Weekly Market Perspectives

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"The AI spending story, the interest-rate story, and the inflation story may be converging in ways that warrant closer monitoring. More bluntly, the market's leaders are spending their cash cushion on an AI bet whose payout remains uncertain, while yields, energy prices, and policy uncertainty complicate the backdrop."

AI Just Won't Stop Eating Big Tech's Cash

U.S. stocks posted a second straight weekly gain, with the S&P 500 Index and NASDAQ Composite both finishing higher. Still, July marked the second consecutive monthly decline for both indices, driven by a sharp unwinding of AI-related momentum, uncertainty around the Federal Reserve, and a notable back-up in long-end Treasury yields. This week, the July employment report and another heavy round of earnings will drive the market's tone.

Last week in review:

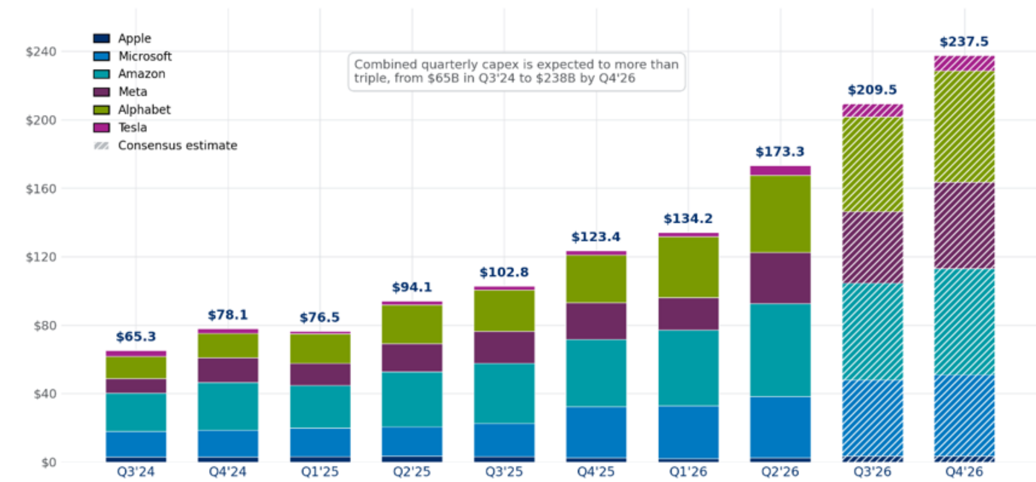
- The S&P 500 Index rose +1.1% last week, the NASDAQ Composite gained +1.6%, the Dow Jones Industrial Average added +1.0%, and the Russell 2000 Index was roughly flat. For the month, the picture was weaker. The S&P 500 fell 0.1%, the NASDAQ dropped 3.2%, and the Russell 2000 declined 3.0%. Notably, the equal-weight S&P 500 outperformed the cap-weighted Index by roughly 120 basis points in July, extending the broadening theme even as it took a breather last week.
- The defining story of July was the unwind in AI-related momentum. The Philadelphia Semiconductor Index fell 20.6% for the month, and memory prices (DRAM) dropped 31.8%, with South Korea emerging as the epicenter of the selling as sharp swings in SK Hynix and Samsung triggered multiple trading halts. **In our view, the more important shift was in the narrative itself, moving from the sustainability of AI demand toward the returns on massive capital spending.** Even so, hyperscaler earnings largely reinforced the demand story. Microsoft rose +21.8% last week on strong Azure growth, and Amazon gained +17% on accelerating AWS growth and constructive capex return dynamics. Meta Platforms and Apple were the laggards, falling on capex ROI concerns and softer guidance, respectively.
- The July Federal Open Market Committee meeting ended with rates unchanged. However, the long end of the yield curve sold off sharply during Chair Kevin Warsh's press conference, as he again declined to comment on forward guidance. By month-end, markets were pricing in a roughly 65% chance of a September hike.
- Treasury yields moved higher, with the 30-year yield jumping above 5.25% last week, its highest level since 2007. The U.S. Dollar Index fell 1.5% on the week, with yen strength the dominant FX story following intervention. West Texas Intermediate (WTI) crude slipped nearly 8% for the week but gained roughly +20% for the month.
- Geopolitical risk stayed elevated but was largely absorbed by the market. Repeated U.S./Iran strikes and counterstrikes, along with Houthi attacks in the Red Sea, kept oil prices high and renewed concerns around the Strait of Hormuz. In our view, the market's willingness to look through the conflict reflects an assumption that diplomacy ultimately prevails, though the risk of a sustained oil supply shock is not one investors should dismiss. On the economic front last month, initial jobless claims hit their lowest level since 1969, and CPI/PCE inflation readings cooled.

AI just won't stop eating big tech's cash

July is in the books, and August is upon us. That means more of 2026 is in the rearview mirror than ahead of us. And based on July's results, the market appears to be stumbling into the last full month of summer. Notably, last week's key updates stacked one unwelcome development on the next, though stocks finished the week higher. The 30-year Treasury yield hit a 19-year high, oil posted its biggest monthly run since March, conflict in the Middle East continues, U.S. GDP growth came in softer than expected, and the Federal Reserve held rates steady but pleased no one in its messaging. Any one of these developments can make for a difficult environment. Such updates arriving together in a single stretch can be challenging for investors to absorb. And as we'll discuss below, **it's pretty clear Big Tech is trading in its piles of cash, an attribute that once defined the group, for the allure of AI supremacy.**

The AI Spending Arms Race Keeps Accelerating

Combined quarterly capital expenditures, Magnificent 7 excluding NVIDIA ($B)



Sources: Bloomberg. American Enterprise Investment Services Inc.

Start with last week's Federal Reserve update. Policymakers held the fed funds target range at 3.50% to 3.75% for a fifth straight meeting, splitting 9-3, with Beth Hammack, Lorie Logan, and Neel Kashkari dissenting in favor of a hike. Chair Kevin Warsh framed the hold as a deliberate choice rather than a sign of inertia. But investors' initial read was that a divided committee and a lack of concrete planning to attack still-elevated inflation may increase the risk of a potential stagflationary environment, even if some of that price pressure is coming from energy. In our view, the Fed's messaging around rate policy satisfied almost no one, with bonds reacting sharply to Fed takeaways. For example, the 30-year Treasury yield jumped to a 19-year high, and the yield curve steepened as long rates climbed while the front end fell. Higher long-term bond yields are now tightening financial conditions, something Fed Chair Warsh supports and pointed to in his press conference. But this direction carries real consequences for the economy, with the 30-year fixed mortgage rate rising to a one-year high. And the U.S. dollar had its worst week in three months, even as yields rose, which we read as a signal about Fed credibility concerns.

Energy added to the market volatility last week. Oil closed out July with its biggest monthly gain since March, as WTI crude rose near $85 per barrel, driven by supply threats on several fronts. Iran disrupted tanker traffic near the Strait of Hormuz, Red Sea risk expanded (which handles roughly 10% to 12% of global trade), and the U.S. and Iran seem locked in a stalemate, making it difficult to see how the conflict may subside on a more permanent basis.

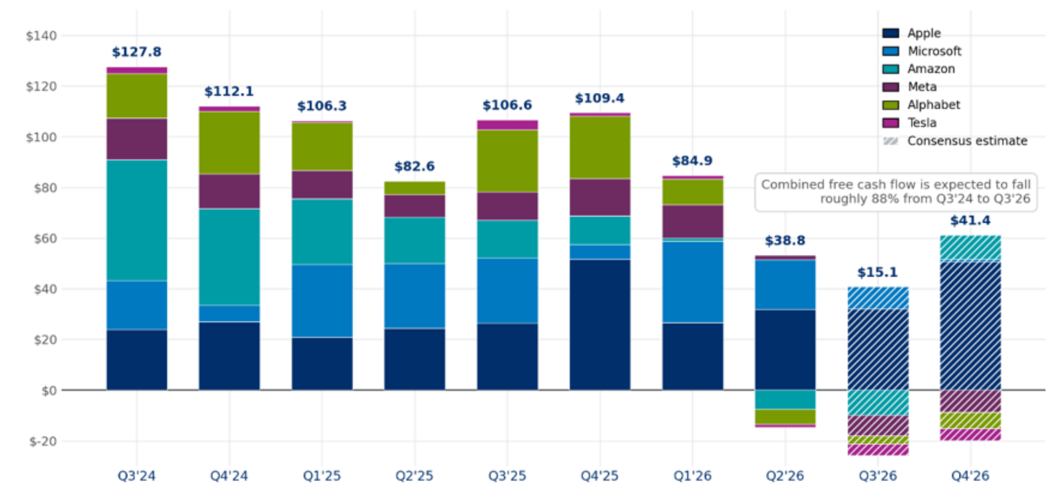
Here at home, growth cooled more than expected, as second-quarter gross domestic product (GDP) rose just +1.5% against a +2.0% estimate. And the GDP price index ran at +6.2%, while core personal consumption expenditures (PCE) came in at +3.4%. The key takeaway? Economic growth softened more than expected, while prices remained firm in the second quarter, a trend that may continue in the third quarter. Thus, higher yields, higher energy, firmer inflation, and lower growth all landed in a week when the Fed said they weren't comfortable moving rates, even as they said the market is doing the work for them. So yeah, not a surprise markets might be a little discontent with what they heard on the macro front last week.

Strong Mag Seven results meet increased spending and shrinking cash flow: The bigger story for the market last week came on the earnings front, and from the AI leaders powering major indexes. In total, the prior quarter produced strong results across the six Magnificent Seven reporters, excluding NVIDIA (which reports later this month). However, stock reactions both last week and the prior week have been mixed. In our view, the dividing line between the "haves" and “have-nots” within the group appears to center on free cash flow (FCF) and capital spending dynamics. As we have noted previously, we believe investors have stopped paying for simple earnings beats and raises and are starting to pay for proof that artificial intelligence (AI) spending is converting into cash and revenue.

As background, combined quarterly capital expenditures (capex) for the Mag Seven (excluding NVIDIA) are expected to climb to $237.5 billion in Q4’26 from $65.3 billion in Q3’24, more than triple the spending in just a little more than two years. Over a similar window, combined free cash flow is projected to fall 88% for the group, and before Apple's seasonal fourth quarter is projected to lift the group back to about a third of its peak. Simply, spending is compounding at rates that are draining cash flow for some of the largest companies in the Mag Seven.

Heavy AI Spending is Depleting Free Cash Flow

Combined quarterly free cash flow, Magnificent 7 excluding NVIDIA ($B)



Sources: Bloomberg. American Enterprise Investment Services Inc.

Hence, investors rewarded Microsoft and Amazon last week, and where the spending showed up directly in justified revenue. For example, Microsoft's Azure grew by +43% year-over-year in the prior quarter, and shares rose as much as +16% the day after its report, the biggest single-day gain since March 2020. In addition, Amazon's AWS grew by +37% year-over-year and led the group higher, even with trailing free cash flow of $7.6 billion.

Conversely, investors punished Meta Platforms and Alphabet after their earnings updates and for spending without a matching payoff. Meta's free cash flow has collapsed, while Alphabet posted its first-ever negative free cash flow quarter, with most of its headline profit tied to paper gains on private stakes rather than operations (that said, operating results were still very solid). And Apple fell post-report last week for different reasons, including a guidance miss due to component shortages, even though its $31.9 billion in free cash flow remains the group's fortress.

At the end of the day, increased spending and shrinking cash flow for these companies needs to be justified by rising revenue and the assumption that the revenue bar will be reset higher over the longer term to eventually replenish cash and then some for the effort. If not, why go through all this trouble? That’s where the narrative stands today. That’s why the Mag Seven collectively hasn’t done anything all year. That’s why the group is trading less homogeneously. And this dynamic may not change for the foreseeable future, based on the latest profit updates.

The market’s discontent, in a nutshell: Combine the macro environment and Mag Seven earnings updates, and the source of market volatility seems pretty clear to us. Higher yields raise the bar for every long-duration asset. Falling free cash flow and rising capex weigh directly on the megacaps that lead the S&P 500 and NASDAQ Composite. And weaker guidance in pockets like Apple adds pressure on even the most disciplined spenders.

Not mentioned yet, but important to note, is that some of the largest tech companies have shifted from self-funding their ambitions to relying more on debt and equity markets to finance the AI buildout. Big Tech debt has more than doubled to roughly $455 billion, and hyperscaler bond spreads now run 61% wider than the broad investment-grade index, according to *Bloomberg*. Credit investors have been quicker to price this cash flow and spending issue than equity investors, in our view. As the Federal Reserve is beginning to note, **the AI spending story, the interest-rate story, and the inflation story may be converging in ways that warrant closer monitoring. More bluntly, the market's leaders are spending their cash cushion on an AI bet whose payout remains uncertain, while yields, energy prices, and policy uncertainty complicate the backdrop.**

Bottom line: In our view, the market's discontent last month was warranted, as evidenced by weaker stock performance and increased AI scrutiny. But the fundamental foundation under this market and economy is stronger than the headlines suggest. The economy is still growing, and some of the companies closest to the consumer, such as Visa, point to broad-based spending strength and a healthy base case for the second half.

Also, S&P 500 profits have been extraordinary this year. With more than 60% of Index results in the bag, Q2'26 blended earnings per share (EPS) growth is approaching +50% year-over-year, on revenue growth of +14%. Notably, the Q3 and Q4 outlooks point to solid profit growth in the quarters ahead, including in non-Tech areas.

Just as important, a good portion of the repositioning and volatility seen in the market last month may be winding down. Leverage is coming down across institutional investors. We believe the momentum unwind is getting long in the tooth. And the AI spending concerns are being aired and priced in the open market rather than festering behind the scenes. Overall, we believe a growing economy, a resilient consumer, and a profit engine still running at full throttle support a "staying invested approach". Consider favoring the profitable AI leaders (be selective, or choose strategies that do this for you) and lean heavily into a well-diversified approach in case the summer of our discontent continues.

The week ahead:

- The July employment report on Friday headlines a busy data week, with consensus estimates looking for +75,000 nonfarm payrolls and the unemployment rate holding at 4.2%. ISM Manufacturing (Monday) and ISM Services (Wednesday) round out the key macro releases.
- Q2 earnings remain very constructive for the market, in our view. With just over 60% of the S&P 500 reported, 86% of companies beat consensus estimates, and aggregate earnings have come in an eyepopping +31% above expectations.
- Peak earnings season continues, with reports from Caterpillar, McDonald's, AMD, and Uber representing another large slice of S&P 500 market capitalization.

Stock Market Recap

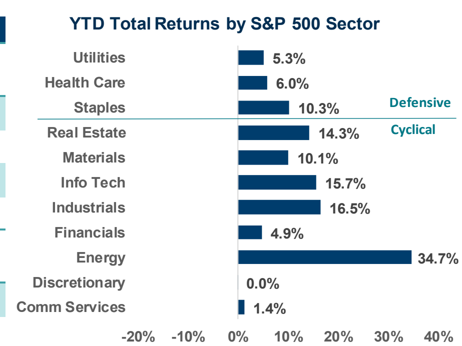
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 7,490	1.1%	-0.1%	10.1%	27.4	25.3	1.0	1.3
Dow Jones Industrial Average: 52,485	1.0%	0.4%	10.2%	23.3	22.3	1.4	1.8
Russell 2000 Index: 7,285	0.1%	-3.0%	18.9%	90.8	44.6	1.2	1.3
NASDAQ Composite: 25,374	1.6%	-3.2%	9.5%	37.3	37.7	0.5	0.7
Best Performing Sector (weekly): Consumer Discretionary	8.3%	0.8%	0.0%	31.7	31.4	0.6	0.7
Worst Performing Sector (weekly): Utilities	-4.2%	-2.2%	5.3%	22.2	21.6	2.8	3.0

Source: Factset. Data as of 07/31/2026

Bond/Commodity/Currency Recap

Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	-0.1%	-1.2%	-0.5%
West Texas Intermediate (WTI) Oil: $84.57	-7.8%	19.9%	47.7%
Spot Gold: $4,045.17	-0.2%	0.9%	-6.4%
U.S. Dollar Index: 99.91	-1.5%	-1.3%	1.6%
Government Bond Yields	**Yield Chg**		
	Weekly	**MTD**	**YTD**
2-year U.S. Treasury Yield: 4.27%	-6 bps chg	12 bps chg	79 bps chg
10-year U.S. Treasury Yield: 4.71%	3 bps chg	27 bps chg	53 bps chg

Source: Factset. Data as of 07/31/2026. bps = basis points



Source: S&P Global, Factset. Data as of 07/31/2026

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Portfolios that hold a limited number of securities or concentrate investments in similar industries, sectors or geographical regions may experience greater volatility and greater risk of loss as the performance of these investments (either positive or negative) will have a greater impact on the portfolio as a whole.

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There are risks associated with **fixed-income** investments, including credit (issuer default) risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

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Investments in **small cap companies** involve risks and volatility greater than investments in larger, more established companies.

Generally, **large-cap** companies are more mature and have limited growth potential compared to smaller companies. In addition, large companies may not be able to adapt as easily to changing market conditions, potentially resulting in lower overall performance compared to the broader securities markets during different market cycles

The products of **technology** companies may be subject to severe competition and rapid obsolescence, and their stocks may be subject to greater price fluctuations.

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The **S&P 500 Index** is a basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value (shares outstanding times share price), and its performance is thought to be representative of the stock market as a whole. The S&P 500 index was created in 1957 although it has been extrapolated backwards to several decades earlier for performance comparison purposes. This index provides a broad snapshot of the overall US equity market. Over 70% of all US equity value is tracked by the S&P 500. Inclusion in the index is determined by Standard & Poor's and is based upon their market size, liquidity, and sector.

The **NASDAQ Composite** index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The **Dow Jones Industrial Average** (DJIA) is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

The **Russell 2000 Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the largest 2000 securities in the Russell 3000.

The **US Dollar Index** (USDX) indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and major world currencies. This is computed by using rates supplied by approximately 500 banks.

West Texas Intermediate (WTI) is a grade of crude oil commonly used as a benchmark for oil prices. WTI is a light grade with low density and sulfur content.

The **Philadelphia Semiconductor Index** (SOX) is a stock market index that tracks the performance of companies in the semiconductor (chip) industry.

A **capitalization-weighted index** assigns each company a weight based on its total market value (market capitalization). Companies with larger market capitalizations have a greater influence on the index's performance than smaller companies.

An **equal-weighted index** assigns the same weight to every company in the index, regardless of its market capitalization.

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