



MONTHLY MARKET PULSE – JULY 2026

HIGHLIGHTS

- ▶ **Market Breadth:** Small- and mid-cap equities outperformed the S&P 500 in June as market leadership broadened. While AI remains a positive theme within the market, investors are becoming more selective.
- ▶ **Iran Truce:** The U.S. and Iran have agreed to a ceasefire, and prices at the pump are back below \$4 nationally.
- ▶ **New Federal Reserve (Fed) Focus:** At Kevin Warsh’s first press conference as Chair, he discussed a renewed focus on inflation and reduced forward guidance. We dissect his comments and the market implications in this month’s *Spotlight*.

MONTHLY SPOTLIGHT: The New Federal Reserve

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MACRO INSIGHTS

Mixed Month Caps a Very Strong Quarter

U.S. equities were mixed in June as leadership rotated beneath the surface, capping a very strong second quarter in which the S&P 500 gained roughly 17%. For June, the Dow gained 2.5% and the Russell 2000 rose 3.6%, while the S&P 500 declined 1.1% and the Nasdaq fell 2.8% after both indices posted fresh record highs earlier in the month. Notably, the equal-weighted S&P 500 outperformed the cap-weighted index, reflecting a broader market advance outside the largest growth companies. Industrials, Healthcare, and Financials led sector performance, while Communication Services, Consumer Discretionary, Technology, and Energy lagged.

The AI trade became more discriminating. Semiconductors and memory stocks were standout performers, supported by strong demand, positive earnings commentary, and continued investment in compute infrastructure. At the same time, the largest Technology platforms came under pressure as investors drew a sharper distinction between the companies receiving AI-related capital spending and those funding it (see nearby chart). Some of this weakness reflected rotation and profit-taking, but it also highlighted growing scrutiny around AI monetization, rising infrastructure costs, and the potential for equity issuance to finance future investment. The result was not a rejection of the AI theme but a more selective market in which beneficiaries tied to infrastructure and supply constraints outperformed the largest CapEx spenders.

Geopolitical risks eased materially after the U.S. and Iran signed a ceasefire agreement, reopening the Strait of Hormuz (SoH) and creating a 60-day window for further negotiations. Oil prices fell sharply as flows through the strait improved, with WTI declining more than 20% for the month and returning to near pre-war levels. While setbacks are likely and the path to a lasting agreement remains uncertain, markets appear increasingly convinced that a diplomatic solution is ultimately on the horizon. As a result, equities are likely to be less sensitive to periodic flare-ups unless they materially threaten energy supplies or the negotiating process.

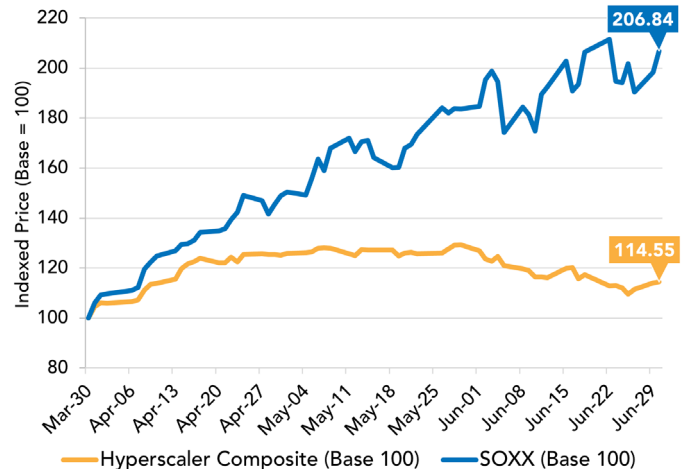
The macro backdrop remained resilient, even as markets priced in a more restrictive policy path. Payrolls, manufacturing and services activity, retail sales, and business surveys all pointed to continued economic expansion. At the same time, Chair Warsh struck a more hawkish tone at his first Fed meeting, emphasizing price stability and removing forward guidance from the policy statement, a subject we explore further in this month’s *Spotlight*. Futures markets moved to price in roughly 1.5 additional 25-basis-point rate hikes by year-end,

pushing front-end yields higher. However, inflation expectations declined alongside oil prices, suggesting much of the move reflected a more hawkish posture from the new Chair rather than a meaningful reassessment of the fundamental backdrop. The yield curve flattened sharply, with short-term yields rising while long-term yields declined.

Looking ahead, the broadening of market leadership is encouraging and suggests the rally is becoming less dependent on a narrow group of mega-cap stocks. Strong economic data and solid earnings fundamentals remain supportive for risk assets, particularly if lower oil prices help ease inflation pressures. Still, a more hawkish Fed posture, renewed scrutiny of AI economics, and an unresolved geopolitical backdrop could contribute to continued volatility. We remain constructive, but June’s rotation highlights the importance of selectivity as market leadership evolves.

CapEx Spenders Materially Lag CapEx Recipients

The hyperscalers rolled over in June as semiconductor stocks continued their exceptionally strong run, benefiting from continued CapEx spending against a backdrop of limited supply, expanding revenue, and widening margins.



Sources: Bloomberg and Macrobond.

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WHAT TO WATCH

With oil prices back down to the low \$70s, the conflict with Iran will likely begin to take a back seat, provided the Strait of Hormuz remains open. With the labor market stable and the Fed turning its focus back to prices, investors will be watching all aspects of inflation closely. Consumer spending will also remain in focus as markets assess households' ability to sustain spending through the second half of the year. Meanwhile, the AI and compute buildout will remain a key theme supporting growth.

- ▶ The next Federal Open Market Committee (FOMC) meeting will be on July 29. In addition to any rate changes, markets will look for further clarity around forward guidance and the inflation outlook. Market pricing currently implies a 33% chance of a rate hike.
- ▶ The next consumer inflation reading will come from the Consumer Price Index (CPI) release on July 14, followed by Personal Consumption Expenditures (PCE) data on July 30. Additionally, less-followed inflation measures, such as the Producer Price Index (PPI) (July 15) and the Institute for Supply Management (ISM) Services Prices Index (July 6), will likely garner more attention.
- ▶ On July 16, retail sales will provide a glimpse into consumer spending.

MONTHLY SPOTLIGHT



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The New Federal Reserve

The June FOMC meeting was notable not for what the Fed did, but for how it communicated what may come next. The Committee left the policy rate unchanged, as expected, but the broader message differed meaningfully from prior meetings. In Kevin Warsh's first meeting as Chair, the Fed presented itself as more focused on restoring inflation credibility, less willing to provide explicit forward guidance, and more comfortable allowing markets to form their own expectations about the path of policy.

The most immediate takeaway was that this was a hawkish hold. Rates were unchanged, but the statement was shorter, simpler, and more direct than investors have grown accustomed to.

It also removed language that had previously suggested a bias toward lower rates, helping anchor market expectations. Warsh emphasized that the Fed remains committed to price stability and acknowledged that inflation has been above the Fed's 2% objective for too long. That matters because the Fed appears to be shifting the center of its reaction function back toward inflation, particularly while growth remains resilient and the labor market appears stable. In that environment, the bar for rate cuts appears higher, and the risk of additional tightening is no longer negligible.

A second important change is the Fed's apparent retreat from forward guidance. For much of the post-financial-crisis period, investors relied on Fed communication to help anchor policy expectations. Warsh seems less comfortable with that approach, underscored by his decision not to submit his own projections for the Summary of Economic Projections. His comments suggest that when markets simply reflect what policymakers have already said, the Fed loses a useful source of independent information. Instead, he appears to want markets to react more freely to incoming data and develop their own distribution of likely outcomes. That shift may be healthy over the long run, but it changes the near-term market dynamic. Less guidance means more uncertainty surrounding individual data points, Fed speeches, and inflation releases, which could create greater volatility at the front end of the curve.

Warsh also announced five task forces focused on reviewing communications, the balance sheet, data quality, productivity and jobs, and the inflation framework. These reviews do not necessarily imply immediate policy changes, but they do signal a broader reassessment of Fed operations. Importantly, Warsh made clear that reviewing the inflation framework does not mean abandoning the 2% goal.

The near-term implication for investors is likely to be higher interest rate volatility. A Fed that is more focused on credibility and less focused on guidance could ultimately improve the quality of market signals. However, the transition may be bumpy. A less predictable Fed may become more credible over time, but markets may demand compensation for that uncertainty in the near term, creating opportunities for tactical investors. As this new regime develops, we will pay close attention to Fed communication, incoming inflation data, and any signs of how the policy path and communications framework may evolve.

Federal Reserve Balance Sheet

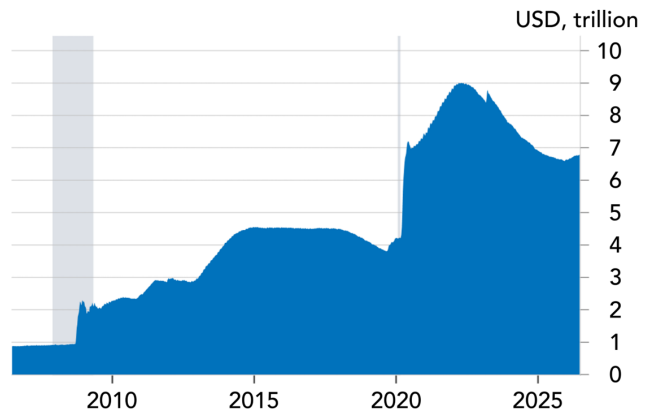


Chart sources: Federal Reserve and Macrobond.

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CURRENT OUTLOOK

Topic	View	MoM Change	Commentary
Macroeconomic Views			
Economic Growth		–	<ul style="list-style-type: none"> ▶ Growth expectations for 2026 are largely centered on trend growth (~2%), as tariff headwinds dissipate, capital expenditures rise, 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. ▶ The unemployment rate has remained range bound, as job growth appears to be improving. ▶ Uncertainty remains due to geopolitical tensions, sticky inflation, and shifting U.S. trade policy.
Inflation		–	<ul style="list-style-type: none"> ▶ Market expectations are that inflation will remain above 3% for the remainder of this year. While oil prices are well off their highs, they remain elevated relative to pre-conflict levels. ▶ Core PCE inflation is running at 3.4% year over year. Goods inflation should moderate with lower oil prices, but Services inflation has remained relatively firm, supported by shelter and transportation. ▶ Following the Supreme Court decision to strike down International Emergency Economic Powers Act (IEEPA) tariffs, the Administration is using other authorities to re-establish many of these tariffs. This is likely to result in a lower average tariff rate on imports compared to expectations that included IEEPA tariffs.
Monetary Policy		–	<ul style="list-style-type: none"> ▶ Kevin Warsh is the new Chair of the Fed, and his first FOMC meeting signaled a renewed focus on price stability and reduced forward guidance. ▶ In a positive development for Fed independence, the Supreme Court ruled that Lisa Cook can remain in her role while the case alleging mortgage fraud proceeds. ▶ 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 hike by mid-2027.
Fiscal Policy		–	<ul style="list-style-type: none"> ▶ 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		–	<ul style="list-style-type: none"> ▶ Rates were volatile given the implications of the June FOMC meeting and headlines surrounding the conflict with Iran. The yield curve flattened as short-term rates rose while longer-term rates declined modestly. The 10-year Treasury yield was largely unchanged over the month, ending at 4.45%. ▶ We anticipate that the 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		–	<ul style="list-style-type: none"> ▶ 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. ▶ Investment Grade spreads (10-year BBB industrials) tightened modestly and ended the month at their 7th percentile. High Yield spreads (single-B corporates) also tightened, ending at their 6th percentile since the 1990s.
Equity		–	<ul style="list-style-type: none"> ▶ The S&P 500 continued to move higher as the U.S. and Iran agreed to a ceasefire, despite lingering tit-for-tat attacks. The S&P 500 ended June down a modest 1.0% for the month and up 10.2% YTD. The market showed further signs of broadening, as mid- and small-cap equities outperformed large caps and the Magnificent 7 underperformed in June. ▶ First-quarter earnings season far exceeded expectations, as S&P 500 earnings grew more than 20% year over year. 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 20x forward earnings. Market fundamentals remain healthy, and we expect returns in 2026 to be driven by continued earnings growth.

MARKET DATA & PERFORMANCE | AS OF 06/30/2026

U.S. Snapshot	Current	6 Months Prior	1 Year Prior
Core Inflation (YoY)	3.4	3.0	2.8
Unemployment Rate	4.3	4.4	4.1
Real GDP (YoY)	2.7	2.0	2.1
Retail Sales (YoY)	6.9	2.4	4.4
30-Year Mortgage Rate	6.5	6.2	6.8
10-Year Treasury Yield	4.5	4.2	4.2
US Corporate IG Yield	5.2	4.8	5.0
US Corporate HY Yield	7.2	6.5	7.1

TOTAL RETURNS

Asset Class	MTD	QTD	YTD	1 Year	3 Years*	5 Years*
Equity						
Russell 3000 Index	-0.3%	15.4%	10.9%	22.8%	20.4%	12.3%
S&P 500 Index	-1.0%	15.2%	10.2%	22.3%	20.6%	13.4%
S&P MidCap 400 Index	3.6%	14.5%	17.3%	25.9%	15.4%	9.1%
Russell 2000 Index	3.7%	21.5%	22.6%	40.8%	18.6%	7.0%
MSCI World Index	-0.7%	13.9%	9.9%	21.8%	19.8%	12.0%
MSCI World ex USA Index	-0.1%	10.5%	9.6%	21.6%	17.5%	9.9%
Fixed Income						
Bloomberg US Aggregate Index	0.2%	0.7%	0.6%	3.8%	4.2%	0.1%
US Corporate Investment Grade	0.2%	1.3%	0.8%	4.3%	5.2%	0.4%
US Corporate High Yield	0.3%	2.5%	2.0%	5.9%	8.9%	4.2%
Emerging Market Debt	0.8%	4.2%	2.3%	9.7%	9.8%	2.4%
US Treasury (7–10 Year)	0.5%	0.2%	-0.1%	2.6%	2.9%	-0.9%
Cash	0.3%	0.9%	1.8%	4.0%	4.7%	3.6%

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

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