

Week in review and ahead (vol.31-26)



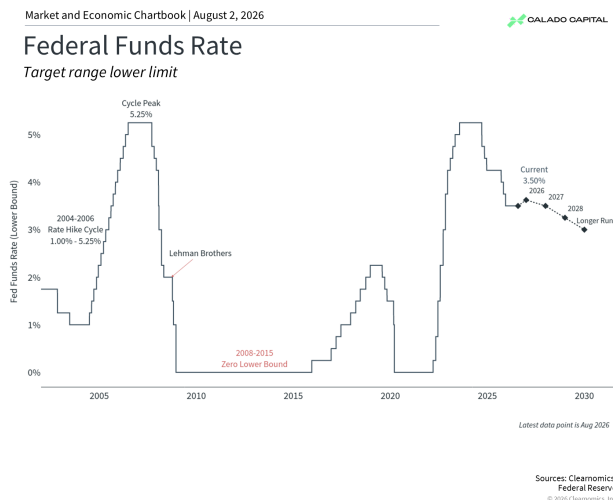
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August 2, 2026

Week in review

Markets experienced heightened volatility this past week as investors navigated the Federal Reserve's latest policy meeting, a busy corporate earnings calendar, and renewed hostilities in the U.S.-Iran conflict that appear to be expanding rather than moving toward resolution. Despite these headwinds, U.S. equities finished the week higher.

The Federal Reserve left interest rates unchanged and sought to reinforce a relatively hawkish policy stance. Markets, however, interpreted the message less aggressively, helping support equities while extending the sell-off in longer-dated Treasury bonds. Investors also continued to evaluate geopolitical risks amid mixed signals regarding the potential for de-escalation in the Middle East. Meanwhile, a generally constructive earnings season provided support for risk assets, though company-specific results drove significant volatility as markets remained quick to punish earnings, revenue, or guidance misses.



Against this backdrop, the Nasdaq Composite led major U.S. indices with a gain of 1.6%, while the S&P 500 and Dow Jones Industrial Average advanced 1.1% and 1.0%, respectively. The Russell 2000 finished essentially unchanged, rising 0.1%.

International equities were broadly higher, supported by hopes for eventual geopolitical de-escalation and improving macroeconomic data across several regions. South Korea was a notable exception, as the ongoing unwinding of leveraged ETF positions and renewed concerns over semiconductor valuations continued to weigh on market sentiment. Elsewhere in Asia, China gained 0.5% despite weaker-than-expected manufacturing

PMI data that surprisingly fell to contractionary territory. Hong Kong and India were among the region's strongest performers, advancing 3.7% and 2.7%, respectively, supported by strong capital inflows and improving technology-sector sentiment. Japan, meanwhile, ended the week modestly lower, declining 0.4%.

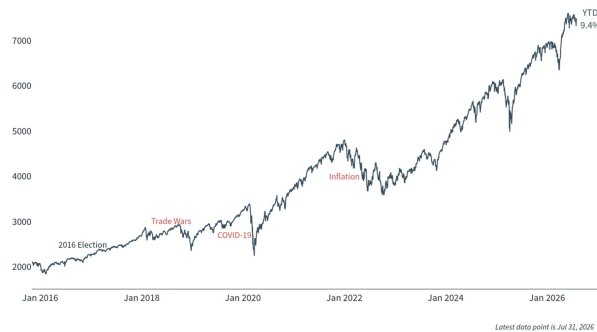
European equities again demonstrated resilience despite elevated geopolitical uncertainty and lingering inflation concerns. Sentiment was supported by stronger-than-expected second-quarter GDP growth in the Eurozone and inflation that remained broadly stable below 3% year-over-year. Combined with a solid earnings season, these developments helped support risk appetite across the region. As a result, Germany's DAX gained 2.1% for the week, while France's CAC 40 and the UK's FTSE 100 advanced 1.6% and 1.2%, respectively, buoyed by strong corporate earnings and continued investor confidence in the region's economic outlook.

Market and Economic Chartbook | August 2, 2026

 GALADIA CAPITAL

Stock Market Performance

S&P 500 Index, recent period



Sources: Clearnomics,
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Week in review – US macroeconomics

The week delivered a dense slate of macroeconomic data that, taken together, points to an increasingly uncomfortable mix of softening activity and elevated inflation risks.

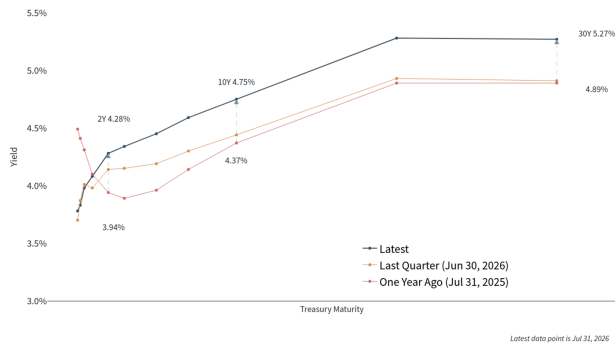
The macro data began on a soft note. Durable goods orders rose just 0.3% in June, missing the 2.5% consensus that had looked for a rebound from May's downwardly revised 4.0% decline, leaving the headline just about positive after two months of whipsaw. Excluding transportation, orders advanced 0.6%, also short of the 0.8% estimate and decelerated from a 1.8% pace previously, though core capital goods orders, nondefense ex-aircraft, the best read on underlying business investment,

held up better at 0.9%. The Conference Board's Consumer Confidence index told a similar story, slipping to 90.8 from an upwardly revised 92.2 and below the roughly 92 consensus, weighed down by a third monthly consecutive decline in the present-situation component and by an expectations index mired below the 80 threshold that has historically signaled elevated recession risk.

The week's defining event was the Federal Reserve's FOMC meeting. As widely expected, the Fed left the federal funds target unchanged at 3.50-3.75% for a fifth consecutive meeting, but the decision was not unanimous. Three voting members dissented in favor of a quarter-point hike, expressing hawkish objections grounded in concern that inflation is re-accelerating. What unsettled markets was not the hold itself but the gap between Chair Warsh's rhetoric and what investors judged the Committee was actually prepared to do. Warsh insisted the Fed had “no tolerance” for elevated inflation and would “not hesitate to act,” yet the refusal to move in the face of three dissents and firming price pressures led markets to conclude the Committee may in fact be finished tightening, a dovish read of its revealed preferences, whatever the hawkish words. The market reaction was a bear, steepening, short-dated yields fell as traders unwound rate-hike bets, while the long end sold off sharply. The 30-year Treasury climbed to its highest level in roughly 19 years, and the 2s10s spread widened to just shy of 0.47%, retracing to levels last seen in late May’26. Critically, the long-end move reflects not the expected path of policy but a rising term premium, the compensation investors demand for bearing inflation uncertainty, a widening fiscal deficit and the heavy debt issuance that accompanies it. It is generally considered a premium that is only built when the market suspects the central bank will tolerate, rather than resist, above-target inflation.

Treasury Yield Curve

The shape of the U.S. Treasury curve last year versus today



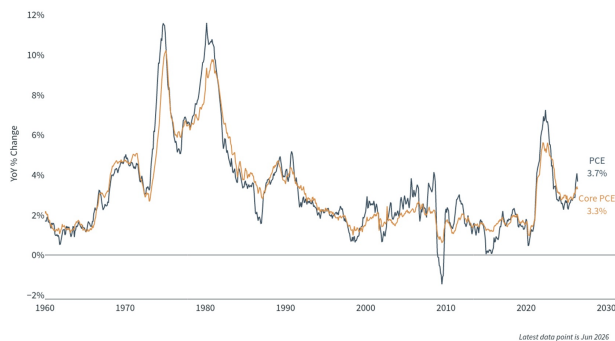
Latest data point is Jul 31, 2026

Sources: Cleonomics,
Federal Reserve
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and oil spiked anew, the friendly June print may prove a high-water mark rather than the start of a trend. The accompanying spending data pointed to a consumer losing momentum. Personal spending grew 0.3%, in line with expectations but well off the 0.9% pace previously, while personal income rose just 0.2%, below the 0.3% estimate and a marked deceleration from 0.7%.

Against that backdrop, the June PCE report, the Fed's preferred inflation gauge, released the morning after the decision, offered encouraging albeit (likely) temporary relief. Headline PCE fell 0.1% in the month, in line with expectations and a sharp reversal from the 0.5% jump previously, pulling the annual rate down to 3.7% from 4.1%. Core PCE rose just 0.1%, a touch better than the 0.2% consensus and down from 0.3%, with the annual rate easing to 3.3% from 3.4%. The improvement, however, may be temporary. Much of the monthly relief owed to a pronounced retreat in energy prices during June, when the U.S.–Iran ceasefire largely held under the terms of the memorandum of understanding. With hostilities since resumed, a durable truce now looks less likely

PCE Inflation



Latest data point is Jun 2026

Sources: Cleonomics,
Bureau of Economic Analysis
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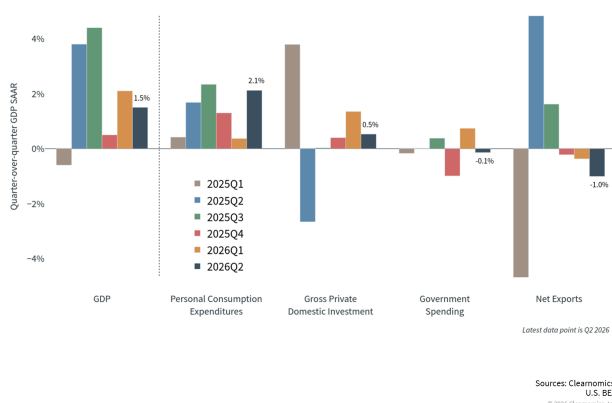
configuration that most constrains the Fed, leaving little room to ease even as growth cools and may help explain why the long end of the curve continues to reprice higher.

The advance estimate of second-quarter GDP crystallized the week's central tension. Output expanded at just a 1.5% annualized rate, missing consensus of roughly 2.1–2.3% and slowing from the first quarter's 2.2%. The composition was not uniformly weak as a meaningful pickup in consumer spending offset a drag from lower government outlays and a negative net-export contribution as imports outpaced exports, but the more concerning figure was the GDP price index, which accelerated to a 6.3% annualized pace, nearly double the 3.6% consensus, a rate that matched the first quarter's. That combination, decelerating real growth alongside the broadest inflation measure in the national accounts running north of 6%, is emblematic of stagflation, and it is precisely the

The lone unambiguously firm data point came from the labor market. Initial jobless claims held just below 200K, marginally better than expected, though up sequentially from the prior week's 187k, leaving claims well beneath their historical average and consistent with a labor market still tight enough to keep the Fed's hawks focused on inflation. The week's data thus offers a coherent but increasingly challenging picture. Namely, economic activity appears to cool at the margin while the consumer is fatigued, yet inflation risk is broadening rather than receding, and a divided Fed has, in the market's eyes, blinked. The consequence has been a decisive repricing of the long end of the Treasury curve, a dynamic that carries its own real-economy costs through higher mortgage, corporate and government borrowing rates, and one that is likely to remain the dominant cross-current for risk assets in the weeks ahead.

GDP Growth Components Over Time

Quarterly GDP growth rate (SAAR) and contributions



Corporate earnings

The second quarter of the earnings season has been remarkably robust. According to FactSet, with 61% of S&P 500 constituents having reported results, 86% exceeded EPS expectations, well above the five- and ten-year averages of 78% and 76%, respectively. The aggregate magnitude of those earnings beats stands at 31.4% above estimates and, if maintained, would represent the largest earnings surprise since FactSet began tracking the data in 2008, surpassing the previous record of 23.2% set during Q2'20. Reflecting this strength, the blended earnings growth rate has surged to 47.4%, up from 38.0% just one week ago and 23.2% at quarter-end (June 30), putting it on track for its strongest reading since Q2'21. Admittedly, a considerable portion of this

acceleration is concentrated in two companies. Alphabet reported EPS of \$9.11 versus expectations of \$2.88, benefiting from a \$98 billion investment gain, while Amazon delivered \$5.75 per share compared with a consensus estimate of \$1.82, aided by \$53.4 billion of non-operating income largely related to its stake in Anthropic. Excluding these outsized contributions, the earnings surprise moderates to a still impressive 9.2%, still above historical norms, while blended earnings growth declines to 28.8%. Even so, it marks a second consecutive quarter of growth exceeding 20% and a seventh straight quarter of double-digit earnings expansion, underscoring the durability of the broader profit cycle.

Revenue results further validate the strength beneath the surface. The blended top-line growth rate has improved to 14.1%, while 10 of the 11 S&P 500 sectors have posted earnings growth, with health care standing as the sole exception. The breadth of participation suggests that the earnings momentum extends well beyond a handful of headline contributors. Perhaps most notable is that equity valuations have contracted even as corporate fundamentals have strengthened. The forward 12-month P/E ratio has declined to 19.6 from 20.4 at quarter end, falling below its 5-year average as earnings estimates have risen more rapidly than share prices. This valuation compression, despite record-setting earnings performance, highlights the influence of the rise in treasury yields discussed above, which has increased the discount rate applied to future cash flows and likely tempered investors' willingness to pay higher multiples.

Looking ahead, analysts continue to forecast robust earnings growth of 27.4% and 25.2% for Q3 and Q4'26, respectively. With 136 companies, including five Dow components, still scheduled to report in the week ahead, the market remains supported by an exceptionally strong fundamental backdrop. At the same time, that earnings strength is increasingly being tested by a less accommodating interest-rate environment, creating a growing tension between improving corporate profitability and higher discount rates.

Week ahead

The week ahead will bring another important set of macroeconomic data releases, with investors focused on the health of the labor market and the broader trajectory of economic activity. The Bureau of Labor Statistics is scheduled to release July nonfarm payrolls, providing further insight into labor market conditions, while the Institute for Supply Management (ISM) will publish its latest manufacturing and services surveys. These reports will be closely scrutinized for signs of economic momentum following the softer-than-expected second-quarter GDP reading.

Geopolitical developments are also likely to remain a key driver of market sentiment. Investors will continue to monitor

the situation in the Middle East, particularly the prospects for de-escalation between the United States and Iran after several weeks of heightened tensions and sustained hostilities. Any signs of either escalation or renewed diplomatic engagement could have meaningful implications for risk assets, commodity markets, and broader investor sentiment.

A continued steepening of the U.S. Treasury yield curve will also remain an important theme for markets. Recent trading suggests investors are becoming less convinced that policy easing is imminent, while concerns surrounding persistent inflation, elevated fiscal deficits, and increased Treasury issuance continue to pressure longer-dated yields. A further rise in long-term rates could tighten financial conditions, weigh on valuation-sensitive segments of the equity market, and increase scrutiny of the underlying strength of economic growth. Conversely, evidence of moderating inflation or a softer labor market could help stabilize long-term yields and ease pressure across risk assets.

Number of the week: \$725 billion

The combined 2026 capital expenditure now planned by the four largest hyperscalers, Amazon, Microsoft, Alphabet and Meta, a figure revised steadily higher through second-quarter earnings season and represented a roughly 77% surge from about \$410 billion in 2025. The upgrades came in quick succession. Meta lifted the ceiling on its full-year guidance toward \$145 billion, Alphabet raised its own outlook, and analysts marked up their aggregate estimates in response. CreditSights alone added some \$130 billion to its 2026 tally versus January, to roughly \$750 billion across the top five spenders. The scale is staggering. Annual commitments at Amazon and Microsoft have each roughly doubled year over year to near \$200 billion apiece, and the group's spending is now projected to clear \$1 trillion by 2027.

What makes the number consequential for this letter's central theme is how it is being financed. For the first time in the AI build-out, operating cash flow no longer suffices. The free cash flow across much of the group is expected to approach zero or turn negative this year, forcing a decisive pivot to external capital. Incremental debt has climbed to roughly 32% of hyperscaler capex, up from just 9% in 2024, with Amazon placing \$25 billion of bonds and Alphabet raising equity in recent months. This is the same record wave of AI-related issuance we have repeatedly flagged as competing for capital, lifting the term premium, and pressuring the long end of the Treasury curve. The tech sector's capital-spending boom and the back-up in long-term yields, in other words, are no longer separate stories and increasingly, they are the same one.

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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