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Investment Insights Monthly

From the Desk of Jack Kraft, CFA, Investment Strategist August 2026

Channel Checks on Corporate Spending

Earnings season is starting to wind down with 88% of the S&P 500 having issued results since the start of the quarter. The results show a historic acceleration in profit growth. Year-over-year earnings are on pace to increase by 50%, an unprecedented clip for equities and the fastest since 2021, when comparisons were skewed by pandemic-depressed numbers. Keep in mind economic growth was strong in 2025, which makes this level of growth that much more impressive. The question now is what's driving the surge and how much fuel is left in the tank for the quarters ahead.

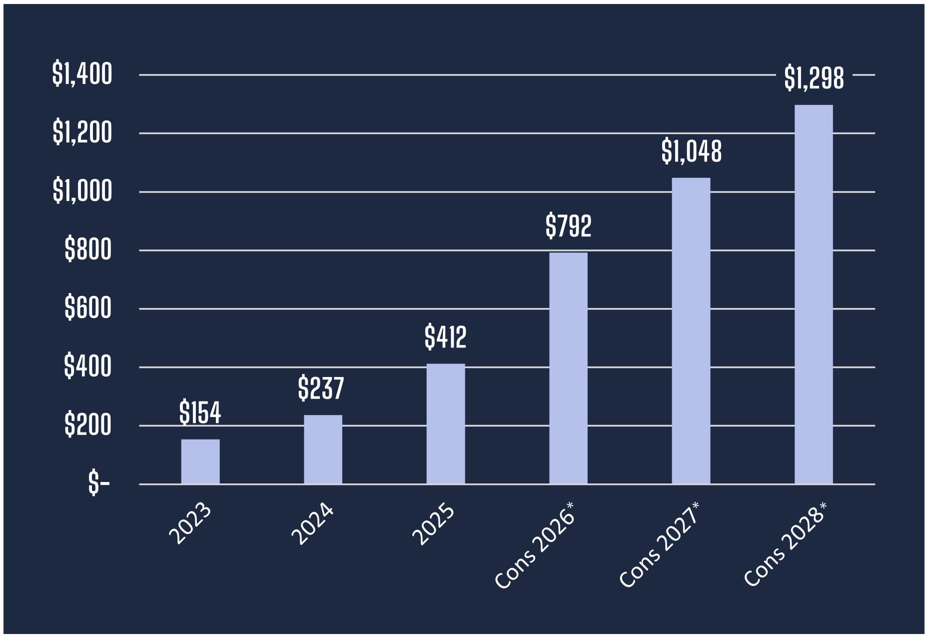
The headline number is remarkable, but the composition matters more. Roughly 19 percentage points of that growth is coming from a single source, "other income" tied to mega-cap tech's equity stakes in private artificial intelligence (AI) companies. Alphabet and Amazon alone booked a combined $151 billion of these gains this quarter, with Microsoft adding another $3 billion. Strip that out and earnings growth still comes in at 26% year over year, an acceleration from the first quarter and the fastest underlying pace since 2021.

What matters more is the broadening. The typical S&P 500 company is growing earnings by 12% this quarter, ahead of the 9% analysts expected coming into the season. Nearly two out of three companies have beaten consensus estimates by a full standard deviation or more, one of the strongest beat rates on record. AI infrastructure names are still doing a lot of the heavy lifting, contributing roughly a third of the index's earnings growth this quarter, but the strength is no longer confined to a handful of stocks.

Guidance backs up the picture. More than 15% of companies have raised guidance this quarter, the highest share since 2021 and only the third time that threshold has been cleared in more than two decades. Technology is leading by a wide margin, with 30% of companies raising guidance versus a 25-year average of just 14%. Health care, real estate and industrials are all running well above their historical norms as well, reinforcing the argument that growth is broad-based. Additionally, companies do not raise guidance unless they see something in the order book that supports it.

The bull case for continued earnings growth also rests on the AI buildout, and the numbers back it up. Hyperscalers' capital spending guidance for 2027 jumped by nearly $125 billion this earnings season alone, pushing consensus estimates above $1 trillion for the first time. Cloud revenue growth accelerated to 48% year over year in the second quarter from 39% in the first, evidence that the spending is starting to convert into monetized demand. One takeaway from earnings this season was that data center capacity remains constrained as customer demand exceeds existing supply.

Hyperscaler Capex ($ Billions)

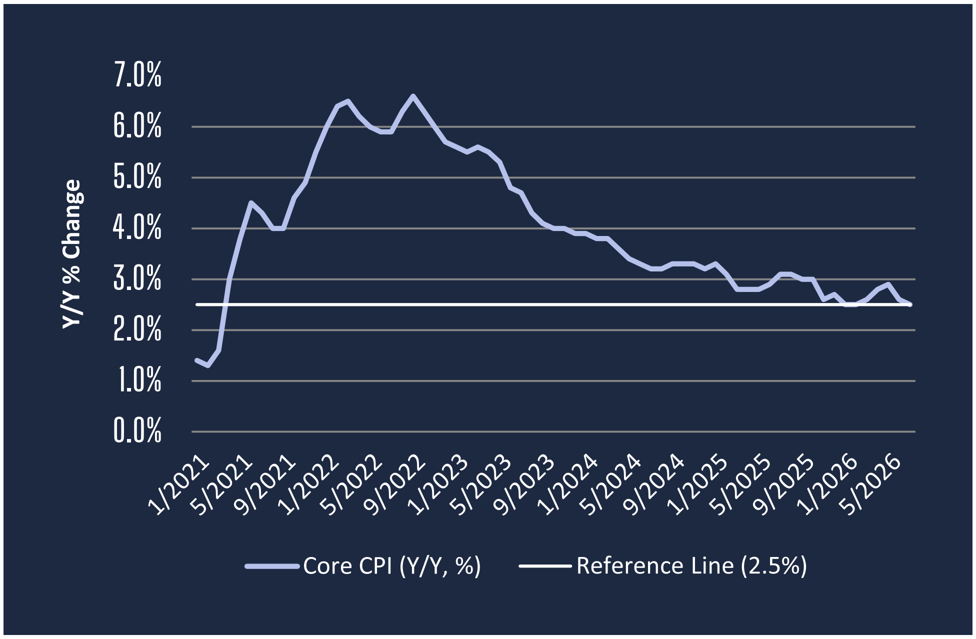


*Consensus
Sources: Goldman Sachs. Hyperscalers include Oracle, Microsoft, Alphabet (Google's parent company), Meta Platforms and Amazon

The catch is how that spending gets funded to keep up with the scale of AI. The hyperscalers reported just $5 billion of combined free cash flow this quarter against $182 billion of capital expenditures (capex), plugging the gap with $51 billion of debt issuance and $50 billion of new equity. Analysts now expect capital spending to outrun cash flow from operations every year through 2028 and expect the share of hyperscaler capex financed with debt to climb toward 35% next year. That implies roughly $400 billion of additional investment-grade issuance from the hyperscaler cohort alone in 2027.

This brings the Federal Reserve (Fed) into the picture as equity investors prefer a central bank that remains on hold rather than hiking to keep borrowing costs from climbing. Yet the market is still pricing meaningful odds of a hike. Futures tied to the September meeting show better than a one-in-three chance of an increase, down from over 80% in late July but still elevated given favorable economic data. July payrolls fell by 23,000, missing forecasts for an 80,000 gain by more than 100,000 jobs, while May and June were revised down by a combined 103,000. Meanwhile, inflation has continued to ease, with the July core Consumer Price Index (CPI) coming in at 2.5% year over year, tied for the lowest reading since March 2021 and right in line with expectations. That combination, a softening labor market alongside cooling inflation, makes it increasingly difficult to hike rates. The Fed's dual mandate exists precisely to balance those two goals, and right now both point toward easier policy rather than tighter.

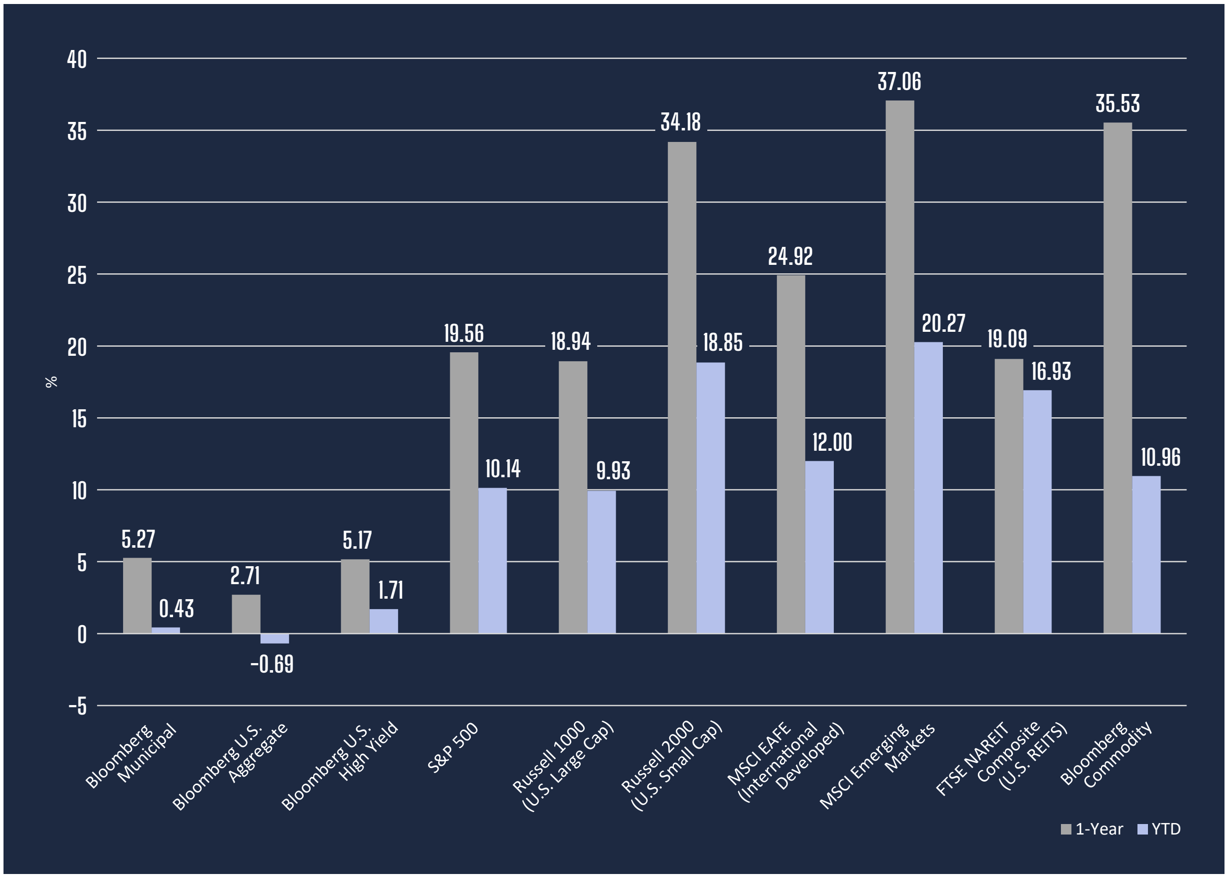
Core CPI (Year Over Year, %)



As of July 31, 2026
Source: U.S. Bureau of Labor Statistics, CPI-U, All Items Less Food and Energy

Put together, the pieces support a constructive setup for equities heading into the back half of the year. Earnings growth is broadening beyond mega-cap tech, guidance is being raised at the highest rate since 2021, and the AI buildout is showing genuine signs of monetization rather than just capital outlay. Continued signs of strengthening earnings expectations for 2027 should pave the way for the major averages to grind higher in the near term. Elsewhere, the labor market's cooling fits the narrative that bad news is good news for the markets by removing the Fed's strongest justification for a hike. This should help keep financing costs contained just as issuance from the hyperscalers is set to accelerate.

Asset Class Returns
Comparing Recent 1-Year and Year-to-Date Total Returns



As of July 31, 2026
Source: Conway Investment Research

Fixed Income

- Interest rates and Treasury yields continued their march higher in July, leading to losses in most areas of fixed income.
- Core fixed income and municipal bonds shed ground in July.
- Credit was mostly negative during July, driven primarily by spread widening and the overall move higher in rates.
- Floating-rate loans eked out a small gain, providing some insulation against higher interest rates.

Equities

- U.S. equities were mostly negative in July led by the selloff in growth/tech stocks leveraged to the AI buildout trade.
- Value trounced growth stocks across all market capitalizations, and large caps provided some protection against small caps.
- Earnings have been exceptional and we are encouraged by the broadening out of markets and better recent stock-picking results.
- International developed (EAFE) equities outperformed in July as the universe is heavily focused on value stocks.
- Within EAFE markets, value beat growth and there was little dispersion between large caps and small caps.
- Emerging market (EM) equities struggled largely due to the unwinding of the AI trade.
- U.S. dollar weakness added 103 basis points (bps) to EAFE returns and 123 bps to EM returns.

July 31, 2026	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year
FIXED INCOME INDICES							
Bloomberg U.S. Treasury Bill 1-3 Month	0.34%	0.34%	2.15%	3.93%	4.70%	3.68%	2.38%
Bloomberg Municipal	-1.85%	-1.85%	0.43%	5.27%	2.98%	0.51%	1.95%
Bloomberg US Govt/Credit Intermediate	0.14%	0.14%	0.91%	3.31%	4.55%	2.12%	2.01%
Bloomberg U.S. Aggregate	-1.30%	-1.30%	-0.69%	2.71%	3.73%	-0.40%	1.35%
Bloomberg U.S. High Yield	-0.25%	-0.25%	1.71%	5.17%	8.27%	4.04%	5.51%
Bloomberg Global Aggregate	-0.53%	-0.53%	-0.75%	1.60%	2.99%	-1.91%	0.25%
U.S. EQUITY INDICES							
DJ Industrial Average	0.38%	0.38%	10.17%	20.91%	15.94%	10.57%	13.40%
S&P 500	-0.06%	-0.06%	10.14%	19.56%	19.32%	12.86%	15.08%
NASDAQ Composite (Price)	-3.20%	-3.20%	9.17%	20.13%	20.93%	11.58%	17.26%
Russell 1000	-0.35%	-0.35%	9.93%	18.94%	18.98%	12.12%	14.82%
Russell 1000 Growth	-4.76%	-4.76%	0.32%	8.03%	19.28%	11.88%	17.46%
Russell 1000 Value	3.82%	3.82%	20.67%	31.19%	17.89%	11.83%	11.62%
Russell Mid Cap	-0.62%	-0.62%	14.59%	18.68%	14.77%	8.20%	11.43%
Russell 2500	-2.60%	-2.60%	19.52%	30.64%	15.49%	8.11%	11.39%
Russell 2000	-3.03%	-3.03%	18.85%	34.18%	15.09%	7.11%	10.64%
Russell 2000 Growth	-5.86%	-5.86%	15.02%	28.42%	14.32%	5.07%	10.59%
Russell 2000 Value	0.01%	0.01%	23.00%	40.53%	15.89%	9.03%	10.31%
Russell 3000	-0.47%	-0.47%	10.35%	19.60%	18.76%	11.82%	14.56%
NON-U.S. EQUITY INDICES							
MSCI World	0.53%	0.53%	10.52%	20.88%	18.64%	11.70%	13.29%
MSCI ACWI	0.10%	0.10%	11.60%	22.59%	18.82%	11.35%	12.86%
MSCI ACWI Ex-U.S.	0.37%	0.37%	14.43%	29.07%	17.98%	9.78%	9.97%
MSCI EAFE	1.97%	1.97%	12.00%	24.92%	16.53%	9.86%	9.87%
MSCI EAFE Growth	-1.70%	-1.70%	7.53%	15.52%	10.45%	4.49%	8.28%
MSCI EAFE Value	5.76%	5.76%	16.51%	34.74%	22.80%	15.28%	11.21%
MSCI Europe	1.62%	1.62%	10.09%	23.45%	16.34%	10.14%	10.31%
MSCI AC Asia	-1.86%	-1.86%	20.62%	36.36%	20.17%	9.43%	10.06%
MSCI EAFE Small Cap	1.96%	1.96%	10.11%	20.33%	15.35%	5.91%	8.66%
MSCI ACWI Ex-U.S. Small Cap	-0.91%	-0.91%	8.39%	19.02%	14.69%	6.44%	8.87%
MSCI Emerging Markets	-3.03%	-3.03%	20.27%	37.06%	19.89%	8.52%	9.64%
MSCI EM Asia	-4.16%	-4.16%	23.03%	39.62%	21.59%	9.01%	10.80%
MSCI China	9.04%	9.04%	-7.22%	-0.98%	7.37%	-1.96%	5.05%
MSCI EM Eastern Europe	8.12%	8.12%	23.93%	44.00%	33.76%	-10.32%	1.19%
MSCI EM Latin America	4.94%	4.94%	16.22%	45.36%	12.64%	11.54%	7.83%
MSCI EM Small Cap	-6.66%	-6.66%	5.55%	12.46%	11.72%	6.46%	8.71%
MSCI Frontier Markets	0.49%	0.49%	10.96%	27.29%	21.30%	9.29%	9.32%
MSCI Frontier Markets	6.43%	6.43%	6.43%	49.56%	23.83%	11.32%	9.39%
REAL ASSETS INDICES							
FTSE NAREIT Composite	2.26%	2.26%	16.93%	19.09%	10.05%	3.17%	5.62%
Alerian MLP	7.56%	7.56%	27.44%	26.64%	23.74%	23.88%	9.94%
Bloomberg Commodity	7.54%	7.54%	22.98%	35.53%	12.14%	10.57%	7.16%
OTHER							
Oil Price Brent Crude	23.59%	23.59%	48.10%	24.25%	1.75%	3.38%	7.82%
CBOE Market Volitility (VIX)	-2.80%	-2.80%	6.96%	-4.37%	5.47%	-2.60%	3.02%

Source: Morningstar

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