Market Perspectives

July 2026

Markets fall as Iran hostilities are renewed and investors question the ultimate return on AI spending.

Index	MTD	QTD	YTD	2025	2024	2023
S&P 500	-0.06	-0.06	10.14	17.88	25.02	26.29
Dow Jones Industrial Average	0.38	0.38	10.17	14.92	14.99	16.18
Russell 2000	-3.03	-3.03	18.85	12.81	11.54	16.93
NASDAQ Composite	-3.19	-3.19	9.53	21.14	29.57	44.64
Europe, Australia, & Far East (EAFE)	1.97	1.97	12.00	31.89	4.35	18.85
MSCI Emerging Markets	-3.03	-3.03	20.27	34.36	8.05	10.27
Bloomberg Barclays U.S. Aggregate Bond	-1.30	-1.30	-0.69	7.30	1.25	5.53
Bloomberg Barclays U.S. Corporate High Yield	-0.25	-0.25	1.71	8.62	8.19	13.45

As of 07.31.2026; Returns in percent

FINANCIAL MARKET PERFORMANCE

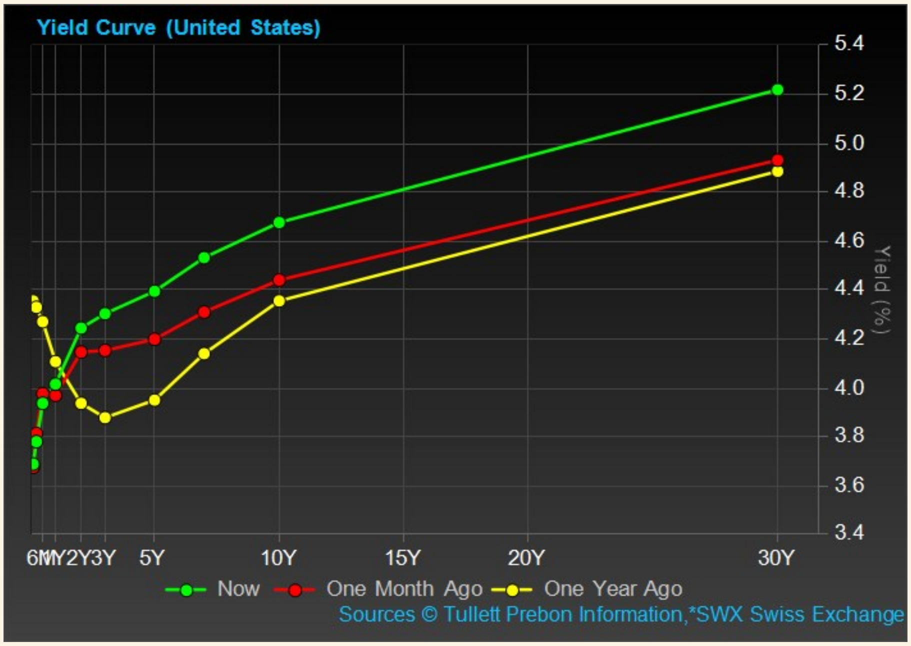
Major U.S. equity indices were mostly lower in July with the Nasdaq Composite (-3.19%) and S&P 500 (-0.06%) both falling for a second straight month. The S&P 500 has now effectively traded in a tight range since reaching a peak in early June (see below) as investors have witnessed a tug-of-war between bullish and bearish developments over this period of time. Notably, the equal-weight S&P 500 outperformed the cap-weighted index by ~120 bp in July, extending the market broadening theme and accounting for the variance in performance between the S&P 500 and Nasdaq. Companies in sectors such as Energy and Financials have assumed the leadership baton for the time being. The small cap Russell 2000 Index also fell, dropping by 3.03%.

Source: FactSet As of 07.31.26

Technology stocks, including those in the semiconductor and memory industries were notable laggards, while high profile tech companies such as SpaceX (-36.6%) and Tesla (-26.0%) fell sharply, offset somewhat by strength in Microsoft (+24.6%) and Amazon (+13.9%). Concerns about the sustainability and profitability of massive AI capital spending caused a sharp decline in many of these momentum-propelled companies.

Foreign stocks were mixed, with the EAFE index gaining 1.97% and the Emerging Markets index falling 3.03%. Heavy exposure outside of Technology, including in sectors such as Financials, provided a tailwind for developed market stocks, while large weightings in semiconductor stocks dragged down Emerging Markets.

Treasury yields rose across the curve (see below), with the 30-year yield hitting its highest level since 2007 as concerns over persistent inflation and the Fed's ability to contain it drive long term yields higher. This move caused a decline in US investment grade bonds, with the Bloomberg Aggregate Bond index falling 1.30%. The US dollar dropped by 1.2%, while global central bank intervention in the Yen, which had fallen precipitously the prior 3 months, was the big currency story. Gold was up 1.7%, and Bitcoin futures gained 7.2% after June's ~19% decline. WTI crude gained ~21%, erasing June's ~20% decline and posting its best monthly gain since March. Renewed fighting in Iran drove oil prices higher during the month.



Source: FactSet As of 07.31.26

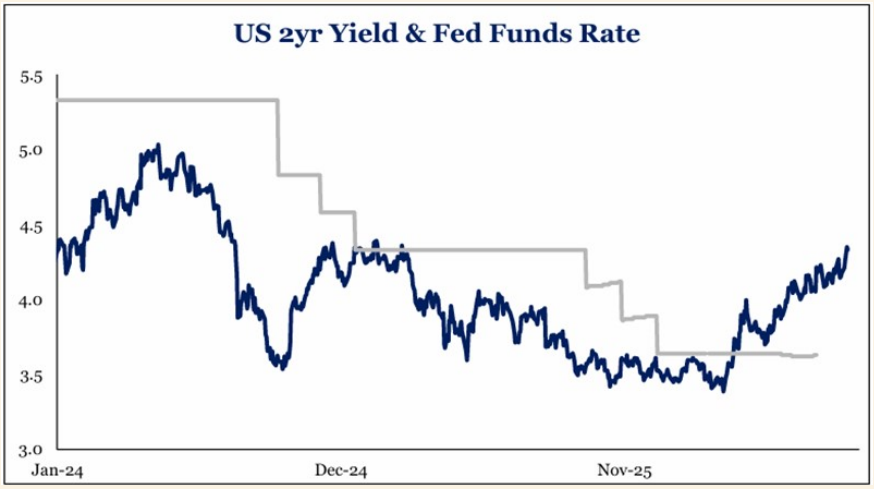
PERFORMANCE DRIVERS

AI narrative shifted from demand to ROI: AI remained the dominant market theme throughout July, though investor focus shifted from the sustainability of AI demand toward the economics and returns on massive capex investments. Sharp bouts of momentum unwinding in semis and memory stocks reflected concerns around hyperscaler capex, open-source competition from Chinese AI products, excess compute capacity, and memory supply expansion. However, earnings and corporate commentary from hyperscalers and AI infrastructure leaders including Amazon, Microsoft, Taiwan Semiconductor, Alphabet, and Meta largely reinforced robust AI demand and improving AI monetization, though investors remained focused on capital discipline.

Iran conflict back on though largely ignored by market: Repeated U.S.-Iran strikes and counterstrikes, coupled with Houthi attacks in the Red Sea, kept geopolitical risks elevated throughout July, driving oil sharply higher (over $90/bbl at one point in July) and renewing concerns around shipping through the Strait of Hormuz and Bab el-Mandeb (see chart below). However, markets largely viewed the conflict as unlikely to develop into a sustained supply shock, with ongoing diplomatic efforts and the recurring "escalate-to-de-escalate" pattern helping limit broader equity market fallout despite continued volatility in energy markets.

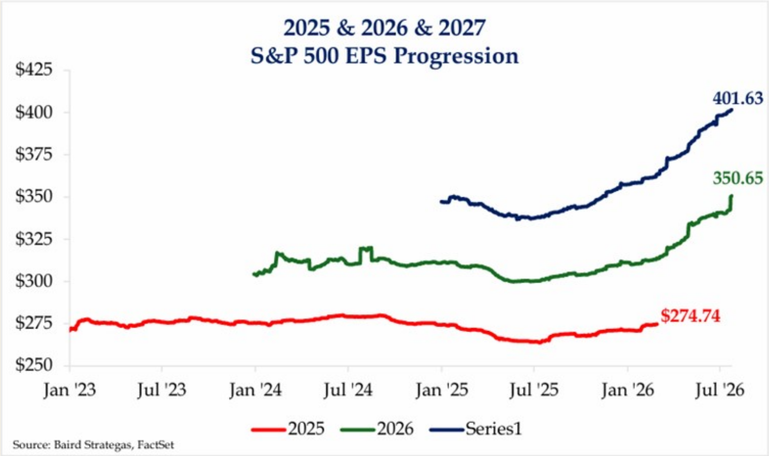
Source: Strategas As of 07.31.26

Fed held rates steady amid elevated policy uncertainty: The Fed left rates unchanged at 3.50%-3.75%, though three officials dissented in favor of a 25 bp hike, underscoring growing divisions within the committee. Chair Warsh reiterated the Fed's commitment to restoring price stability but avoided providing forward guidance. Markets now expect a September rate hike (odds at ~65% chance) while trimming expectations for additional tightening later in the year, though analyst views on the policy path remain widely split. The fact that the 2-year Treasury yield remains some 50 bp higher than the top end of the current Fed Funds range (see below) will be a legitimate reason for the Fed to raise rates if they decide to do so.



Source: Strategas As of 07.31.26

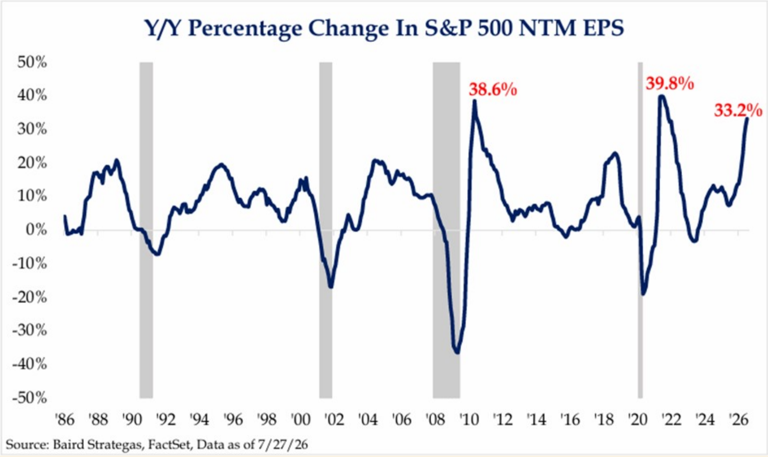
Earnings and economic data reinforced resilient-growth narrative: Corporate earnings broadly exceeded expectations, with just over 60% of S&P 500 having now reported Q2 results. Blended EPS growth reached 47.4%, while 86% of companies beat consensus earnings estimates, and aggregate EPS came in more than 31% above expectations. Key themes included the AI compute/capex boom, pricing power, productivity gains, industrial broadening, and resilient consumer demand. Earnings growth expectations now stand at 28% for 2026, and 15% for 2027 (see below).



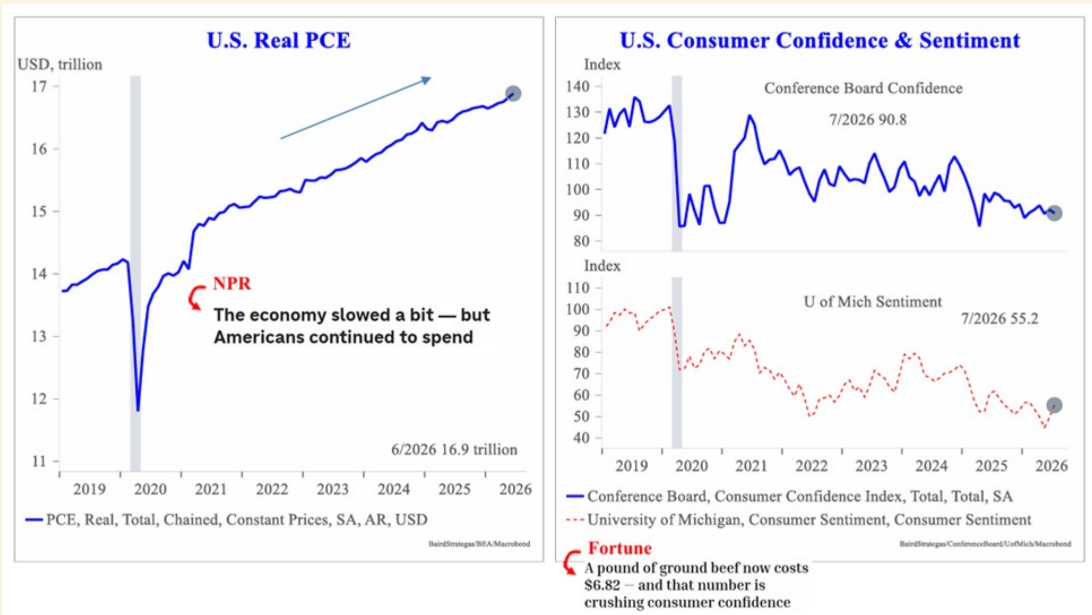
Other notable takeaways: 1) Market broadening gained traction during bouts of AI weakness, with banks, energy, and transport stocks benefiting; **2)** White House announced new tariffs, ranging from 10-12.5%, on ~60 economies; **3)** Higher Treasury yields emerged as a modest headwind amid higher oil prices, fiscal concerns and shifting Fed expectations; **4)** M&A activity remained robust.

THE BEARISH NARRATIVE

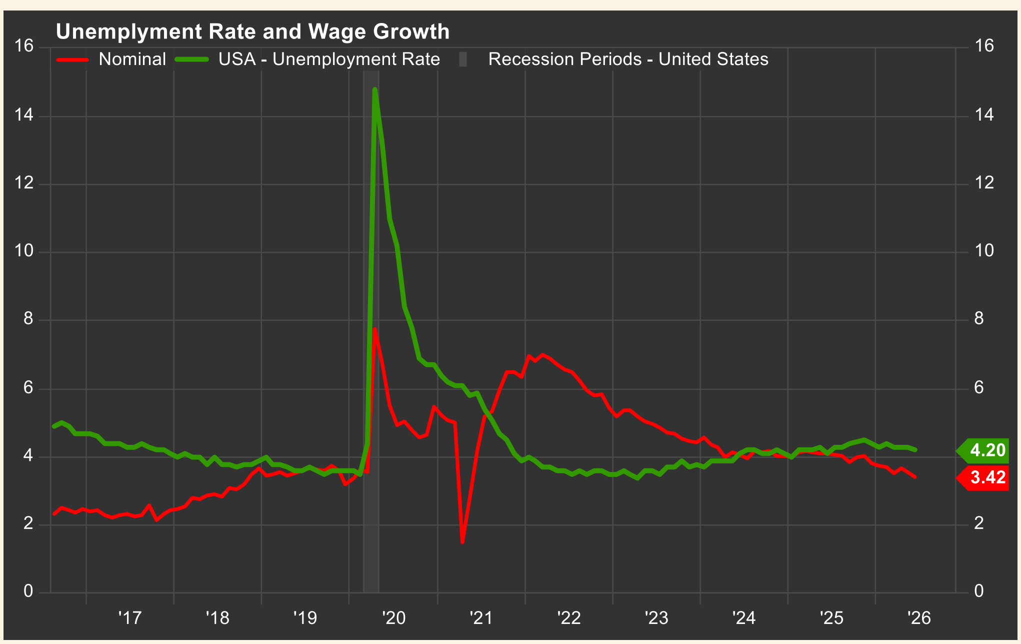
Sticky inflation, higher interest rates, and consumer stress continue to dominate the bearish narrative today. In addition, a new concern has appeared during the 2Q26 earnings season – are earnings and revenue growth peaking? With 2Q26 earnings growth now expected to be just shy of 50% y/y, and revenue growth coming in at 14%, an argument can be made that we've seen the best from corporate America in this cycle and that the next leg will be lower. This argument is further substantiated by the fact that earnings are expected to grow by more than 30% over the next 12 months (see below), a level achieved only twice in the past, both representing peaks and occurring after a deep recession.



The good news is that consumer spending continues to grow at a healthy pace despite a decline in consumer confidence. Reminder – consumer spending accounts for 70% of US GDP, so it's critical to our economy.



In addition, job and wage growth, which both remain stronger than historical averages, continue to provide a tailwind for the consumer.



Source: Fact Set As of 07.31.2026

WHAT TO EXPECT & INVESTMENT PORTFOLIO IMPLICATIONS

The variance in performance among asset classes this year again demonstrates the need for diversification and a patient long-term approach. In addition, we still believe alternative strategies such as private equity and private credit offer excellent diversification and return enhancement to an investor's portfolio.

Thank you for your support of Turtle Creek. We are committed to helping the families we serve meet their long-term financial goals. Please contact us if you have any questions or thoughts about this market update or if we can help in any way.