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NEWSLETTER

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3 BIG THINGS

1. The biggest winners so far in 2026 were July's biggest losers. Semiconductor and memory chip stocks, some up as much as 800% this year, pulled back sharply. The semiconductor index fell 20% in July, and the memory chip ETF fell 32%. Meanwhile, mega-cap tech names told a different story: Microsoft gained 25% and Amazon gained roughly 13%, both on strong earnings. These moves reflect a shift in how investors are thinking about artificial intelligence, from excitement about spending and investment to a demand for proof that the investment is paying off.

2. While those swings grabbed the headlines, the bigger story for markets and the economy may be the move in interest rates. Rates across the board continued climbing in July, which led to losses in bond indices. The 30-year Treasury hit its highest level since 2007. Concerns about inflation, the federal deficit, and a lack of confidence that either issue has a clear path to resolution are pushing bond investors to demand higher rates to hold government debt.

3. The most encouraging development in July was a broadening of the market. While certain stocks saw dramatic losses, the average stock actually outperformed the market-cap-weighted index. The S&P 500 dipped slightly for the month (down about 0.8%), but the equal-weighted version of the index, which treats every company the same size instead of favoring the largest ones, gained. Of the 500 companies in the S&P 500, 296 were positive for the month. That's known as strong market breadth: gains spread across many companies rather than concentrated in just a handful of the largest names. Historically, that kind of broadening is seen as healthy and can set the stage for further gains.

Quote of the month: "Never take your eyes off the cash flow because it's the lifeblood of business."—Sir Richard Branson

MARKET QUICKTAKES

EQUITY

Stock returns were scattered in July. At the extremes, tech stocks fell nearly 7% while energy stocks gained about 9%, largely because rising oil prices lifted energy and a sharp pullback in chip stocks weighed on tech. As mentioned earlier, more stocks advanced than declined this month. Value stocks and small-company stocks both performed well. Emerging market stocks were hit by the same semiconductor slide that pressured U.S. tech, since South Korea and Taiwan, both heavily weighted toward chipmakers, make up close to half of the emerging markets index.

FIXED INCOME

Interest rates continued to climb in July. The 10-year Treasury started the month near 4.5% and finished near 4.75% as of July 31, 2026. The 30-year Treasury, often viewed as a proxy for 30-year mortgage rates, touched its highest level since 2007 before settling near 5.2% as of July 31, 2026. The Federal Reserve held its second meeting under new Chair Kevin Warsh on July 29 and left rates unchanged again, though three regional Fed presidents voted for a hike. Markets are now pricing in roughly an 80% chance of a rate increase at the September meeting. While rising rates led to losses in bond indices this month, that could make now an attractive entry point for investors seeking income. The corporate bond index currently yields north of 5%, well above the S&P 500's dividend yield of about 1.1%.

COMMODITIES

Commodities were volatile across the board in July. Oil gained about 20%, nearly recovering the roughly 20% it lost in June, the sharpest monthly rebound since the Iran conflict first roiled oil markets earlier this year. Gold rose about 1.6%, but remains well below the all-time high it set in the first quarter. Silver dipped slightly, down about 1% for the month, after an enormous run: it's still up nearly 60% over the past year, one of the strongest performances of any major asset class in 2026. Copper swung in both directions before finishing July up 4%, supported by demand from the clean-energy transition and the buildout of AI data centers.

ECONOMIC INSIGHTS IN A NUTSHELL

The Fed held rates steady at 3.50%–3.75% for a fifth straight meeting on July 29, though three regional Fed presidents dissented in favor of a hike, a signal the committee's patience has limits. Inflation remains sticky: June CPI rose 3.5% year-over-year, and oil prices jumped more than 20% during the month on renewed tensions in the Middle East, a headwind for the next few inflation readings. The labor market continues to cool gently rather than crack, with June payrolls up a modest 57,000 and unemployment at 4.2%. Wage growth is just barely keeping ahead of inflation. Markets are now pricing in roughly an 80% chance the Fed raises rates at its September meeting, as officials continue to stress their intent to bring inflation back to their 2% target.

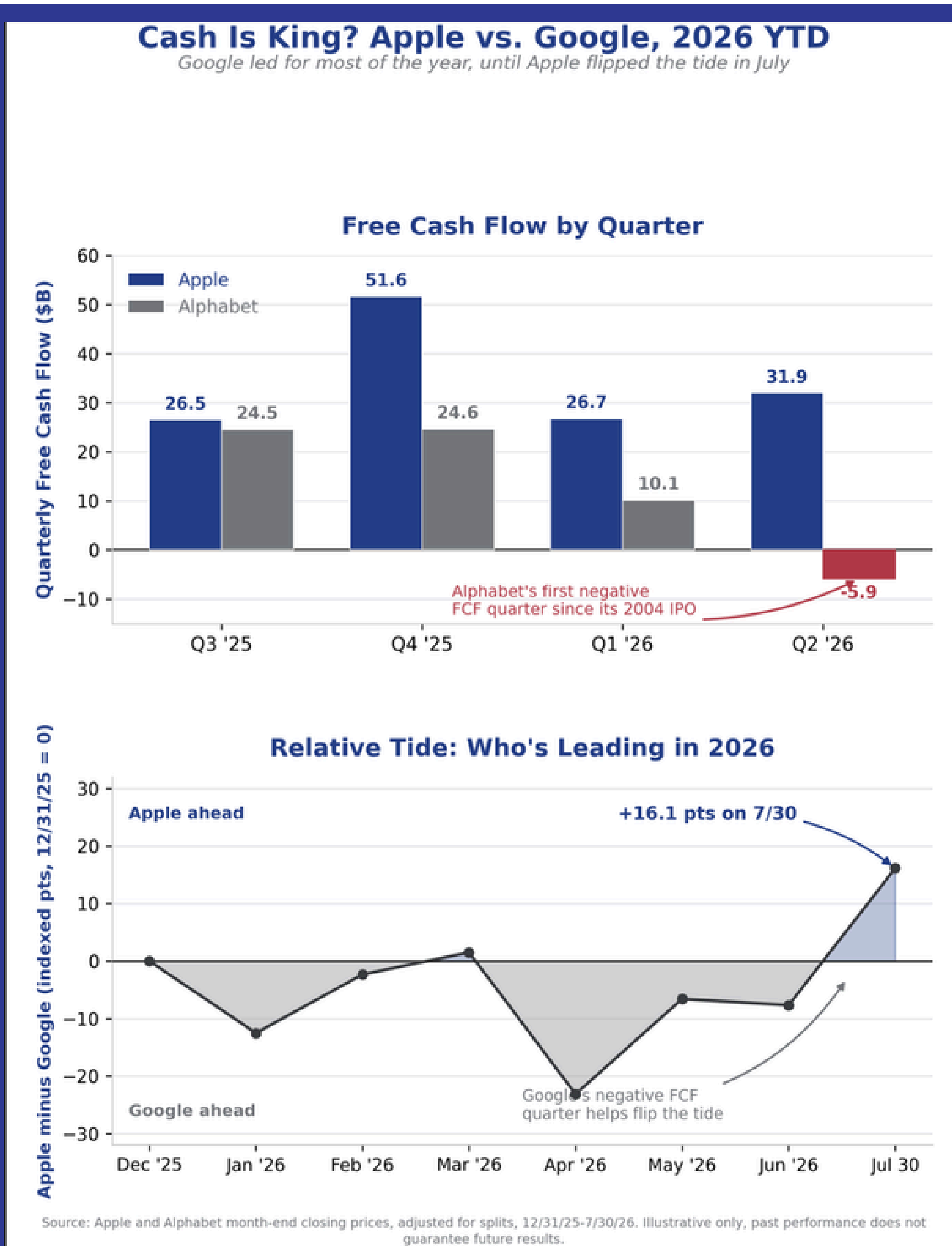
A VIEW FROM MARKET STRATEGISTS

Markets often latch onto a narrative that drives returns for a while, then move on to the next one. For much of the past year, that narrative was AI investment: announce a big commitment to artificial intelligence on an earnings call, and your stock price often soared. In July, that started to change. Investors shifted their attention to free cash flow, a simple but important measure of how much cash a company actually has left over after paying for its day-to-day operations and its big investments (often called capital expenditures, or CapEx).

Apple and Google are a useful case study. For much of the past year, Apple's stock lagged as investors worried it was falling behind in the AI race, while Google poured money into AI infrastructure and its stock climbed to all-time highs. In July, that trend reversed hard. Google reported its first-ever quarterly free cash flow loss, as spending on AI data centers outpaced the cash coming in the door. Apple, by contrast, generated $31.9 billion in free cash flow that quarter, up 31% from a year earlier. The stock market took notice: Apple's shares surged to a new all-time high in the days after Google's report, while Google's shares initially fell.

Zoom out to the full year, though, and the picture is more nuanced. Google actually led Apple's stock for most of 2026, at one point in April holding as much as a 23-percentage-point advantage. It took Google's negative free cash flow quarter in July to finally flip that tide, and even then, Apple's edge was more modest: about 16 percentage points ahead as of July 30th. The charts below tell both parts of the story: the quarterly swing in free cash flow, and the tug-of-war in stock performance across 2026.

The tension between wanting to lead in AI and having the discipline to protect free cash flow is one we'll be watching closely in the months ahead.



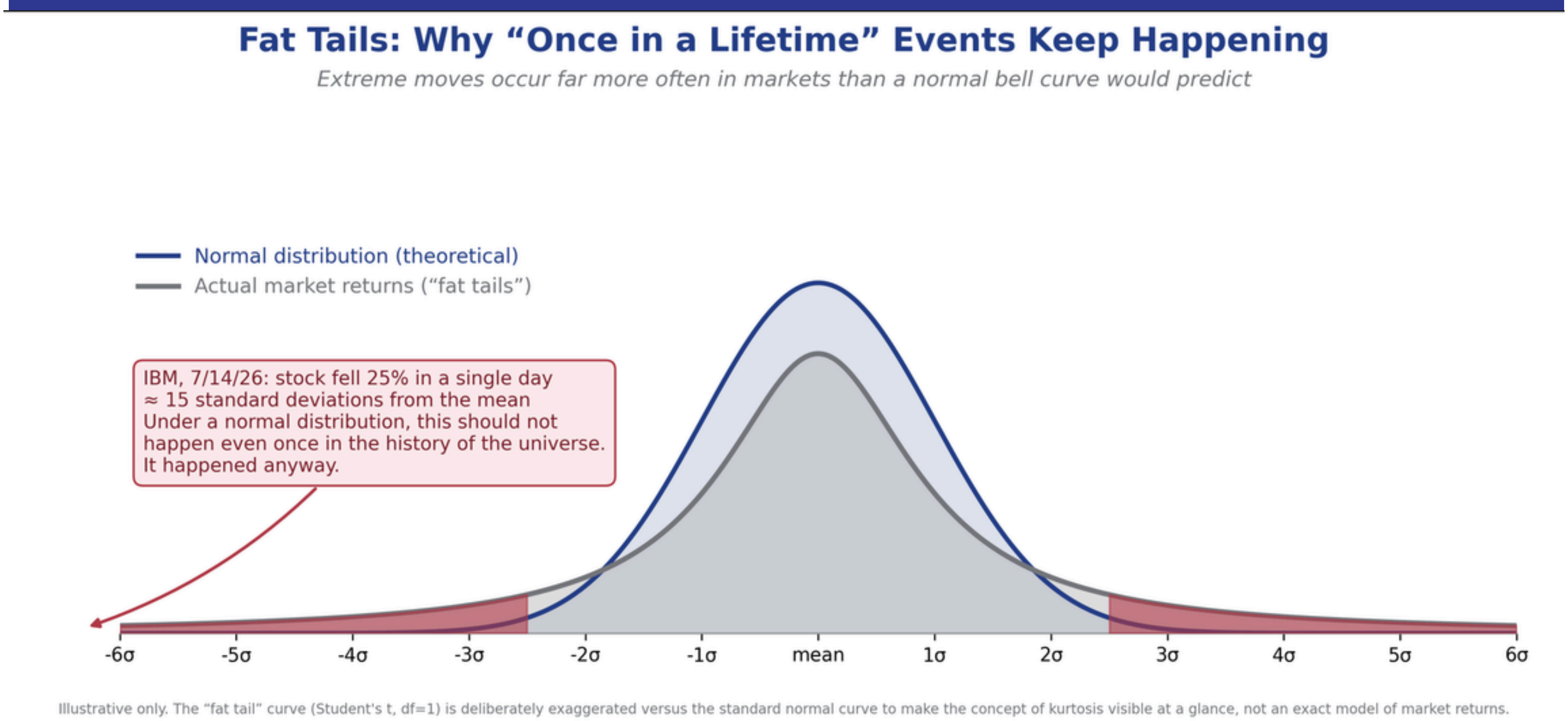
Source: Apple and Alphabet month-end closing prices, adjusted for splits, 12/31/25-7/30/26. Illustrative only, past performance does not guarantee future results.

EVERGREEN REMINDERS

Bear with me while I nerd out for a moment, I promise there's a simple, useful takeaway on the other side. IBM's stock recently fell 25% in a single day, the largest one-day decline in the company's 115-year history. Statistically speaking, a move that large should be almost impossible, something like a "15 standard deviation" event. Under a normal bell curve, an event that extreme shouldn't happen even once in the history of the universe. But it happened anyway. What does that tell us about markets?

It comes back to a concept statisticians call kurtosis. In plain terms: unlike a normal bell curve, where extreme outcomes are exceedingly rare, real market returns have "fat tails." Extreme moves, in both directions, happen far more often than a textbook statistical model would predict.

What does that mean for our clients? The things we're tempted to write off as "once in a lifetime" can actually happen several times in a lifetime. To be ready for that, we try never to dismiss the possibility of extremes, whether good or bad. As we've shown in past newsletters, the stock market's average annual return is about 10%, and markets finish the year positive about 73% of the time. We like using statistics and probabilities to guide our thinking, but we also stay mindful that the unlikely is more likely than it appears on paper, and we build portfolios so that a "shouldn't happen once in the history of the universe" event doesn't derail your investment plan.



LIFESTYLE HACK

Here's a small trick to combat unwanted smells as we move closer to back to school and school activities: if your gym bag, shoes, or locker start to smell, a couple of dry tea bags tucked inside overnight will absorb the odor naturally, no sprays required. A small sachet of potpourri or dried herbs works just as well. It's a cheap, simple fix that actually works.

PLANNING CORNER

With the school year approaching, it's a good time to think about 529 plans. A common concern we hear is "what if I save too much?" It's a fair question, but 529 plans are more flexible than many people realize. If a beneficiary doesn't use all the funds, up to $35,000 can be rolled into a Roth IRA for them over their lifetime, subject to some rules around account age and annual limits. And a plan's beneficiary can always be changed to another family member, so unused funds can stay invested and benefit the next generation, or the one after that.

If you have questions about how this applies to your family, we're happy to help. *

Disclosures

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value. Index returns are not fund returns. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.
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