OpenArc

Market Brief – July Recap

MACRO

Growth: The labor market weakened in July. Nonfarm payrolls fell by 23,000, missing the +80,000 consensus and coming in below every individual forecast in Bloomberg's survey of economists. May and June were revised down a combined 103,000. The unemployment rate ticked down to 4.1% from 4.2%, but that decline came entirely from 264,000 people leaving the labor force, not from stronger hiring. Labor force participation fell to 61.4%, its lowest level in more than five years. Separately, the advance estimate for Q2 GDP showed growth decelerating to +1.5% annualized, below the 2.0% estimate and down from Q1's 2.1% pace.

Inflation: June CPI eased to +3.5% year-over-year, down from May's +4.2% and below the +3.8% consensus, with the headline index posting its largest monthly decline (-0.4%) since April 2020. Core CPI eased to +2.6%. The improvement was driven primarily by energy prices, which fell -5.7% for the month following a brief U.S.-Iran memorandum of understanding earlier in June. Core PCE for June held at +3.3% year-over-year, in line with estimates.

Monetary Policy: The Fed held rates steady at 3.50%-3.75% at its July 29th meeting, the second under Chair Kevin Warsh. Three regional presidents (Hammack, Kashkari, and Logan) dissented in favor of a 25bp hike, the most one-directional dissent the Committee has seen since September 2016. Warsh has also curtailed forward guidance in post-meeting statements, part of a broader effort to change how the Fed communicates. By 7/31, the market was pricing in only a 72% probability of a hike for the September meeting, down from a full hike being priced in prior to the FOMC meeting.

MARKET

Equities: The S&P 500 finished July essentially flat (SPY +0.03%), but that headline masked a sharp rotation beneath the surface. Semiconductors sold off sharply, with SMH down -17.59%. One flashpoint came mid-month when TSMC's better-than-expected earnings were overshadowed by a jump in its 2026 capex guidance (to $60-64B from $52-56B), renewing investor concern about the payback period on AI infrastructure spending. Technology (XLK) fell -7.96% and the Nasdaq 100 dropped -6.57%, and Momentum (-12.61%) declined further as the AI-led momentum trade unwound. Value (+2.05%) outpaced Growth (-1.66%). Energy (+12.13%) and Financials (+6.21%) led sector performance. Emerging Markets fell -6.31%, weighed down by a sharp selloff in Korean chip names: SK Hynix fell roughly -35% and Samsung roughly -22% during the month.

Bonds: Fixed income sold off broadly as yields moved higher over the course of the month on the combination of hawkish Fed dissents and reflation risk from rising oil prices, with the 10-year finishing July near 4.75%. Long-duration Treasuries (TLT) posted the steepest declines, down -4.83%, while the Aggregate Bond Index (AGG) fell -1.63%. Investment-grade corporates (LQD, -2.59%) underperformed on the combination of duration weakness and modest spread widening from heavy issuance, while high yield (JNK, -0.72%) held up better given more resilient credit conditions outside the software-lending pocket we've flagged in past letters.

Currencies: The dollar (DXY) fell -1.37% in July. The decline appears tied to two things: cooling June inflation data that reduced near-term hike pricing, and a brief, late-month pause in U.S.-Iran hostilities that reduced safe-haven demand for dollars. The yen's +2.16% gain was concentrated in the final days of the month, after the yen touched its weakest levels since 1986. The U.S. and Japan seemed to carry out a coordinated intervention to support it, an event that became public when a photo caught Treasury Secretary Bessent's notepad reading "To Do: Buy Japanese Yen $5-10 bil" at a July 31st cabinet meeting. The Euro and Pound also gained against the dollar, up 1.0% and 1.6% respectively.

CIO SNAPSHOT

We maintain a constructive stance on risk assets, though July's market performance tested our thesis. The AI value chain, which had a strong first half, pulled back after a jump in capex guidance, as well as increased competition from cheaper Chinese AI models, renewed scrutiny of the ROI on the spending. The selloff was amplified by market structure, as a heavily levered AI-focused hedge fund was forced to liquidate its portfolio, while a similar leverage unwind in South Korea deepened the decline in memory names.

We think the recent challenges were driven by leverage and positioning, not changing fundamentals, leaving our AI thesis intact. But the market's patience for open-ended capex, and leverage in crowded trades, has clearly narrowed, and we remain hyper vigilant of those increased risks.

We continue to hold AI and power infrastructure exposure, alongside international value and broad US equity for diversification. In fixed income, we favor higher quality and securitized credit and remain slightly long duration. We continue to favor smaller, diversified tilts over concentrated bets, preserving flexibility to add when risk-reward improves.

▲ Overweight
Neutral
▼ Underweight

	Asset Class	*CIO View*
	Equities	
Regions	US Large Cap	▼
Regions	US Mid Cap	▲
Regions	US Small Cap	
Regions	Developed International Equities	▼
Regions	EM Equities	
Factors	Growth	▲
Factors	Quality	▲
Factors	Value	▼
Secotrs	Industrials	▲
Secotrs	Technology	▲
Secotrs	Financials	
	Fixed Income	
Factors	Credit	▲
Factors	Duration	▲

Source: Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Charles Schwab, Bureau of Labor Statistics, Federal Reserve, as of 08/13/2026

US Related

ETF	Description	July 2026	2026
SPY	S&P 500	0.03%	9.55%
DIA	Dow Jones Ind	0.37%	9.10%
QQQ	Nasdaq 100	-6.57%	11.99%
IJH	S&P Midcap 400	-2.39%	14.05%
RSP	S&P 500 Eq Weight	1.05%	12.24%
QQQE	Nasdaq 100 Eq Weight	-4.05%	14.43%
IWB	Russell 1000	-0.27%	9.36%
IWM	Russell 2000	-3.08%	18.30%
IWV	Russell 3000	-0.36%	9.83%

Factors

ETF	Description	July 2026	2026
IVW	S&P 500 Growth	-1.66%	9.73%
IVE	S&P 500 Value	2.05%	9.26%
IJK	Midcap 400 Growth	-4.78%	15.48%
IJJ	Midcap 400 Value	0.07%	12.35%
IJT	Smallcap 600 Growth	-3.30%	22.34%
IJS	Smallcap 600 Value	-0.53%	19.56%
DVY	DJ Dividend	3.14%	14.22%
MTUM	Momentum	-12.61%	19.69%
USMV	Low Volatility	1.52%	4.00%
SIZE	Size	0.14%	10.50%
QUAL	Quality	-0.05%	10.42%

Global

ETF	Description	July 2026	2026
EWA	Australia	4.19%	12.03%
EWZ	Brazil	6.23%	15.36%
EWC	Canada	3.04%	10.12%
MCHI	China	9.36%	-7.11%
EWQ	France	2.47%	3.47%
EWG	Germany	3.58%	0.82%
EWH	Hong Kong	10.33%	8.61%
INDA	India	0.83%	-7.86%
EWI	Italy	3.98%	13.38%
EWJ	Japan	-0.94%	14.43%
EWW	Mexico	2.05%	10.79%
EIDO	Indonesia	9.37%	-33.85%
EWP	Spain	3.52%	14.04%
EIS	Israel	-1.13%	8.47%
EWU	UK	4.92%	10.07%
EFA	EAFE	1.64%	9.94%
EEM	Emerging Mkts	-6.31%	17.14%
IOO	Global 100	3.48%	11.60%
VT	All World	-0.69%	10.49%
CWI	All World ex US	-1.03%	12.05%

Sectors

ETF	Description	July 2026	2026
XLY	Cons Disc	-1.01%	-2.78%
XLP	Cons Stap	2.38%	9.49%
XLE	Energy	12.13%	33.19%
XLF	Financials	6.21%	3.96%
XLV	Health Care	2.45%	5.01%
XLI	Industrials	-2.91%	15.94%
XLB	Materials	-0.79%	11.20%
XLRE	Real Estate	2.36%	11.70%
XLK	Technology	-7.96%	21.80%
XLC	Comm Services	1.04%	-8.05%
XLU	Utilities	-2.18%	3.89%
SMH	Semis	-17.59%	50.09%

Currencies

ETF	Description	July 2026	2026
FXB	British Pound	1.60%	-0.05%
FXE	Euro	1.00%	-1.81%
FXY	Yen	2.16%	-1.72%
DXY	Dollar	-1.37%	1.54%

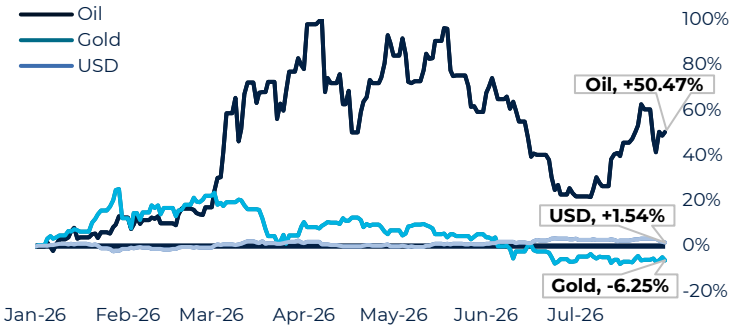
Fixed Income

ETF	Description	July 2026	2026
SHY	1-3 Yr Treasuries	-0.13%	-0.99%
IEI	3-7 Yr Treasuries	-0.83%	-2.40%
IEF	7-10 Yr Treasuries	-1.71%	-3.34%
TLH	10-20 Yr Treasuries	-3.80%	-5.05%
TLT	20+ Yr Treasuries	-4.83%	-5.63%
AGG	Aggregate Bond	-1.63%	-2.51%
TIP	T.I.P.S.	-1.64%	-2.07%
JNK	High Yield	-0.72%	-1.57%
MBB	Mortgage-Backed	-1.69%	-2.42%
LQD	IG Corporate	-2.59%	-3.58%

Commodities

ETF	Description	July 2026	2026
DBC	Commodities	10.47%	31.71%
DBA	Agric Commod.	3.15%	7.80%
USO	Oil	21.35%	86.77%
UNG	Nat. Gas	-14.16%	-17.94%
GLD	Gold	0.86%	-6.25%
SLV	Silver	-2.08%	-18.72%

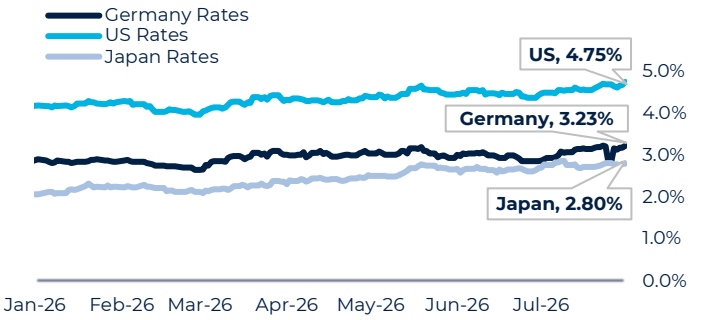
Commodity & Dollar Performance



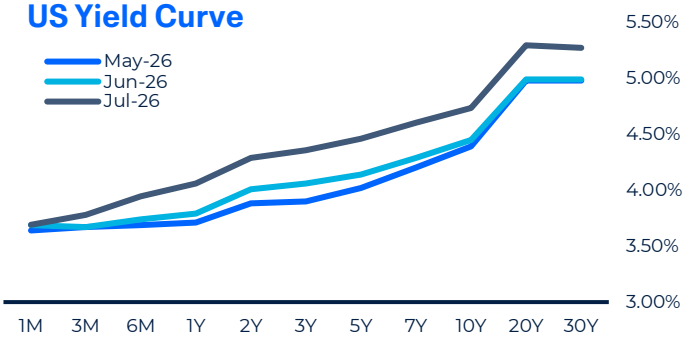
Leverage unwinds impact markets

Technology was at the epicenter of performance in July, with the sector declining nearly -8% as concerns around AI capex spending, leverage-driven unwinds, and intensifying competition from Chinese AI models rattled names tied to the AI infrastructure buildout. Momentum stocks fell over -12%, the fastest drawdown since November 2000. Oil rallied over +21% as geopolitical tensions between the US and Iran reignited. Energy (+12%), Financials (+6.2%), and Health Care (+2.5%) led sector gains in the S&P 500, while Semiconductors (-17.6%), Technology (-8%), and Industrials (-2.9%) were the primary detractors.

10-Year Bond Yields



US Yield Curve



Economic Data	Prior Release Date	Prior Estimate	Prior Actual	Next Release Date	Upcoming Forecast Estimate
Effective Federal Funds Rate	7/29/2026	350bps–375bps	350bps–375bps	9/16/2026	No change expected
US Total Nonfarm Payrolls	8/7/2026	80K	(23K)	9/4/2026	--
US Unemployment Rate	8/7/2026	4.2%	4.1%	9/4/2026	--
Core PCE Index YoY%	7/30/2026	3.3%	3.3%	8/26/2026	--
US CPI YoY%	8/12/2026	3.4%	3.4%	9/11/2026	--
US Real GDP QoQ%	7/30/2026	2.0%	1.5%	8/26/2026	--

Source: Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Charles Schwab, Bureau of Labor Statistics, Federal Reserve, as of 08/13/2026

Tactical Asset Allocation Guide

OpenArc CORPORATE ADVISORY

Legend

Very Underweight | Underweight | Slight Underweight | Neutral | Slight Overweight | Overweight | Very Overweight

Aug 2026

	Asset Class	View	Commentary
Equities	US Large Cap		As the AI investment cycle shifts from software to physical infrastructure, we continue to favor areas of the market positioned to benefit from the shift to physical infrastructure and the real economy, expressed through thematic allocations. While many large caps have AI exposure, the ROI on the spend from the Mag 7 remains an outstanding question mark for the broader market, and we're leaning away from these mega-cap names.
	US Mid Cap		We remain slightly overweight on our midcap allocation to offset our reduced large-cap positioning. Midcaps offer a compelling middle ground, with greater domestic revenue exposure, less mega-cap concentration risk, and more direct exposure to the infrastructure and industrial themes driving this cycle.
	US Small Cap		Small caps navigated around a challenging macroeconomic and geopolitical backdrop, as names tied to the physical economy and the AI infrastructure buildout continued to benefit. Through select active strategies, managers have captured targeted exposure to these specific themes that remain supported by strong demand.
	Developed International		We remain underweight international developed, though less so than prior quarters. European defense spending, ECB flexibility, and attractive valuations are positives, but the Iran Conflict's oil shock shows how energy shocks can hit these energy-importing economies. We continue to tilt to value within the developed international space.
	Emerging Markets		Our neutral stance on emerging markets reflects a mixed outlook: while the oil shock benefits commodity exporters, it pressures energy importers, and China's domestic consumption pivot, though structural, faces headwinds from trade frictions and slowing global demand. Taiwan and South Korea are notable bright spots as key components of the AI supply chain.
Factors	Growth		We maintain a small overweight, reflecting continued conviction in AI infrastructure beneficiaries.The "Bits to Atoms" theme has punished software and rewarded hardware, further supporting our decision to use active management in Growth.
	Value		We remain slightly underweight Value in the US, while holding an overweight to Value in developed international markets. We believe that Growth will outpace Value, as we remain in the earlier innings of this AI supercycle.
	Quality		Core factor exposure is expressed via a more dynamic, signal-driven approach. In an environment where factor leadership is shifting rapidly and stock dispersion remains elevated, we believe blending quality with more nimble quantitative strategies is better positioned to capture rotations in real time.
Sectors	Technology		AI remains a dominant theme within our portfolios and the broader market. We remain exposed via our active Technology allocation and believe we are in the middle of a larger, meaningful supercycle.
	Financials		We remain neutral on financials as credit conditions tighten and private credit stress raise questions about broader spillover. Easing regulation and capital markets activity remain positives, especially from the IPO boom and increased trading revenues, but the risk-reward has shifted given the uncertain macro backdrop and rising loan loss provisions.
	Industrials		Industrials are our largest sector overweight and the clearest expression of our investment thesis. Aerospace and defense spending is accelerating globally, with 100% of NATO members now meeting the 2% GDP spending threshold. Simultaneously, AI-driven power demand and grid modernization create a multi-year capex cycle. The combination of defense and power infrastructure makes this sector a structural overweight.
Fixed Income	Duration		We remain slightly extended in duration, though remaining defensive in our broader fixed income posture. We favor securitized credit exposure for its incremental spread over traditional corporate bonds.
	Credit		We prefer higher-quality fixed income and select structured credit, positioning for a backdrop where tight spreads leave little room for error. Historical data shows that starting from bottom-decile spreads has typically meant negative forward returns for HY and EM credit over 6-12 month horizons.

Source: Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Charles Schwab, Bureau of Labor Statistics, Federal Reserve, as of 08/13/2026

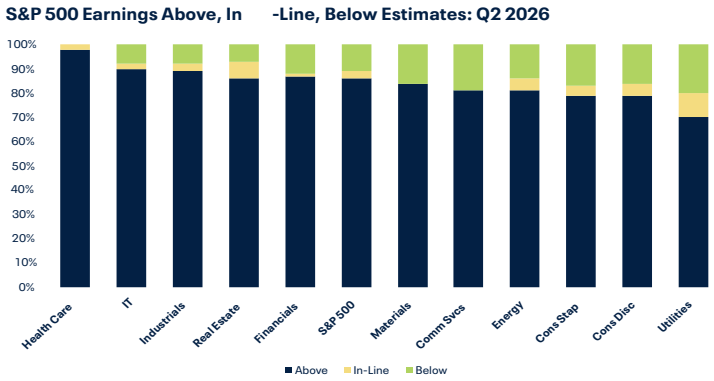
CIO Spotlight: Strong Quarter, Skeptical Market

The headline number needs a footnote

Q2 2026 earnings season delivered strong headline growth, but the number is more complicated than it looks. As of early August, blended S&P 500 earnings growth stood above 50% year-over-year. Strip out Alphabet and Amazon, however, and that growth rate falls to roughly 32%. The gap is largely explained by a single item: Alphabet's reported EPS for the quarter included a one-time GAAP gain of roughly $98 billion, which by itself pushed the index-wide surprise percentage unusually high. Even setting that distortion aside, a 32% growth rate marks the second consecutive quarter above 25% and the seventh straight quarter of double-digit earnings growth, a solid result by recent historical standards. The distinction matters: one number reflects the underlying trend, the other reflects one company's accounting.

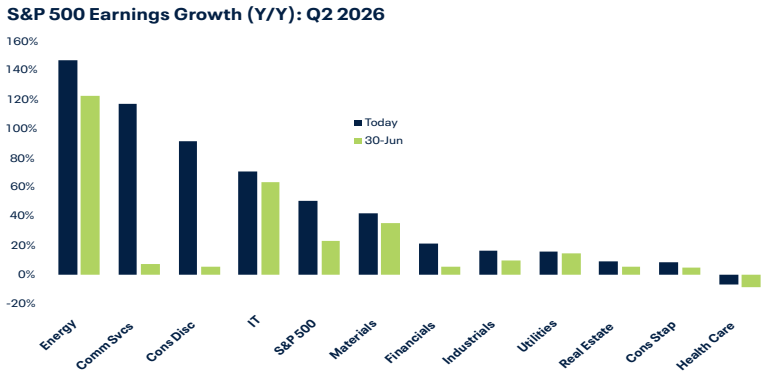
The market isn't paying up for beats

The more interesting story this quarter is not the earnings themselves but how the market has responded to them. The average S&P 500 company that beat estimates this season has slipped about -0.2% in the day after reporting, versus an average gain of roughly +0.6% for beats since 2017. We saw this dynamic play out directly in a name relevant to our own positioning. TSMC beat earnings expectations in July, only to see the stock and the broader semiconductor complex sell off after the company raised its 2026 capital expenditure guidance well above prior estimates, renewing investor concern about how long it will take AI infrastructure spending to pay for itself. That single event was a meaningful driver of technology and semiconductor weakness for the month.



Breadth held up, with one clear exception

Ten of eleven S&P 500 sectors posted year-over-year earnings growth this quarter, and eight of those ten grew by double digits, led by Energy, Communication Services, Consumer Discretionary, Technology, and Materials. Revenue growth has also been solid, with more than three-quarters of companies beating top-line estimates. Health Care was the lone sector to post a year-over-year earnings decline, consistent with the sector-level weakness we have flagged in prior letters. Notably, analysts entered this earnings season having raised full-year estimates ahead of results rather than trimming them, a reversal of the typical pre-season pattern and a signal of how much confidence had built into current guidance.



Bottom Line

Earnings are not the problem. By most measures, corporate America had a strong second quarter, and the breadth of that strength across sectors is a healthier signal than a narrow, mega-cap-driven number would suggest on its own. What has changed is the market's patience with the cost side of the AI buildout. Investors appear increasingly willing to reward companies for what they are earning today while questioning how much they plan to spend tomorrow. We do not read this as a rejection of the AI infrastructure thesis we have been positioned around, but it is a reminder that the market's tolerance for open-ended capex commitments has narrowed. Going forward, we expect capital discipline and a clear path to return on that spending to matter alongside the growth numbers themselves.

Source: Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Charles Schwab, Bureau of Labor Statistics, Federal Reserve, as of 08/13/2026

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Source: Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Charles Schwab, Bureau of Labor Statistics, Federal Reserve, as of 08/13/2026