osaic Research

Market View Monthly

July 2026

Markets delivered mixed results in July as renewed tensions in the Middle East and evolving expectations for monetary policy weighed on investor sentiment. Equities were mixed, with large-cap technology stocks extending their pullback as investors took profits following a strong second-quarter rally. While the long-term AI theme remains intact, elevated valuations and concerns over continued capital spending by mega-cap technology companies pressured growth stocks, allowing value to outperform. Fixed income also weakened as Treasury yields moved higher on renewed inflation concerns and expectations the Federal Reserve could resume raising interest rates later this year. Despite the volatility, higher bond yields and improving market breadth continue to present attractive opportunities for long-term investors.

Economic Review[1]

- US employers added 57,000 jobs in June, well below expectations of 110,000, marking the weakest monthly job growth in four months. The unemployment rate edged down to 4.2%, indicating the labor market remains on solid footing.
- ISM Manufacturing PMI expanded for the sixth consecutive month, easing to 53.3 in June from 54.0 in May. Continued expansion points to improving manufacturing activity and supports the case for an ongoing industrial recovery.
  - The prices paid index declined to 73.0, but remains elevated relative to historical levels.
- The ISM Non-Manufacturing (Services) Index also saw a slight drop, declining to 54.0, in line with expectations.
- The Consumer Price Index (CPI) rose 3.5% on a year-over-year (YoY) basis in June of 2026, marking the first slowdown in annual inflation since January. On a month-over-month (MoM) basis, CPI declined 0.4%, marking the first monthly decline since May 2020 and the largest since April 2020.
- Core CPI, which excludes food and energy, was unchanged MoM in June and slowed to 2.6% YoY, decreasing from the previous reading of 2.9%.
  - Much of the decline was driven by lower energy prices following the mid-June ceasefire, before tensions re-escalated in early July.
- The U.S. Producer Price Index (PPI) declined 0.3% MoM in June, well below the market expectation of no change. The index is up 5.5%.
  - Core PPI, which excludes the volatile food and energy categories, rose 0.2% in May but remains up 4.7% YoY.
- Consumer spending remained resilient as retail sales rose 0.2% in June, with sales increasing 6.7% from the same period last year.
  - Excluding gasoline stations, retail sales advanced 0.7%, highlighting underlying consumer demand despite lower fuel prices weighing on headline results.
- Consumer confidence continued to recover in July, with the University of Michigan Consumer Sentiment index rising to 55.4, its highest level since February.
- Federal Reserve (Fed) policymakers left interest rates unchanged in the July meeting, maintaining a patient, data-dependent stance. Three committee members dissented in favor of a rate hike. The first three-way dissent in the same direction since 2016.
- Inflation as measured by the Personal Consumption Expenditures Price Index (PCE) decreased -0.1% in June, easing the annual inflation rate to 3.7% with both readings in line with expectations.
  - Core PCE, which removes the volatile food and energy categories, increased 0.1% in May with the year-over-year reading rising 3.3%.
- Economic growth moderated in the second quarter, with real Gross Domestic Product (GDP) expanding at a 1.5% annualized pace, below expectations of 2.1%. Consumer spending remained the primary driver of growth, underscoring the resilience of the US economy.

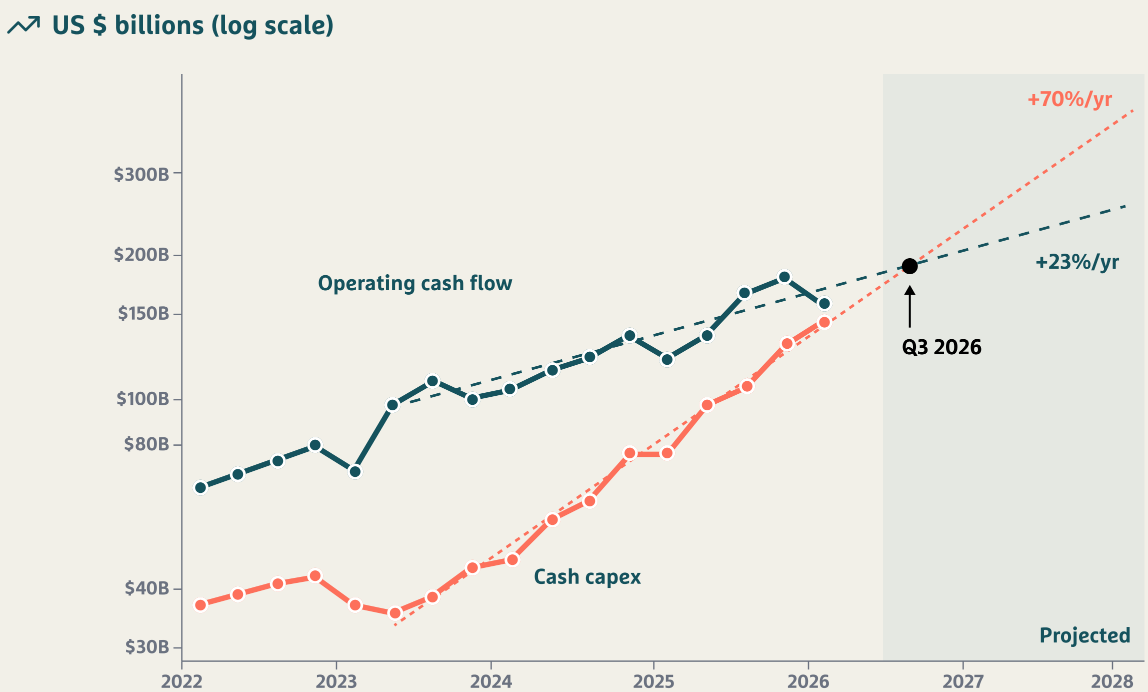
Monthly Insight:

The economic data released in July continues to point toward a resilient U.S. economy, supported by a healthy labor market and steady economic growth. Consumer spending remained solid, with retail sales ending the first half of the year on a positive note despite lower energy prices weighing on the headline figure. Manufacturing also remained in expansion, benefiting from continued AI-related investment and ongoing reshoring activity, both of which continue to support U.S. economic growth. The Fed held interest rates steady for a second consecutive meeting. While some Fed officials have discussed the possibility of future rate hikes, policymakers opted to wait for additional economic data before making any changes. Looking ahead, renewed conflict in the Middle East and rising energy prices will likely keep inflation in focus, as the Fed works to ensure price pressures do not become entrenched and threaten the economy's long-term stability.

Chart of the Month[2]

Hyperscalers entered 2026 with ambitious capital expenditure plans, and they have shown little sign of slowing their investment. The chart below compares the aggregate operating cash flow of Microsoft, Amazon, Alphabet, Meta, and Oracle with their quarterly capital expenditures. Capital spending has accelerated dramatically since 2022 and is now on pace to exceed aggregate operating cash flow by the third quarter of 2026. While the timing will vary by company, many hyperscalers have already begun relying more heavily on external financing to support their AI investments. This has become a growing concern for investors, as AI-related spending continues to rise without a corresponding increase in profitability.

Chart 1



Market Update[3]

Chart 2

Trailing Returns

As of Date: 7/31/2026

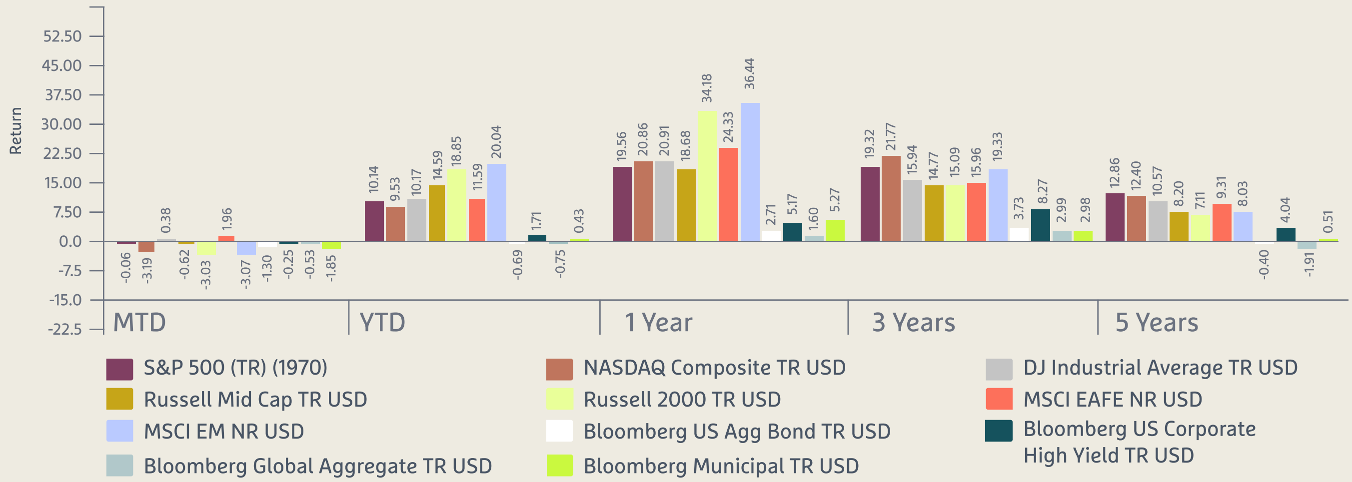


Table 1

Investments (as of 7/31/2026)	Trailing Returns					Equity Evaluations	
	MTD	YTD	1 YR	3 YR	5 YR	P/E Ratio	P/B Ratio
S&P 500	-0.06	10.14	19.56	19.32	12.86	26.87	5.38
NASDAQ	-3.19	9.53	20.86	21.77	12.40	30.02	7.72
Dow Jones Industrial Average	0.38	10.17	20.91	15.94	10.57	24.69	5.80
Russell Mid-Cap	-0.62	14.59	18.68	14.77	8.20	22.06	3.06
Russell 2000 (Small Cap)	-3.03	18.85	34.18	15.09	7.11	18.60	2.22
MSCI EAFE (International)	1.96	11.59	24.33	15.96	9.31	18.85	2.27
MSCI Emerging Markets	-3.07	20.04	36.44	19.33	8.03	17.66	2.50
Bloomberg US Agg Bond	-1.30	-0.69	2.71	3.73	-0.40	—	—
Bloomberg High Yield Corp.	-0.25	1.71	5.17	8.27	4.04	—	—
Bloomberg Global Agg	-0.53	-0.75	1.60	2.99	-1.91	—	—
Bloomberg Municipal	-1.85	0.43	5.27	2.98	0.51	—	—

Market Review[1]

Equities

Equities had varied results to kick off the second half of 2026. Renewed tensions in the Middle East early in the month resulted in a resurgence in energy prices. The Dow Jones led domestic markets in July as value continued to outperform growth, returning +0.38%, while the S&P 500 was nearly flat, posting a return of -0.06%. The NASDAQ was the weakest major index, falling -3.19%, as the technology selloff continued amid concerns over elevated valuations and the relentless rise in capital expenditures by mega-cap technology companies. Small-cap stocks declined -3.03% in July, giving back some of their recent gains, but remain the top-performing major domestic equity index year-to-date. Developed international markets advanced 1.96%, while emerging markets fell -3.07%, though they continue to lead all major equity markets so far this year. Looking ahead, investors will remain focused on corporate earnings and signs that the significant investments in AI are beginning to translate into meaningful revenue growth and profitability. Despite renewed conflict in the Middle East, investor sentiment has remained resilient.

Fixed Income

Fixed income markets declined in July, with broad-based negative returns across most sectors. Treasury yields moved higher on renewed inflation concerns, geopolitical tensions, and growing expectations that the Fed could resume raising interest rates later this year. The Bloomberg U.S. Aggregate Bond Index fell -1.30%, while the Bloomberg Global Aggregate Bond Index declined -0.53%. High yield bonds proved more resilient, returning -0.25%, while municipal bonds declined meaningfully (-1.85%). With three Fed members dissenting in favor of a rate hike at the July meeting, uncertainty surrounding inflation and monetary policy could keep volatility elevated through year-end. Even so, higher yields continue to provide attractive income opportunities across select fixed income sectors.

Conclusion

Although parts of the market came under pressure in July, attractive opportunities remain for investors looking to capitalize on the current environment. Value stocks outperformed growth as investors rotated away from technology-heavy names and into areas less tied to the AI trade, with the S&P 500 Equal Weight Index outperforming the Cap-Weighted S&P 500. While investors remain cautious toward large-cap technology due to elevated valuations and continued capital expenditure spending, the underlying fundamentals remain strong, supported by healthy balance sheets and solid earnings. Inflation remains a key risk amid ongoing geopolitical tensions, but the consumer has remained resilient and broader economic data continues to point toward a healthy economy. Overall, resilient economic data and strong corporate fundamentals suggest the investment backdrop remains constructive despite recent volatility.

Economic Definitions

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

ISM Manufacturing Index: PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

ISM Services Index: PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc. Target Audience: supply management professionals Sample Size: 300 individuals Date of Survey: through the month The Services Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment and Supplier Deliveries. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy. Whereas per Supplier Deliveries Index, above 50% indicates slower deliveries and below 50% indicates faster deliveries.

Job Openings – JOLTS: This concept tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.

Nonfarm Payrolls: This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

Unemployment Rate: The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

Producer Prices – PPI (headline and core): Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e., prices received by domestic producers for their outputs either on the domestic or foreign market).

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

University of Michigan Consumer Sentiment Index: Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100)

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg US Agg Bond: The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg High Yield Corp: The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg's EM country definition, are excluded.

Bloomberg Global Agg: The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Municipal Bond Index: The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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1 Obtained from Bloomberg as of 7/31/2026

2 Hyperscaler capex is on trend to outpace their cash inflows by the end of 2026

3 Returns obtained from Morningstar as of 7/31/2026