August 2026

MONTHLY MARKET INSIGHTS

Key takeaways:

- Equity indices masked the turbulence beneath them in July, with market action ranking among the most dislocated in recent memory.
- A renewed escalation of the US-Iran conflict reasserted energy as a dominant macro risk.
- Yields pushed higher through the month even as the Fed held rates at Warsh's second meeting.

At the index level the month of July was unremarkable, with the S&P 500 finishing roughly flat. Yet beneath the surface it was among the most turbulent tapes in recent memory, defined by sharp turnover in leadership, significant deleveraging, and volatility concentrated at the single-stock level. The month featured renewed escalation in the Middle East, a momentum unwind that forced a prominent AI fund to liquidate its public equities through an arranged sale[1], and a historic coordinated intervention in currency markets. Semiconductors bore the brunt, falling 17.59%[2] and collectively shedding $1.5 trillion in market capitalization, which saw its industry weight in the S&P 500 slip from over 20% to 16%.[3] Energy was the standout, rising 12.13% as crude rallied on renewed conflict with Iran.[4] The dislocation was clearest in the spread between single-stock and index implied volatility (VIXEQ less VIX), which widened to a record high while cross-stock implied correlations sat near record lows.[5]

Mega-cap earnings bifurcated across the Magnificent Seven. Amazon and Microsoft both surged over 15% on the back of their reports, while Meta, Alphabet, and Apple fell by high-single-digit percentages or greater.[6] Remarkably for the decliners, all but Apple have since recovered to trade above their pre-earnings levels. The aggregate picture is historically strong. With 61% of the index reported, 86% of companies have beaten EPS estimates, the highest share since Q2 2021.[7] Even excluding outsized non-operating gains at Alphabet and Amazon, blended earnings grew 28.8% and beat expectations by 9.2%, above the 10-year average of 7.4%. This marks the second consecutive quarter above 20% and the seventh straight of double digits.[8] Next-twelve-month EPS growth sits at its third-highest reading on record, accompanied only by post-recession recoveries.[9] While margin gains have narrowed, equal-weighted margins are plateauing and market-cap-weighted expansion leans on only a few names against rising input costs. As we have written previously, that strength has not been rewarded with multiple expansion; on the contrary, July's selloff left the S&P Information Technology sector at ~20x forward earnings, well off its ~23x ten-year average.[10] Put differently, the absence of multiple expansion could suggest the market is bracing for a pullback rather than a continuation of the earnings trajectory.

1. "Citadel Buys Situational Awareness's Stock Portfolio After Big Losses in AI." The Wall Street Journal, 30 July 2026, www.wsj.com/finance/citadel-buys-situational-awarenesss-stock-portfolio-after-big-losses-in-ai-5117159b.
2. Laskowski, Laurent. "Equity Derivatives Strategy." Baird Strategas, 3 August 2026, www.bairdstrategas.com
3. Rubner, Scott. "August – After the Reset." Global Market Intelligence, Citadel Securities, 3 Aug. 2026, www.citadelsecurities.com/news-and-insights/global-market-intelligence/august-after-the-reset/.
4. Laskowski, Laurent. "Equity Derivatives Strategy." Baird Strategas, 3 August 2026, www.bairdstrategas.com
5. Rubner, Scott. "August – After the Reset." Global Market Intelligence, Citadel Securities, 3 Aug. 2026, www.citadelsecurities.com/news-and-insights/global-market-intelligence/august-after-the-reset/.
6. Bloomberg.
7. Butters, John. "S&P 500 Earnings Season Update: July 31, 2026." FactSet Insight, FactSet, 31 July 2026, insight.factset.com/sp-500-earnings-season-update-july-31-2026.
8. Id.
9. De Sena Trennert, Jason. "Investment Strategy." Baird Strategas, 27 July 2026, www.bairdstrategas.com
10. Rubner, Scott. "August – After the Reset." Global Market Intelligence, Citadel Securities, 3 Aug. 2026, www.citadelsecurities.com/news-and-insights/global-market-intelligence/august-after-the-reset/. Accessed 7 Aug. 2026.

Kevin Warsh's second meeting as Chair was the most "live" FOMC in some time, with market-implied odds of a rate hike as high as 40% beforehand.[11] The committee held the Fed Funds rate at 3-1/2 to 3-3/4 percent, with three dissents from regional Fed presidents favoring hikes[12], which shifted attention to the press conference. Pressed on whether he would raise rates to contain inflation, Warsh alluded to alternative pathways to fight price increases. The likeliest is balance-sheet reduction. The balance sheet has expanded by more than $200 billion since December, initially to ensure adequate liquidity and cushion overnight funding, an expansion some estimate amounts to a 25-basis-point cut.[13] The committee is divided on whether balance-sheet growth impacts inflation, but Warsh appears to argue privately that it is contradictory to press for rate increases while the balance sheet is still growing. Whatever the internal debate, the bond market has drawn its own conclusion. Yields have moved decisively, with the 2-year well above 4% and the 30-year having spent its longest stretch above 5% since 2007.[14] Warsh is keen to let markets evaluate the economy on their own, preferring in his words that they "learn to play the ball, not the referee," which he believes returns cleaner signals to the committee.[15] With forward guidance gone, attention turns to the August 28 Jackson Hole address, historically a venue for signaling major policy shifts, and to the September FOMC meeting.

July brought a renewed escalation with Iran, following the breakdown of the earlier memorandum of understanding. The situation remains fluid, shifting hourly, and headlines offer little signal. For the United States, the objective, however obscured, is a defanged Iran less able to threaten regional interests. For Iran, it is preserving national autonomy, keeping the regime's grip on power, and controlling the Strait of Hormuz. Their aims are currently incompatible, and absent real pain on either side, lasting compromise appears unlikely in the short term. Iran has made regulation of the Strait a centerpiece of its posture, attempting to frame charges as a service fee rather than a toll.[16] Oil has responded to the re-escalation, gaining 21.32% in July as the market priced a longer conflict.[17] As we have noted, refined products, not the crude benchmark, have been where strain is most felt. The system is less insulated now than in the spring as participants have drawn down global inventories materially, leaving markets more vulnerable to new disruptions even as Gulf exports have partially recovered. China has been the market's principal shock absorber, cutting crude imports by 40% from February to May, but that buffer has little room to give a second time.[18]

July's macro developments extended beyond energy: in a coordinated move, the United States intervened alongside Japan to strengthen the yen. The yen had been on a downward path of late and extended its slide to 164 against the dollar, its lowest level in 40 years.[19] President Trump confirmed the joint intervention aboard Air Force One on Sunday night, and the yen gapped to 155 on the morning of August 3.[20] Japan is the largest foreign holder of U.S. Treasuries, at about $1.14 trillion, and a disorderly decline in the yen risks forcing Treasury sales.[21] The Treasury offered a suite of tools, including a repo facility that lets Japan borrow dollars against its Treasury holdings rather than sell them.[22] The scale and coordination are notable, and Treasury Secretary Bessent has signaled readiness to repeat it if necessary.

11. CME Group. "CME FedWatch Tool." CME Group, www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html.
12. Board of Governors of the Federal Reserve System. "Federal Reserve Issues FOMC Statement." Federal Reserve, 29 July 2026, www.federalreserve.gov/newsevents/pressreleases/monetary20260729a.htm.
13. Clifton, Dan. "Policy Outlook." Baird Strategas, 3 August 2026, www.bairdstrategas.com
14. Bloomberg.
15. Hatzius, Jan. "US Daily: Less Information, More Noise." Goldman Sachs Global Investment Research, 3 Aug. 2026, publishing.gs.com
16. Kaneva, Natasha. "Oil Markets Weekly." J.P. Morgan, 3 August 2026, markets.jpmorgan.com/research
17. Bloomberg.
18. Shah, Nohshad. "A More Fragile World." Some Macro Thoughts, Citadel Securities, 18 July 2026, www.citadelsecurities.com/news-and-insights/macro-thoughts/a-more-fragile-world/.
19. Bloomberg.
20. Id.
21. Lawder, David, and Daphne Psaledakis. "Bessent Ready to Repeat Joint Yen Intervention, Urges Bigger Fed Backstop." Reuters, 2 Aug. 2026, www.reuters.com/world/asia-pacific/bessent-ready-repeat-joint-yen-intervention-urges-bigger-fed-backstop-2026-08-03/.
22. The Asahi Shimbun. "Japan Vows More Joint Action with U.S. to Bolster Beleaguered Yen" Asia & Japan Watch, The Asahi Shimbun, 2026, www.asahi.com/ajw/articles/16780286.

Beyond the month's macro flashpoints, the longer-term AI story picked up new political weight in July. The politics of artificial intelligence have sharpened around two issues: the physical data-center build-out and model regulation. Public opinion on data centers has soured on a bipartisan basis. Opposition to construction reached 63% in a July poll[23] and is turning to action. By Data Center Watch's count, local pushback stalled or halted 75 projects nationwide, worth ~$130 billion, in the first quarter of 2026 alone, with moratorium bills surfacing in 14 states. [24] We expect data-center opposition to feature prominently in midterm campaigning and to function as a potential constraint on the AI build-out. On model regulation, the debate has two strands. The first is safety-driven and industry-led. Employees and founders across leading labs have signed open letters such as "Pacing the Frontier," urging government intervention to slow development should capability outrun the ability to control it. The second concerns Chinese open-weight models, which have reached a "good enough" threshold for most applications and sit just below the frontier at a far cheaper per-token cost. Moonshot's Kimi K3, released in mid-July, drew analogies to DeepSeek's debut in January 2025. Chinese models are now widely available and offered through Alphabet's and Amazon's clouds.[25] Washington is now debating whether to permit U.S. firms from using Chinese models at all, citing data-leakage and intellectual property concerns. Those concerns may be legitimate, but a blanket restriction on capable, customizable, low-cost models could disadvantage U.S. firms. Together, these two debates will shape the pace and scale of the next phase of AI build-out.

In the month ahead, several events will shape the balance of the year. The Iran situation will continue to evolve, and the resolution path is likely to drive energy prices and the inflation outlook. Jackson Hole on August 28 should offer the clearest read yet on Warsh's intended direction for policy. A steady cadence of semiconductor earnings throughout the month will test whether July's drawdown was a repricing or the start of a wider move. The earnings backdrop remains strong providing continued support for equity markets, but the room for error has narrowed. Higher yields are tightening financial conditions, margins are plateauing, and the energy market remains volatile. We continue to favor diversification across capitalizations, sectors, and geographies as a hedge against concentration while maintaining participation, and we will adjust tactically as opportunities come into clearer focus.

23. Emerson College Polling. "July 2026 National Poll: Democrats with 11-Point Generic Ballot Advantage." Emerson College Polling, July 2026, emersoncollegepolling.com/july-2026-national-poll-democrats-with-11-point-generic-ballot-advantage/.

24. Shah, Nohshad. "Where Is the Good News?" Some Macro Thoughts, Citadel Securities, 11 July 2026, www.citadelsecurities.com/news-and-insights/macro-thoughts/where-is-the-good-news/.

25. Keung, Ronald. "Navigating China AI Models: LLM Primer." Goldman Sachs Global Investment Research, 9 July 2026, publishing.gs.com

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