JULY MARKET UPDATE

MORE FIREWORKS OR A QUIET SUMMER?



As of
July 31st, 2026

More Fireworks or a Quiet Summer?

July delivered a relatively quiet month for broad U.S. equity markets, but beneath the surface, investors continued to navigate meaningful shifts in interest rates, inflation expectations, and market leadership.

The S&P 500 declined 0.06%, the Russell 1000 fell 0.36%, and the Nasdaq retreated 3.19%. The Dow Jones Industrial Average moved modestly higher, gaining 0.38%, as investors continued to favor more defensive and value-oriented areas of the market.

Fixed income experienced a more challenging month. The U.S. Aggregate Bond Index declined 1.30%, while U.S. municipal bonds fell 1.85%. Treasury yields moved higher across the curve, placing pressure on bond prices despite income levels that remain attractive relative to much of the previous decade.

Investor sentiment remained steady, yet watchful. Markets entered August balancing moderating inflation, resilient corporate earnings, elevated interest rates, and the possibility that Federal Reserve policy could become more restrictive. This was another month where investors saw the importance of diversification, disciplined risk management, and an emphasis on durable portfolio fundamentals.

The Big Picture

Policy Expectations Continue to Shift Toward Possible Tightening

Market participants maintained a relatively restrictive view of Federal Reserve policy during July. By month end, market pricing suggested that the policy rate could rise approximately 36 basis points over the next twelve months, reaching roughly 4.17% by September 2027.

Importantly, investors continue to expect interest rates to remain elevated for an extended period. While a future rate increase is far from certain, persistent inflation and continued economic resilience have reduced expectations for meaningful near-term easing.

The Federal Reserve left rates unchanged at its July 29 meeting, and the next meeting is scheduled for September 16. Investors will be watching closely for additional guidance regarding inflation, employment conditions, economic growth, and the possibility of future policy tightening.

What the Economic Data is Telling Us

Inflation Moderated in July, but Remains Above Target

July inflation data provided some encouraging signs that price pressures may be moderating. The Consumer Price Index, or CPI, ended the month at 3.53% year over year, down from its recent high but still above the Federal Reserve's longer-term objective.

Personal Consumption Expenditures, or PCE, readings also remained elevated. After increasing during the spring and early summer, the latest measure receded modestly but continued to indicate inflation above target.

The improvement has been welcomed by markets, but the recent trend remains uneven. Inflation has moved lower from June levels, yet continued economic resilience may prevent price pressures from returning to target as quickly as policymakers would prefer.

These readings help explain why markets continue to anticipate that interest rates may remain unchanged or potentially move higher rather than decline meaningfully in the near term. ***(See Chart Book)***

Employment Remains Resilient, but Momentum Is Moderating

Nonfarm payrolls continued to trend higher during July, although the pace of employment growth remained relatively flat. The unemployment rate stood at 4.20%, compared with 4.30% one year ago. ***(See Chart Book)***

The data suggests that the labor market remains stable, but is no longer accelerating at the pace seen earlier in the economic cycle. This creates a complicated environment for the Federal Reserve. Moderating job growth may point toward softer economic momentum, while persistent inflation limits the Fed's ability to provide additional monetary support.

A gradual normalization of labor conditions would be constructive. However, investors remain alert to whether the current moderation represents a healthy rebalancing or an early sign of more pronounced economic weakness.

Investors Expect Rates to Remain Elevated

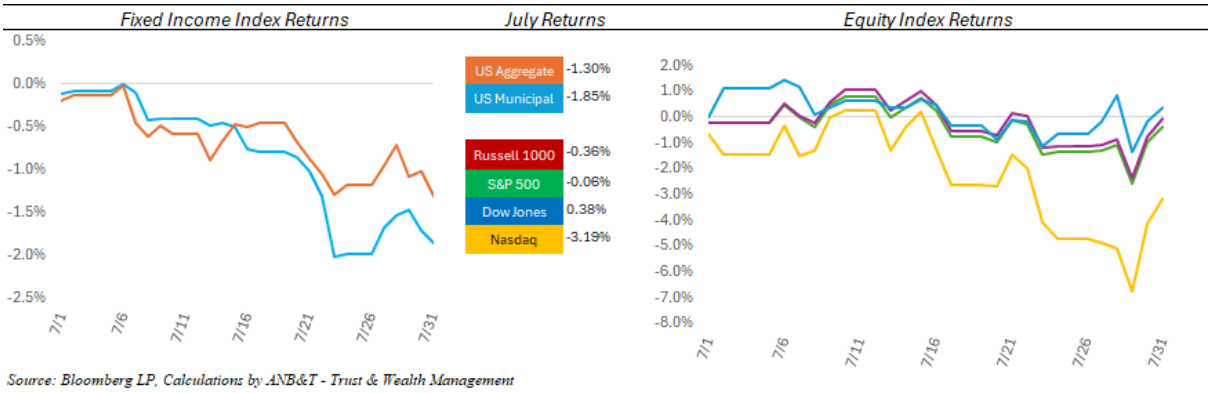
Following the July data and Federal Reserve meeting, market pricing continued to suggest that short-term interest rates may remain elevated and could potentially move modestly higher over the next twelve months.

The market's outlook remains dependent on whether inflation continues its recent downward trend and whether labor-market conditions weaken more meaningfully. Until inflation demonstrates sustained progress, the Federal Reserve is likely to maintain a cautious and data-dependent approach. ***(See Chart Book)***

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Market Performance in July



Source: Bloomberg LP, Calculations by ANB&T - Trust & Wealth Management

What Drove Markets in July

Stock market indexes were influenced by:

- Continued weakness in technology-oriented and growth-sensitive areas of the market.
- Persistent inflation and expectations that interest rates may remain elevated.
- Resilient corporate earnings and sales results.
- Greater investor emphasis on valuation, quality, dependable cash flow, and earnings durability.
- Rotation toward more defensive and value-oriented companies.

July earnings provided another constructive fundamental signal. Of the 526 companies reporting within the Russell 1000, 353 companies, or 67%, posted positive sales surprises and 423 companies, or 80%, exceeded earnings expectations.

Overall sales and earnings surprises came in at 2.80% and 29.29%, respectively. Energy and Financials produced some of the strongest positive surprises, reinforcing the benefits of maintaining diversified exposure across sectors rather than relying exclusively on the market's largest growth companies.

Bond market indexes were influenced by:

- An increase in the 10-year Treasury yield of approximately 27 basis points, ending the month near 4.74%.
- A more modest increase in the 2-year Treasury yield of approximately 12 basis points.
- Rising longer-term municipal yields, which placed pressure on tax-free bond prices.
- Expectations that Federal Reserve policy may remain restrictive.
- Attractive income levels relative to much of the previous decade.

Fixed income markets generated negative total returns as Treasury and municipal yields moved higher. Taxable bonds declined 1.30%, while municipal bonds returned negative 1.85%.

What We Are Watching and How We Are Positioning

Key Themes Guiding Market Behavior:

- Whether CPI and PCE inflation continue moving sustainably toward Federal Reserve targets.
- Labor-market stability alongside moderating payroll growth.
- The possibility that markets continue to price a more restrictive policy path.
- Earnings durability as equity returns become increasingly dependent on company fundamentals.
- Relative-value opportunities created by higher bond yields, equity volatility, and sector dispersion.
- The relationship between artificial intelligence investment, electricity demand, infrastructure development, and profitability.
- The rotation from technology-oriented growth companies toward value, income, and defensive areas of the market.
- Whether continued consumer spending can support economic resilience despite elevated borrowing costs.

How We Continue to Allocate Across Portfolios

Our investment process continues to blend dynamic long-only equity strategies with active fixed income management. Within equities, the Legacy portfolio balances growth and value on a discretionary basis, while the Dividend portfolio emphasizes lower volatility and higher current income.

We also maintain factor-aware exposure through Momentum and Quality strategies. The Momentum portfolio seeks participation in favorable market trends while maintaining broad diversification. The Quality strategy combines lower volatility, positive momentum, and exposure to financially durable, income-generating companies.

For investment themes with greater international exposure, Benjamin Builder solutions complement our other equity strategies and provide an efficient method of investing broadly across geography, style, and sector through an institutional, active process.

Across portfolios, we remain focused on quality businesses, dependable cash flow, durable competitive advantages, and reasonable valuations rather than pursuing narrow areas of short-term market movement.

Within fixed income, we continue to emphasize government securities and investment-grade credit for stability and dependable income. Rising yields during July created additional opportunities to add high-quality bonds at more attractive income levels. We are also evaluating municipal bonds where tax-equivalent yields remain compelling for appropriate investors.

We Continue to Emphasize:

- **Quality U.S. equities** as the core of long-term appreciation, with a focus on AI infrastructure and power companies.
- **Government and investment-grade credit** for stability and dependable income.
- **Strategic global allocations** to diversify macro and policy risk.
- **Liquid alternatives**, including selective exposure to assets such as gold, to enhance portfolio responsiveness.
- **Digital asset research** as institutional adoption continues to develop within the broader global macro environment.

Final Thoughts

July reinforced the transition toward a more selective and fundamentally driven market environment. Broad equity indexes were relatively flat, while technology-oriented companies experienced more meaningful weakness and the Dow produced a modest gain.

At the same time, inflation moderated from recent highs, employment conditions remained stable, and investors continued to price the possibility that Federal Reserve policy could remain restrictive or become modestly tighter.

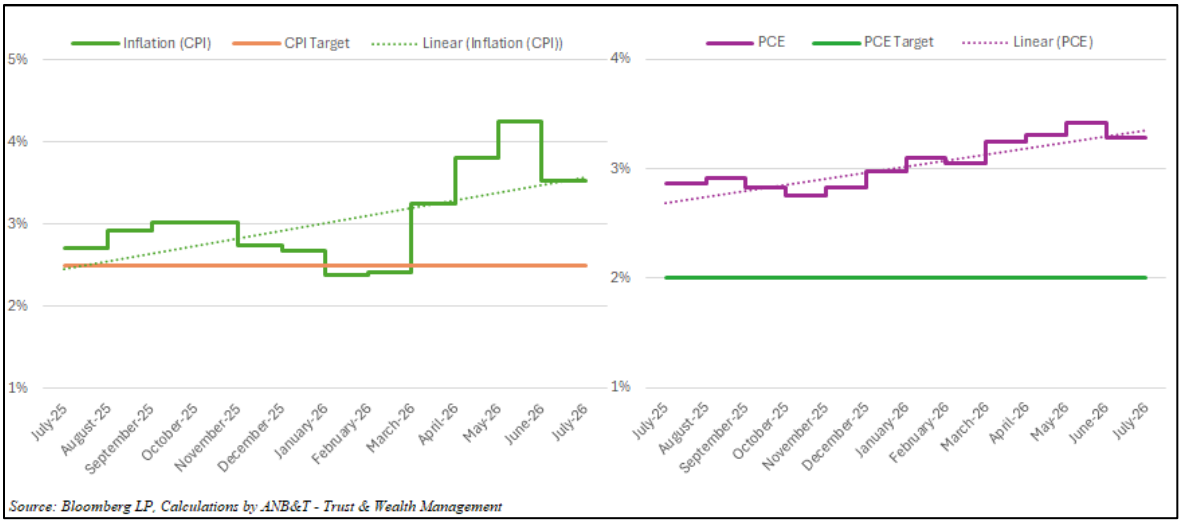
Fixed income experienced negative total returns as Treasury yields moved higher, but the adjustment also created opportunities to capture more attractive yields across government, corporate, and municipal bonds.

This environment argues for discipline rather than retreat. Strong corporate earnings, compelling bond income, and long-term structural investment themes continue to provide opportunities, but portfolio returns may become increasingly dependent on security selection, quality, and valuation.

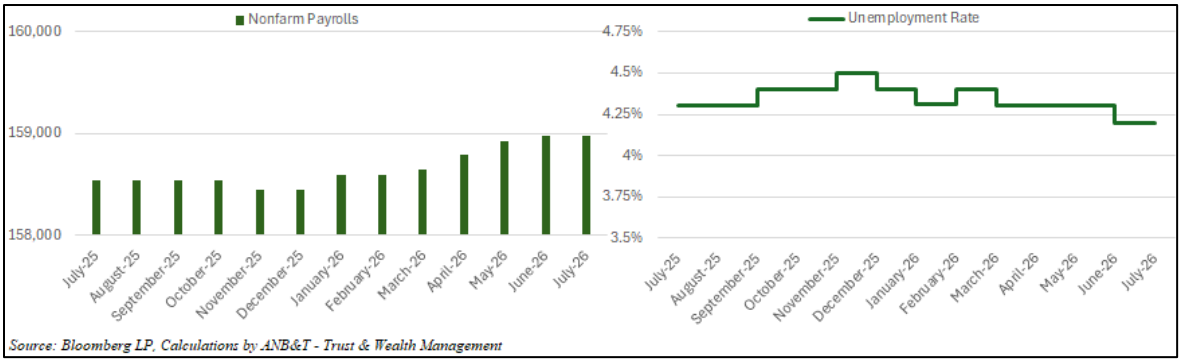
Our approach continues to pair growth opportunities with defensive positioning so portfolios remain aligned with long-term objectives while remaining responsive to changing economic and market conditions.

Thank you for your continued trust in American National Bank & Trust for your financial needs.

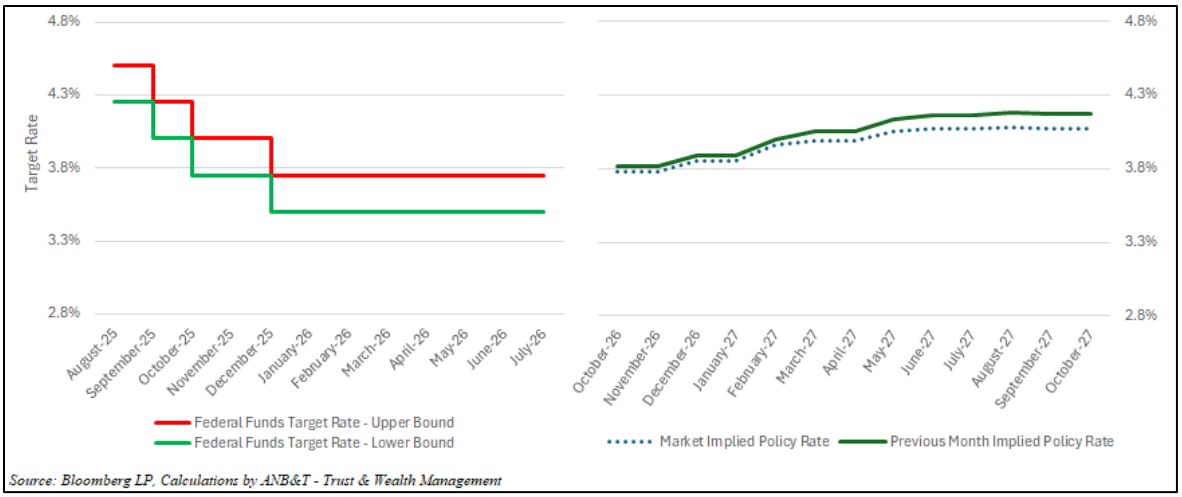
Chart Book



Source: Bloomberg LP, Calculations by ANB&T - Trust & Wealth Management



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