

Key Takeaways:

- Economic expansion should continue but consumer faces headwinds.
- Federal Reserve is likely to raise rates in 2H26.
- Complacency is creeping into the equity market.
- Long term bond yields are expected to continue to rise.
- Diversification in commodities and hedging in an overvalued market.

Revisiting our 2026 Themes

Earlier this year we offered five different themes for 2026 where we predicted how the economy would perform, what we expected from the Fed and our outlook for the asset classes. As we move into 2H26 we wanted to use this weekly insights to review how our predictions have played out and what is still applicable as we close out 2026.

- **Theme #1 – Expansion to continue with little room for error:** Our base case to start 2026 was that the economic expansion would continue driven by AI spending and consumers getting a much needed lifeline from the One Big Beautiful Tax Bill. Both of these have materialized with capex spending and the consumer making up ~85% of GDP in 1Q and 2Q26. We expect corporate spending on AI to continue but we are concerned about the pace of consumer spending in 2H26. Inflation is a bigger concern than we thought at the start of the year, real wage growth is negative, consumer confidence is hovering near record lows and the personal savings rate is at the second lowest level seen since 2007.

- **Theme #2 – Stop and Go Can go Both Ways:** We expected the Fed would remain on hold this year with a higher chance of a rate hike in late 2026 than a cut. This contrasts with Fed fund futures, which priced in two-three cuts in 2026. We think the Fed will raise rates in 2H26 as inflation is a bigger risk to the economy than the labor market.

- **Theme #3 – The Stock Market is not the Economy:** We expected earnings to drive equity returns more than P/E expansion. This year S&P 500 earnings are expected to grow 30% while P/Es have declined 15%. We favored developed international and small/midcap over U.S. large cap equities. The Russell 2500 is outperforming the Russell 1000 by over 1000 bps YTD, while the MSCI EAFE and Russell 1000 are performing in line. We believed an underweight to global equities was the best for investors given heightened valuations. However, momentum continues and equities are on pace to rally for the third straight year. As we move through 2H26 we see complacency as a risk and believe markets are due for a correction.

- **Theme #4 – Growing Debt, Shrinking Tolerance.** We recommended shorter duration in fixed income given stubborn inflation and rising budget deficits. This year two and five year Treasuries are outperforming 10 and 30YR bonds, and both the 10 and 30YR auctions came in at multi-decade high yields. We avoided credit, though high yield and investment grade have outperformed. We remain concerned about long term bonds given surging deficits and inflation.

- **Theme #5 – Layer of Diversification.** In commodities we recommended a diversified approach as opposed to focusing on gold. Gold has been the laggard in commodities this year and we expect that to continue as yields rise. We also recommended hedging strategies in the overvalued equity market and hedge funds are up ~7% YTD. We continue to recommend hedging strategies as a way to participate in the rally if momentum continues to drive equities higher and mitigate the downside risk if/when a correction materializes.

Weekly Economic Recap –

Inflation comes in as expected; Consumers pull back

The NFIB Small Business Optimism survey showed confidence among small business owners rose for the second consecutive month. Optimism around future hiring plans rose to the highest level since 2022. In addition, small business owners became more confident on capital outlays, job openings and it being a good time to expand.

In July, the Consumer Price Index came in as expected at the headline (+0.1% MoM) and core (+0.2% MoM) levels. Prices on services (ex energy), owners' equivalent rent and education/communication led the increase in inflation in July.

Inflation as measured by the Producer Price Index came in slightly better than expected in July. At the headline level, prices were flat for the month. However, excluding food, energy and trade prices rose 0.4% MoM and are rising 4.7% on a year over year basis. The increase in final goods prices compared to the cost of intermediate goods showed that businesses are passing on cost increases to consumers.

Retail sales declined in July at the headline and core levels. At the core level, the decline was primarily due to auto and internet sales (-2.2% MoM) as Amazon ran Prime Day a month earlier this year. Spending at restaurants, a key reading on discretionary spending, rose at a solid pace (+0.5% MoM).

The preliminary reading on University of Michigan Consumer Confidence showed confidence is falling the most in three months in August. Confidence declined on current economic conditions and future expectations. In addition, inflation expectations over the next 12 months rose to 4.3% (from 4.2%).

Key Takeaways:

- Small business optimism rising.
- Inflation data delivers little surprises.
- Consumer spending pulls back.
- Global equities rally as AI trade gains momentum.
- Bonds fall led by long term Treasuries.
- Geopolitical tensions push energy prices higher.

Weekly Market Recap –

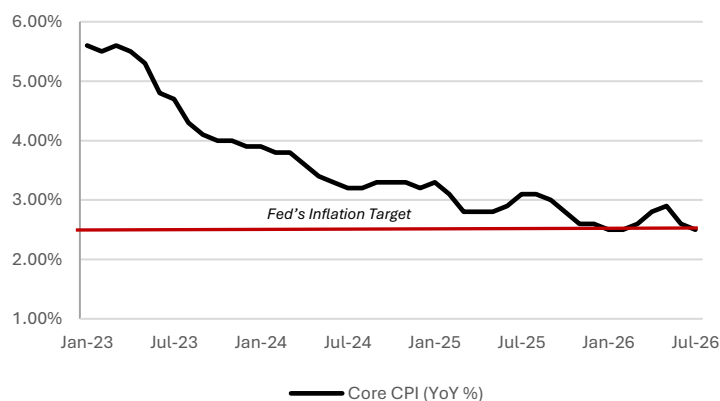
Global Equities Higher Led by Emerging Market Equities

Equities: The MSCI AC World Index rose for the second consecutive week and the S&P 500 notched its 27th record high for the year. From a global perspective, emerging market equities outperformed the rest of the world as Korea and Taiwan benefited from strong semiconductor demand. Within the U.S. growth outperformed value at all market cap levels as investors rotated back into tech stocks.

Fixed Income: The Bloomberg Aggregate Index fell for the fifth time in the past seven weeks despite inflation data coming in as expected and the odds of a September rate hike declined. Long term Treasuries and investment grade debt led the weakness.

Commodities/FX: The Bloomberg Commodity Index rallied for the first time in three weeks. The gains were driven by energy and grains. Crude oil jumped the most in three weeks as the U.S. and Iran failed to reach a deal to reopen the Strait of Hormuz. Grains were driven higher by a USDA report showing that corn and soybean yields would be less than originally expected.

Inflation Better but Not Good Enough



Footnotes: Data is as of July 2026.
Source: Bloomberg Finance LP, Verdence Capital Advisors.

Global Equities Rally on Tech Trade

U.S. Equities		Current	1WK	1MO	3MO	1YR	YTD	International Equities		Current	1WK	1MO	3MO	1YR	YTD
	Dow Jones Industrial Average	53,732	-0.5%	2.4%	7.8%	21.6%	12.8%		MSCI AC World (USD)	1,160	0.7%	3.5%	4.3%	23.5%	15.4%
	S&P 500	7,786	0.4%	3.3%	4.1%	21.8%	14.5%		MSCI EAFE (USD)	3,263	0.6%	4.3%	6.7%	23.0%	14.8%
	Russell 1000 Growth	5,044	0.5%	1.7%	-0.3%	11.9%	6.2%		MSCI Europe ex UK (USD)	3,587	0.3%	3.9%	7.4%	21.1%	12.0%
	Russell 1000 Value	2,540	0.4%	5.0%	10.4%	32.5%	23.9%		MSCI Japan (USD)	5,853	2.6%	5.5%	8.0%	31.2%	23.1%
	Russell 2500	5,383	1.0%	4.1%	8.2%	33.3%	25.2%		MSCI UK (USD)	1,730	-0.7%	3.8%	4.7%	21.1%	11.9%
	Russell 2000	3,068	1.1%	3.6%	7.5%	35.3%	24.6%		MSCI EM (USD)	1,701	2.7%	3.1%	-0.2%	36.2%	22.7%
	Nasdaq	26,729	0.2%	2.4%	0.5%	23.9%	15.4%		MSCI Asia ex Japan (USD)	1,129	3.3%	3.5%	0.2%	37.5%	25.0%
Fixed Income		Current Yield	1WK	1MO	3MO	1YR	YTD	Commodities		Current	1WK	1MO	3MO	1YR	YTD
	U.S. Aggregate	4.9%	-0.1%	-0.2%	-0.2%	2.4%	-0.2%		Bloomberg Commodity Index	349	2.8%	4.4%	-3.4%	40.6%	26.3%
	U.S. Govt/Credit	4.8%	-0.2%	-0.2%	-0.2%	1.9%	-0.4%		Crude Oil (USD/bbl)	\$88.5	-5.2%	0.7%	-20.5%	22.9%	27.9%
	U.S. 10 Year Treasury	4.7%	-0.2%	-0.4%	-0.5%	1.3%	-1.5%		Gold (\$/oz)	\$4,376.4	0.1%	9.4%	-3.8%	31.9%	1.7%
	U.S. TIPS (1-10YR)	4.4%	0.0%	0.1%	-0.4%	2.6%	1.3%		Copper	\$14,160.0	0.6%	3.8%	1.6%	45.0%	14.0%
	U.S. High Yield	7.2%	0.1%	0.6%	1.3%	5.5%	2.6%		Wheat	\$236.5	1.6%	-1.0%	7.0%	8.3%	16.7%
	EM Bonds (USD)	6.1%	0.0%	0.0%	0.6%	5.2%	1.5%		U.S. Dollar	100	-0.4%	-1.3%	0.2%	1.6%	1.1%
	Municipal Bonds	3.8%	0.1%	-0.6%	0.3%	5.4%	1.2%		VIX Index	14.3	-4.4%	-13.6%	-17.4%	-3.9%	-4.7%

Footnotes: Data is as of August 14, 2026.

Source: Bloomberg Finance LP, Verdenca Capital Advisors.

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