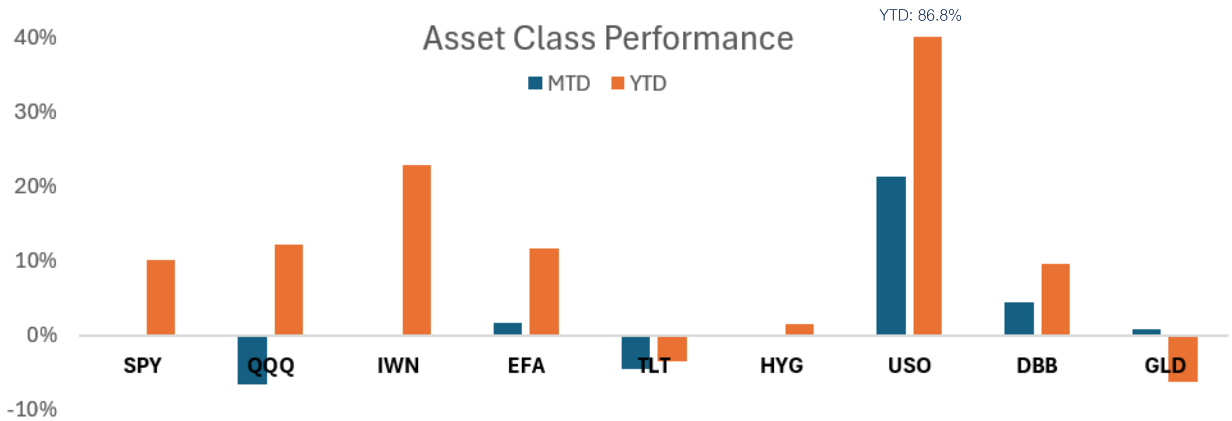
Key Developments

Our top market developments of the past month are as follows:

1) The Chips Were Down – Last month we noted the chips were not (yet) down. In July, they fell: the SOX Index dropped 20.6% and DRAM makers slid 31.8% as investor focus shifted from AI demand to the returns on massive capex. South Korea saw the most acute volatility as sharp swings in SK Hynix and Samsung prompted multiple trading halts.

2) Earnings Firing on All Cylinders – With over 60% of the S&P 500 reporting, blended Q2 EPS growth reached 47.4%, 86% of companies beat estimates, and aggregate earnings topped consensus by over 31%. Jobless claims hit their lowest level since 1969 and inflation readings cooled – a resilient-growth backdrop beneath the tech turbulence.



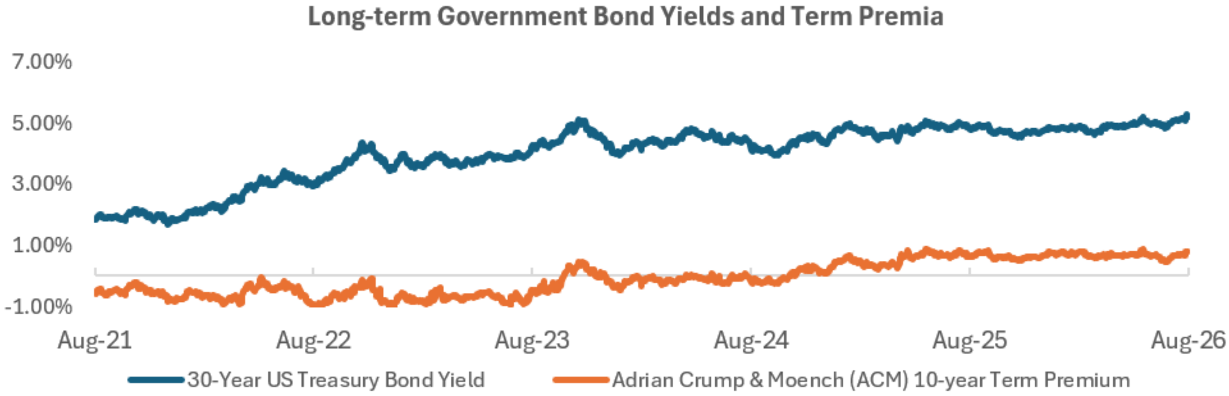
Source: Bloomberg Finance L.P. ("Bloomberg")*.

3) A House Divided – The Fed held rates at 3.50%–3.75%, but three officials dissented in favor of a hike, underscoring growing division within the committee. Chair Warsh again declined to offer forward guidance. Markets now assign ~65% odds to a September hike, while trimming expectations for further tightening thereafter.

* Through Jul. 31, 2026; SPY (SPDR S&P 500 ETF Trust); QQQ (Invesco QQQ Trust Series 1); IWM (iShares Russell 2000 ETF); EFA (iShares MSCI EAFE ETF); TLT (iShares 20+ Year Treasury Bond ETF); HYG (iShares iBoxx High Yield Corporate Bond ETF); USO (United States Oil Fund LP); DBB (Invesco DB Base Metals Fund); and GLD (SPDR Gold Shares).

Portfolio Considerations

- **When Momentum Unwinds –** July's semi and memory washout looked like the unwind of a crowded momentum trade rather than a demand collapse: hyperscaler results from Microsoft (+24.6%) and Amazon (+13.9%) reinforced robust AI demand and improving monetization. When positioning is one-sided, the exits can get narrow – a reminder of why it can be important to diversify beyond any single theme.
- **The Bitter End –** Treasury rates at the long end of the curve have steadily marched higher – even as short-term rates peaked in 2023 – with the 30-year reaching its highest level since 2007. Inflation expectations have been anchored, however the term premium (compensation required for tying up capital) has increased by roughly 1.5% over this period. Oft-cited drivers are rising deficits, quantitative tightening, and uncertainty about the Fed's reaction function as Chair Warsh seeks to limit guidance.



Source: Bloomberg Finance L.P. ("Bloomberg").

Looking forward...

- **Show Me the Return! –** With the AI narrative shifting from demand to return on investment, the balance of earnings season became a referendum on capex ROI. Commentary on capital discipline from hyperscalers and AI infrastructure leaders may very well set the tone for the next leg of the AI trade – in either direction.