Week in review and ahead (vol.30-26)

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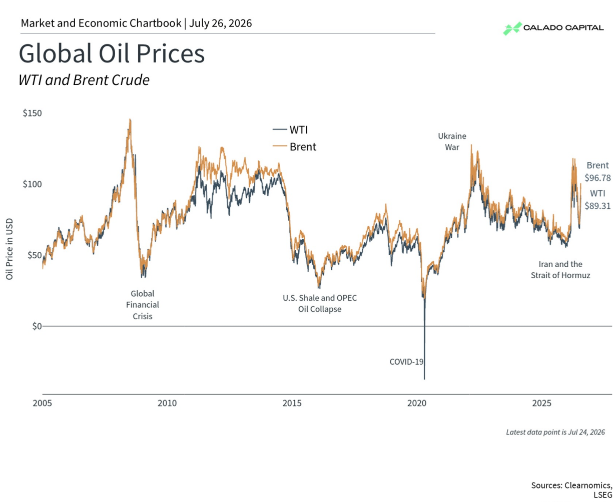
Week in review

Markets declined once again this week as geopolitical tensions intensified. The conflict between the United States and Iran now threatens critical shipping routes through the Bab-el-Mandeb Strait, in addition to the Strait of Hormuz, following threats by Iran-backed Houthi forces against Saudi oil tankers. These developments have materially increased concerns regarding the security of global energy supply and contributed to a sharp rise in oil prices. Brent crude gained nearly 12% over the week, closing above $98 per barrel after briefly surpassing the $100 mark earlier in the period.



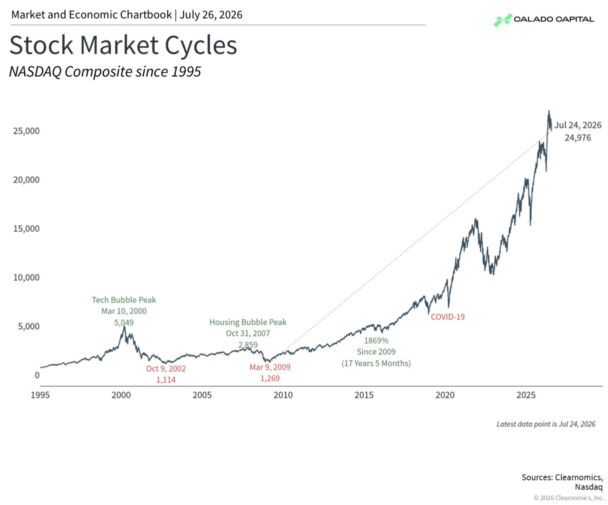
Beyond geopolitical developments, a broadly constructive earnings season provided little support for risk assets. Even sectors that had previously experienced significant selling pressure, notably semiconductors, failed to generate sustained momentum for equities. At the same time, the re-emergence of U.S. tariff-related concerns may further dampened investor sentiment, and could reinforce a cautious, risk-off environment ahead.

U.S. equity markets finished the week lower. The Nasdaq Composite and Russell 2000 declined 2.1% and 1.1%, respectively, while the S&P 500 and Dow Jones Industrial Average recorded more modest losses of 0.6% and 0.4%. Despite another negative week for the broader indices, market activity suggested an ongoing rotation across sectors rather than a broad reduction in equity exposure. Most S&P 500 sectors posted gains, led by Energy (+3.8%) and Utilities (+2.5%). The primary areas of weakness were consumer-oriented sectors, with Consumer Discretionary falling 6.1% and Consumer Staples declining 1.4%, while Communication Services also experienced significant pressure, retreating 6.2% during the week.

International equities were broadly higher despite elevated geopolitical risks, supported in part by a reversal of prior selling pressures and improving macroeconomic data in several regions. India was a notable exception. The Sensex declined 2.7% and the Nifty 50 fell 2.3%, as rising oil prices weighed on sentiment, weakness in the banking sector pressured benchmark indices, and continued selling by foreign institutional investors added to the headwinds.

In South Korea, the KOSPI appeared to stabilize after several weeks of heightened volatility, ending the week nearly 1% higher. Regulatory measures aimed at curbing speculative activity in highly leveraged products linked to major index constituents, including Samsung Electronics and SK Hynix, appear to have helped restore market stability. Elsewhere in Asia, Chinese equities advanced 1.3% as investors positioned for the possibility of additional policy stimulus ahead of this weekend's Politburo meeting. Market sentiment was further supported by a rebound in technology-related shares, extending the recovery that had previously buoyed Hong Kong equities. The Hang Seng Index rose 1.6% over the week as technology and growth-oriented sectors regained momentum.

European markets once again demonstrated relative resilience despite growing geopolitical uncertainty. These risks featured prominently in discussions at the European Central Bank's latest policy meeting, though policymakers ultimately elected to leave interest rates unchanged. Germany's DAX gained 1.1%, supported by improving economic sentiment indicators, while France's CAC 40 advanced 0.4%.
In the United Kingdom, the FTSE 100 rose 1.3%, supported by the formation of the new Prime Minister's cabinet, including the appointment of a new Chancellor of the Exchequer, as well as stronger-than-expected economic data. Preliminary S&P Global PMI readings indicated that both the manufacturing and services sectors remained in expansionary territory, reinforcing optimism regarding the near-term economic outlook.



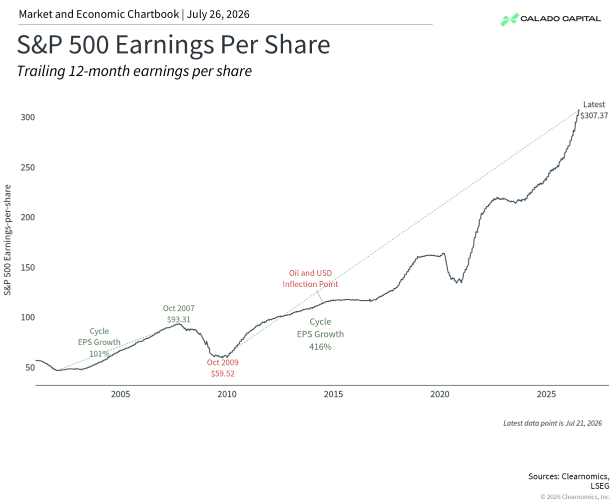
Week in review – US macroeconomics

The US macroeconomic calendar was light this past week, leaving markets to take their cue from the escalating conflict with Iran and the associated surge in crude oil, alongside a heavy slate of mega-cap technology earnings. The marquee release was S&P Global's preliminary, or "flash," Purchasing Managers' Indices ("PMI") for July. The composite rose to an eight-month high of 53.6, beating expectations and improving sequentially, led by a sharp rebound in services to 53.6 from 51.2 (versus 51.3 expected). Manufacturing nominally missed at 53.8 against a 54.4 consensus and prior 53.9, but held firmly in expansionary territory. New home sales offered a modest bright spot, improving to a 0.63 million annualized pace, above both the 0.61 million consensus and the 0.62 million prior for the first sequential gain in three months, though stretched affordability and elevated mortgage rates continue to cap housing.

The more consequential story unfolded in the Treasury market. The oil spike on the renewed threat to the Strait of Hormuz reignited inflation concerns and pushed yields higher, with the 10-year topping 4.7%, its highest since May, and the 30-year holding above 5% for its longest stretch since 2007. The back-up reflects not only firmer inflation expectations but a rising term premium against wide fiscal deficits, with federal debt near 100% of GDP, and heavy AI-related corporate issuance competing for capital. Higher yields are themselves a risk to the economy, lifting mortgage and corporate borrowing costs, compounding the federal debt-servicing burden, and pressuring equity valuations. With the FOMC meeting July 28–29 and Chair Warsh reiterating that inflation remains "too high," market-implied odds of a rate hike have climbed to roughly one-in-three, up from about one-in-ten a week earlier. A hold remains the base case, but the balance of risks has turned decidedly asymmetric toward tighter policy.

Corporate earnings

The second-quarter reporting season has proven even stronger than it appeared a week ago, however, failing somewhat to provide a positive impulse that, alongside the week's geopolitical crosscurrents, drove markets. Per FactSet, with 27% of the S&P 500 having reported, 86% have topped EPS estimates, above the five-year average of 78%, and the blended earnings growth rate has surged to 37.9% from 23.2% at quarter-end (June 30), which would mark the "highest earnings growth rate reported by the index since Q3’21 (40.3%)." The figure is heavily skewed, however, by what FactSet calls an "unusually large positive EPS surprise reported by Alphabet ($9.11 vs. $2.88)," whose result included a $98 billion of unrealized gains in its equity investments. Excluding Alphabet, the blended growth rate would fall to a still robust 25.9%. Revenue growth of 13.2% would likewise be the strongest since Q2’22. At a forward 12-month P/E of 20.1, above its five- and ten-year averages, the market's rich multiple leaves it increasingly exposed to the back-up in Treasury yields discussed above, which lifts the discount rate applied to those very future earnings. Earnings will continue next week, with four “Magnificent Seven” companies scheduled to highlight an otherwise busy week of earnings across sectors.



Week ahead

The week ahead will feature a critical slate of macroeconomic releases, with inflation firmly in focus. The Federal Reserve's FOMC is scheduled to convene and announce its monetary policy decision just ahead of the release of several closely watched indicators, including the June PCE inflation report, as well as personal income and spending data.

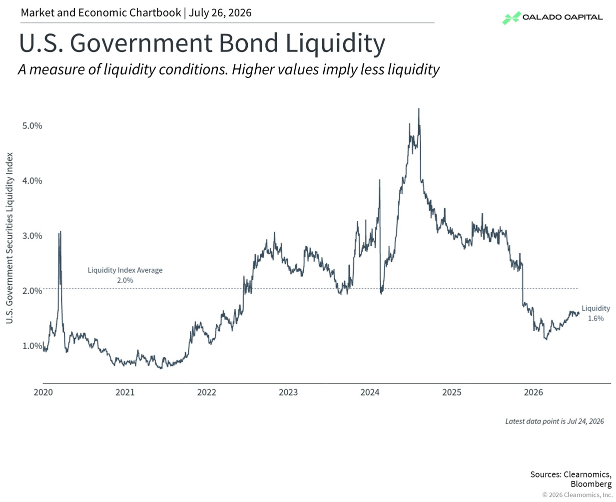
Beyond inflation, investors will receive further insight into the health of the U.S. economy through a range of activity indicators, including June durable goods orders and the advance estimate of second-quarter 2026 GDP, which is currently expected to show growth of 2.3% on a quarter-over-quarter basis.

Geopolitical developments are also likely to remain a key driver of market sentiment. Investors will closely monitor the evolving conflict with Iran, hoping for signs of de-escalation after the United States and Iran agreed to pause military operations over the weekend, following two weeks of sustained hostilities.

Number of the week: 5.16%

The 30-year US Treasury yield at the end of last week, which has now held above 5% for its longest run since 2007. The long bond has closed above 5% on 27 trading days so far in 2026, roughly one in five sessions and the most since 2007, when a 5% yield scarcely turned heads, and recently traded above the mark for a twelfth consecutive session after peaking near 5.20% in May. As discussed throughout this issue, the move reflects a confluence of forces, including sticky inflation and the fresh energy shock emanating from the conflict with Iran, expectations that the Fed will keep policy restrictive, and a deteriorating fiscal backdrop, with federal debt now exceeding 100% of GDP and annual interest costs surpassing $1 trillion, even as a record wave of AI-related corporate issuance competes for capital.

Notably, the 30-year real, or inflation-adjusted, yield has climbed to 2.97%, its highest since 2010, a reminder that the cost of long-term capital is being reset higher in ways that ripple through mortgages, corporate borrowing, and equity valuations alike. Foreign demand remains firm for now, but the persistence above 5% has revived talk of the "bond vigilantes," and stands as a warning that, absent a credible path to fiscal restraint, the market may keep demanding more to finance the nation's debt.



If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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