

Monthly Market Commentary

August 4, 2026

July Performance, 2Q GDP, FOMC, and the Rotation Trade

Executive Summary

July proved to be another reminder that the investment landscape remains constructive, though far from calm.

- Equity markets were mixed, as strong corporate profits and AI-related capital spending competed with rising energy prices, higher Treasury yields, and renewed geopolitical uncertainty.
- The S&P 500 finished the month roughly flat, the Dow Jones Industrial Average posted a modest gain, and the Nasdaq Composite declined by ~-3.0% as semiconductor and mega-cap technology shares came under pressure.
- Fixed income markets were challenged by higher yields, with the 10-year Treasury finishing July at a year-to-date (YTD) high of 4.75%.

The second-quarter GDP report further confirmed the bifurcated nature of the economy.

- Headline growth slowed to a +1.5% annualized rate, weighed down by imports, though underlying private-sector demand strengthened.
- Consumer spending rebounded, business investment remained firm, and AI-related spending on computers, data centers, and information-processing equipment continued to support growth.

The Federal Reserve remained on hold at 3.50%–3.75%.

- The July FOMC decision, however, revealed a more divided committee.
- Three dissents in favor of a rate increase reminded investors that inflation risks have not disappeared, particularly with energy prices rising.
- Fed Chair Kevin Warsh was firm regarding his inflation goals, yet evasive on details as he attempts to reduce Wall Street's dependence on "forward guidance."

Finally, the market rotation trade intensified as investors periodically shifted from an emphasis on AI-driven growth and semiconductors toward financials, healthcare, consumer staples, utilities, and small caps.

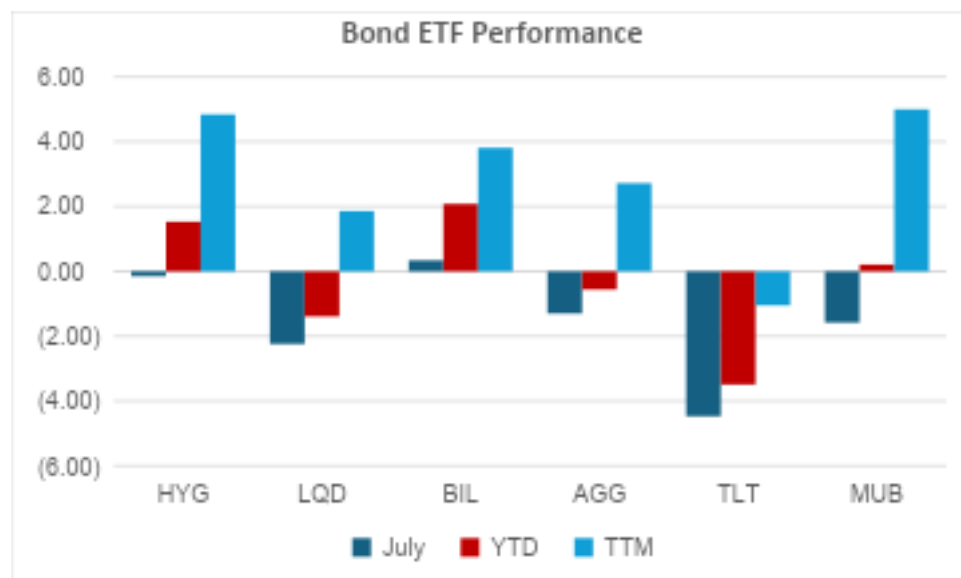
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July Market Performance

The financial markets continued to wrestle with the crosscurrents that have defined much of 2026: resilient economic growth, strong corporate earnings, AI-related investment, rising fiscal concerns, and heightened geopolitical risk.

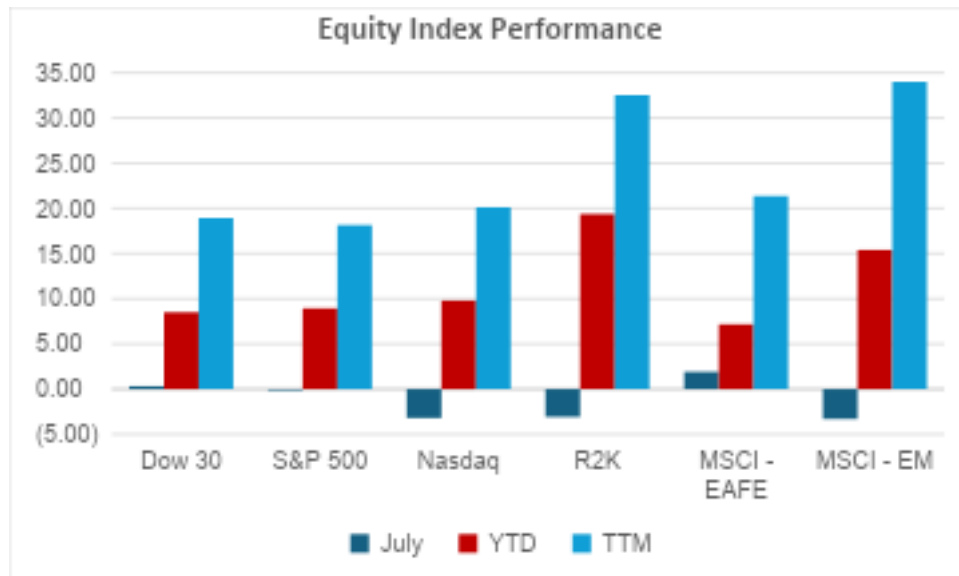
Market interest rates also climbed higher, as the bond market continues to test the Federal Reserve's resolve in an environment of elevated federal deficits, inflation, and the wars in the Mideast and Eastern Europe.

Indeed, the 10-year Treasury yield rose meaningfully (>30 basis points) during the month as energy prices climbed and inflation concerns returned to the forefront. Longer-duration bonds suffered the most, reinforcing our preference for a more balanced approach to fixed income.



Fortunately, starting yields remain attractive, and corporate and municipal credit fundamentals continue to provide support.

The equity markets entered July with considerable momentum following a powerful second-quarter rebound. Yet the month also showed that valuation discipline and risk management remain important, especially after a narrow group of technology and semiconductor companies drove much of the earlier advance.



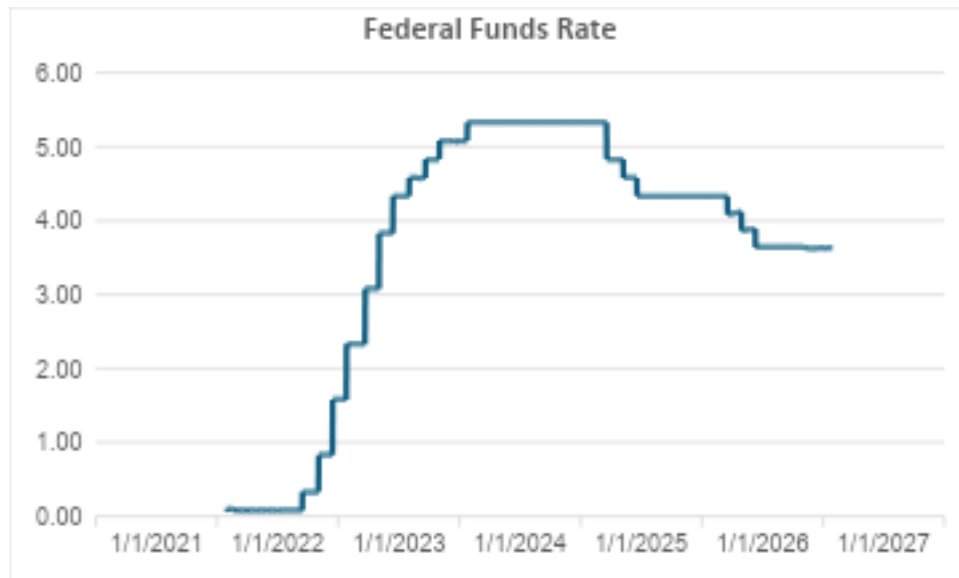
The S&P 500 finished July roughly flat, while the Dow Jones Industrial Average posted a modest gain and the Nasdaq Composite declined. The difference was primarily attributable to weakness in technology and semiconductors, where investors reassessed the pace, profitability, and sustainability of AI-related spending. Several high-profile earnings disappointments weighed on sentiment, while stronger results from select cloud and platform companies helped provide support late in the month. The message from the equity market was not that the AI theme is broken, but rather that expectations have become more demanding.

Policy & Economy

Monetary policy remains the key macro variable for investors.

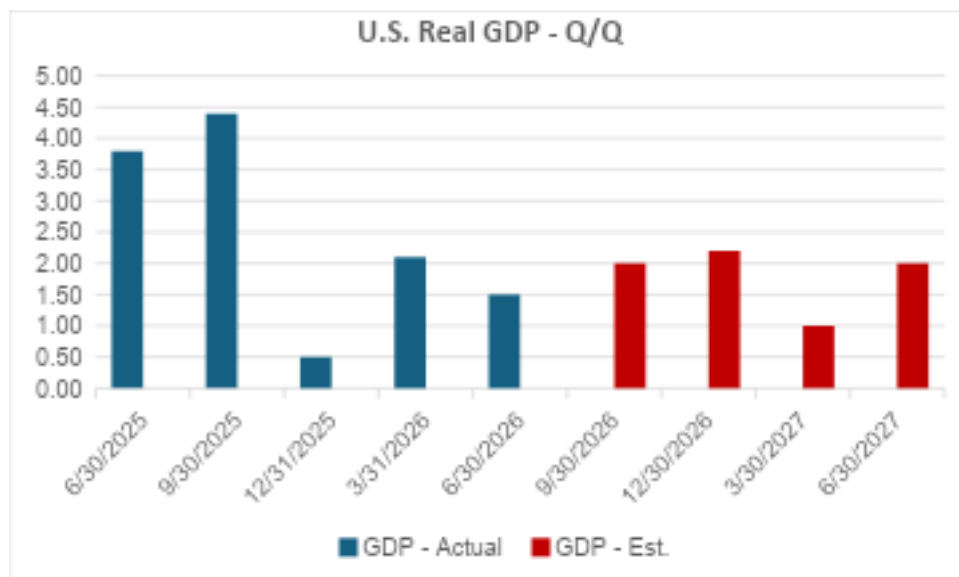
At its July meeting, the FOMC voted to hold the federal-funds rate steady at 3.50%–3.75%, marking another pause in the current cycle.

However, the decision was notable for three hawkish dissents, each favoring a 25-basis-point rate increase. This is not a trivial development. It signals that inflation concerns have broadened within the committee, especially as higher oil prices threaten to complicate the path back toward the Fed’s 2.0% inflation target.



New Fed Chair Kevin Warsh has emphasized a data-dependent approach, but the market is now assigning greater probability to the possibility that the next move in rates could be higher rather than lower. We continue to believe the most likely outcome is an extended hold through 2026, though a renewed energy shock or reacceleration in core inflation could bring a rate hike back onto the table.

Looking at the U.S. economy, the second-quarter GDP report showed that growth slowed to a 1.5% annualized rate, down from 2.1% in the first quarter.



On the surface, this result appears disappointing. Beneath the surface, however, the composition of growth was considerably more encouraging. Consumer spending accelerated to a 3.2% pace, business investment remained solid, and final sales to private domestic purchasers rose 3.9%, the fastest pace since early 2023. In our view, the headline number understated the health of the private economy.

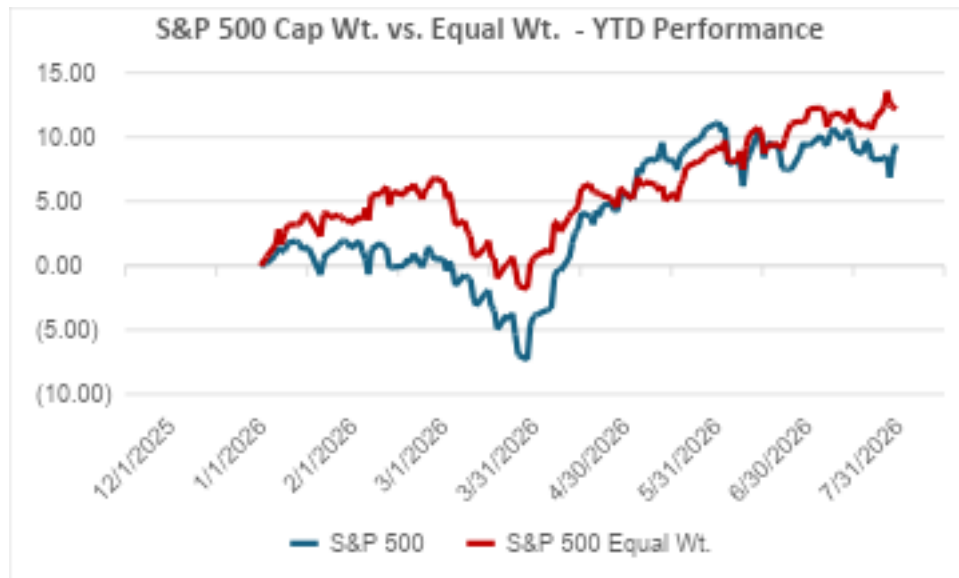
AI-related investment remains a dominant force in the economic data. Spending on computers, data centers, software, and information-processing equipment accounted for more than half of real GDP growth. At the same time, the U.S. imported a significant amount of semiconductors and related equipment to support the buildout, which reduced measured GDP through the trade channel. This is an important distinction. The import drag reflects capacity expansion and capital investment, not weak demand.

Equity Rotation Trade

One of the most important developments in 2026 has been the increasingly intense rotation trade.

For much of the first half, equity market leadership was concentrated in AI beneficiaries, especially semiconductors and related equipment companies. This narrow leadership helped lift index returns, but it also created fragility. When expectations are high and positioning is crowded, even modest disappointments can lead to sharp reversals.

That is what began to unfold in July. Concerns about AI capacity, capital spending discipline, and earnings conversion led investors to reduce exposure to high-growth technology shares. On risk-off days, capital rotated toward financials, healthcare, consumer staples, utilities, and other areas that offer more reasonable valuations or defensive characteristics. A good way to view these developments is in the relative performance between the cap-weighted S&P 500 and the Index's equal weighted measure, which can signal how the "average stock" is performing.



Small caps also benefited at times, suggesting investors are looking for opportunities beyond Mag 7 and the mega-cap complex.

We view this broadening as healthy, provided it is driven by earnings and economic resilience rather than fear alone. A market supported by multiple sectors, market capitalizations, and investment themes is more durable than one dependent on a narrow group of companies.

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