Earnings Deliver but the Long End Pushes Back. Will Profits Be Enough?

ASTORIA INVESTMENT MANAGEMENT

Exhibit 1: Trailing Returns as of July 31, 2026

	Index/ETF	1-Mo	3-Mo	YTD	1-Y	3-Y	5-Y
Equities	US Value (SPYV)	2.1%	4.1%	10.1%	19.6%	13.8%	11.5%
Equities	US Large-Caps (SPY)	0.0%	4.2%	10.1%	19.5%	19.2%	12.8%
Equities	International Developed Equities (SPDW)	-0.7%	3.7%	14.3%	29.5%	17.7%	9.7%
Equities	US Growth (SPYG)	-1.6%	4.4%	10.1%	19.5%	23.9%	13.3%
Equities	Broad-based Emerging Markets (SPEM)	-1.6%	0.4%	9.9%	21.6%	15.0%	6.7%
Equities	US Small-Caps (SPSM)	-1.9%	6.4%	21.6%	33.8%	13.2%	7.5%
Equities	US Mid-Caps (SPMD)	-2.3%	3.7%	14.7%	21.0%	13.0%	8.5%
US Fixed Income	High Yield Credit (JNK)	-0.2%	0.4%	1.7%	5.4%	8.0%	3.5%
US Fixed Income	Treasury Inflation Protected Notes (SPIP)	-0.8%	-1.0%	0.4%	2.3%	3.4%	0.0%
US Fixed Income	US Aggregate Bond Index (SPAB)	-1.3%	-0.7%	-0.5%	2.7%	3.7%	-0.4%
US Fixed Income	US Treasury 7-10 Year (IEF)	-1.4%	-1.2%	-1.4%	1.8%	2.7%	-1.8%
US Fixed Income	Municipal Bonds (MUB)	-1.6%	-0.6%	0.2%	5.0%	2.8%	0.5%
US Fixed Income	Investment Grade Corporate Bonds (SPBO)	-1.6%	-0.7%	-0.6%	2.8%	4.8%	-0.1%
Commodities	Crude Oil (USO)	21.4%	-12.2%	86.8%	62.3%	20.9%	20.6%
Commodities	Broad-based Commodities (BCI)	7.1%	-5.5%	22.5%	34.8%	11.6%	9.9%
Commodities	Gold (GLD)	0.9%	-12.3%	-6.3%	22.7%	26.8%	16.9%
Commodities	Silver (SLV)	-2.1%	-21.5%	-18.7%	57.2%	32.1%	17.2%

Source: FactSet. Data as of July 31, 2026. 1-Y, 3-Y, and 5-Y numbers are annualized. Past performance is not indicative of future results.

Nasdaq-100 Posts Worst Month Since March 2025

Amid heightened AI-related scrutiny, volatile energy prices tied to the ongoing Iran conflict, and mounting uncertainty over the Fed's policy path, equities were mixed in July, with the Nasdaq-100 declining roughly 7% for its worst month since March 2025. Although the S&P 500 finished the month down 0.1%, the S&P 500 Equal Weight Index gained 1.0%, outperforming its market-cap-weighted counterpart for the second consecutive month. US value (+2.1%) was the only segment to post a gain, while US small-caps (-1.9%) and US mid-caps (-2.3%) lagged. Bonds struggled as investment grade corporate bonds and municipal bonds each fell 1.6%, 7-10-year US Treasuries declined 1.4%, and the US Aggregate Bond Index decreased 1.3%. Aside from silver (-2.1%), commodities produced positive returns as crude oil rose 21.4%, broad-based commodities were up 7.1%, and gold gained 0.9%.

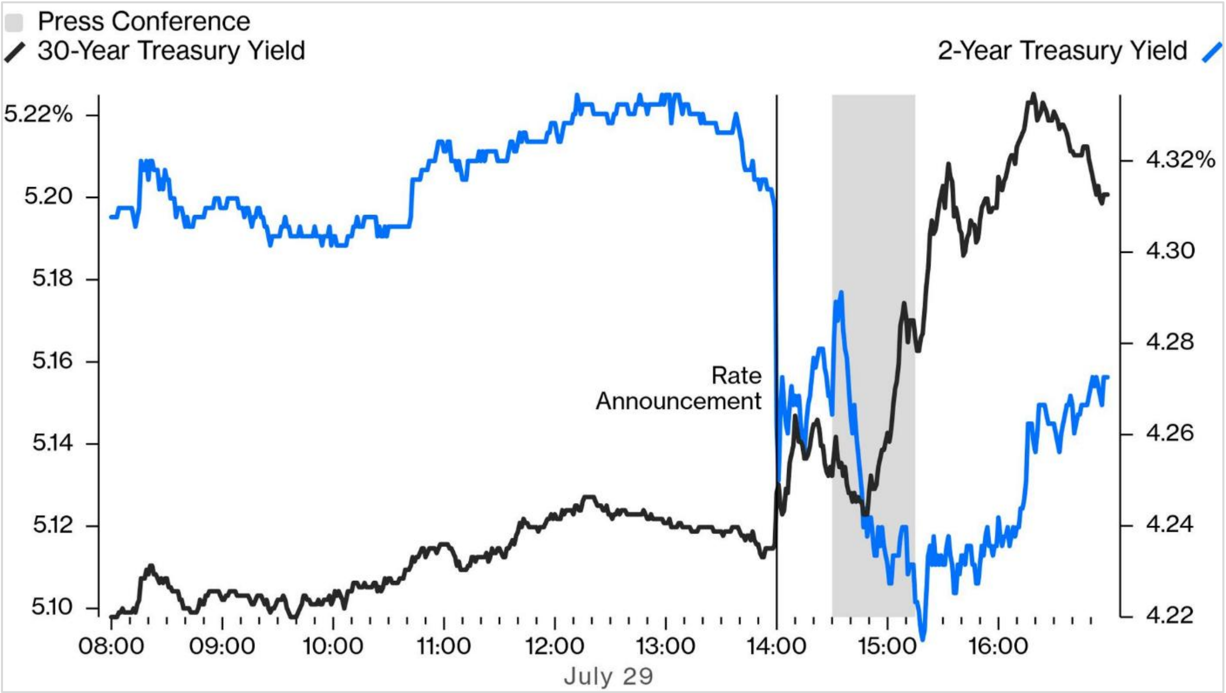
Fed Holds but Hawkish Pressure Mounts

The Federal Reserve held the federal funds rate steady at the July FOMC meeting, maintaining the target range at 3.50%–3.75% for the fifth consecutive meeting. However, the 9–3 vote marked a notable shift from June's unanimous decision, with Presidents Beth Hammack, Neel Kashkari, and Lorie Logan favoring a 25 bps hike. The shortened policy statement described economic activity as expanding at a solid pace, supported by strong productivity growth and capital investment, while acknowledging that inflation remains elevated partly due to energy and other supply-related shocks. Chair Warsh again avoided providing explicit forward guidance and reiterated that there is no "soft" inflation target, emphasizing that the Committee remains committed to returning inflation to 2%. He also noted that both nominal and real Treasury yields have risen materially across the curve since the June meeting, which tightened borrowing costs without a change in the policy rate. The latest data underscore the Fed's challenge. June Nonfarm Payrolls rose by only 57,000, although the unemployment rate ticked down to 4.2%, while June headline and core PCE (Personal Consumption Expenditures) inflation registered 3.7% and 3.3% year-over-year, respectively. Meanwhile, Q2 GDP via the first estimate slowed to 1.5%, but private domestic demand grew a firmer 3.9%, suggesting underlying activity remains resilient. Looking ahead to September, market pricing via the CME FedWatch Tool implies roughly a 65% probability of a 25 bps rate hike.

Less Guidance, More Volatility in Treasury Markets

The Federal Reserve's move away from forward guidance may be adding to volatility in Treasury markets, leaving investors to interpret each policy statement and data release with less direction from the Committee. The July FOMC meeting offered an early illustration. As Exhibit 2 shows, the 2-year Treasury yield swung in both directions during Chair Warsh's press conference before ending the session lower, while the 30-year yield reversed higher to its highest level since 2007, closing the month at 5.27%. The result was a notable steepening of the curve, as softer short-term yields pointed to trimmed expectations for a near-term hike while the long end appeared to price greater compensation for uncertainty over the policy path and longer-run inflation. Warsh has treated this as a favorable development, noting that the inter-meeting rise in yields ranked among the largest of the past two decades and that markets are now responding to incoming data rather than to Fed commentary. For now, that uncertainty appears to be showing up in the shape of the curve as much as in the level of rates.

Exhibit 2: 2-Year and 30-Year Treasury Yields on July 29, Day of Chair Warsh's Press Conference

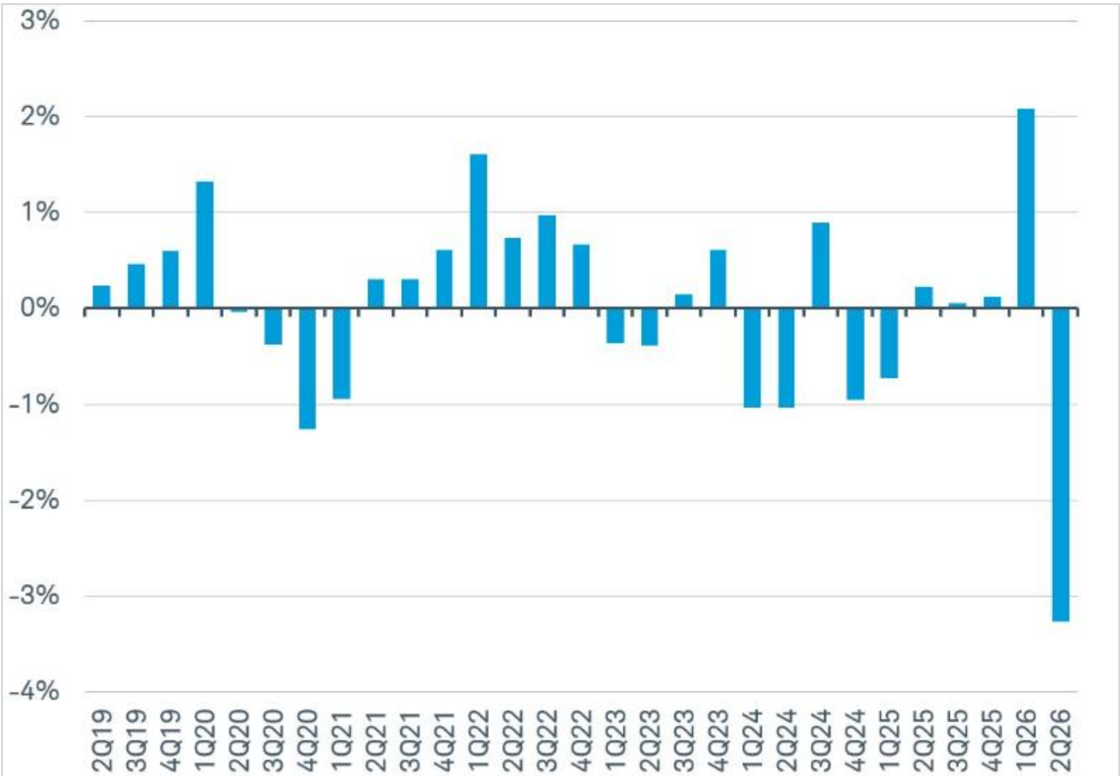


Source: Bloomberg. Data as of July 29, 2026.

Is Beating Earnings No Longer Enough?

Second-quarter earnings have been strong. With 61% of S&P 500 companies having reported, the blended growth rate, which combines reported results with estimates for those yet to report, has risen to 47.4% from an estimated 23.2% at the end of June, the highest since 2021. A large portion of that increase traces to one-time gains at Alphabet and Amazon; excluding the two, blended growth would be 28.8%. Strong results, however, have not been consistently rewarded. Technology companies that beat EPS estimates underperformed the S&P 500 by an average of 3.3% around their reports through July 28, the weakest reading in the seven years of data shown, suggesting investors may be weighing the returns on record AI spending more heavily than the results themselves. The mega-cap reports appeared to follow that pattern. Alphabet posted a large EPS beat and 82% growth in Google Cloud revenue, but record capital expenditures left free cash flow negative for the first time as a public company, and the stock fell as much as 7%. Meta beat on revenue, missed on earnings, and saw free cash flow decline 91% as capex climbed, with shares off 8%. Microsoft and Amazon were received differently, and the distinction appeared to rest on the idea that the spending is converting into profitable growth. Microsoft's Azure grew 43%, its fastest pace since early 2022, on capital spending in line with prior guidance, and the company rose 15.5% the following day for its largest one-day gain since 2008. Amazon's AWS accelerated to 37% growth with segment operating income of $16.6 billion, a margin near 39%, and the stock gained roughly 15.3% the following day even as trailing free cash flow swung to a $7.6 billion outflow.

Exhibit 3: Avg. S&P 500 Tech Member Return in Excess of S&P 500 Return when EPS Beat

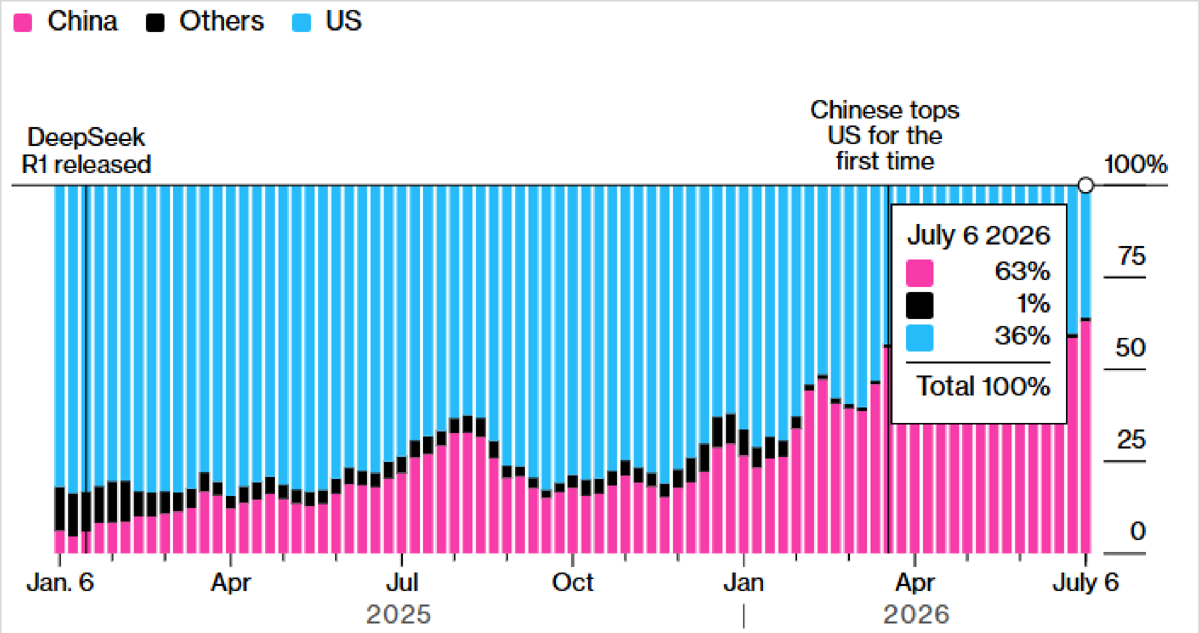


Source: Charles Schwab, Bloomberg. Data as of July 28, 2026. Member performance in excess of S&P 500 based on gain or loss following day on which earnings are reported. Past performance is not indicative of future results.

China: From Models to Memory

China appears to be re-emerging as a competitive force across both AI software and semiconductors. Chinese AI models have overtaken their US peers in token usage on OpenRouter (a platform that gives developers access to hundreds of AI models from providers around the world through a single interface) and now account for roughly 46% of routed tokens versus about 36% for US models, while narrowing the performance gap on widely used benchmarks. Many are open-weight, meaning developers can download, customize, and run the models on their own systems rather than relying entirely on a closed provider. China is gaining ground in memory as well. ChangXin Memory Technologies (CXMT), the country's largest DRAM producer and now the fourth largest globally with roughly 8% of the market, closed 466% above its offer price in its July 27 Shanghai debut, becoming the most valuable company listed on China's A-share market. The listing, alongside record quarterly results from SK Hynix that nonetheless fell short of consensus, appeared to contribute to a semiconductor-led selloff that triggered circuit breakers on the KOSPI, South Korea's benchmark equity index, several times during the month, including back-to-back halts on July 28 and 29, the first consecutive triggers in the index's history. CXMT still trails well behind in advanced high-bandwidth memory (HBM), where Samsung, SK Hynix, and Micron remain dominant, but rising Chinese capacity could weigh on conventional memory pricing, margins, and valuations across the industry.

Exhibit 4: Chinese AI Models Overtake US Peers in Token Usage



Source: OpenRouter, Bloomberg. Data as of July 6, 2026.

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