LANARK FINANCIAL

INVESTMENT STRATEGY STATEMENT | August 1, 2026

August ISS

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Performance Review & Outlook

The Federal Reserve held its benchmark rate at 3.50%–3.75% for a fifth straight meeting, but in a divided 9–3 vote, with three officials dissenting in favor of a quarter-point hike. Chair Warsh reaffirmed the 2% target in direct terms.

Second-quarter GDP looked soft at 1.5% but was strong underneath: real final sales to private domestic purchasers accelerated to 3.9%, with the headline weighed down by a surge in AI-related imports.

The bond market responded less to the hold than to the resolve. Long-dated yields rose sharply, with the 30-year climbing above 5.2%, its highest since 2007 — as the market challenged the Fed to prove its commitment.

Oil rebounded as Middle East tensions flared again, with WTI back into the mid-$80s — elevated, but still well below the spring's highs.

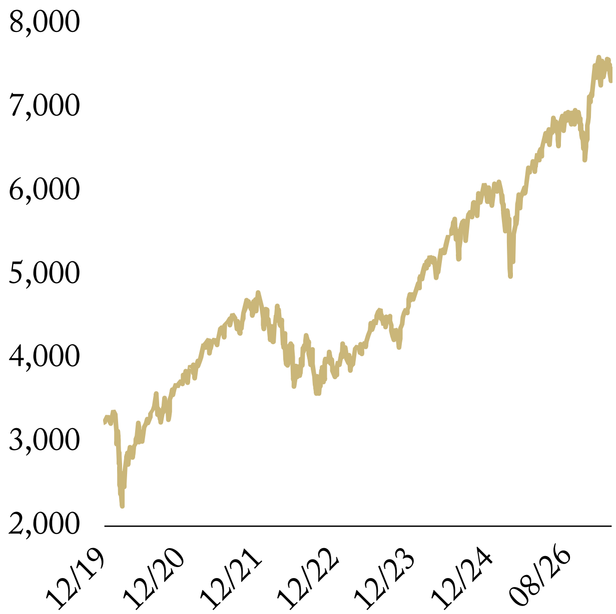
Equities endured one of the fastest momentum unwinds on record late in the month. Leadership that had run vertically into mid-June reversed violently, echoing the kind of parabolic reversal last seen after the dot-com peak.

Looking ahead, July inflation prints, the balance of second-quarter earnings, and a September FOMC meeting the market increasingly views as “live” will shape the path from here.

Equity Market Overview

July was a study in volatility. The major averages pushed into record territory through the first half of the month, with the Dow trading near all-time highs and the Nasdaq setting a fresh record before momentum turned. From there the tape reversed hard: a deepening sell-off in semiconductors and mega-cap technology gathered into a broad risk-off move, and on the day of the Federal Reserve's decision the Dow fell 1,153 points (-2.2%), its worst session since April 2025, while the S&P 500 lost 1.5% and the Nasdaq-100 briefly slipped into correction. The final sessions then staged an equally violent rebound: the Nasdaq Composite rose 2.8% to snap a six-day losing streak, with the information-technology sector up nearly 5% for its best day since April 2025, as second-quarter GDP and a blockbuster report from Microsoft reignited the AI trade. A record-fast unwind followed within days by one of the sharpest recoveries in more than a year captured the market's split personality in miniature.

S&P 500 Price Index

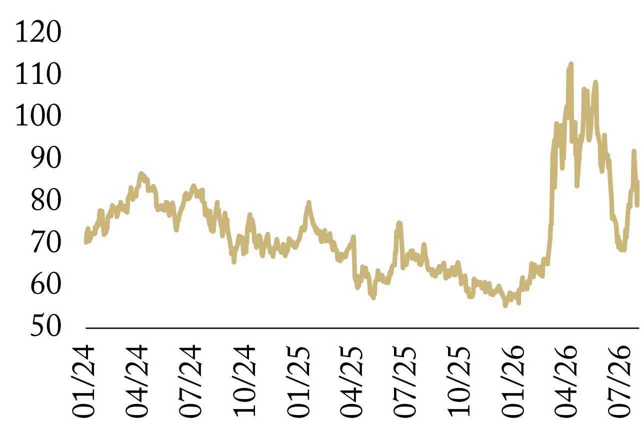


At the center of the reversal was the sharpest momentum unwind in modern market history. By late July, a widely followed high-beta momentum basket had swung from roughly +40% above its 200-day average in mid-June to some 23% below it, and a sector-neutral momentum index posted its worst four-day decline on record — steeper than the reversals seen after the dot-com peak, in the 2022 bear market, or during the post-Covid unwind. We have written before that parabolic moves tend to travel further than expected but end in equal and opposite fashion, and this was a textbook example. The relevant historical analog, again, is the technology sector after the dot-com peak, when the semiconductor index fell sharply, staged a powerful counter-rally, and only later retested its lows. We would treat the current rebound with the same caution: violent recoveries are characteristic of unwinds like this, not proof that the reset is complete.

Beneath the index moves, the leadership rotation we flagged last month intensified — and the close of the month made the new discipline explicit. Investors grew more discriminating toward the hyperscalers, pressing for evidence that enormous capital-expenditure budgets are translating into monetization and free cash flow.

The clearest illustration came straight from earnings: Microsoft surged roughly 16%, adding about $450 billion in market value in a single session — the largest one-day gain for any stock on record — after its Azure cloud business topped $100 billion in annual revenue, while Meta fell about 8%, extending a steep losing streak as investors questioned its ability to recoup its AI outlays. Amazon extended the pattern into month-end, climbing roughly 15% on cloud-driven results. The message was consistent: the market remains convinced of the AI thesis but is increasingly unwilling to pay for it indiscriminately, rewarding spending that is visibly converting into returns and punishing spending that is not. Semiconductor and memory names, where a worsening supply shortage has become a genuine earnings tailwind, were among the primary beneficiaries.

Oil (WTI $/Barrel)



Energy was the month's other axis. A renewed escalation in the Middle East lifted crude sharply off its June lows, with WTI climbing back into the mid-$80s and Brent near $90, though both remained well below the spring's highs near $112.

> Energy equities outperformed as a result, while the oil move fed directly into the inflation debate that drove the bond market and, in turn, the late-month equity sell-off.

July Index and Sector Performance

-0.1%	S&P 500
+0.3%	Dow Jones Industrial Avg.
-3.2%	Nasdaq Composite

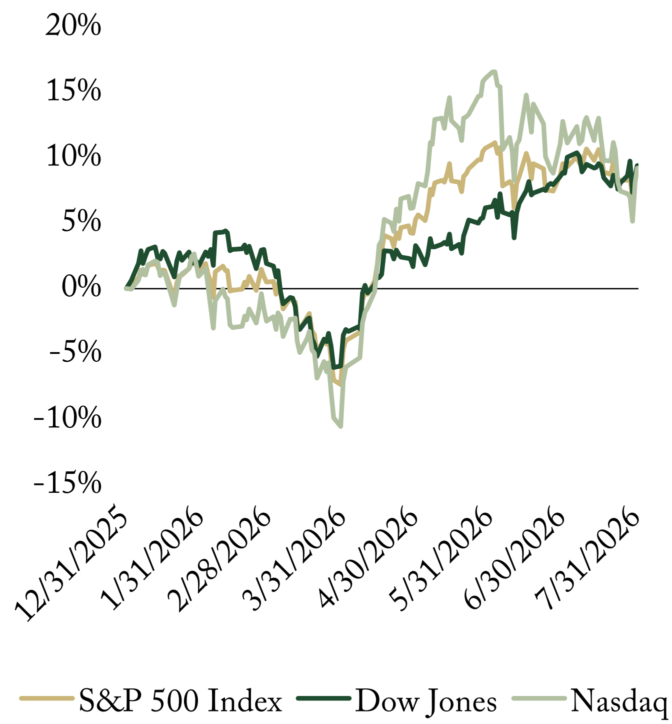
Outperforming Sectors

+12.5%	Energy
+6.0%	Financials
+2.3%	Real Estate

Underperforming Sectors

-3.5%	Technology
-3.1%	Industrials
-2.3%	Utilities

Index Returns YTD



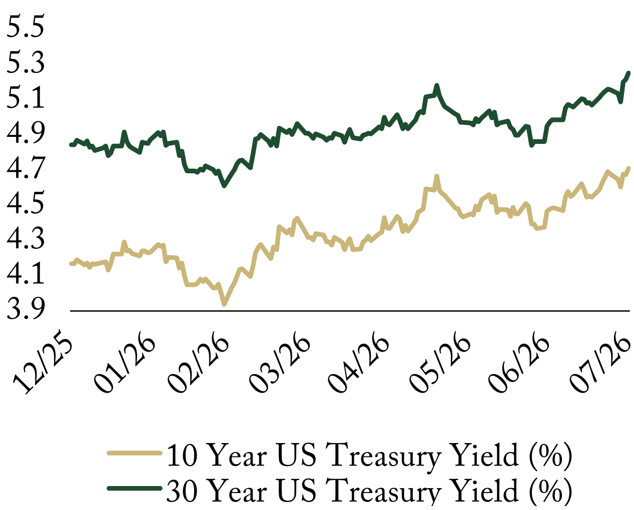
Fixed Income Market Overview

As July comes to an end, we see a very noticeable shift in rates across U.S. fixed income markets. For the better part of two-plus years, we've discussed key yield resistance levels of 4.50% on the 10-year U.S. government bond and 5.00% on the long 30-year bond.

Those levels, while tested, held — until this month. This past month felt different, with multiple forces pushing rates higher. While we may have breached these resistance levels briefly in the past, this time we pushed above and stayed there — not mildly breaching, but climbing 20-plus basis points above those previous levels. The 10-year U.S. Treasury Note started the month at 4.48% and closed at its monthly high at 4.71%.

The 30-year long bond started July at 4.97% and closed at its high for the month at 5.25% — both squarely above previous resistance levels.

10 & 30 Yr Yield



In previous publications, we began to touch on a new phenomenon in corporate debt issuance, specifically issuance from many AI compute providers. This month we saw debt issuance from both Meta and Amazon geared toward AI compute data centers. Both deals were oversubscribed, but demand softened. By many estimates, order coverage ratios for hyperscaler debt have dropped from 5x earlier in the year to under 2x for the month of July. As a result, we saw Amazon and Meta, both AA-rated, offer attractive rates on new issuance. Amazon, for example, offered its 30-year new issue at 6.30%. Compare that to an AA+-rated U.S. government bond at roughly 5.00% and you see a clear disparity. These new corporate deals are pushing overall rates higher on their own as demand slows. As of July's end, hyperscalers have issued approximately $270 billion of a proposed $1 trillion in debt to finance the AI boom, and the bond market may be starting to question whether the demand exists for another three-quarters of a trillion in issuance.

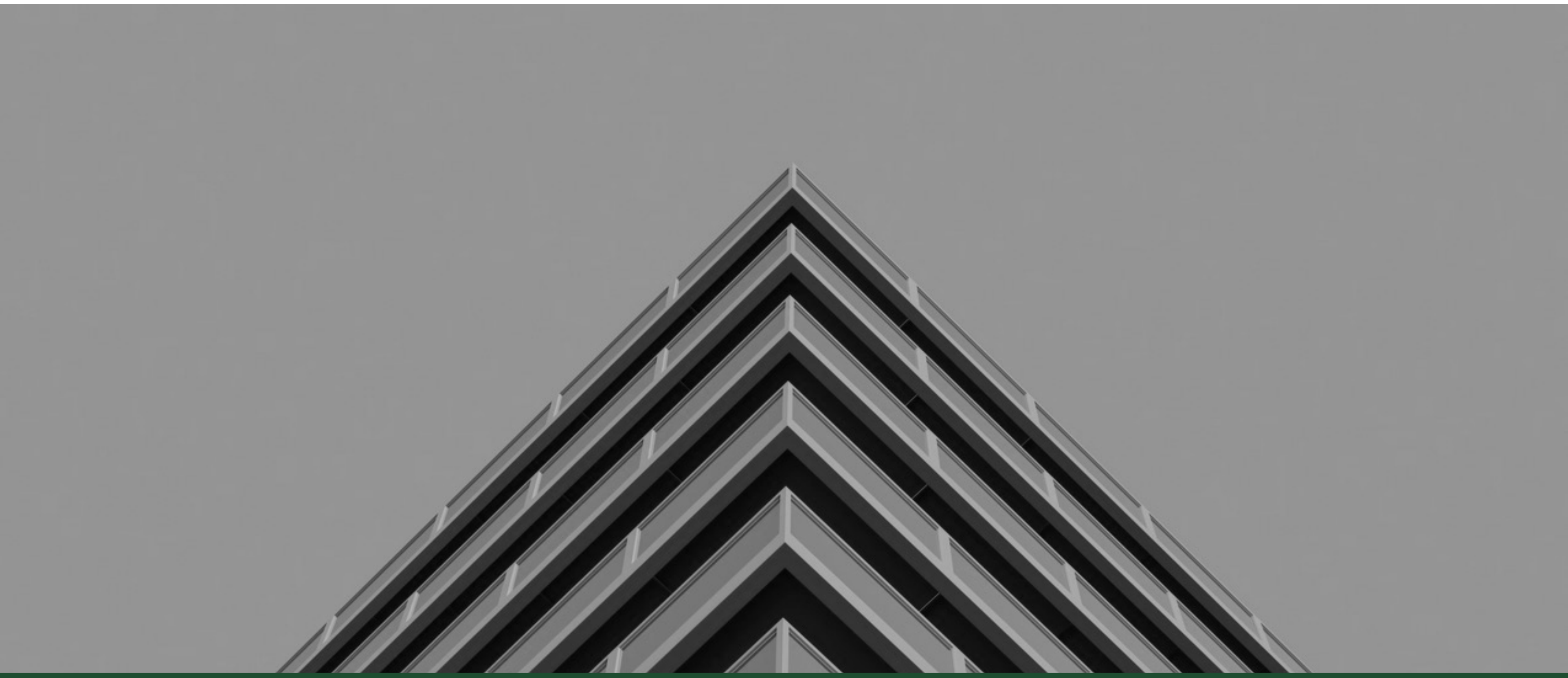
In addition to corporate issuance, the month closed with a much-anticipated July FOMC meeting. As inflationary pressures continue with no clear direction on the conflict in Iran, the bond market is looking to see what direction the Fed will take to combat rising costs. The Fed left its target rate unchanged for July, but we did start to see a few of the regional Fed presidents' dissent, with three voting to hike rates. Aside from the detailing of the three hawkish dissents, new Fed Chair Kevin Warsh kept to his pattern of short and direct statements: "As before, the policy statement conveys just the facts. It's steering clear of forecasting, a choice we consider especially prudent at these uncertain times," Warsh said. "Uncertainty, however, does not mean a lack of clarity." The bond market, however, was not convinced, as we saw rates close the month at their highs. While interest rate direction remains uncertain, it does seem that, at least for the near term, we will be seeing higher rates. Though rates sit a bit above their norm, this also presents a unique opportunity for fixed income investors to lock in higher yields, particularly on intermediate- and longer-term debt.

These are ideal times to review your fixed income exposure and take advantage of greater returns on investment-grade debt.

12-Month Percentage Change of Indices

Index (Local Currency)	Level	July	YTD	12-Month
S&P 500	7,489.72	-0.1%	10.1%	19.5%
Dow Industrials (DJIA)	52,485.03	0.4%	10.2%	20.9%
Nasdaq	25,373.85	-3.2%	9.5%	20.9%
Russell 2000	2,931.339	-3.0%	19.0%	34.3%
U.S. 2yr Treasury	4.2912	2.8%	23.6%	8.4%
U.S. 10yr Treasury	4.7347	6.0%	13.6%	8.2%
Gold (NY Spot $/oz)	4,046.15	1.0%	-6.3%	23.0%
Silver (NY Spot $/oz)	57.5953	-1.7%	-19.6%	56.9%
Copper ($/metric ton)	13,835.7	3.6%	11.1%	44.7%
Oil (WTI Spot/bbl)	84.67	21.8%	47.5%	22.2%
Oil (Brent Spot/bbl)	90.12	23.6%	48.1%	24.3%
Natural Gas ($/mmBtu)	2.747	-16.1%	-25.5%	-11.6%

Data as of July 31, 2026. Source: FactSet/Bloomberg



Economic Overview

Key Economic Indicators

JOB MARKET

Employment Report
The labor market cooled sharply in June. Nonfarm payrolls rose just 57,000, well short of the roughly 115,000 consensus and down from a downwardly revised 129,000 in May. Revisions removed a combined 74,000 jobs from the prior two months, with April cut by 31,000 to 148,000 and May trimmed by 43,000 to 129,000, leaving the three-month average at roughly 111,000. Leisure and hospitality was the largest drag, shedding 61,000 positions on weaker-than-usual seasonal hiring, while professional and business services (+36,000), social assistance (+25,000), and health care (+22,000) led the gains. The unemployment rate ticked down to 4.2% from 4.3%, its lowest in nearly a year, though the decline was driven largely by a 0.3 percentage point drop in labor force participation to 61.5%, the lowest since early 2021, rather than by stronger hiring. Average hourly earnings rose 0.3% for the month and 3.5% year over year.

HOUSING MARKET

House Prices
Home price appreciation remained subdued in May. The S&P Cotality Case-Shiller U.S. National Home Price Index posted a 1.1% annual gain, up slightly from 0.9% in April, while the 10-City and 20-City Composites rose 2.4% and 1.6% year over year, respectively. For the 12th consecutive month, home prices declined in real terms, with May's 4.2% CPI running roughly three percentage points above the national index's nominal gain. Regional divergence remained stark: Chicago led for a third straight month at 6.9% year over year, followed by New York at 4.2% and Cleveland at 3.1%, while Las Vegas was the weakest market at -1.9%, a nearly nine-percentage-point spread between the strongest and weakest metros.

PERSONAL INCOME & SPENDING

Personal Income & Spending
Income and spending both advanced modestly in June, a step down from May's stronger pace. Personal income increased $54.9 billion, or 0.2%, and disposable personal income rose $48.3 billion, also 0.2%. Personal consumption expenditures increased $65.2 billion, or 0.3%, pointing to a consumer that continued to spend even as the pace of income growth eased.

Economic Overview

Key Economic Indicators

ECONOMIC GROWTH

GDP Growth

The advance estimate for second-quarter 2026 GDP came in at an annualized 1.5%, below both the 2.1% first-quarter pace and the 2.1% consensus. On the surface that reads as a slowing economy, but the composition tells a more constructive story. Real final sales to private domestic purchasers — the sum of consumer spending and gross private fixed investment, and the cleanest read on underlying demand — accelerated to 3.9% from 1.7% in the first quarter, one of the strongest readings in recent quarters. Consumer spending rose 3.2% (up from 0.5%) and equipment investment remained robust at 15.2%. The drag came from elsewhere: net trade subtracted roughly a full percentage point as imports climbed 11.5% — led by capital goods tied to AI data-center construction, including semiconductors, telecommunications equipment, and industrial machinery — while government spending fell 0.8% and slower inventory building subtracted another 0.7 point. In effect, the same surge in AI investment that is powering domestic demand also pulled in enough imported hardware to weigh on the headline, a reminder that the GDP accounting can obscure as much as it reveals.

INFLATION

Consumer Price Index (CPI)

Headline inflation cooled sharply in June. The Consumer Price Index fell 0.4% for the month — its largest monthly decline in more than six years — and eased to 3.5% year over year from 4.2% in May. A 5.7% drop in energy prices, the steepest since April 2020, drove the move, with gasoline down roughly 9.7% on the month even as energy remained up 15.7% over the past year. Core CPI, excluding food and energy, was unchanged for the month and slowed to 2.6% year over year from 2.9%, the softest reading since before the U.S.–Iran conflict. Shelter rose just 0.1%, its slowest monthly pace of the year, and core goods prices fell 0.1% for a second consecutive month. Food prices rose 0.2% for the month and 3.0% over the year.

Personal Consumption Expenditures (PCE) Price Index

The Fed's preferred inflation gauge told a similar story. The headline PCE price index fell 0.1% in June from May, while core PCE rose just 0.1%, both below expectations. On an annual basis, headline PCE eased to 3.7% and core PCE slowed to 3.3%, with much of the improvement traced to lower energy costs, gasoline in particular. Both measures nonetheless remain well above the Fed's 2% target. Whether June's relief proves durable is an open question: oil prices rebounded during July as tensions in the Middle East reintensified, suggesting some of the month's disinflation may prove temporary.

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