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July 2026 Market Commentary

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July Market Recap

Financial markets experienced another meaningful shift in July, highlighting the rapidly changing investment landscape that has characterized much of 2026. Following significant rotations in March and April, July marked another change in market leadership as investors reassessed several of the year's strongest-performing themes.

We believe the most notable development was a sharp reversal in artificial intelligence and semiconductor stocks. After leading equity markets for much of the year, these sectors entered correction territory as investors shifted their focus from rewarding aggressive capital expenditures toward scrutinizing whether future earnings will justify elevated valuations.

While the pullback was significant within the AI ecosystem, broader market damage remained relatively contained. For the month of July, the S&P 500 index declined .1%, with the Dow Jones Industrial Average up .3% and the NASDAQ composite down 3%.

Geopolitical risks also returned to the forefront. Further tensions involving the United States and Iran created additional uncertainty surrounding global energy markets, causing oil prices to become more volatile. This renewed focus on energy prices reintroduced concerns that higher oil prices could place upward pressure on inflation, influence Federal Reserve policy, and create additional market volatility.

Despite these developments, the overall market remained remarkably resilient. Major equity indices have retreated modestly from recent record highs, but corporate credit spreads continue to trade near cycle lows, suggesting that fixed income markets are not signaling significant financial stress. Market breadth has also improved, indicating that leadership has broadened beyond the narrow group of mega-cap technology companies that dominated earlier in the year.

Economic and Market Fundamentals

The U.S. economy continues to demonstrate resilience despite several crosscurrents.

Second-quarter economic growth moderated from the pace experienced earlier in the year. However, underlying demand remains healthy, with real final sales to private purchasers continuing to show steady expansion despite disruptions caused by higher energy prices.

Continued instability in energy markets could keep inflation above the Fed's target and delay any easing of monetary policy.

Inflation remains one of the primary variables investors are monitoring. While inflation had generally been moving lower toward the Federal Reserve's long-term objective of 2%, recent oil price volatility has complicated that progress. Continued instability in energy markets could keep inflation above the Fed's target and delay any easing of monetary policy.

The labor market has stabilized following signs of slowing during late 2025. Employment conditions continue to reflect what many economists describe as a "low-fire, low-hire" environment, where businesses remain reluctant to lay off workers but are also hiring cautiously. Overall employment conditions remain supportive of consumer spending.

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Consumers continue to benefit from healthy household balance sheets, a strong labor market, and investment gains. However, slower income growth and renewed inflationary pressures represent potential headwinds heading into the second half of the year.

Federal Reserve

The Federal Reserve maintained its policy stance during July while continuing to communicate a somewhat more hawkish tone. Policymakers remain focused on ensuring inflation returns sustainably to target before considering meaningful policy easing.

Current market expectations anticipate the possibility of additional rate increases beginning later in 2026 and extending into early 2027 should inflation remain

persistent. While interest-rate volatility has moderated compared to recent years, fixed income markets continue to price in considerable uncertainty surrounding inflation and future Fed decisions.

Corporate Earnings

Corporate earnings remain one of the strongest pillars supporting equity markets.

Profit margins remain near record levels, demonstrating the continued strength of corporate America despite higher interest rates and persistent economic uncertainty.

Second-quarter earnings season has generally exceeded expectations, with the S&P 500 delivering its seventh consecutive quarter of double-digit year-over-year earnings growth. Profit margins remain near record levels, demonstrating the continued strength of corporate America despite higher interest rates and persistent economic uncertainty.

Importantly, today's equity market is increasingly being supported by actual earnings growth rather than expectations for lower interest rates. This represents a healthier foundation for long-term investors, although elevated market valuations leave less room for disappointment.

Artificial Intelligence

Artificial intelligence remains the dominant long-term structural investment theme.

The recent correction in AI-related stocks should not necessarily be interpreted as the end of the long-term opportunity. Rather, periods of heightened volatility are common in transformational investment cycles as markets continually reassess future growth expectations.

Capital spending on AI infrastructure continues to drive significant earnings growth across several sectors of the economy. However, investor expectations have become exceptionally high, contributing to increased volatility whenever companies fail to exceed already elevated forecasts.

The recent correction in AI-related stocks should not necessarily be interpreted as the end of the long-term opportunity. Rather, periods of heightened volatility are common in transformational investment cycles as markets continually reassess future growth expectations. We expect this sector to remain volatile while continuing to play an important role in long-term economic growth.

Looking Ahead

The next several months are likely to be defined by two important questions.

First, investors will determine whether the recent pullback in AI-related equities represents a healthy mid-cycle correction within an ongoing secular growth trend or the beginning of a more meaningful slowdown in one of the market's most influential sectors.

Corporate earnings remain strong, labor markets are healthy, credit markets continue to function well, and the U.S. economy has demonstrated remarkable resilience throughout multiple periods of volatility this year.

Second, markets will closely monitor whether higher oil prices translate into persistent inflation that forces the Federal Reserve to maintain restrictive monetary policy for longer than currently anticipated.

While uncertainty remains elevated, the broader economic backdrop continues to support cautious optimism. Corporate earnings remain strong, labor markets are healthy, credit markets continue to function well, and the U.S. economy has demonstrated remarkable resilience throughout multiple periods of volatility this year. We do, however, have a midterm election in November that will likely become a focus in the coming weeks. As always, we will do our best to keep you updated and convey our thoughts on what is driving the markets.

Have a good week ahead,

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Sources

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S&P 500 Index is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation and financial companies.

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