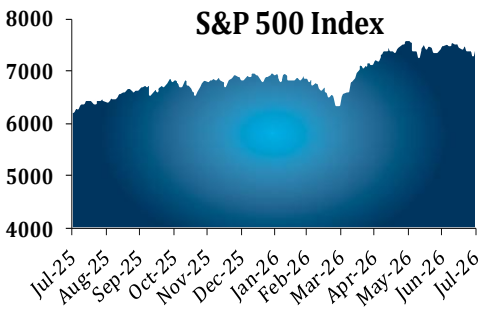
This Month in the Markets

July 2026

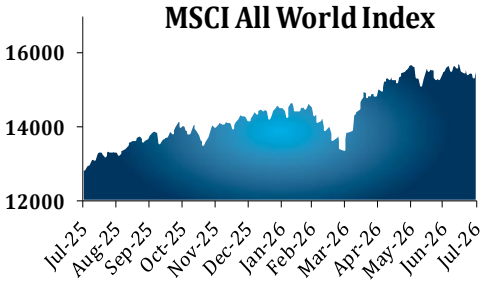
Equity Commentary: Easy Come, Easy Go

July saw stocks pause as churn amongst sectors massively offset each other. Most sectors advanced and the market broadened but the rerating and sell-off in subsectors like semiconductors was extensive and offset a lot of overall gains.

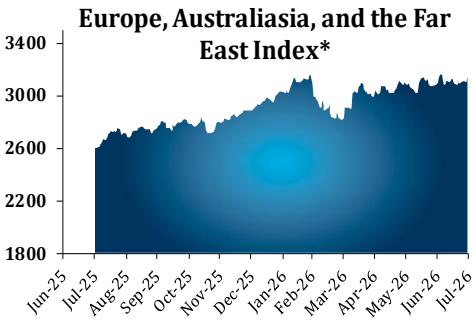
The MSCI ACWI Index returned 0.3% for the month, and the MSCI Emerging Markets Index fell 3.0% with the collapse in Korean memory stocks. In the U.S., the S&P 500 was essentially flat.



The MSCI ACWI Energy sector was the top performer with a gain of 13.1%. Renewed hostilities between the U.S. and Iran helped power gains in the energy sector as Brent crude briefly topped $90 per barrel as the Iranian military actively blocked commercial vessels and forced multiple tankers to turn around. The MSCI Information Technology sector was the worst performer and fell 4.2% for the month as heavy underperformance of technology mega caps dominated the performance. The selloff was driven by a collapse in semiconductors which finished the month in a bear market, down 23% from their record high. There was a notable vibe shift, as the concerns over the potential payoff from massive AI investments rose and the associated momentum trade unwound violently.



Rather than chase a momentum fueled market we choose to focus on owning businesses we understand and whose operating performance continues to compound over time. We do not know when periods of froth in pockets of the market like meme stocks, crowded momentum trades and exuberant narratives will unwind. Making market timing predictions around this is not part of our investment process but we are aware of history that would inform even the casual market observer that these stretched conditions and enthusiasm often come and go. When the expectations become exceptionally high, the margin for error often becomes exceptionally small. It's our job to get excited BEFORE everyone else does and wait for the market to agree with us. Besides, over time we strongly believe that the market will reward actual business performance, and that exceptional, high-quality businesses tend to reflect this but maybe not as rapidly.



The worst performing position in July was GE Vernova Inc. ("GEV"), which declined 12.7%. The company missed EPS estimates, but its order momentum continues to surge with backlog hitting a new record. As noted above, the AI infrastructure trade suffered a setback in the month on growing concerns about its sustainability. The big question is whether this is a longer-term inflection point in the trajectory of investment or simply portfolio rebalancing. We of course do not know for sure, but believe the investment required to advance AI will continue for some time yet and several companies will continue to benefit from this and other macro trends around onshoring and grid modernization. We believe GEV being one of them.

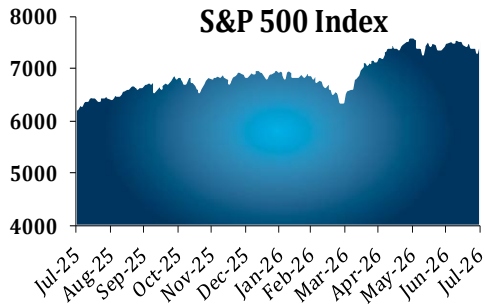
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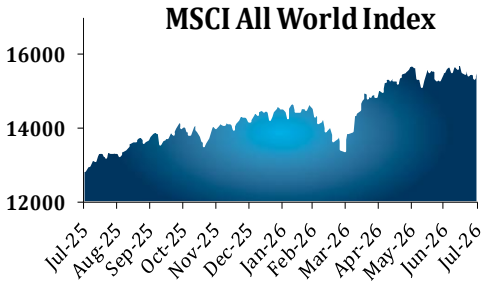
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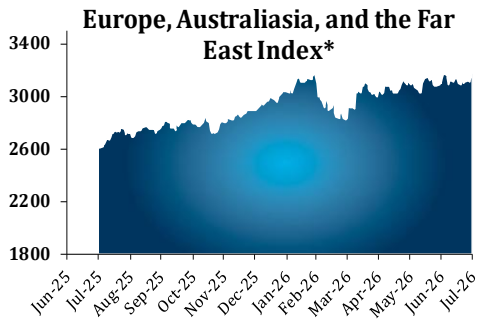
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The best performer was Microsoft Corp. ("MSFT") which increased 20.9% as its quarterly report soothed concerns around a lack of fiscal discipline in the race to dominate AI next year and it saw its fastest cloud growth since 2022, suggesting its AI and computing services are making inroads with customers.

During the month, we sold Toll Brothers Inc. ("TOL"). We also bought ON Holding AG ("ONON") and General Electric Healthcare Technologies Inc. ("GEHC"). Despite a weak housing market, shares of TOL have done well since purchase as TOL's focus on high end has significantly outperformed the general market. With the war in Iran pushing into its 5th month, we decided to take profits on TOL as the prospects of lower interest rates driving a turn in the housing market looks to be further into the future. We replaced TOL with share of ONON, a premium footwear brand which has been taking market share from established brands like Nike and Addidas. After a 32% pullback we felt that the market was giving us a good opportunity to add a high growth compounder trading at a reasonable multiple. GEHC is a top three global medical imaging company that was spun out of the former General Electric conglomerate. Free from the confines of being part of a broader group of companies, GEHC now has the freedom to focus on research and development and its own operational efficiencies. The medical imaging market itself is attractive as it has very high technical barriers to entry and benefits from several very favorable long-term secular drivers like an aging population, increased demand for screening and greater demand for minimally invasive or noninvasive procedures.







*Merrill Lynch Global Broad Market, Ex US Dollar Index

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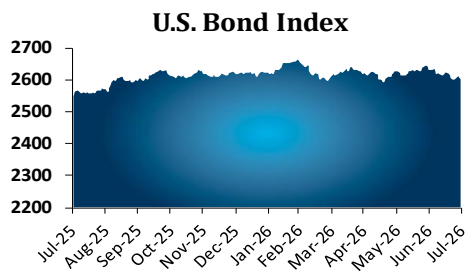
Fixed Income Commentary: Less Guidance, More Steepening

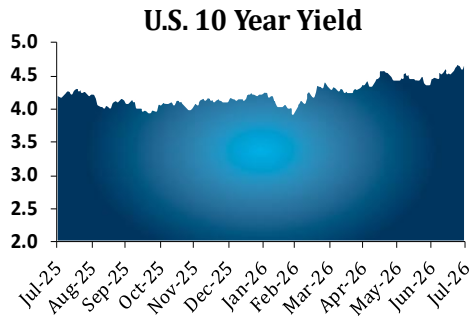
July was a challenging month for bond markets, as investors weighed softer economic data against renewed inflation concerns, higher oil prices, and a more hawkish tone from several Fed officials. Treasury yields moved higher; the yield curve steepened, and markets reassessed the likely path of monetary policy.

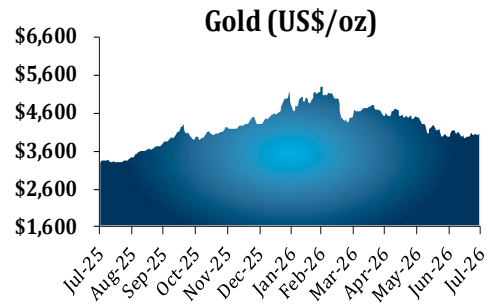
Yields rose over the month as higher oil prices, following the renewed outbreak of U.S.–Iran hostilities, and hawkish commentary from Governor Waller and Chair Warsh outweighed weaker-than-expected labor market and inflation data. In a speech to the New York Association for Business Economics, Governor Waller said, "Sternly staring at inflation until it melts before our withering gaze is not an option" — a notable remark because he has generally been viewed as one of the more dovish FOMC members. Chair Warsh struck a similar firm tone in testimony before the House Financial Services Committee, emphasizing that it was not "mission accomplished" on inflation.

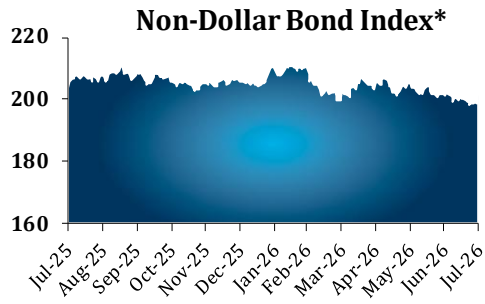
This rhetoric outweighed softer inflation readings and a materially weaker-than-expected payrolls report that reversed the prior month's upside surprise. Although the unemployment rate declined from 4.3% to 4.2%, that improvement largely reflected a further drop in labor force participation, to 61.5% from 61.8%. Alpine Macro estimates that the unemployment rate would have been closer to 5.8% had participation held at its January 2025 level. CPI and PPI both came in well below consensus in July, while wage pressures remained contained, as proxied by the Atlanta Fed Wage Growth Tracker.

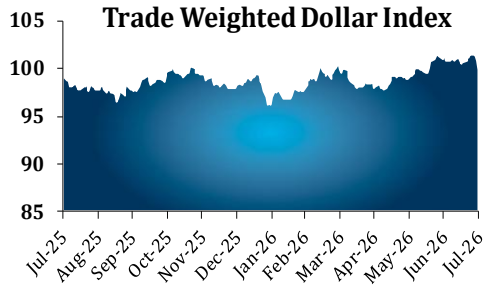
At the July 28 FOMC meeting, three members dissented from the decision to hold the federal funds rate steady, preferring a hike. The same three had dissented in April against maintaining the Committee's easing bias, at Jerome Powell's final meeting as Chair. Since taking over, Chair Warsh has emphasized that the Fed should be less central to market expectations and less inclined to guide investors toward a predetermined policy path, stressing flexibility and data dependence instead. He has also established task forces to review the Fed's communications strategy, balance sheet size, and data focus. In his press conference, Warsh offered little guidance on the likelihood of future hikes, noting instead that financial conditions had already tightened as nominal and real rates rose following the June meeting. With inflation still above the Fed's 2.0% target, markets read Warsh's stance as dovish — perhaps too dovish, judging by the sharp steepening of the curve that followed. The 2-year yield fell 1 basis point on the day while the 30-year rose 11 basis points, pushing the 30-year yield to its highest level since July 2007.











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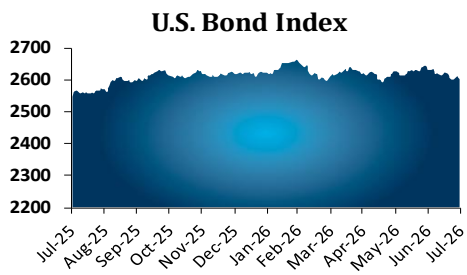
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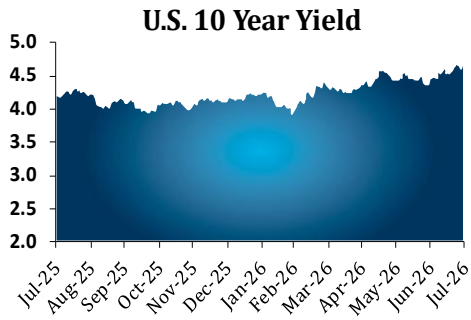
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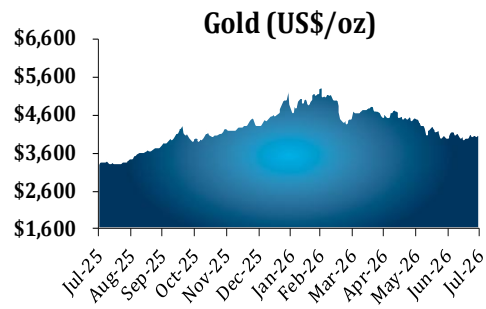
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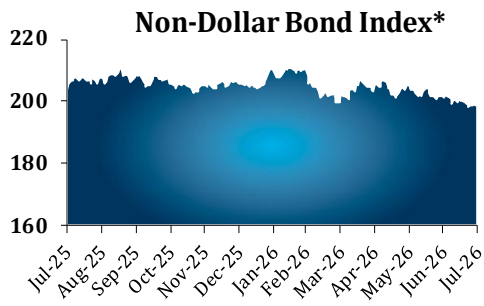
Some pundits have suggested that Warsh has lost his inflation-fighting credentials; this looks like an overreaction. He has said all along that he intends to offer the market less forward guidance. Our base case remains that the Fed stays on hold through 2026. Markets are pricing a hike in October, but Warsh's ongoing review of the operating framework, relatively contained trimmed-mean PCE inflation, declining Truflation readings, already elevated real rates, and well-anchored inflation expectations should give the Committee scope to assess incoming data before tightening.

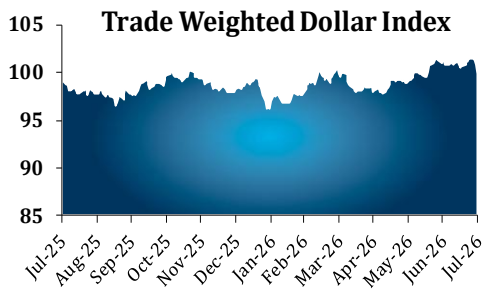
Elsewhere, the dollar weakened in July, with the Bloomberg Dollar Spot Index down 1.24%. The Norwegian krone was the strongest G10 performer, rising 4.50% on the back of higher oil prices. The Australian dollar gained 1.45% against the U.S. dollar, supported by a relatively hawkish tone from Reserve Bank of Australia Governor Michele Bullock. In credit, spreads widened modestly, with the move most notable among large technology issuers — Meta, Amazon, Alphabet, and Nvidia — as investors absorbed substantial issuance to fund AI-related capital expenditure. Even so, broader spreads remain near historical tights, reflecting continued confidence in corporate fundamentals.











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