Capitalwise

MARKET & ECONOMIC REVIEW

August

2026

MESSAGE FROM OUR TEAM

Our Mission: Provide our clients with the highest level of service and advice to help build their family's security and prosperity.

We love what we do. We are passionate about the industry and proactive in learning new strategies to deliver the best investments and solutions available in the market.

This monthly update reflects our passion and commitment to learn, share, and operate with authenticity and transparency. The commentary, data, and visuals provided are not intended to be investment advice. Please seek the advice of an independent financial advisor for your personal financial decisions.

"Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria."

Sir John Templeton
Legendary global investor

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ECONOMIC UPDATES

ECONOMIC UPDATE: **Market Cycle**

Markets are still near fresh highs, but the clearest signal this month isn't a level; it's a change in character. The economy and market have been handing off from early-cycle to mid-cycle, and that matters more for leadership and positioning than any single data point.

Growth, inflation, credit, labor, leadership, and policy each move on their own clock, so we score independent lenses and track where the evidence lands. As a cycle matures, the market gets more discerning; it stops asking who can grow and starts asking who can sustain it. Quality starts to matter again, an idea Morgan Stanley's Mike Wilson put well in early August: this phase is less forgiving, more discerning, but still constructive.

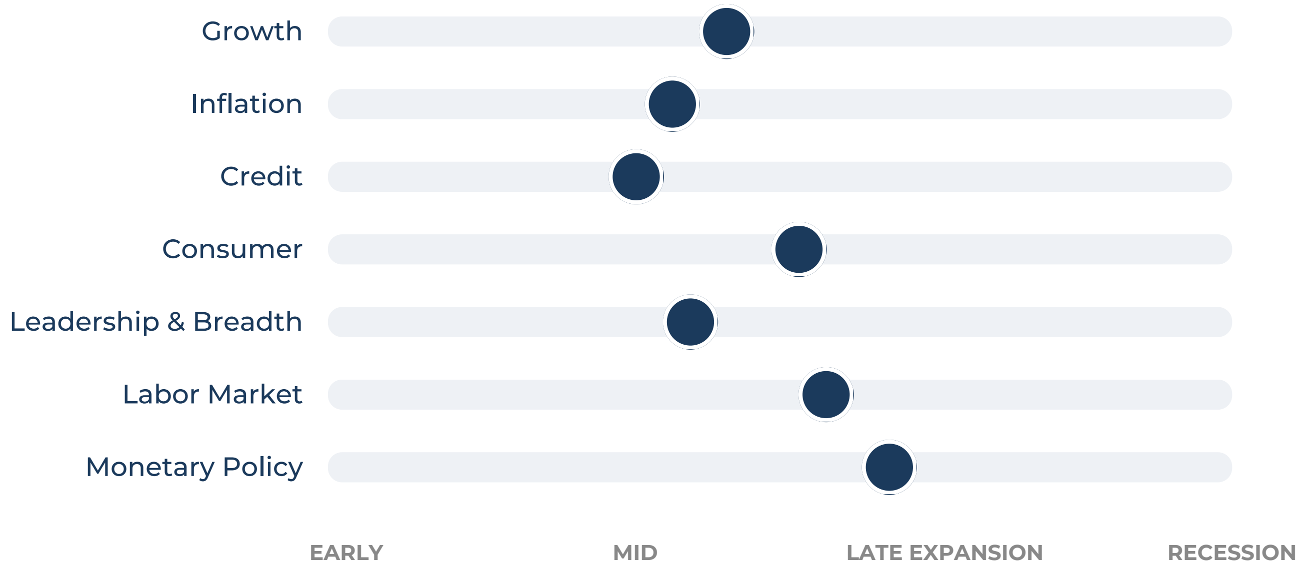
WHAT CHANGED SINCE LAST MONTH'S BASELINE

The clearest moves came in inflation and labor, while credit stayed calm and the Fed stayed hawkish.

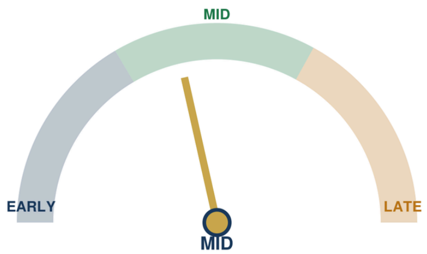
Inflation: June CPI fell 0.4% on the month as energy rolled off, headline CPI eased to 3.5% y/y (from 4.2%), core to 2.6%, headline PCE to 3.7%, and trimmed-mean PCE to 2.23%. The energy-shock, not-demand call held, and the core gauges cooled too.

Labor: July payrolls aren't out today, so we will soon digest those numbers, but June JOLTS data provided steady job openings at 7.4M, and the quits rate held at just 2.0%, historically low, a sign churn is cooling.

Growth & policy: Q2 GDP decelerated to +1.5% (from +2.1%), but real final sales to private domestic purchasers accelerated to +3.9%; the drag was government and trade. The Fed held at 3.50-3.75% on a hawkish 9-3 vote, with three dissents favoring a hike.



COMPOSITE READ



ECONOMIC UPDATE: **State of the Union**

GROWTH & THE CONSUMER

The headline slowed, but the engine didn't.

Q2 GDP grew +1.5% (from +2.1% in Q1), yet real final sales to private domestic purchasers (the cleanest read on underlying demand) accelerated to +3.9% from +1.7%. The drag was government spending and trade, not households or business investment.

The consumer kept carrying the load: real personal spending rose +0.4% in June, led by services and health care, even as the saving rate slipped to 2.7%.

The one soft spot is labor momentum: June JOLTS openings held at 7.4M (4.4%) and hires were steady at 5.3M, but the quits rate stuck at just 2.0%, historically low.

That reads as workers staying put and churn cooling, not a wave of layoffs. The July payrolls report lands August 7.

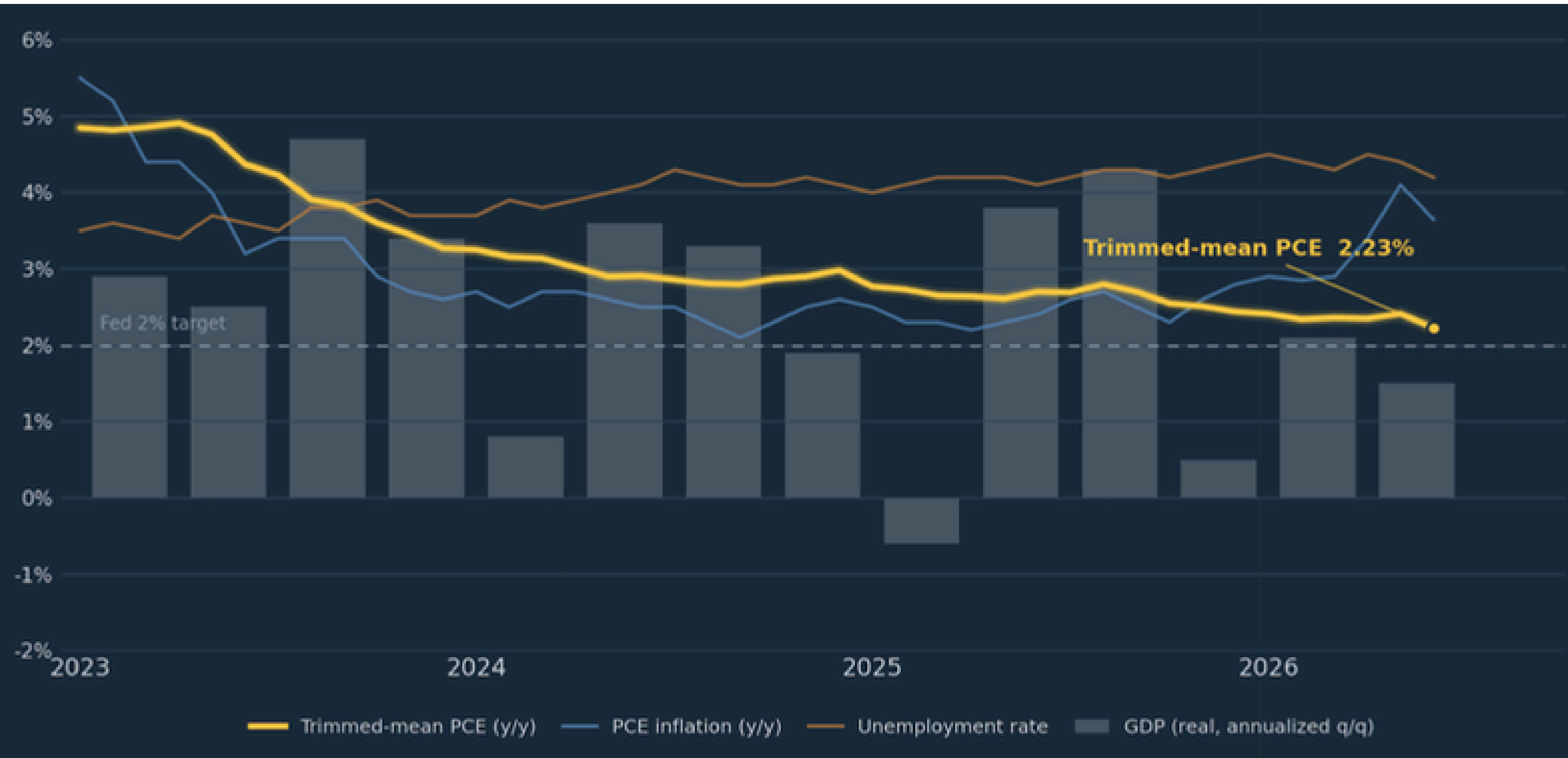
THE FED: A HAWKISH HOLD

The July 28–29 FOMC held the rate at 3.50–3.75% for a fifth straight meeting, but on a hawkish 9–3 vote, with three regional presidents (Hammack, Kashkari, and Logan) dissenting in favor of a 25 bp hike.

No new projections were released; the next dot plot comes in September. Chair Warsh was blunt about the goal: “There is only a target, and it is 2 percent.”

Measured against trimmed-mean PCE, the real policy rate is only mildly restrictive, so the committee has room to wait rather than cut. The tension worth holding: inflation is cooling on our preferred gauges, yet three officials still want rates higher.

This is a Fed determined not to declare victory early, which keeps policy restrictive for longer than markets had hoped.



Sources: BEA (GDP, PCE price index), BLS (unemployment), Dallas Fed (trimmed-mean), via FRED. Monthly through Jun 2026; GDP through Q2 2026.

ECONOMIC UPDATE: **State of the Union**

INFLATION: COMPOSITION IS THE STORY

Headline inflation is still above target: CPI +3.5% y/y, PCE +3.7%, but what's left is almost entirely energy base effects and a lagging shelter tail, both fading.

Energy is +15.7% y/y yet fell 5.7% on the month, and CPI itself dropped 0.4% in June, its largest monthly decline since April 2020.

Most telling, shelter rose just +0.1% on the month, its smallest gain since January 2021 (owners' equivalent rent +0.2%, rent +0.1%), pulling year-over-year shelter down to +3.3%.

Strip the noise and the signal is clean: all items less food, shelter, and energy ran +2.1% y/y, and Dallas Fed trimmed-mean PCE (gold, below) sits at 2.23%, both essentially at target. Core CPI (2.6%) and core PCE (3.3%) are cooling alongside.

This is the energy-shock, not-demand case, now with the core gauges confirming it.

RATES & OUR READ

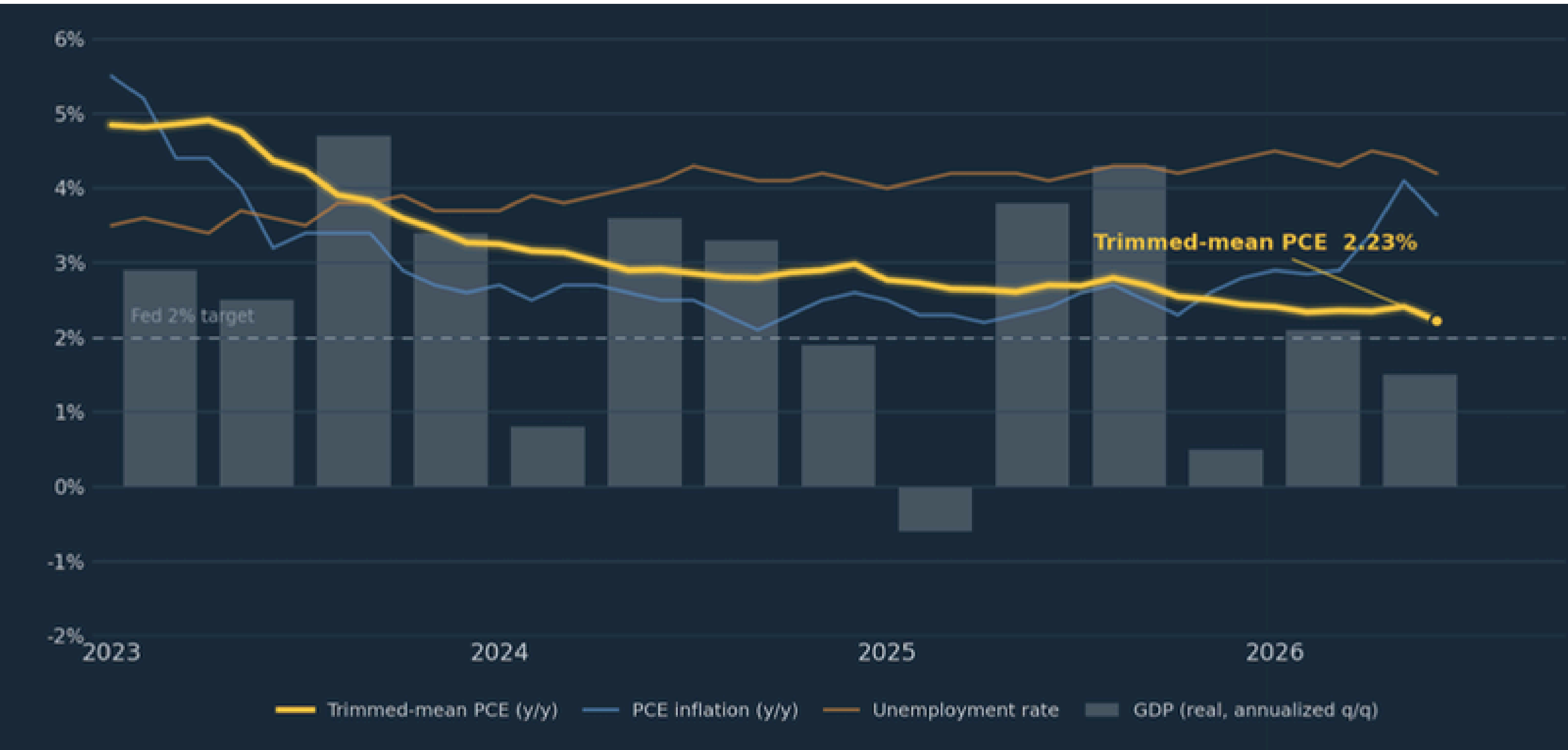
The market's release valve is the long end of the curve.

The 10-year Treasury closed July at 4.75% and sits near 4.70% today; critically, it never tested 5%, the level that would start compressing equity multiples and could force the Fed's hand.

Net read: underlying inflation is back near target, growth is solid beneath a soft headline, and a patient-but-hawkish Fed keeps policy restrictive without breaking anything.

That backdrop is constructive for risk assets but leaves them rate-sensitive, with little valuation cushion left.

Our composite still reads mid-expansion, a maturing cycle that rewards quality and discipline, not a late-cycle roll toward recession.



Sources: BEA (GDP, PCE price index), BLS (unemployment), Dallas Fed (trimmed-mean), via FRED. Monthly through Jun 2026; GDP through Q2 2026.

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MARKET UPDATES

MARKET UPDATE: **Equity**

Equity Breakdown

2022	2023	2024	2025	YTD	July
XLE 64.4%	XLK 56.0%	XLC 34.7%	XLK 24.6%	XLE 35.0%	XLE 12.8%
XLU 1.4%	XLC 52.8%	XLF 30.5%	XLC 23.1%	XLK 22.1%	XLF 3.9%
XLP -0.8%	XLY 39.6%	XLY 26.5%	XLI 19.3%	XLI 16.5%	XLP 2.1%
XLV -2.1%	SPY 26.2%	SPY 24.9%	SPY 17.7%	XLRE 13.4%	XLRE 2.0%
XLI -5.6%	XLI 18.1%	XLU 23.3%	XLU 16.0%	XLB 12.1%	XLV 1.9%
XLF -10.6%	XLB 12.5%	XLK 21.6%	XLF 14.9%	XLP 10.9%	SPY 0.2%
XLB -12.3%	XLRE 12.4%	XLI 17.3%	XLV 14.5%	SPY 10.1%	XLU -1.0%
SPY -18.2%	XLF 12.0%	XLP 12.2%	XLB 9.9%	XLV 5.9%	XLB -1.2%
XLRE -26.3%	XLV 2.1%	XLE 5.5%	XLE 7.9%	XLU 5.3%	XLC -1.4%
XLK -27.8%	XLE -0.6%	XLRE 5.1%	XLY 7.4%	XLF 4.9%	XLY -1.7%
XLY -36.4%	XLP -0.8%	XLV 2.5%	XLRE 2.6%	XLY -2.4%	XLI -1.9%
XLC -37.7%	XLU -7.2%	XLB 0.1%	XLP 1.5%	XLC -7.5%	XLK -5.5%

Cyclical

XLB	Materials
XLY	Consumer Cyclical
XLF	Financials
XLRE	Real Estate

Defensive

XLP	Consumer Staples
XLV	Health Care
XLU	Utilities

SPY	S&P 500

Sensitive

XLC	Comm. Services
XLE	Energy
XLI	Industrials
XLK	Information Tech.

July Winners

- Energy was the runaway leader (XLE +12.8%) as oil pushed toward $100 on U.S.–Iran supply disruptions. ExxonMobil and Chevron led; Chevron beat on adjusted EPS ($1.41 vs. $0.97, a 45% surprise and its sixth straight beat), with production up 15% year over year.
- Markets continued to broaden into value and defensives: Financials (+3.9%), Consumer Staples (+2.1%), Real Estate (+2.0%), and Health Care (+1.9%) all finished green while the index barely moved. Energy's month vaulted it to the top of the YTD leaderboard at +35.0%, overtaking Technology (+22.1%).

July Losers

- Semiconductors had their worst month in over a decade. The PHLX Semiconductor Index fell roughly 18%, an almost exact reversal of June's melt-up. Micron (-10.6%) and AMD (-6.9%) gave back June's gains.
- Information Technology (XLK -5.5%) was the weakest sector and dragged the Nasdaq (-2.5%) negative even as the S&P 500 held flat (+0.2%). "Circular-financing" worries and fears of surplus GPU capacity hit the AI-infrastructure trade.
- The damage stayed concentrated: Comm Services (-1.4%), Consumer Discretionary (-1.7%), and Industrials (-1.9%) slipped modestly. Bitcoin and the speculative "degen" names rolled over, but the broad market absorbed it without breaking.

Summary

July was June's mirror image with the same lesson. The index went nowhere (+0.2%), but the composition flipped: the AI-capex names that led all spring finally cracked while energy, value, and defensives caught the bid. Semiconductors, June's darlings, had their worst month in over a decade, yet the S&P still finished green because the money didn't leave the market; it rotated.

This is what a healthy rotation looks like: leadership gets taken out and new leaders emerge, but the tape holds. As Josh Brown argued on The Compound and Friends, this may be the healthiest backdrop he has seen for a summer melt-up, when semis and the Megacaps sell off, and the index still sits near all-time highs because energy, financials, staples, and healthcare are all working; that's breadth, not fragility. A market that can absorb an 18% drawdown in its hottest group without breaking has a deep bench.

The question we posed last month has been answered: the index doesn't need the Magnificent 7 to grind higher. To borrow Brown's line, a healthy bull market takes out the trash; the speculative, capex-story names are being repriced while the durable, cash-generative parts of the market carry the load.

S&P 500		
July	YTD	1 Year
0.2%	10.1%	19.6%

Dow Jones		
July	YTD	1 Year
0.4%	10.2%	20.9%

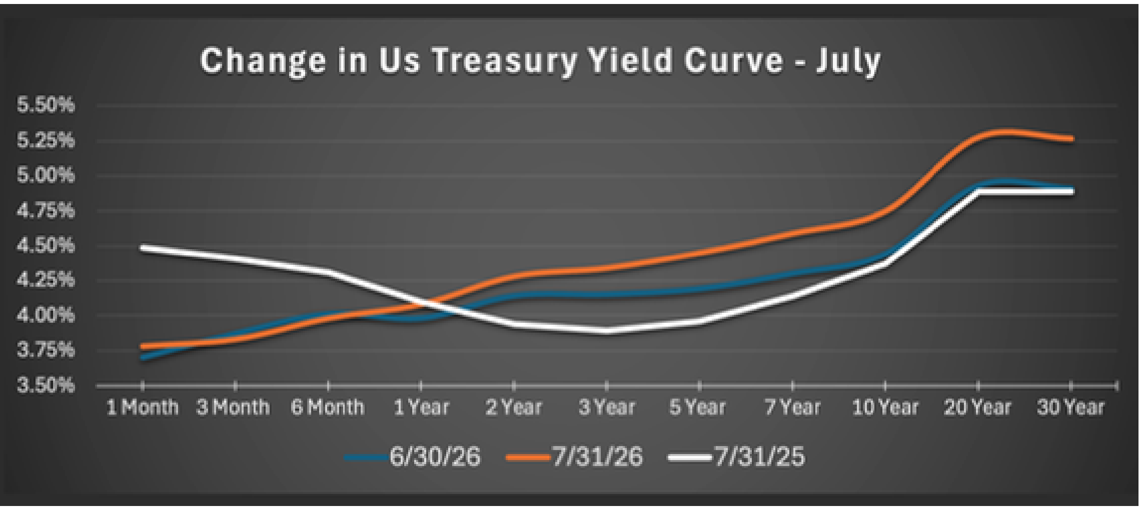
Nasdaq Composite		
July	YTD	1 Year
-2.5%	9.5%	20.9%

All graphs generated internally with data from YCharts, see footnotes for data disclosure.

MARKET UPDATE: **Bonds**

Fixed Income Breakdown

US Treasury Yield			
	31-Jul	Change in Yield	
	Yield	MoM	YoY
SWVXX	3.52%	4 bps	-63 bps
1 Month	3.78%	8 bps	-71 bps
3 Month	3.83%	-4 bps	-58 bps
6 Month	3.98%	-3 bps	-33 bps
1 year	4.08%	10 bps	-2 bps
2 Year	4.28%	14 bps	34 bps
3 Year	4.34%	19 bps	45 bps
5 Year	4.45%	26 bps	49 bps
7 Year	4.59%	29 bps	45 bps
10 Year	4.75%	31 bps	38 bps
30 Year	5.27%	36 bps	38 bps



Fixed Income Total Return

July 2026

Credit Quality	Short	Interm.	Long
High	-0.05%	-1.14%	-3.50%
Med	-0.09%	-1.15%	-3.56%
Low	-0.09%	-0.15%	-0.17%

YTD

Credit Quality	Short	Interm.	Long
High	0.42%	-0.56%	-3.27%
Med	0.79%	-0.56%	-3.27%
Low	1.80%	1.87%	1.84%

Fixed Income Sector Total Returns

Sector	July	YTD
Treasury Bond	-0.9%	-0.7%
TIPS	-0.5%	0.5%
Corporate Bond	-1.5%	-0.8%
Corporate High Yield	-0.3%	1.7%
Floating Rate	0.3%	2.5%
MBS	-1.2%	-0.3%
CMBS	-0.3%	0.3%
CLO AAA	0.5%	2.8%
Municipal Bond	-1.6%	0.2%
Emerging Market Bond	-1.1%	0.7%

All graphs generated by FRED or generated internally with data from YCharts, see footnotes for data disclosure.

State of the Bond Market

July flipped June's script: where June bear-flattened, July was a classic bear-steepener. The whole curve rose, but the long end rose most. The 30-year jumped 36 bps to 5.27%, its highest since 2007, and the 10-year climbed 31 bps to 4.75%, while the front end barely moved.

That's a repricing of long-end term premium on fiscal, supply, and inflation concerns, not a growth scare; the Fed held rates on July 29 (three dissents), and Chair Kevin Warsh gave no signal on the next move. The curve has now stayed uninverted 18+ months, evidence the 2022–23 inversion didn't presage a recession.

The total-return math mirrored June: long duration took the pain (high-quality long -3.50%) while the short end held roughly flat and low-quality proved most resilient (long just -0.17%) as spread income cushioned the move. YTD, low-quality is positive across every duration (+1.8%) while long duration is underwater (-3.27%), carry, not duration, is paying. Only Floating Rate (+0.3%) and CLO AAA (+0.5%) finished July green; Municipals (-1.6%), Corporates (-1.5%), and MBS (-1.2%) lagged on the selloff.

Municipal Bonds were the clearest example of July's reversal: after leading June's table (+1.0%), munis were among July's worst performers (-1.6%) as the long end sold off and heavy summer issuance (toward a record ~$600B year) met soft demand. The longer-term case hasn't changed; after-tax yields are attractive, and the 10–20yr curve offers a real pickup over Treasuries, but July was a reminder that munis carry duration, and duration was the wrong place to be. Munis are now roughly flat YTD (+0.2%).

In summary, July sent a different message than June, but not a worrying one: the curve bear-steepened as the long end repriced term premium (fiscal and supply, not recession), and it's held uninverted long enough now that the 2022–2023 inversion-to-recession fear looks like it simply didn't play out.

Rate-sensitive, long-duration bonds took the hit while carry did its job. Floating rate, CLOs, and low-quality credit held up, and spreads stayed tight. With the 30-year at 5.27% and the belly near 4.5%, starting yields are genuinely attractive. The ZIRP era is over: fixed income is once again a real source of return and ballast; you're just being paid to stay shorter and let the long end find its level.

SUMMARY

Key Takeaways from our Centralized Investment Committee

01

A Hawkish Hold

The Fed held at 3.50–3.75% for a fifth straight meeting, but on a 9–3 vote with three dissents favoring a hike.

02

Rotation, Not an Exit

Semis had their worst month in over a decade as we saw major leverage unwind, yet the S&P still finished green.

03

Quality Matters Again

As the cycle matures, the market stops asking who can grow and starts asking who can sustain it.

DISCLOSURES

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(5) The securities listed in this chart are securities used to create Victory Financial Group portfolio strategies. Securities in blue are equities. Securities in yellow and orange are fixed income.
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Benchmarks: All portfolio performance returns are collected via composite analytics of actual client accounts provided by yCharts. Associated benchmarks are built on a combination of the Russell 3000, MSCI ACWI ex US, Bloomberg Aggregate Bond, and Bloomberg Muni Bond. The international to equity weight is tiered off an 80% domestic weight and a 20% international weight. Asset allocation starts with 100% equity and reduces by 20% with each subsequent risk model.

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