Monthly Market Commentary

July 2026

US Economy

The U.S. economy continued to grow in July, but the pace of growth moderated. Second-quarter GDP expanded at a slower pace than what we experienced in the first quarter. The good news was that American consumers continued to spend money, with consumer spending rising at a healthy rate, while businesses kept investing heavily in technology and artificial intelligence. These factors helped support overall economic activity even as higher imports and ongoing global uncertainties weighed on growth.

The biggest economic story remained inflation and interest rates. Inflation eased somewhat during the month but remained well above the Federal Reserve's 2% target, driven in part by elevated energy prices and geopolitical tensions in the Middle East. The labor market stayed relatively stable, with unemployment remaining low and wages continuing to outpace inflation for many workers. As a result, the economy entered August in a relatively solid position, but we remain focused on whether inflation will cool enough for the Federal Reserve to eventually lower interest rates.

US Markets

U.S. stocks delivered mixed results in July. The broad S&P 500 was essentially flat for the month, while the Dow Jones Industrial Average (DJIA) had modest gains. In contrast, the technology-heavy Nasdaq Composite pulled back, making July its weakest month in several months. Much of the market's attention remained focused on artificial intelligence (AI), corporate earnings, interest rates, and rising geopolitical tensions in the Middle East, all of which contributed to increased day-to-day market volatility.

July was a reminder that headline index returns do not always tell the full story. While the overall market appeared relatively stable, there was a significant shift beneath the surface. Many of the high-flying technology and AI-related stocks that had led the market earlier in the year experienced pressure, while investors moved money into other sectors and more defensive investments. Strong earnings from well-known Technology companies helped support the market late in the month, but concerns about higher bond yields, oil prices, inflation, and Federal Reserve policy kept investors cautious. The result was a market that largely moved sideways overall, even though individual sectors and stocks experienced much larger swings.

Fixed Income

The Federal Reserve Open Market Committee (FOMC) met in July and, as anticipated, held the federal funds rate steady at 3.50% - 3.75%. The Fed noted that economic activity is expanding at a solid pace despite elevated uncertainty, productivity growth and capital investment are strong, job gains have kept pace with the workforce, and the unemployment rate has changed little. The Fed did note that inflation remains elevated, reflecting supply shocks in certain sectors, including energy.

In our view, the Fed may be moving towards rate hikes, but for now remains on pause to allow for more time and flexibility to navigate the uncertainties between economic growth, labor market strength, and inflation risks given supply-driven shocks. In our opinion, the uncertain geopolitical environment continues to inject uncertainty into the ultimate path of the federal funds rate. We believe statements from the FOMC suggest that a growing number of members favor a more hawkish (favoring tighter monetary policy and/or higher interest rates) bias. Ultimately, the economic data could impact the timing of any move higher or lower in policy rates.

International Markets

European economic growth remains subdued, constrained by the region's limited participation in the AI-driven investment boom and disruptions to manufactured goods trade stemming from the Iran war. Business surveys indicated that overall activity has steadied, as modest gains in manufacturing were offset by a third consecutive monthly decline in services activity. Weakness remained largely concentrated in northern Europe, while southern economies showed a modest manufacturing-led expansion. Furthermore, Eurozone inflation has been easing more than expected. We anticipate further improvement by year-end, boosting households' real incomes, purchasing power, and prospects for stronger consumer spending. The decline in inflation also could reduce pressure on the European Central Bank to further tighten monetary policy, unless renewed Middle East tensions ignite a sustainable resurgence in oil prices.

Over in Asia, growth remained uneven. China's two-track economy netted to modest overall economic growth, as strong exports were countered by weak domestic demand and little fiscal-policy support. India's leading-edge growth remained well-balanced between a near boom in manufacturing, alongside moderately strong growth in services. AI-related investment propelled growth in Japan, accompanied by more modest growth in services spending. Manufacturing growth in southeast Asia, less exposed to the AI boom, lagged the pace in northern economies. Thailand outperformed in June, while fiscal restraints and monetary-policy uncertainties left Indonesia as the only country in the region suffering manufacturing declines.

Commodities

Commodity markets were volatile in July, with energy prices remaining the biggest story. Oil prices experienced sharp swings as investors reacted to ongoing tensions in the Middle East and concerns about shipping through the Strait of Hormuz. While oil prices retreated from the extreme highs reached earlier in the summer as supply routes reopened and production recovered, crude oil prices remained elevated compared to pre-conflict levels. The uncertainty surrounding global energy supplies kept oil and natural gas markets sensitive to geopolitical developments throughout the month.

July highlighted how different commodity sectors can perform at the same time. Gold prices generally softened as investors became less focused on safe-haven assets and more concerned about the potential for higher interest rates, while industrial metals such as aluminum also moved lower as supply chains improved. Agricultural commodities produced mixed results, with weather concerns affecting crops such as cocoa, coffee, wheat, and corn. Overall, commodity markets remained driven by a combination of inflation concerns, geopolitical risks, global economic growth expectations, and supply disruptions. Although prices were generally below the peaks seen earlier in 2026, uncertainty remained high and continued to create significant price swings across energy, metals, and agricultural markets.

What Does This Mean to Me?

We continue to forecast positive US gross domestic product growth into year end 2026. We believe this growth is underpinned by an ongoing rotation from consumer-led to investment-led growth, driven primarily by extraordinary capital spending tied to the AI buildout. While this heightened capital spending could serve as a cushioning element for the second half of this year, we are still anticipating some loss of consumer momentum in the coming months. Two forces are weighing on consumer spending: the fading boost from this year's tax refunds and a slowdown in inflation-adjusted income growth, hitting lower-income families hardest. We anticipate spending by upper-income families to benefit most from wealth-building gains in the stock market.

Looking ahead to 2027, we anticipate economic growth to reaccelerate, as supply chains normalize and renewed disinflation supports stronger real income growth. Improving purchasing power should help revive broader consumer spending, while a more favorable inflation backdrop could ease pressure on longer-term interest rates – a potential tailwind for housing and other credit-sensitive areas of the economy. As such, we continue to advise clients to use any equity pullbacks as an opportunity to deploy sidelined cash.

If you have any questions or concerns, please do not hesitate to reach out to us at any time.

Sincerely,

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Index returns are not fund returns. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results. S&P 500 Index is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation and financial companies.

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