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Summary

Monthly Market Insights

August 3, 2026

AI flywheel is driving markets, but concentration is cutting both ways

1

AI Flywheel is boosting economic growth

1. AI boom is the dominant macro and micro theme
2. AI capex is boosting economic growth
3. Offsetting other cyclical softness
4. Overriding policy cross currents
5. Supporting equity markets and consumer net worth

"The Hinge": AI capex needs to ultimately drive productivity to keep the flywheel spinning

2

Early AI capex monetizing, but uncertainty still looms

Hyperscalers AI capex has compressed free cash flow as they are making massive bets that future productivity will drive ROI

Cloud growth has reaccelerated, with margin expansion, so early capex is monetizing and forward demand outlooks remain strong

Compressed cash flow + increased uncertainty that widen the range of outcomes = higher discount rate and compressed multiples

3

Memory & semis reversed hard in July

One company's spending is another company's revenue: downstream AI suppliers, esp. semis & memory, were big winners in 2Q; it was earnings-driven, not just a re-rating

But future cyclical overcapacity concerns rise as more supply is announced, thus future pricing & margins remain in question

Leverage unwinds in South Korea and at the hedge fund Situational Awareness contributed to a sharp reversal of this trade in July

4

Concentrated theme = concentrated risk

Long-term bullish, but mindful of concentration risks

Megacap tech exposure within the S&P is concentrated, posing risks if the AI capex doesn't deliver ROI

Downstream beneficiaries like memory – despite forecasted TAM growth – could be at risk if the forward "E" is disrupted and/or at cycle peak; these are cyclical businesses and new supply is coming with South Korean players set to ~2x capacity by 2030 and Chinese players ramping up

5

Geopolitics, Inflation & Fed remain unknowns

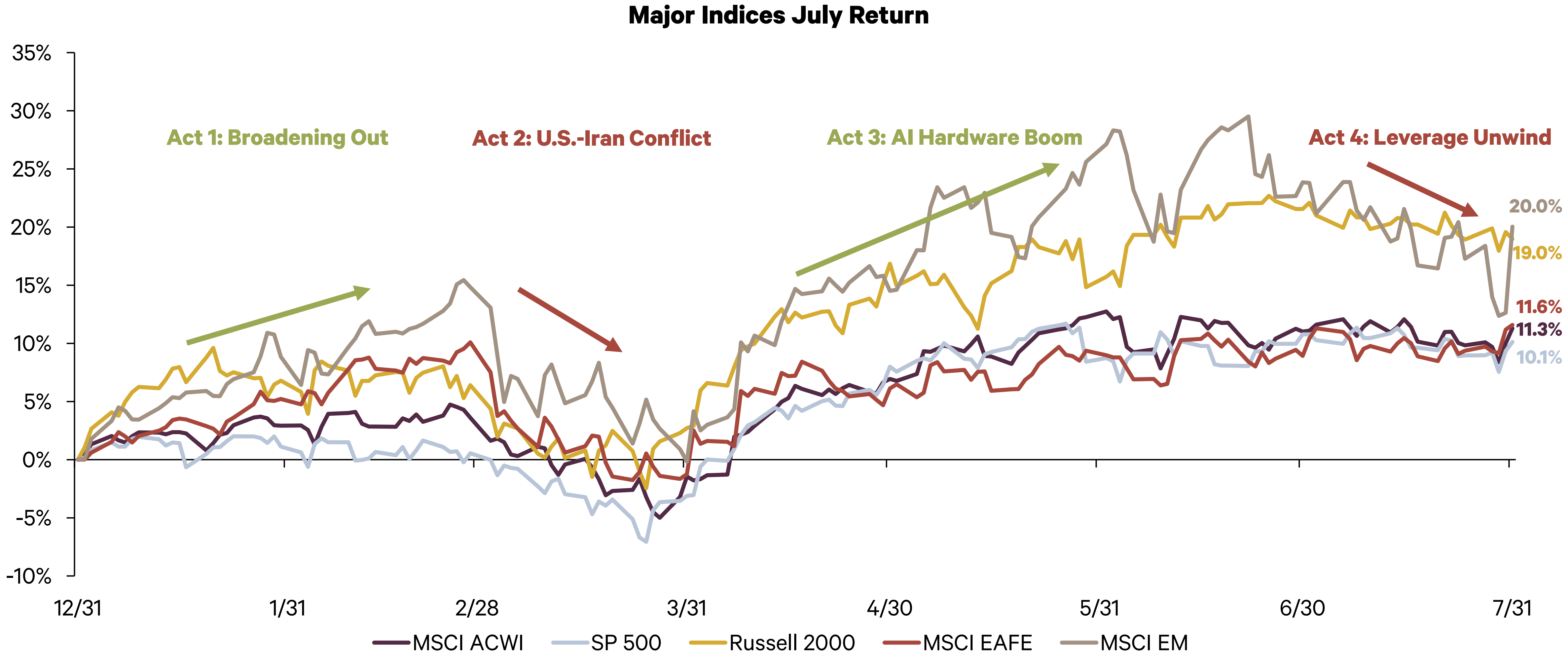
US/Iran conflict remains volatile with kinetic tensions still flaring and the Strait of Hormuz closed

Higher energy prices, as a result of above, are re-stoking inflation fears and pushing up rates and tightening financial conditions

The Fed held the Fed Funds rate steady in July with dovish language that prompted short-rates lower, but pushed up long-rates; term premium (uncertainty) is rising and pushing up yields

Source: Bloomberg

YTD: the tale of two halves has become a 4-part mini-series



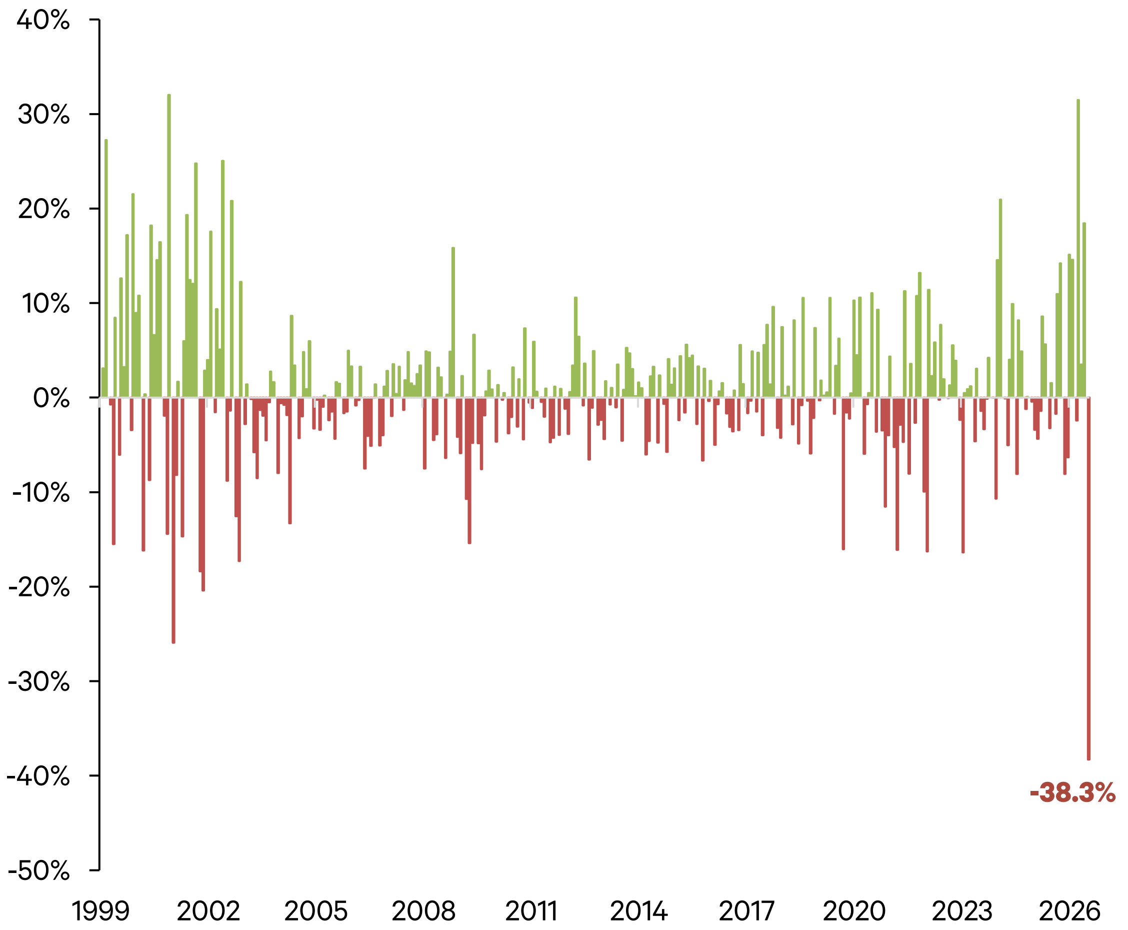
Source: Pathstone with data from Bloomberg as of 7/31/2026

Momentum reversed in July; worst month ever for TMT momentum

Momentum vs Quality YTD Return

Source: Pathstone with data from Bloomberg as of 7/31/2026

US TMT Momentum: Monthly Returns



Source: Pathstone with data from Bloomberg as of 7/31/2026

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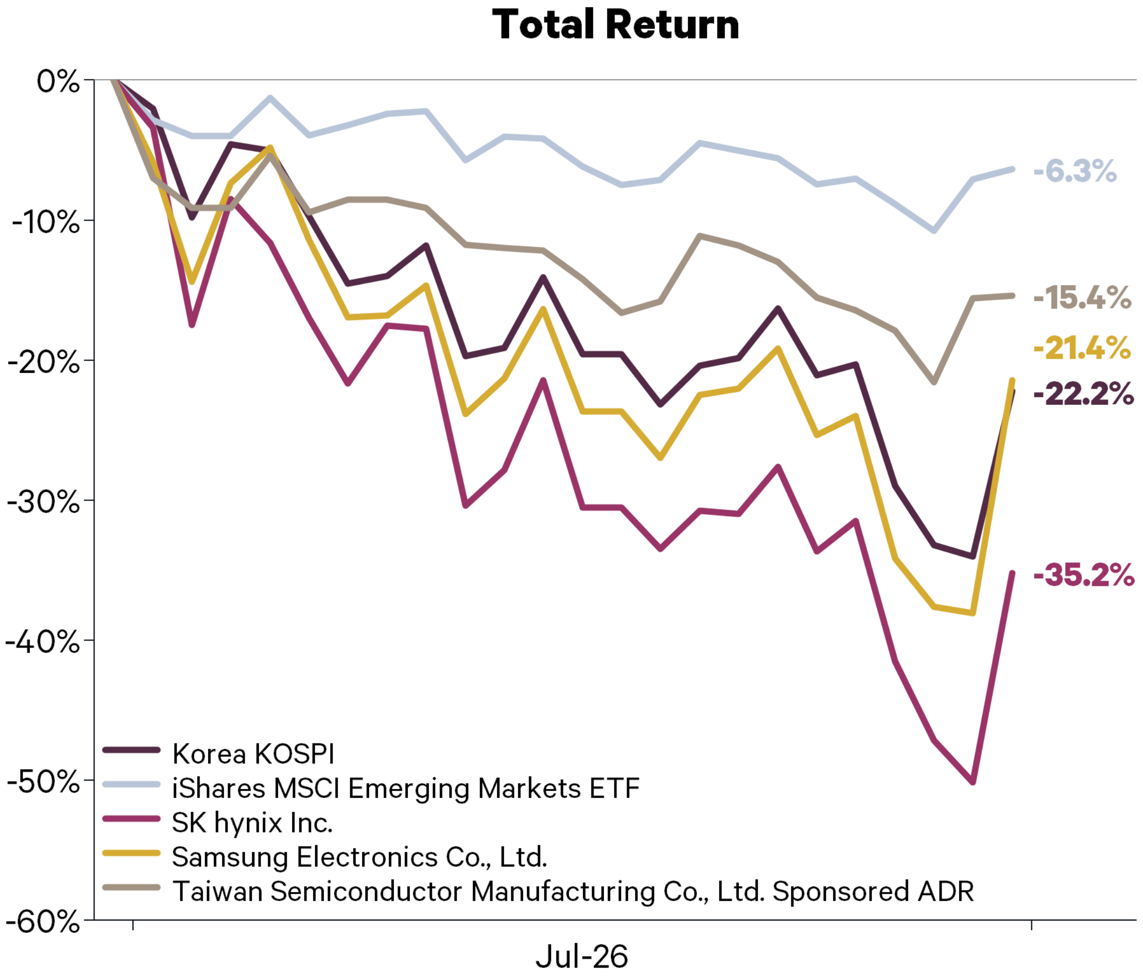
S&P 500 Momentum Index: The S&P 500 Momentum Index (US Dollar) is designed to measure the performance of securities in the S&P 500 universe that exhibit persistence in their relative performance, selecting approximately 100 constituents with the highest risk-adjusted momentum scores and weighting them by a combination of float-adjusted market capitalization and momentum score, with semiannual rebalancing. S&P 500 Quality Index: The S&P 500 Quality Index (US Dollar) is designed to measure the performance of securities in the S&P 500 universe that exhibit strong quality characteristics, selecting approximately 100 constituents based on a composite quality score derived from return on equity, balance sheet accruals ratio, and financial leverage ratio, and weighting them by a combination of float-adjusted market capitalization and quality score, with semiannual rebalancing. US TMT Momentum: A custom index that represents an equal notional pair trade of going Long the MSQQUTML (US TMT Momentum Long) and Short the MSQQUTMS (US TMT Momentum Short). Performance reflects each side rebalanced back to equal notional at the close of each trading day.

South Korea experiences a steep monthly drop as leverage unwound

The "compute scarcity" trade came under pressure: A confluence of new semi/memory capacity announcements, open-weight model releases, model cost cuts, and Meta signaling it would sell excess AI compute all prompted selling pressure that spread across the broader AI hardware complex.
Big reversal of South Korean AI-hardware winners in July: the KOSPI suffered its worst monthly performance since the Global Financial Crisis (GFC), driven by SK Hynix and Samsung, despite popping on 7/31 with its largest single-day gain (and largest daily foreign inflow) on record to end the month.
Leverage unwind: the drawdown was accelerated by forced selling from Korean single-stock leveraged ETFs (a Hong Kong-listed 2x SK Hynix fund grew 20-fold to $7.8B in assets, the largest single-stock leveraged fund globally) and record retail margin unwinding (more than 1.2 million leveraged retail trading accounts triggered margin calls) prompted Seoul to cap leveraged products.
EM index concentration cuts: EM losses were concentrated in SK Hynix, Samsung, and TSMC, with those 3 alone accounting for over 2/3 of the decline.
Situational Awareness LP a marquee casualty: the fund run by ex-OpenAI Leopold Ashenbrenner faced margin calls (Bloomberg reported major banks had previously offered to lend the fund 4-5x its capital) and was forced to sell its public equity book to Citadel on July 30th after it lost about 67% — which broadened the levered unwind across prior AI momentum winners, only to see those names pop on the 31st.

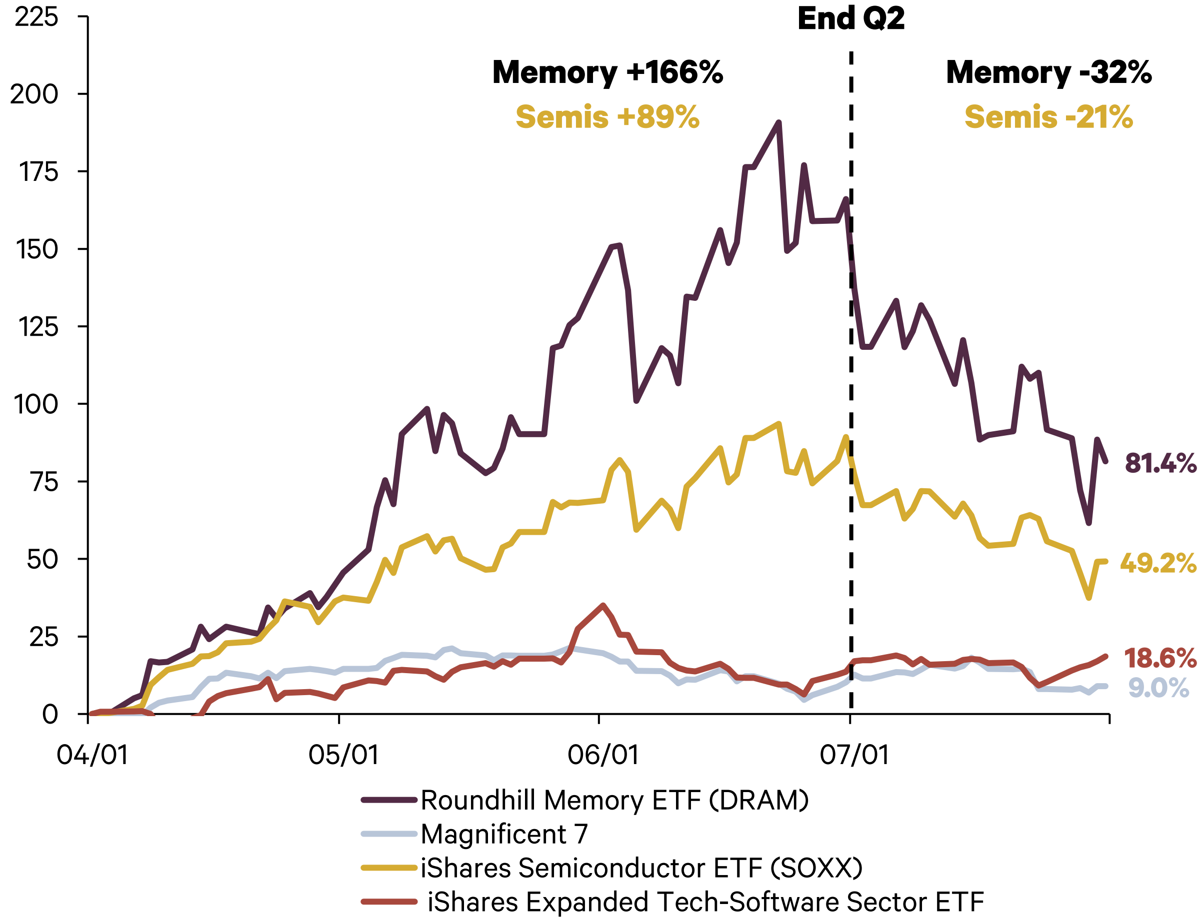


Sources: Pathstone with data from FactSet

Source: Bloomberg.
The KOSPI Index is a capitalization-weighted index of all common shares on the KRX main board. The Index was developed with a base value of 100 as of January 4, 1980.
Please see the disclosures for more index information

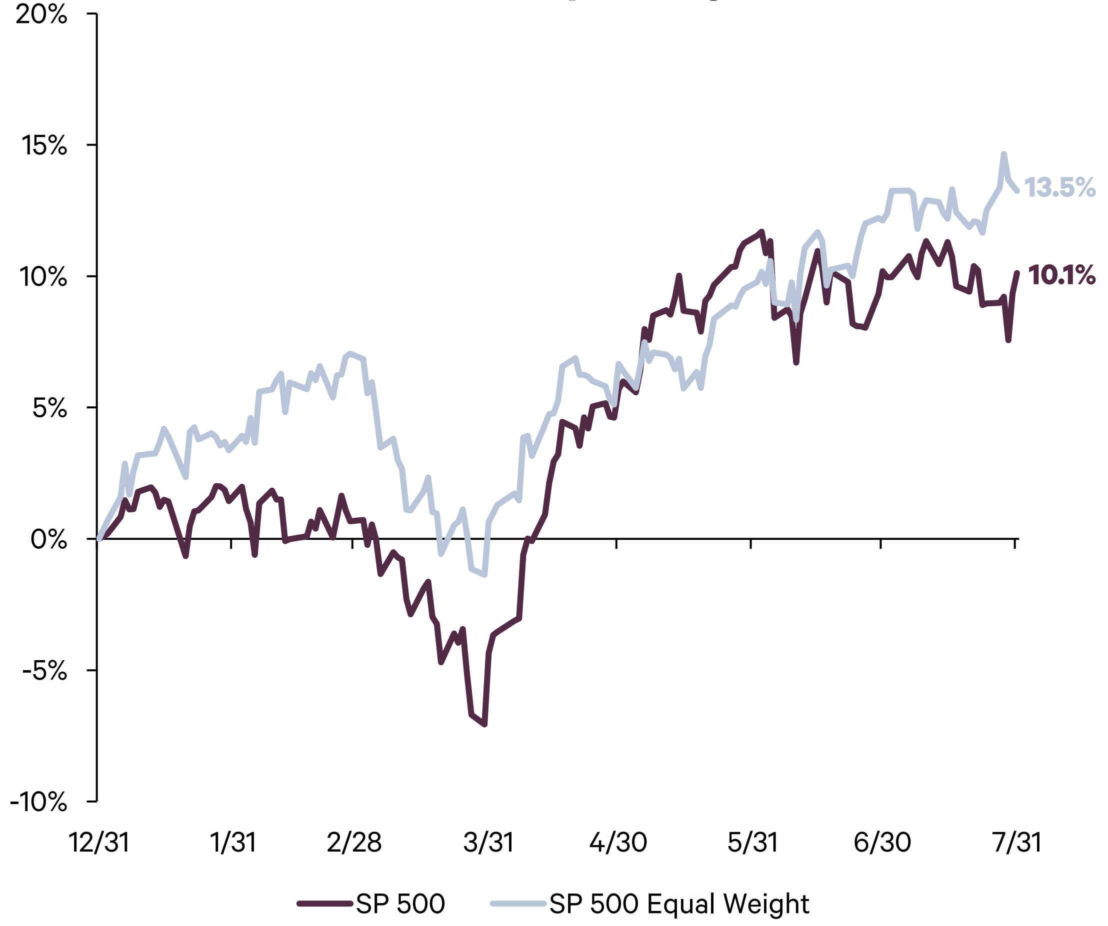
AI hardware unwinds -> breadth improves -> Equal Weight hit ATH

Tech Indices Total Returns: Q2 vs. July



Source: Pathstone with data from FactSet as of 7/31/2026

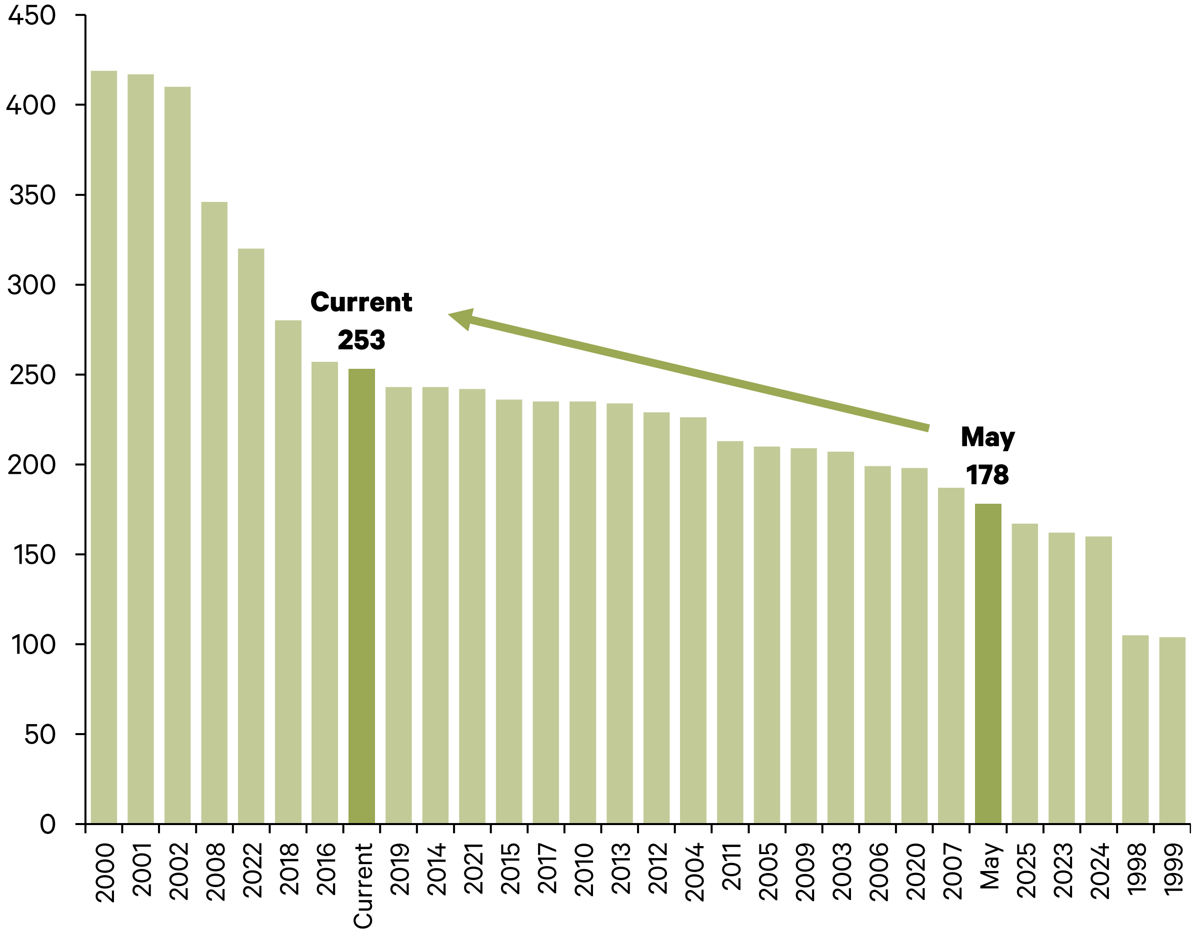
SP 500 vs SP 500 Equal Weight YTD Return



Source: Pathstone with data from Bloomberg as of 7/31/2026

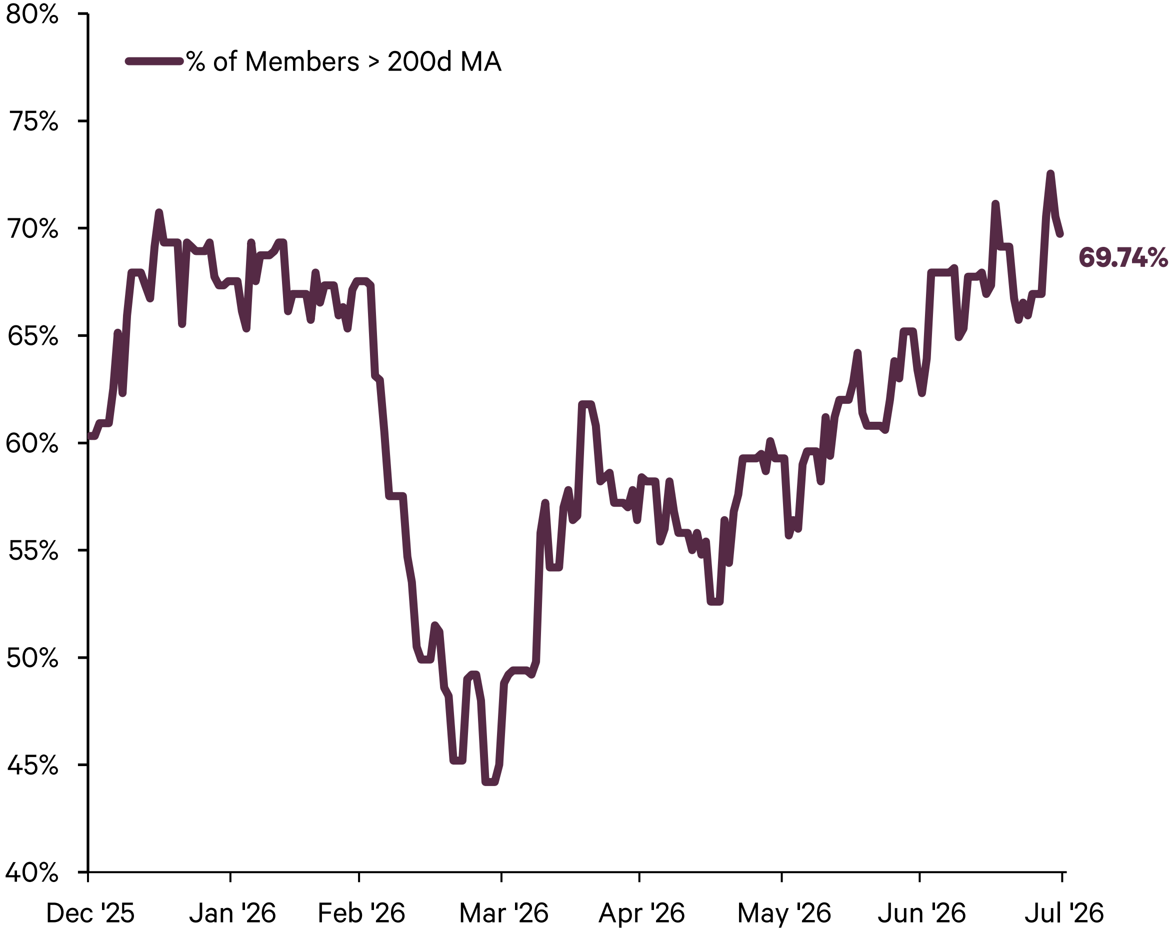
Market breadth improved against the concentrated selloff

Number of S&P 500 Members Outperforming the Index



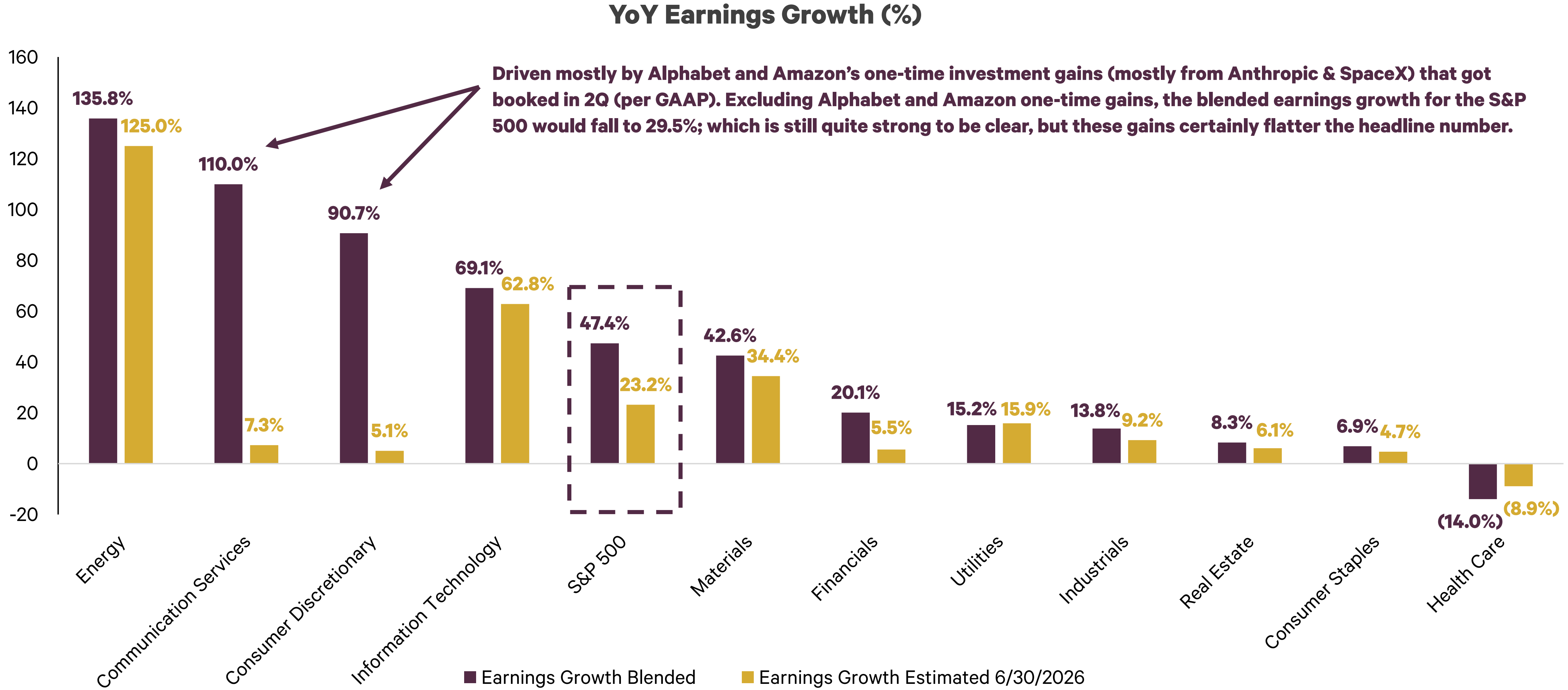
Sources: Pathstone with data from Bloomberg. As of 7/31/2026

Percent of S&P 500 Members Over Their 200-Day Moving Average



Source(s): Pathstone with data from Bloomberg. Data as of 7/31/2026.

S&P 500 earnings a mix of good operating metrics + investment gains



Source: Pathstone with data from FactSet as of 7/31/2026

Based on ~61% of S&P 500 companies that have reported actual earnings as of 7/31/2026. Blended earnings growth represents actual reported results so far plus analysts' consensus estimates for the remaining companies that have yet to report.

Alphabet and Amazon investment gains drive upside index EPS beat

Alphabet disclosed a ~$98B paper gain on equity investments in other income (GAAP), driven by valuation markups in Anthropic (it reportedly owns ~14%) and SpaceX (held since 2015) — lifting Q2 net income to $112.1B (+298% y/y) and EPS to $9.11, nearly triple the ~$2.87 operating consensus.

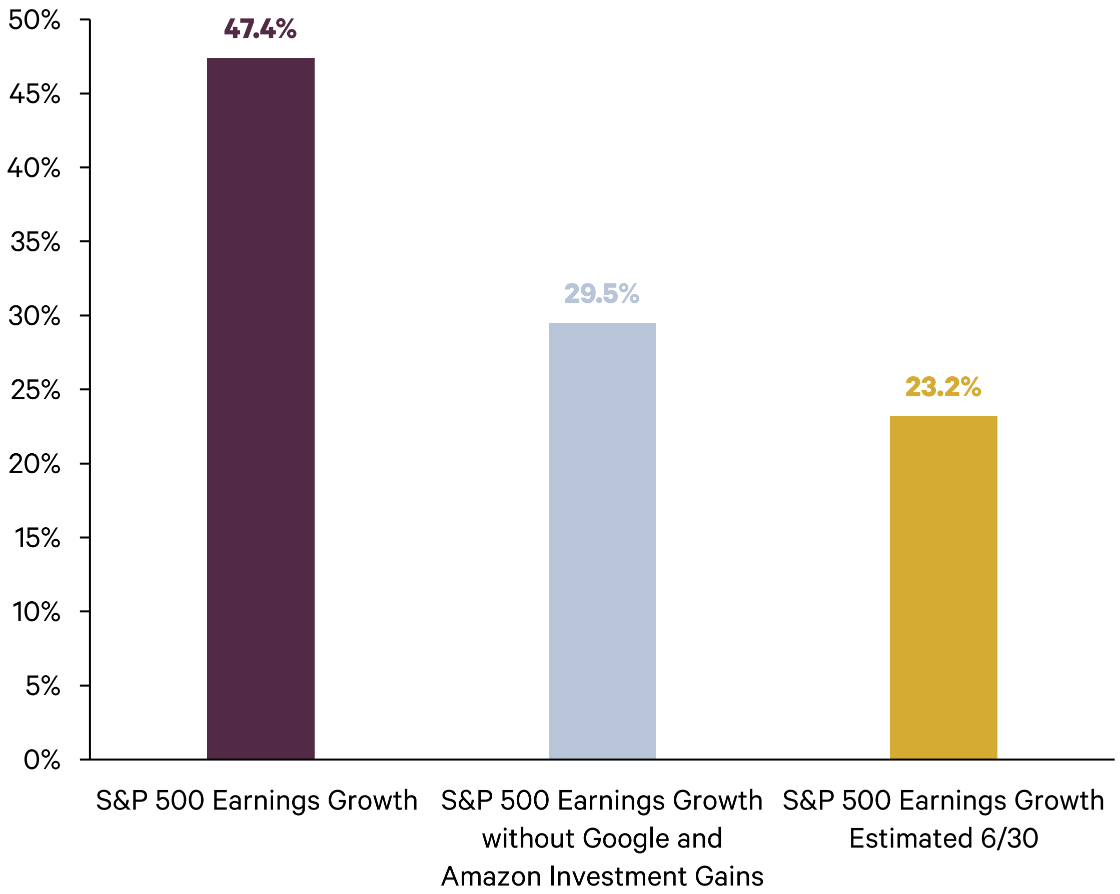
Amazon disclosed a ~$53B non-operating gain on equity investments (GAAP), driven by markups on its Anthropic stake (invested >$13B, with commitments up to ~$20B) — the swing lifted Q2 GAAP EPS to $5.75 versus ~$1.82 expected, about two-thirds of pre-tax income (underlying net income ~$21B).

Bottom-up (single stock): genuine value accretion, but a one-off unlikely to repeat at this scale, and could reverse given SpaceX is trading lower in July. It distorts GAAP comps, so analysts look through to adjusted numbers and operating metrics — which were strong regardless.

Top-down (index): aggregate S&P 500 EPS and P/E multiples are built on GAAP EPS, so this one-off has an outsized positive impact at the index level – but to be clear, 29.5% is still very strong fundamental earnings growth.

But wait, there's more: Microsoft and Nvidia also hold Anthropic and OpenAI stakes, and Zoom and Salesforce hold Anthropic, so watch for other potential markups — combined, the two names added ~$150B of paper gains this quarter. This also happened in Q1, but the Q2 effect has been much larger. Lastly, with SpaceX public, declines in the stock would cut the other way for Alphabet.

Quarterly Effect of Equity Investment on Earnings Growth



Source: Pathstone with data from FactSet as of 7/31/2026

Capex monetization is showing up via re-accelerating cloud revenue growth

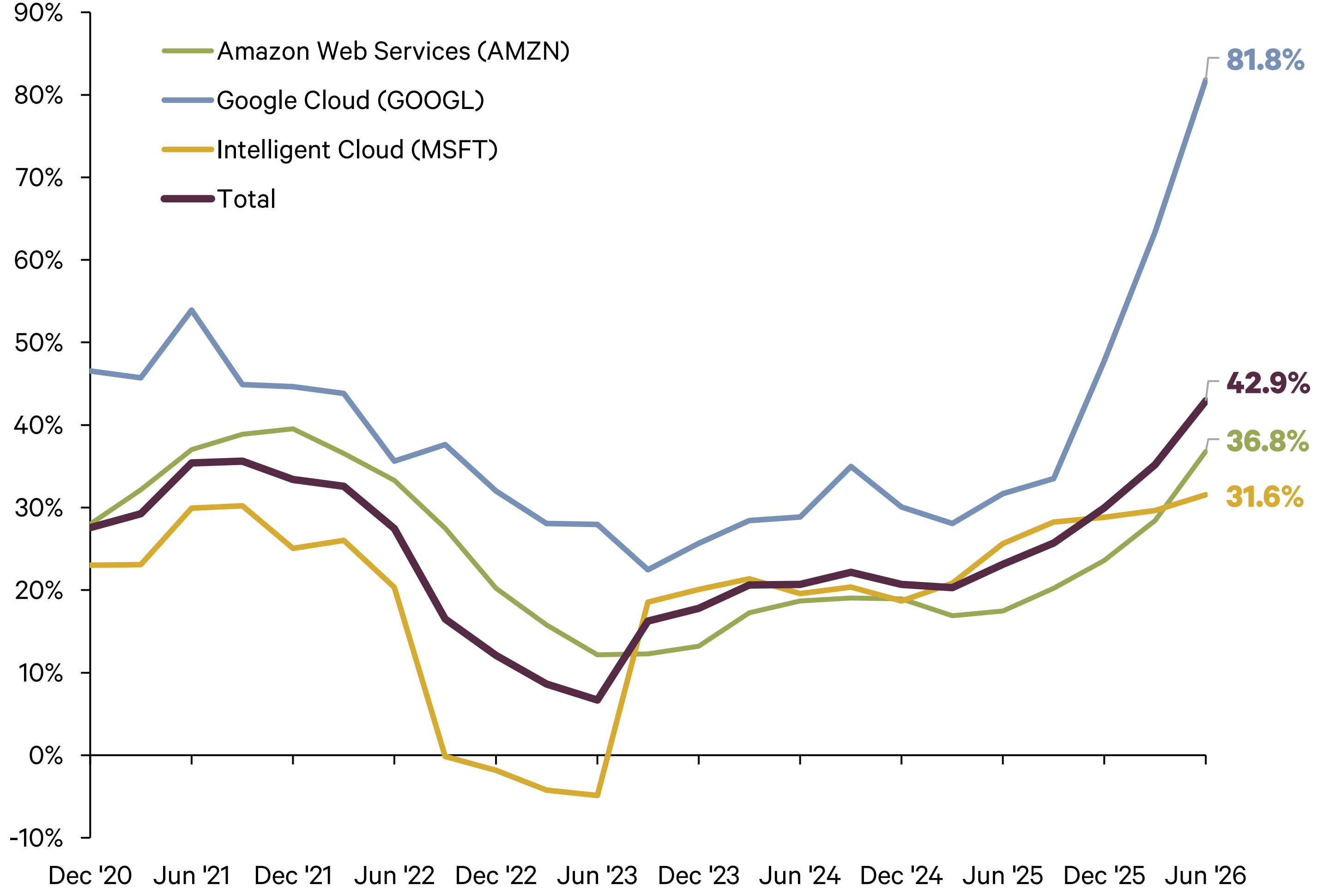
Cloud growth reaccelerated across the board – highlighting that AI capex is being monetized: Google Cloud grew 82% YoY to $24.8B (up from 63% last quarter), Microsoft Intelligent Cloud 32% (Azure ~43%), and AWS 37% to $42.2B — its fastest pace in 18 quarters — as AI workloads drive demand.

Capex keeps climbing: the four hyperscalers now plan ~$725–750B of 2026 capital spending (up ~77% YoY) — Amazon ~$200B, Alphabet raised to $195–205B, Microsoft ~$190B, Meta $130–145B — nearly all on AI infrastructure.

Demand visibility is strengthening: contracted backlogs point to multi-year demand, with Google Cloud backlog up 390% YoY to $514B and Microsoft commercial RPO ~$678B. Amazon's Jassy said AWS capacity still cannot meet demand and called 2028 demand "striking."

But the spend is under scrutiny: Alphabet fell 7% after lifting capex guidance, and free cash flow is turning negative (Alphabet's first-ever negative quarterly FCF; Amazon swung to a ~$8B outflow) — the buildout is increasingly funded by debt and equity.

Hyperscalers YoY % Change in Quarterly Cloud Revenue



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Sources: Pathstone with data from Bloomberg and Companies Earnings Releases. As of 7/31/2026.
AMZN = Amazon, GOOGL = Alphabet, MSFT = Microsoft.

Tech capex an economic driver; is it inelastic to potential rate hikes?

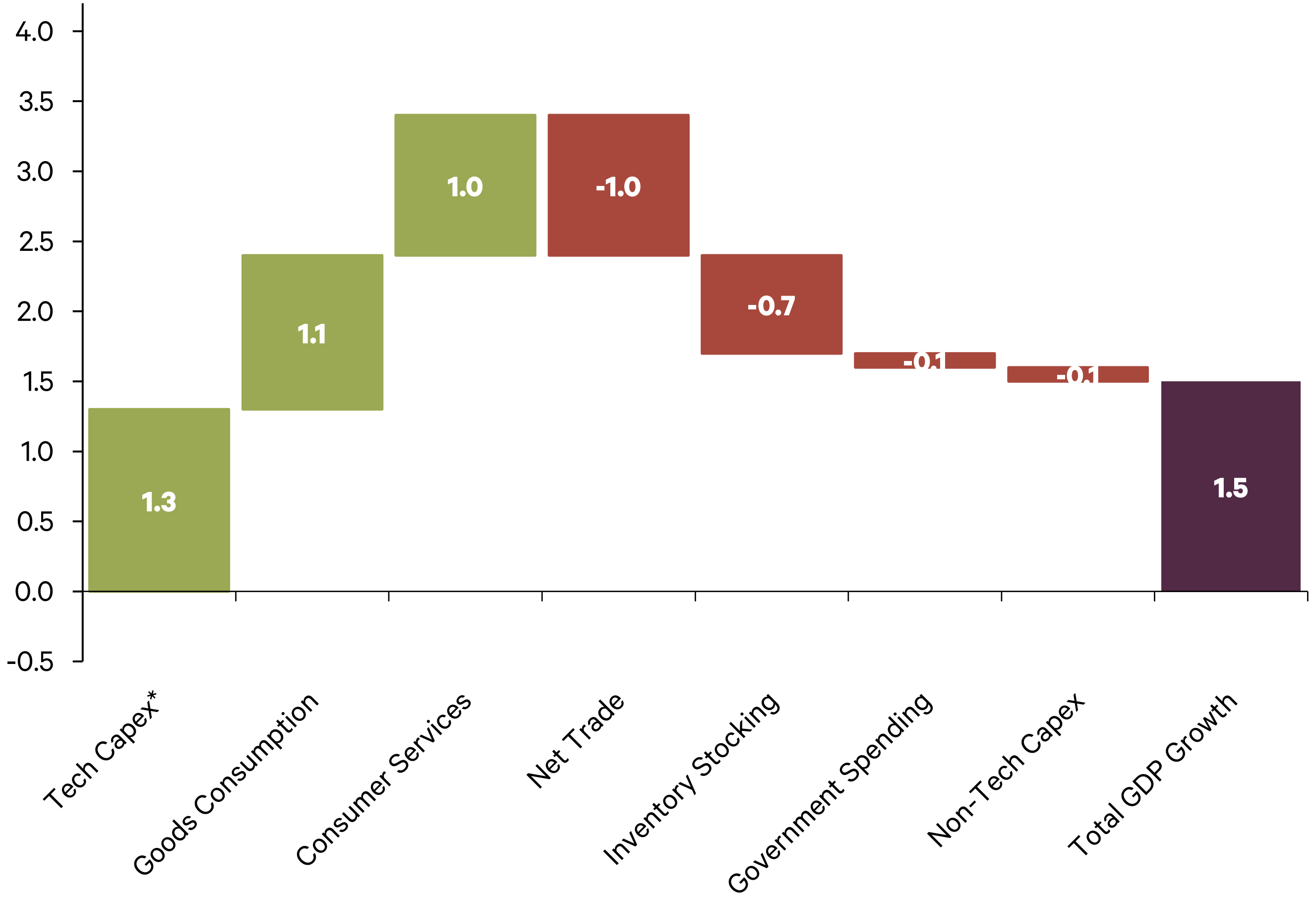
Tech capex remains a key growth engine: it contributed ~1.3% to Q2 GDP (about 38% of the upside), down from 1.8% (~58%) in Q1 but still robust — even as headline real GDP slowed to 1.5% from 2.1%.

Growth is broadening: consumers rebounded in Q2 across both goods and services, while net trade (foreign tech hardware imports, not weak demand) and inventories detracted. Real final sales to private domestic purchasers — consumer spending plus gross private fixed investment — rose 3.9%, up from 1.7% in Q1 and the strongest since Q1 2023.

The Fed sees an AI productivity story: Chair Warsh argues we may be in the early days of an AI-led productivity boom that could prove disinflationary — though the July FOMC held rates steady, with three members dissenting for a hike.

AI capex looks fairly rate-insensitive: our view is the boom is likely somewhat inelastic to a modest hike (Apollo's Slok agrees: the buildout "doesn't matter what the Fed does"), though demand for debt funding may slow. With consumers relatively healthy with low-leverage and fiscal spend also inelastic, that leaves mainly corporate-credit headwinds — implying 1–2 hikes may have a lower efficacy in tamping down inflation.

Q2 Real GDP Components (SAAR%)



Source: Pathstone with data from FRED as of 7/31/2026

Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation. Tech-related capex includes Information Processing Equipment, Software & R D (IP Products), and Data Center Construction. Net imports of technology goods are deducted from tech capex and added to the trade line.

Fed holds rates stable, but futures still project 2 hikes in the next year

Fed holds rates stable in a hawkish 9–3 vote: the FOMC held the funds rate at 3.50–3.75% for a fifth straight meeting, but three regional presidents (Hammack, Kashkari, Logan) dissented in favor of a 25bp rate hike.

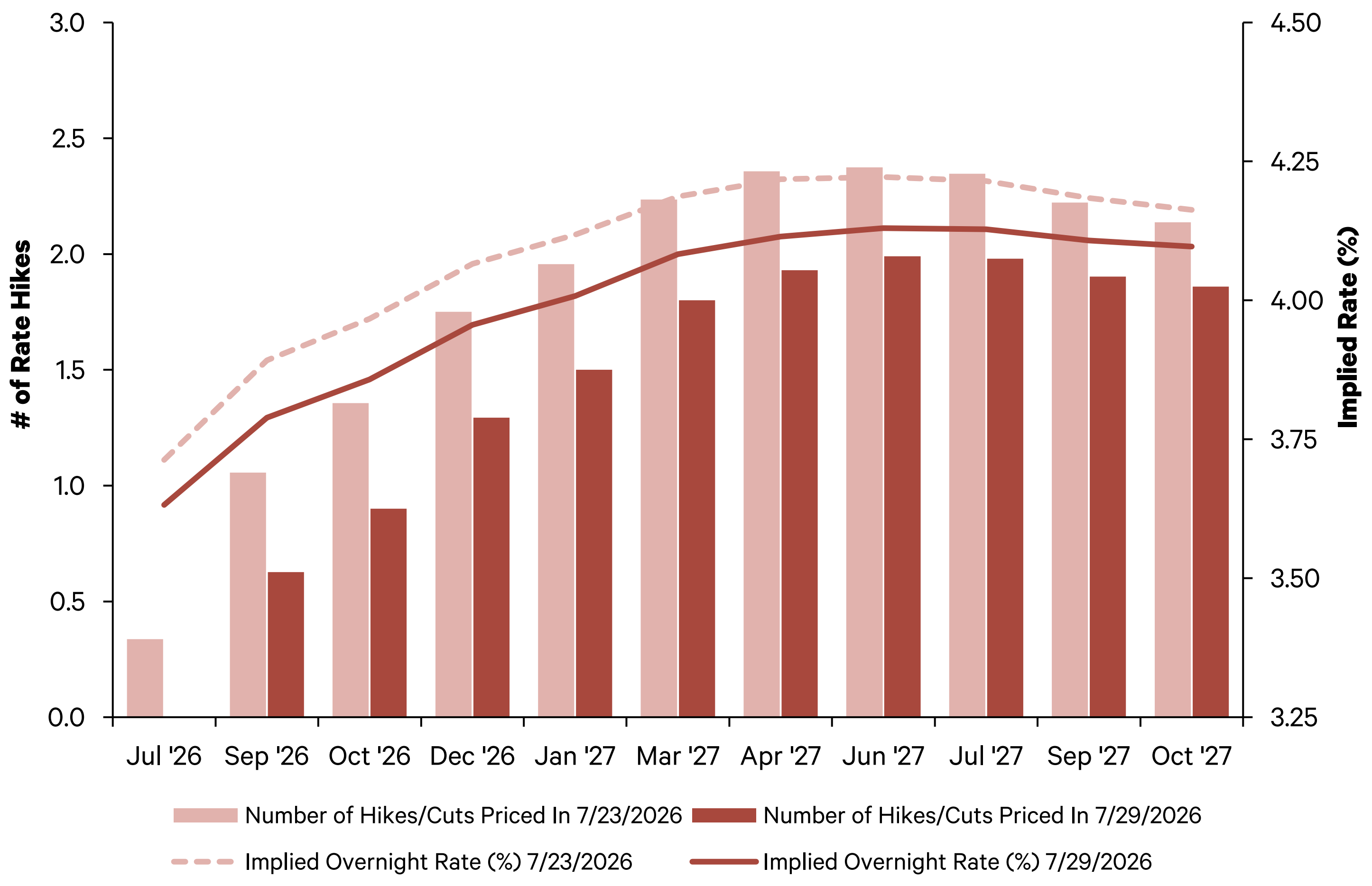
Warsh was neither clearly hawkish or dovish (strategic ambiguity) : he called above-target inflation “unacceptable” and vowed the Fed “will not hesitate to act,” but offered little discussion on how the Fed would achieve this and said he is watching “a broader set of inflation than PCE.”

Futures still lean to a September hike, but lower overall odds of hikes: Fed funds futures price a ~63% probability of a September hike, though the odds of further hikes beyond that have eased.

The curve twist-steepened: front-end yields fell as near-term hike odds eased, while the long end rose on rising term premium — the 30-year climbed to ~5.20%, its highest since 2007.

Our take: Warsh’s reluctance to pre-commit keeps further holds alive, but the next six weeks of inflation and labor data — and Jackson Hole — are the real test.

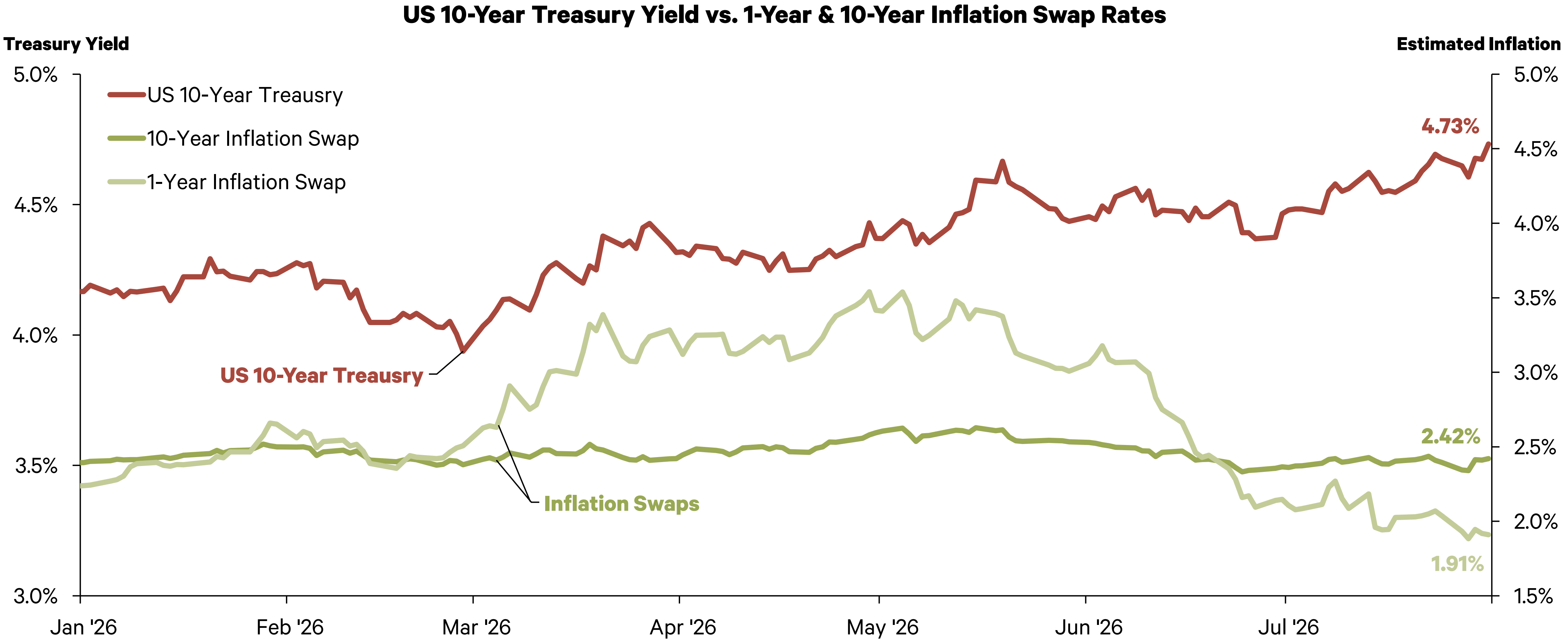
Fed Funds Futures



Source: Pathstone with data from Bloomberg as of 7/29/2026

The Fed Funds rate is a target interest rate set by the central bank in its efforts to influence short-term interest rates as part of its monetary policy strategy. Fed Funds Futures represents the estimated forward rate for The United States using the futures model.

10-Year yield hits YTD high, but inflation expectations remain anchored



Sources: Pathstone with data from Bloomberg. Data as of 7/31/2026.

Portfolio positioning guidance

Constructive but disciplined — neutral equities overall, favor quality and diversified AI exposure, and quality-focused fixed income

EQUITIES: OVERALL

Neutral position on overall equity exposure

- Hard to turn bearish given the AI capex boom and a still-healthy consumer
- But not reaching for risk at full valuations
- Prefer quality and breadth as market leadership has broadened from prior years

EQUITIES: AI & THEMATIC

Bullish AI long-term, but limit concentration

- Underweight mega-cap tech / hyperscalers
- Underweight memory & semiconductors
- Leaning into active global strategies to:
    1) Have more diversified, dynamic exposure to the AI value chain
    2) Lean into quality that has been "left behind" in AI excitement

PUBLIC FIXED INCOME & CREDIT

Own quality yield, stay selective on credit

- Remain constructive on high quality, short-duration for portfolio ballast
- As the yield curve has shifted higher, intermediate duration adds incremental yield
- Credit spreads remain tight — be selective

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US Equities by Size and Style

US Large Cap	Russell 1000 TR USD	The Russell 1000 Index consists of the largest 1000 companies in the Russell 3000 Index.
US Large Cap Growth	Russell 1000 Growth TR USD	Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
US Large Cap Value	Russell 1000 Value TR USD	Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
US Small Cap	Russell 2000 TR USD	The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.
US Small Cap Growth	Russell 2000 Growth TR USD	Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
US Small Cap Value	Russell 2000 Value TR USD	Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.
US Mid Cap	Russell Mid Cap TR USD	Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.
US Mid Cap Growth	Russell Mid Cap Growth TR USD	Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values.
US Mid Cap Value	Russell Mid Cap Value TR USD	Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values.

Global Equities

US Large Cap	S&P 500 TR USD	The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.
US Large Cap Tech	NASDAQ	The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ.
European Large Cap	MSCI Europe Large GR USD	The MSCI Europe Large Cap Index is a free-float weighted equity index.
European Small Cap	MSCI Europe Small Cap GR USD	Europe Small Cap - Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, Switzerland and UKMSCI's Developed Market Indices are based on the share prices of approximately 1.60
Japan	MSCI Japan GR USD	The MSCI Japan Index is a free-float weighted equity index. This index prices in real time in USD.
Asia ex-Japan	MSCI AC Asia Ex Japan GR USD	The MSCI AC Asia ex Japan Index is a free-float weighted equity index. This index is priced in USD.
China	MSCI China GR USD	The MSCI China Index is a free-float weighted equity index. This index is priced in USD.
EM Latin America	MSCI EM Latin America GR USD	The MSCI EM Latin America Index is a free-float weighted equity index. This index is priced in USD.
EM Europe	MSCI EM Europe GR USD	The MSCI EM Europe Index is a free-float weighted equity index. This index is priced in USD.
Magnificent 7	Magnificent 7 Index	The Mag 7 index tracks the performance of the seven largest US-listed technology and communication companies: Apple, Tesla, Nvidia, Meta, Amazon, Google, and Microsoft
Expanded Tech Software	iShares Expanded Tech Software Sector ETF	An exchanged-traded fund that tracks U.S.-listed companies in the software industry, including application, systems, and interactive home entertainment software.
Semiconductors	iShares Semiconductor ETF (SOXX)	An exchanged-traded fund that tracks U.S.-listed companies engaged in the design, manufacture, and distribution of semiconductors.
Memory	Roundhill Memory ETF (DRAM)	An exchanged-traded fund that provides exposure to companies manufacturing dynamic random access memory chips and related semiconductor suppliers serving data center and computing industries

Fixed Income

Short-term Treasuries	Bloomberg 1-3 Yr US Treasury TR USD	The Bloomberg US Treasury 1-3 Yr Index measures the performance of US Treasuries with a maturity of between 1-3 years.
Long-term Treasuries	Bloomberg US Treasury 10+ Yr TR USD	The Bloomberg US Treasury 10+ Yr Index measures the performance of US Treasuries with a maturity of at least 10 years.
Inflation-Linked Bonds	Bloomberg US Treasury US TIPS TR USD	The Bloomberg US Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.
Municipal Bonds	Bloomberg Managed Money Short/	Bloomberg Managed Money Short/Intermediate Total Return Index Unhedged USD
Mortgage-Backed Securities	Bloomberg US MBS TR USD	The Bloomberg US Mortgage Backed Securities (MBS) Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.
Short-term Investment Grade	Bloomberg USD Corp Bd 1-5 Yr TR USD	Bloomberg US Corporate 1-5 years Total Return Index Value Unhedged USD.
Long-term Investment Grade	Bloomberg US Corp Bond TR USD	The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
High Yield	Bloomberg US Corporate High Yield TR USD	The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.
EM Aggregate Bonds	Bloomberg Emerging Markets Hard Currency Aggregate Index	The Bloomberg Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.