Fort Washington Investment Advisors, Inc.

A member of Western & Southern Financial Group

MONTHLY MARKET PULSE – AUGUST 2026

HIGHLIGHTS

- **Market Reassessment:** Market performance broadened further in July, with value outperforming growth as investors became more selective, particularly within the AI complex.
- **Cautious Start:** Since becoming Federal Reserve (Fed) Chair, Kevin Warsh has taken a firm stance on inflation but has been reluctant to adjust interest rates or provide clear forward guidance. Investors are increasingly questioning whether this caution could raise the risk of a policy error.
- **AI's Impact on Credit:** The scale of AI investment is reshaping the corporate bond market, with increasing supply from hyperscalers and AI-related issuers affecting credit spreads and market composition. We analyze the market implications in this month's *Spotlight*.

MONTHLY SPOTLIGHT:

The Quiet Repricing Beneath the Investment Grade Market

Author: Brooks K. Wilhelm, CFA, CAIA

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MACRO INSIGHTS

Fundamentals in Focus as AI Leadership Shifts

July produced another mixed month for U.S. equities as strength outside the largest technology companies offset renewed pressure on the major growth indices. The Dow gained 0.3%, while the S&P 500 declined 0.1% and the Nasdaq fell 3.2%, leaving both indices lower for a second consecutive month. The equal-weighted S&P 500 rose 1.1%, outperforming its cap-weighted counterpart by roughly 120 basis points and extending the broadening trend. Energy and Financials led sector performance, while Technology, Industrials, Utilities, and Materials lagged.

Investor attention within the AI complex shifted from the durability of demand toward the returns being generated on unprecedented levels of capital spending. Semiconductor and memory stocks sold off sharply amid concerns about hyperscaler investment requirements, expanding supply, open-source competition, and the possibility that compute capacity could eventually outpace demand. Even so, earnings commentary from the largest cloud platforms continued to indicate robust usage, improving monetization, and little appetite to slow investment. July's weakness therefore appeared less like a rejection of AI and more like a reassessment of where the economic value will accrue. Widening credit spreads among hyperscalers added another dimension to that debate, a development we explore further in this month's *Spotlight*.

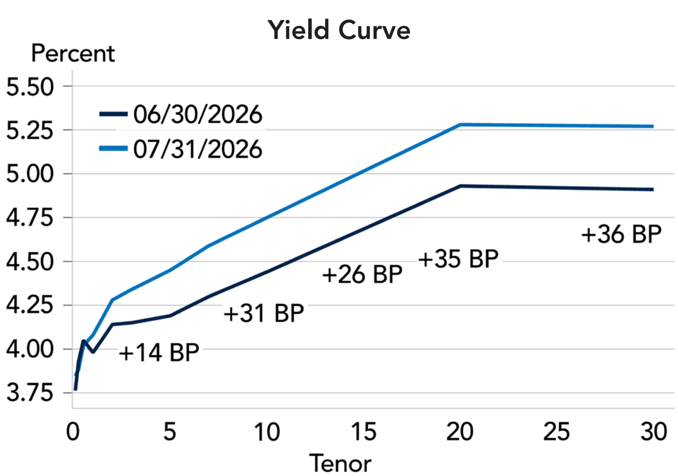
Renewed conflict between the U.S. and Iran pushed oil prices sharply higher, reversing much of June's decline. WTI gained roughly 21% as repeated strikes, Houthi attacks, and concerns surrounding key regional shipping routes revived the risk of supply disruption. Broader financial markets remained relatively calm, however, as investors continued to assume that neither side wanted a prolonged interruption to energy flows. The recurring pattern of escalation followed by diplomatic efforts has reduced the market impact of each new flare-up, although a sustained disruption would likely produce a more significant response.

Economic and corporate fundamentals remained supportive. With more than 60% of the S&P 500 having reported, earnings growth substantially exceeded expectations, and results pointed to resilient consumer demand, pricing power, productivity gains, and strength extending beyond technology. Labor market data also remained firm, while inflation readings were cooler than anticipated despite the rebound in oil prices. The Fed held rates unchanged, but three officials dissented in favor of a rate hike, highlighting increasing disagreement over the appropriate policy path. Treasury yields rose across the curve, with the 30-year yield reaching its highest level since 2007 as investors weighed stronger growth, higher energy prices, fiscal concerns, and the possibility of additional tightening.

The market enters August with several competing forces. Earnings remain strong, economic activity continues to expand, and broader participation has reduced dependence on a narrow group of mega-cap stocks. At the same time, higher yields, renewed geopolitical uncertainty, and greater scrutiny of AI investment returns could sustain elevated dispersion across sectors and companies. We remain constructive on equities, but July reinforced that future leadership will likely depend less on exposure to powerful themes and more on the ability to convert investment into durable earnings and cash flow.

Longer Rates at Multi-Year Highs

The move higher in nominal Treasury yields was not driven by inflation expectations alone; it also reflected increases in both real yields and the term premium.



Sources: U.S. Department of the Treasury and Macrobond.

Christopher D. Shipley
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WHAT TO WATCH

With the Strait of Hormuz effectively closed and the conflict in the Middle East appearing broader, further developments—and their impact on oil prices—will create volatility in markets. The Fed continues to articulate a reaction function that is biased toward inflation. As a result, investors will be watching incoming data closely. Consumer spending appears resilient but will be monitored to ensure ongoing stability. The AI and compute buildout remains a key theme supporting growth.

- With the next Federal Open Market Committee (FOMC) meeting not taking place until September, investors will look to remarks from Fed officials for policy signals. The most notable event will be the Jackson Hole Economic Symposium, August 27–29, where Kevin Warsh is scheduled to speak and could provide further insight.
- Inflation releases are likely to coincide with elevated volatility. The Consumer Price Index (CPI) will be released on August 12, followed by the Producer Price Index (PPI) on August 13 and the Personal Consumption Expenditures (PCE) Price Index on August 26.
- August 14 will provide further insight into the consumer through retail sales and the University of Michigan's consumer sentiment survey.

MONTHLY SPOTLIGHT

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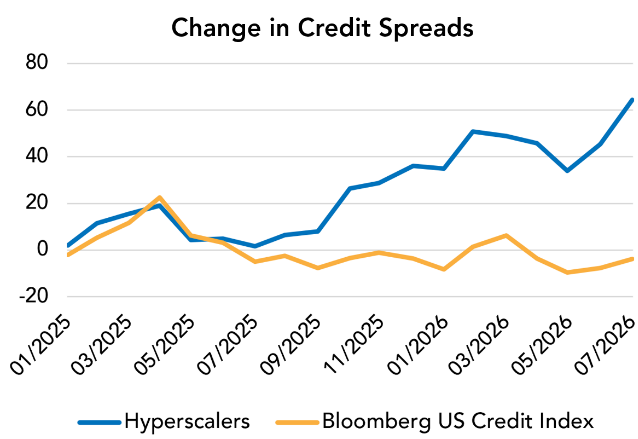
The Quiet Repricing Beneath the Investment Grade Market

On the surface, the Investment Grade (IG) corporate bond market has been relatively uneventful this year. Credit spreads remain broadly range bound, supported by resilient corporate fundamentals, steady demand, and yields that continue to attract buyers. Beneath the index level, however, a meaningful shift is underway. Technology spreads—particularly among hyperscalers and other AI-related issuers—have widened as the market adjusts to a structural change in how the AI buildout is being financed. The massive amount of capital required to construct AI infrastructure means even the largest technology companies can no longer internally fund their capital expenditures and must instead turn to the bond market for funding.

This has driven a notable divergence in issuer performance. Hyperscaler bonds have materially underperformed the broader IG market, although the magnitude of underperformance varies by issuer and maturity. This weakness does not primarily reflect broad concerns about near-term corporate solvency. Most hyperscalers continue to benefit from substantial earnings generation, modest leverage, and strong credit ratings. Instead, investors are being asked to absorb a dramatic increase in issuance as these companies fund the infrastructure required for AI. Goldman Sachs estimates that the five largest hyperscalers could issue roughly $250 billion of bonds this year and $400 billion in 2027. Additionally, issuance of data center and semiconductor project finance debt is expected to exceed $200 billion annually.



This represents a meaningful change for the credit market. Technology companies that were once relatively infrequent borrowers are becoming some of its largest issuers. As their debt outstanding grows, they are also becoming a larger component of corporate bond indices, increasing the exposure of benchmark-oriented portfolios to AI-related capital spending. The impact has been most pronounced at the long end of the curve, where hyperscalers account for roughly one-third of new issuance this year. Including data center financing, that share rises to nearly 60%. The result has been steeper credit curves and larger new-issue concessions. Because much of the debt is long dated, these issuers account for an even larger share of index risk when measured on a duration-times-spread basis.

This creates a difficult technical dynamic. Even when existing bonds appear attractive relative to the broader market and history, investors may hesitate to add exposure today when additional, potentially cheaper new debt is expected tomorrow. Importantly, wider spreads may not materially slow issuance. For many hyperscalers, credit spreads remain a relatively small component of all-in borrowing costs, while management teams continue to believe the returns on AI investment will exceed the cost of debt.

For investors, the opportunity is therefore more complicated than simply buying technology after spreads have widened. This is an environment in which security selection becomes especially important. Hyperscaler credit should not be viewed as a single trade. Some issuers primarily present supply, valuation, and duration risk, while others carry more meaningful leverage, execution, or rating risk. The analysis becomes even more nuanced in data center financings, where differences in structure, collateral, tenants, lease terms, construction risk, and residual value can materially alter the credit profile.

Chart source: Bloomberg.

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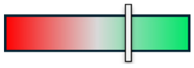
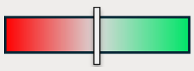
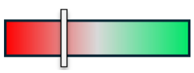
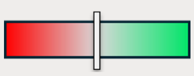
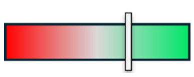
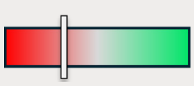
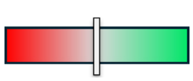
CURRENT OUTLOOK

Topic	View	MoM Change	Commentary
Macroeconomic Views			
Economic Growth		–	▶ Growth expectations for 2026 are largely centered on trend growth (~2%), as **capital expenditures rise, consumer spending remains resilient, and accommodative fiscal conditions** contribute to economic expansion. The market is assigning a low probability to the conflict in the Middle East causing prolonged supply chain disruptions, despite hostilities broadening across the region. ▶ The unemployment rate has remained range bound, as job growth and jobless claims are steady. ▶ Risks remain elevated amid geopolitical tensions, sticky inflation, and uncertainty surrounding monetary and trade policy.
Inflation		–	▶ Market expectations suggest that **inflation will remain above 3% for the remainder of the year**. Elevated energy prices and AI-driven spending are contributing to concerns about future inflationary pressures. ▶ **Core PCE inflation** is running at **3.3%** year over year. Goods inflation should moderate if oil prices ease, but services inflation has remained relatively firm, supported by shelter and transportation. ▶ The Administration recently announced new tariffs under Section 301 to re-establish some of the tariffs struck down by the Supreme Court. This is likely to result in a lower average tariff rate on imports compared with expectations that included tariffs imposed under the International Emergency Economic Powers Act (IEEPA).
Monetary Policy		–	▶ Kevin Warsh held his second press conference following the FOMC's July decision to keep **interest rates unchanged**. While the Committee remains **focused on price stability**, markets appear conflicted by the disconnect between its rhetoric and actions. ▶ While many economists expect the Fed **to remain on pause for the remainder of the year**, market pricing currently implies one rate hike this year and roughly a 50% chance of a second rate hike by mid-2027.
Fiscal Policy		–	▶ Accommodative tax policy is providing **support to households**, as **tax refunds** delivered a one-time income boost during the first half of the year, while **lower withholding taxes** should help sustain consumer spending. Additionally, capital expenditure plans continue to underpin growth, aided by accelerated depreciation. ▶ Flexibility within fiscal policy remains low, as federal debt levels continue to increase and **higher interest costs** consume a larger portion of government outlays. Federal deficit projections remain above 5% of GDP.
Market Valuations			
Rates		↑	▶ Rates were volatile given shifting expectations for monetary policy and headlines surrounding the conflict with Iran. The yield curve steepened as short-term rates rose modestly while longer-term rates rose by 30 basis points. The 10-year Treasury yield ended the month above 4.7%. ▶ We anticipate that the expected **path of policy rates will continue to shift** with new information related to the Iran conflict, FOMC communication, and inflation data. ▶ Longer-term rates are toward the higher end of our fair-value range, resulting in a modest long-duration bias at current levels.
Credit		–	▶ Credit spreads widened modestly but remain at levels that are **expensive relative to historical averages**. ▶ We believe the **risk–reward is skewed to the downside**, although strong corporate fundamentals should help support spreads. ▶ IG spreads (10-year BBB industrials) widened marginally and ended the month at their 14th percentile. High Yield spreads (single-B corporates) also widened, ending at their 10th percentile since the 1990s.
Equity		–	▶ The **S&P 500 has been largely range bound** in recent weeks as **the AI trade lost momentum in July**. The S&P 500 ended the month down a modest 0.1% and up 10.1% YTD. Market broadening continued among large-cap equities as the equal-weighted S&P 500 ended the month higher, although the outperformance of mid- and small-cap equities paused. ▶ Mega-cap technology performance was mixed. Strong cloud and AI revenue growth lifted Microsoft and Amazon, while supply shortages weighed on Apple and spending concerns pressured Meta. With most of the S&P 500 having reported, second-quarter earnings season has exceeded expectations so far. 2026 earnings forecasts for the index call for earnings growth of 24% by year-end. ▶ **Equity valuations for the S&P 500 remain moderately above historical averages at 19.5x forward earnings**. Market fundamentals remain healthy, and we expect returns in 2026 to be driven by continued earnings growth.

MARKET DATA & PERFORMANCE | AS OF 07/31/2026

U.S. Snapshot	Current	6 Months Prior	1 Year Prior
Core Inflation (YoY)	3.3	3.1	2.9
Unemployment Rate	4.2	4.3	4.3
Real GDP (YoY)	2.1	2.0	2.1
Retail Sales (YoY)	6.7	3.3	4.1
30-Year Mortgage Rate	6.7	6.1	6.7
10-Year Treasury Yield	4.7	4.2	4.4
US Corporate IG Yield	5.5	4.8	5.1
US Corporate HY Yield	7.4	6.6	7.1

TOTAL RETURNS

Asset Class	MTD	QTD	YTD	1 Year	3 Years*	5 Years*
Equity						
Russell 3000 Index	-0.5%	-0.5%	10.3%	19.6%	18.8%	11.8%
S&P 500 Index	-0.1%	-0.1%	10.1%	19.6%	19.3%	12.9%
S&P MidCap 400 Index	-2.4%	-2.4%	14.5%	20.9%	13.0%	8.5%
Russell 2000 Index	-3.0%	-3.0%	18.9%	34.2%	15.1%	7.1%
MSCI World Index	0.5%	0.5%	10.5%	20.9%	18.6%	11.7%
MSCI World ex USA Index	2.1%	2.1%	11.9%	25.6%	17.1%	10.2%
Fixed Income						
Bloomberg US Aggregate Index	-1.3%	-1.3%	-0.7%	2.7%	3.7%	-0.4%
US Corporate Investment Grade	-1.6%	-1.6%	-0.8%	2.6%	4.5%	-0.2%
US Corporate High Yield	-0.2%	-0.2%	1.7%	5.2%	8.3%	4.0%
Emerging Market Debt	-1.7%	-1.7%	0.6%	6.9%	8.5%	1.9%
US Treasury (7–10 Year)	-1.9%	-1.9%	-1.9%	1.3%	2.5%	-1.6%
Cash	0.3%	0.3%	2.1%	3.9%	4.7%	3.7%

Source: Fort Washington and Bloomberg. *Returns longer than 1 year are annualized. Past performance is not indicative of future results.

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