in technology stocks.

Figure 3:

### The recovering in IPO activity has historically supported financials earnings




**Source:** FactSet, Standard & Poor's, J.P. Morgan Asset Management..

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