Market Perspectives

August 2026

TURTLE CREEK

Rebound in AI/Tech trade propels markets higher in August.

Index	MTD	QTD	YTD	2025	2024	2023
S&P 500	2.71	2.66	13.14	17.88	25.02	26.29
Dow Jones Industrial Average	1.47	1.85	11.79	14.92	14.99	16.18
Russell 2000	0.98	-2.08	20.01	12.81	11.54	16.93
NASDAQ Composite	3.99	0.67	13.90	21.14	29.57	44.64
Europe, Australia, & Far East (EAFE)	2.00	4.01	14.24	31.89	4.35	18.85
MSCI Emerging Markets	3.40	0.27	24.35	34.36	8.05	10.27
Bloomberg Barclays U.S. Aggregate Bond	0.39	-0.92	-0.31	7.30	1.25	5.53
Bloomberg Barclays U.S. Corporate High Yield	0.97	0.72	2.69	8.62	8.19	13.45

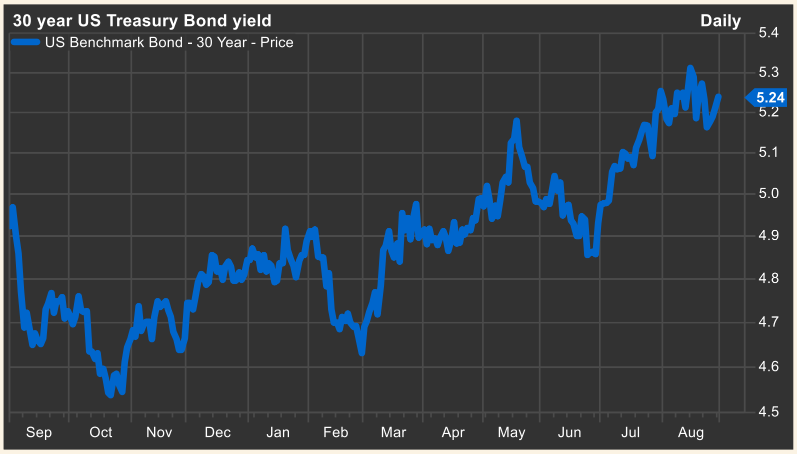
As of 08.31.2026; Returns in percent

FINANCIAL MARKET PERFORMANCE

US equities were higher in August, with the S&P 500 (+2.71%) and Nasdaq (+3.99%) rising after two monthly declines. Strength was fairly broad, with S&P 500 gainers outnumbering decliners and the equal-weight S&P 500 only slightly lagging the cap-weighted index. Software stocks had a very strong month and are now up four of the past five months after a notable slide early in the year. Big tech was mostly higher, with Tesla +18.2%, Nvidia +9.8%, and Microsoft +9.2% the notable Mag 7 gainers. The small cap Russell 2000 index was not as strong as the larger cap indices but did produce a gain of 0.98% during the month.

Foreign stocks also rose during the month, with the EAFE index gaining 2.00% and the Emerging Markets index rising 3.40%. The weaker US dollar and a rebound in AI/Tech stocks were tailwinds for foreign markets.

Bonds for the most part rose, as longer-term US yields remained essentially flat after the 30-year Treasury touched a 20-year high of 5.30% on fears of sticky inflation and falling US fiscal stability before retreating toward month end following a surprise Treasury buyback (see chart below). At the short end of the curve, however, 2-year yields rose 8 bp amid rising expectations for a September rate hike (odds now up to almost 60%). Notably, the Bloomberg US Aggregate Bond index gained 0.39% while the High Yield bond index rose 0.97%.



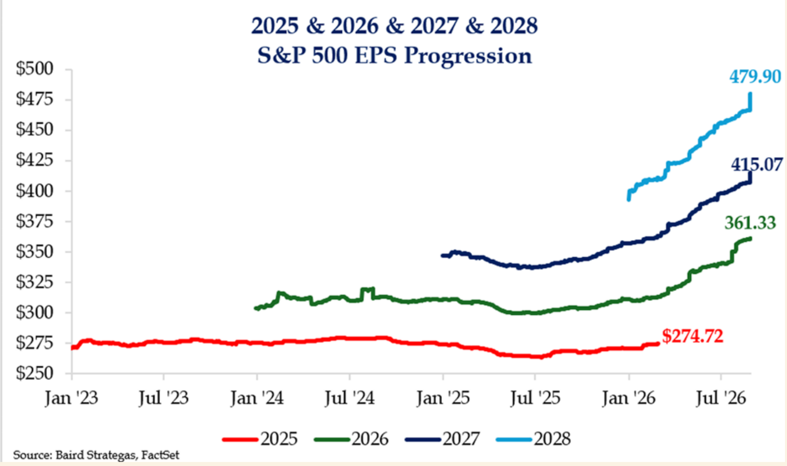
Source: FactSet As of 08.31.26

The dollar was lower by 0.5%, while precious metals had a strong month amid the late-month dollar debasement trade following the Treasury buyback announcement - Gold rose 9.1% and Silver gained 15.9%. Bitcoin futures jumped 25.6% and had their best month since November 2024, rising above $80K before dipping back. WTI crude oil price ended roughly flat after fluctuating during the month amid headlines about increased Hormuz transits, Russia/Ukraine escalation, and a late month flareup in Mideast military action.

PERFORMANCE DRIVERS

The AI/momentum trade regained steam in August, with the space seeing a succession of selloffs and rebounds but ultimately ending higher for the month. The familiar talking points continued to get adjudicated in the market discussion, with headlines about rapid growth in compute demand, expanding capex plans, and optimistic revenue forecasts colliding with concerns about circular financing, supply challenges, popular datacenter pushback, and debt-issuance challenges (the crowding-out discussion connected with fiscal concerns as long-end Treasury yields pushed higher this month). However, earnings reports continued to support rapid growth in the space, as Nvidia released a blowout report with emphasis on its 70% revenue-growth guidance for the next fiscal year (adding it would be 100% absent supply constraints).

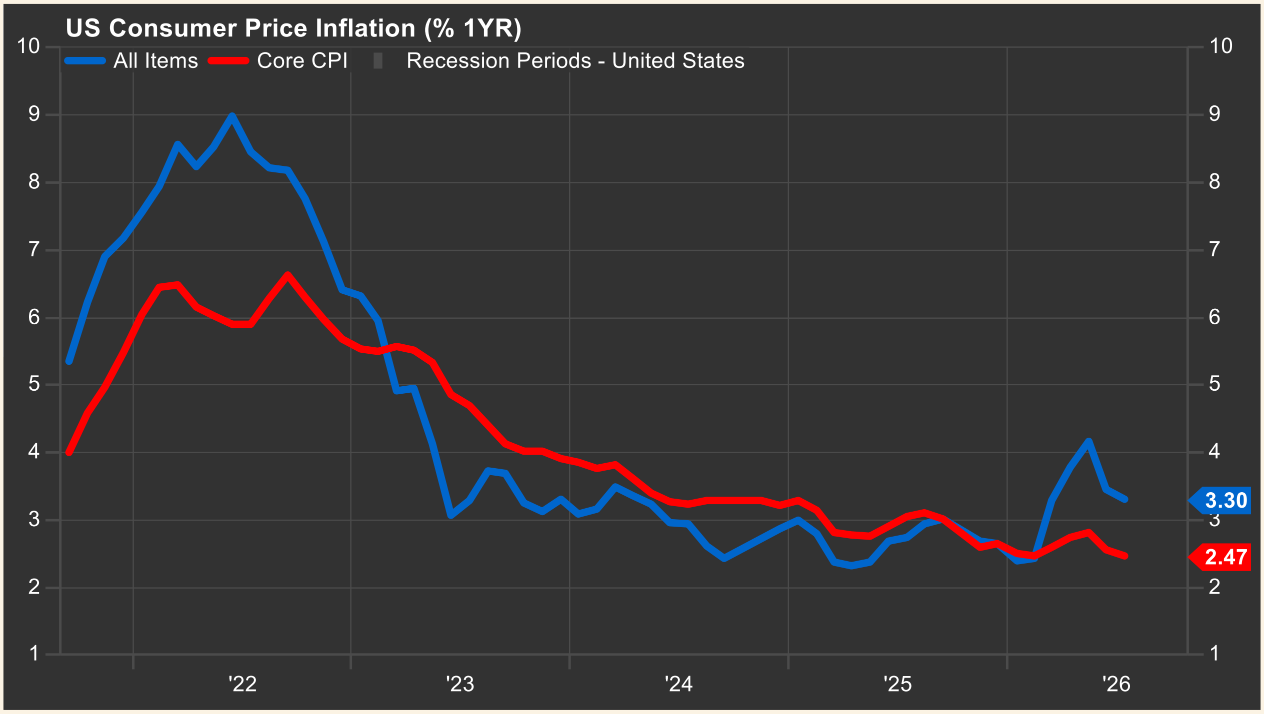
Given the **strong 2Q26 earnings growth to date**, estimates for 2026 – 2028 have now risen, with growth expected to be 31%, 15%, and 16%, respectively over the next 3 years.



Expectations remained tilted toward a Fed hike in September. A rate hike was priced in coming out of the July FOMC meeting and, though consensus wavered a bit during the month, was ultimately reinforced by Fed Chair Warsh's much-anticipated remarks at the August Jackson Hole symposium. His comments leaned hawkish, referencing "concerning" inflation numbers and arguing that recent softer inflation data may not reflect meaningful improvement in the underlying trends. Warsh's appearance also helped reestablish some Fed credibility after concerns following his relatively sparse July FOMC commentary. As of month end, markets are pricing in a roughly 60% chance of a Fed rate hike at the September meeting.

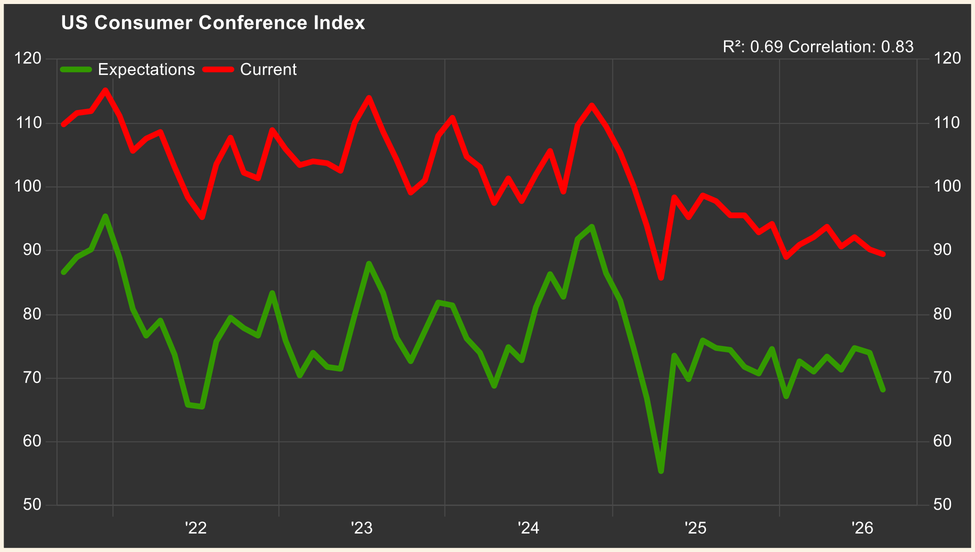
It was **quiet on the US-Iran front for much of the month**, with little sign of diplomatic progress despite occasional hints of potential progress. There were more signs of increased energy volumes transiting the Strait of Hormuz under US military guidance (or with ship transponders off), and Trump reiterated he was "not in a hurry" to conclude the war. Trump also pledged an "economic D-Day" involving secondary sanctions on companies trading with Iran; there were more headlines about the domestic strains Tehran is coping with. But at the very end of a slower-paced month, the US launched strikes on Strait of Hormuz sites linked to minelaying while Iran launched attacks against Jordan and the UAE.

It was a **mixed month for US economic data**. July CPI was reported in-line with consensus for both the core and headline, and both fell on an annualized basis, while July core PCE (the Fed’s preferred measure) was in line as well.



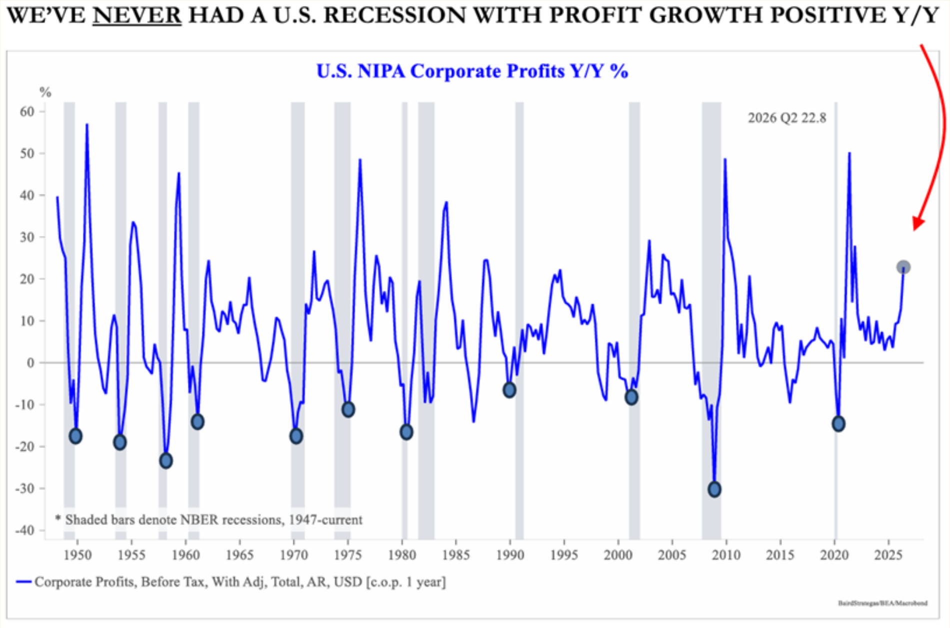
Source: FactSet As of 08.31.26

On the employment front, July nonfarm payrolls posted their first month/month decline since February while the unemployment rate ticked down as a result of decreased worker participation. However, ADP's weekly private-payrolls estimate has seen some improvement in recent weeks vs July's lows. July core retail sales unexpectedly declined, and consumer sentiment remained under pressure (see chart below).



Source: Fact Set As of 08.31.2026

However, note that the strength in corporate profits is a strong historic signal that the economy will continue to grow at a reasonable pace, and avoid recession, over at least the next 12 months.

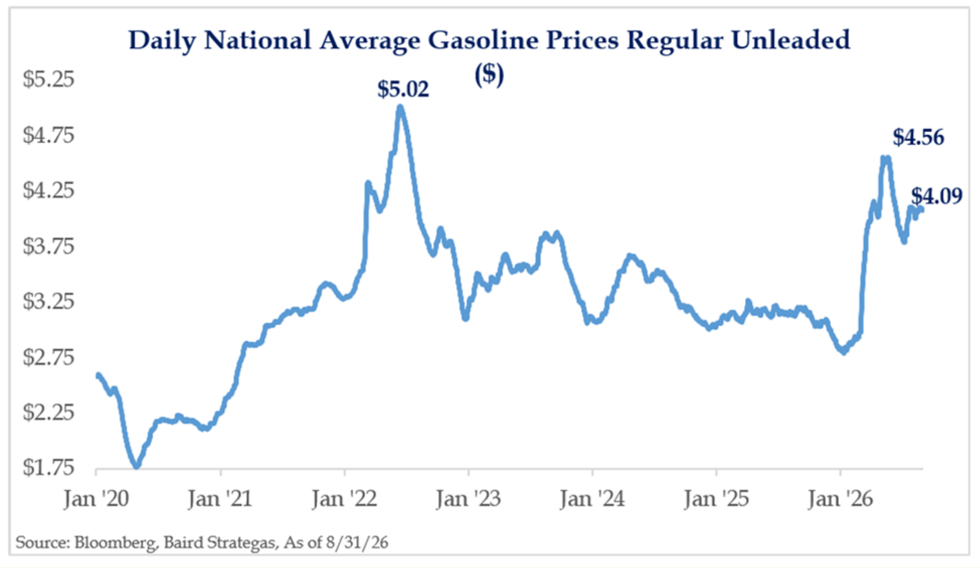


Source: Strategas As of 08.31.2026

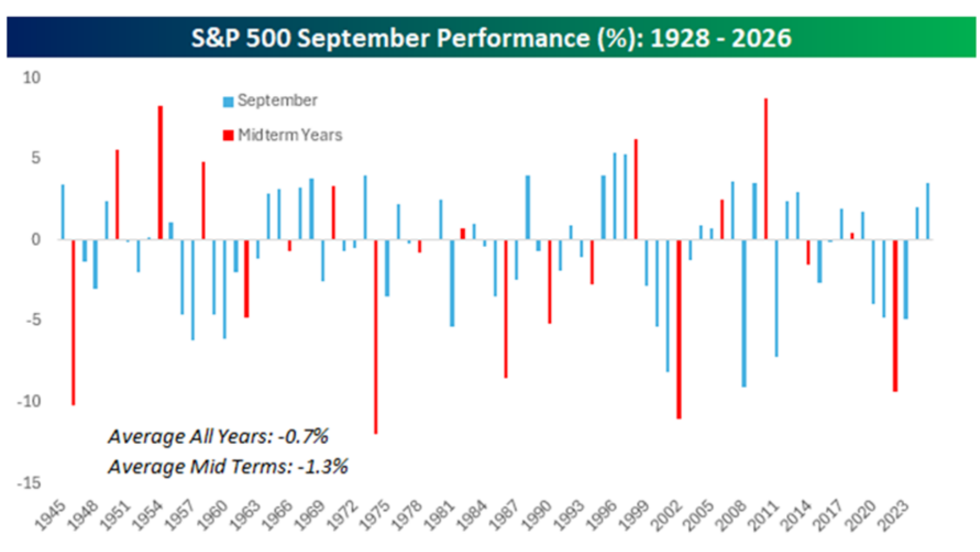
THE BEARISH NARRATIVE

Sticky gasoline prices, falling consumer sentiment, and the prospect of having reached peak earnings growth are the key bearish talking points today.

Given no resolution to the Iran conflict to date, WTI crude oil prices are again approaching $90/bbl, which has caused prices at the pump to remain above $4/gallon. This is a level which has contributed to the affordability issues and falling confidence consumers are facing today.



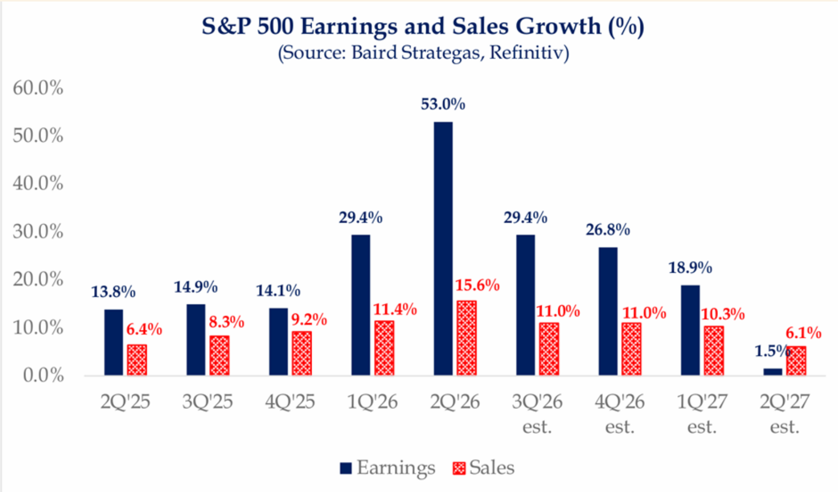
Seasonality in the stock market is another concern, as September performance for the S&P 500 has averaged a decline of 1.3% in midterm years since 1945.



Source: Strategas As of 08.31.26

However, it is historically rare for the S&P to be up 10%-plus through August (year-to-date +13.14%) and then trade lower over the final 4 months of the year – among 28 observations, a negative 8/31 to 12/31 only happened in 1979, 1987, and 1986. That, of course, means the other 25 observations are positive (89% hit rate), with both an average and a median rest-of-year performance of +5.3%.

Finally, the concept of peak earnings has gained traction among pundits, as the very strong earnings this year and the forward 12-month earnings expectations have all reached levels rarely seen outside of a rebound from recession. In fact, quarterly earnings growth for the S&P 500 is expected to fall at least through 2Q27. While growth is expected to stay higher than historic norms, a slowdown from current levels may be reflected in stock prices over the coming quarters.



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.