Shearwater Creek Investment Matters

Market Update: July 2026

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As we move through July and pass the halfway mark of 2026, the stock market continues to deliver surprisingly steady performance. Despite a constant drumbeat of geopolitical headlines and fluctuating energy prices, major indices have held onto their solid year-to-date gains.

If there is one phrase to describe the current climate, it is **cautious optimism**. The economy is showing genuine resilience, but investors are becoming much more discerning. Rather than a broad-based rally lifting every stock at once, the market is increasingly rewarding quality: balance sheet strength, steady cash flows, and companies with true pricing power.

Fed Watch: No News is Good News

All eyes were on the Federal Reserve this week during its July policy meeting.

Here are the key takeaways:

- **Rates Hold Steady:** The Fed kept its target interest rate unchanged. While inflation isn't cooling as quickly as many had hoped earlier this year, it may be showing signs of stabilization.
- **A Shift in Guidance:** Under Chair Kevin Warsh, the Fed has dialed back on giving precise long-term rate forecasts. While this creates some short-term media noise, it simply reflects a flexible, data-dependent "wait-and-see" approach.
- **Our Take:** High-but-stable interest rates mean high-quality bonds and income-generating investments continue to offer competitive yields without requiring unnecessary risk.

Q2 Earnings & The Evolution of AI

Second-quarter corporate earnings season is officially underway, offering a clearer picture of how businesses are adapting to current economic conditions.

- **Broadening Capital Expenditure:** Massive spending on Artificial Intelligence is rippling far beyond traditional Silicon Valley tech giants. The physical infrastructure required for modern computing—data center construction, power grid equipment, and energy supplies—is fueling strong demand across broader industrial sectors.

- **Valuations & Market Momentum:** We have remained cautious about chasing the massive run-up in many AI beneficiaries. Over the past few weeks, enthusiasm has cooled somewhat, bringing a healthy correction to several of these high-flying names.

- **The "Hyperscaler" Balancing Act:** Major tech companies funding the AI buildout are facing growing market scrutiny. While many of these companies have reported stellar earnings, their stock prices have stumbled due to accelerating capital expenditures. Some firms that historically boasted massive positive cash flows are now burning cash or taking on debt to fund this spending spree. Until markets see a clearer path toward returns on these investments—or a moderation in spending—these stocks may continue to face near-term headwinds.

Looking Ahead: Where We Are Focused

As we move through the remainder of the summer, our strategy remains anchored in three key areas:

1. **Consumer Resilience:** Reviewing retail earnings and consumer data closely to gauge how household budgets are managing higher costs.

2. **Margin Quality:** Identifying companies and sectors capable of protecting their profit margins despite elevated borrowing costs and inflation pressures.

3. **Global Selectivity & International Value:** Evaluating opportunities in select international equity markets where valuations remain compelling, while maintaining a clear eye on geopolitical risks and currency fluctuations.

Our Perspective

Heading into August and September—months that historically bring seasonal volatility—we expect some short-term market fluctuations. However, the broader picture remains encouraging.

Despite year-to-date gains, many stocks are actually trading at lower valuations today than at the start of the year, driven by strong and expanding corporate earnings. Because the broader economy remains on solid footing, we remain optimistic that equity markets will finish the year higher than current levels.

As always, we actively seek out high-quality opportunities created by short-term market noise.

SHEARWATER CREEK
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