LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ JON M. SPANGLER, RICP
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

After a strong first half of the year, markets were mixed in July. The S&P 500 was basically flat while international developed markets were higher and US small cap stocks drifted lower. Investors balanced generally favorable corporate earnings and continued economic growth against escalating geopolitical tensions, higher energy prices and renewed concerns about inflation and interest rates.

Market leadership broadened during the month. Technology and other AI-related stocks became more volatile as investors scrutinized elevated valuations and the sizable capital expenditures required to build AI infrastructure. Meanwhile, financials, real estate and other previously lagging areas of the market provided support. Small-cap stocks declined modestly in July but remained among the strongest performing market segments for the year.

Inflation remained above the Federal Reserve's 2% objective, partly reflecting higher energy costs and other supply-related pressures. At its July meeting, the Fed held the federal funds target range steady at 3.50%–3.75%, although three members favored a quarter-point increase. The 10-year Treasury yield ended the month near 4.75%, its highest level since early 2025, as investors reassessed the outlook for inflation and future monetary policy.

Key themes shaping markets

- **Broadening market leadership:** July's performance was less dependent on a small group of technology companies. Strength in financials, real estate and other sectors helped offset weakness in portions of the technology market.
- **AI investment enters a more selective phase:** Artificial intelligence remains an important long-term growth theme, but investors are becoming more discerning. Companies are increasingly being evaluated on whether significant AI-related spending is translating into revenue, productivity improvements and sustainable earnings growth.
- **Geopolitics, energy and inflation:** Conflict in the Middle East contributed to significant swings in oil prices during July. Higher energy costs can affect inflation, consumer confidence and corporate profit margins, while also complicating the Federal Reserve's policy decisions.

Risks on the horizon

- Equity valuations remain elevated in several areas, leaving markets vulnerable to disappointing earnings, weaker guidance or changes in interest-rate expectations.
- Persistent inflation could keep interest rates higher for longer or lead the Fed to consider additional tightening.
- Geopolitical and trade uncertainties continue to create risks for energy prices, supply chains and business confidence.

Key takeaways

- Review risk exposures - After strong gains during the first half of the year, some portfolios may have drifted above their intended equity allocation or become overly concentrated in recent winners.
- Fixed income, money markets, buffer ETFs and premium income funds can help mitigate volatility.
- Diversification remains prudent, especially when leadership is concentrated in a narrow set of growth themes.

As always, if you'd like a deeper dive into your personal portfolio's alignment or a review of income-planning for the years ahead, we'd be happy to assist.

Key Statistics

Consumer Price Index (June)	3.5%
Core PCE Deflator (June)	3.3%
Unemployment Rate (June)	4.2%
10-Year US Treasury Yield (7/31)	4.74%
Fed Funds Rate (7/31)	3.50%-3.75%

Index Returns

	July	YTD
S&P 500	-0.06%	10.14%
MSCI EAFE	1.96%	11.59%
Russell 2000	-3.03%	18.85%
US Agg Bond	-1.30%	-0.69%

17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
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