

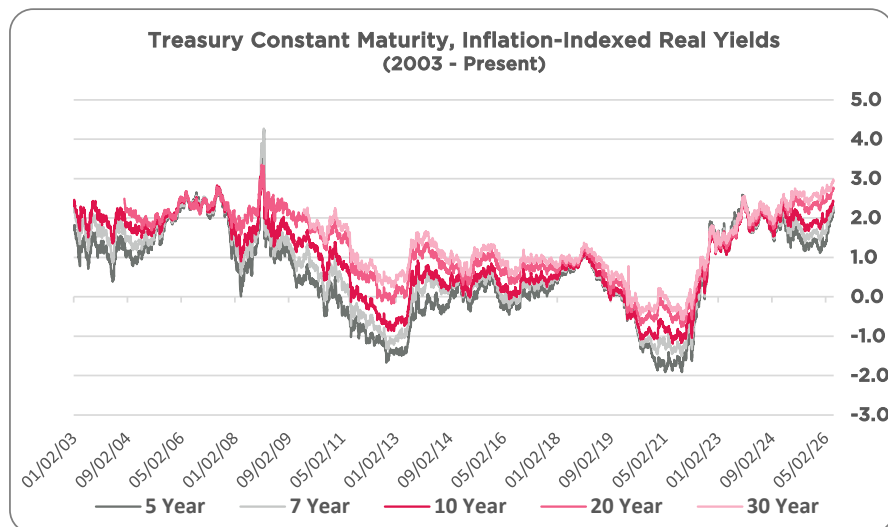
Market update

August 3, 2026

July was another constructive yet volatile month for financial markets as investors balanced resilient economic growth against persistent inflation, elevated real interest rates, and uncertainty surrounding Federal Reserve policy. While corporate earnings and continued investment in artificial intelligence supported equities, fixed income markets reflected growing concern that inflation may prove more difficult to bring back to the Federal Reserve's 2% target.

	<u>JULY</u>	<u>1 YEAR</u>
• U.S. Taxable Bonds	-1.3%	+2.7%
• U.S. Stocks	-0.5%	+19.7%
• Foreign Stocks	+0.4%	+29.1%

The bond market remained the primary source of volatility. Treasury yields moved higher across much of the curve as investors demanded greater compensation for inflation risk and uncertainty surrounding future Federal Reserve policy. Long-term yields reached their highest levels in years, while credit spreads remained relatively stable, suggesting investors continued to view corporate fundamentals as healthy despite tighter financial conditions. Real yields, Treasury yields adjusted for expected inflation, also continued climbing during July. Higher real yields reflected tighter monetary conditions and expectations that interest rates may remain elevated for longer than previously anticipated. While rising real yields increased borrowing costs and placed pressure on equity valuations, they also improved income opportunities for bond investors.



At its July meeting, the Federal Reserve left the federal funds rate unchanged at 3.50% to 3.75%. However, Chair Kevin Warsh emphasized that inflation remains the central policy challenge and reiterated that additional rate increases remain possible if price pressures fail to moderate. Several policymakers dissented in favor of an immediate rate increase, highlighting growing concern that inflation has become more persistent. Perhaps the most notable development during July was the bond market's reaction to the Federal Reserve's communication. Investors appeared less confident in the Fed's ability to guide inflation back to target without additional tightening. Rather than falling, long-term Treasury yields continued rising, suggesting bond investors demanded a larger risk premium amid uncertainty surrounding Chair Warsh's policy approach. The Treasury market increasingly reflected skepticism that inflation can return to 2% under current policy, placing upward pressure on long-term interest rates.