HIGHLAND

August 3, 2026

Multi-Asset Solutions Weekly Commentary

Key Observations

There was a downward bias to equity prices early in the week as sentiment and risk appetite were subdued in the lead-up to the FOMC's post-meeting press conference on Wednesday. Following the FOMC meeting, equity prices initially fell sharply but recovered on Thursday following earnings releases out of select 'Mag 7' members. Even as long-term Treasury yields made year-to-date highs on Friday the S&P 500 continued to rally and closed higher by over 1% on the week. The 'one step forward, one step back' path taken by equity indices in the past two months has been frustrating, but we view resiliency and an impressive start to earnings season as reasons to remain constructive on stocks, broadly speaking.

Earnings reports out of 'Magnificent 7' members as well as a few other higher-profile names in the information technology sector appeared to alleviate some of the concerns surrounding the AI bubble bursting, leading to a much-needed bounce in the beleaguered memory and semiconductor industry groups. Abroad, developed markets held up relatively well amid last week's volatility, with indices tied to the Eurozone, Japan, and U.K. all posting modest gains.

Yields on longer-dated Treasuries jumped on the heels of the FOMC's decision to stand pat on rates as market participants appear to be questioning the Fed's resolve when it comes to getting inflation back down toward its 2% target. Short-dated yields responded by falling a handful of basis points as the odds of a September rate hike fell, which led to a substantial steepening of the yield curve.

What We're Watching This Week

The Institute for Supply Management (ISM) Services index for July is released Wednesday with the reading expected to improve to 54.5 from 54.0 in June. A reading above 50 indicates expansion or growth, while a reading below 50 indicates contraction.

The July nonfarm payrolls report is released Friday with the consensus estimate calling for 85k jobs to have been created during the month. Average hourly earnings are expected to rise 0.3% month over month and 3.5% year over year, while the unemployment rate is expected to remain steady month-over-month at 4.2%.

	Price/Yield	Total Return (%)					
	7/31/2026	1 Week Ago	1 Month Ago	Year to Date	1 Year	3 Years	5 Years
S&P 500	7,489.72	1.06	0.15	10.14	19.56	19.43	12.86
NASDAQ 100	28,274.20	0.53	-5.13	12.38	22.58	22.54	14.46
S&P Mid Cap 400	3,758.64	-0.66	-1.55	14.54	20.92	13.05	8.47
S&P Small Cap 600	1,768.56	0.42	-1.38	21.55	33.64	13.45	7.48
MSCI World ex US	473.49	1.98	0.64	14.08	28.46	17.72	9.22
MSCI EM	1,665.89	2.36	-3.04	20.04	36.44	19.47	8.03
Bloomberg U.S. Aggregate	4.98	-0.12	-1.11	-0.69	2.71	3.92	-0.40
Bloomberg Corporate	5.46	-0.06	-1.49	-0.83	2.53	4.81	0.27
Bloomberg U.S.High Yield	7.41	0.18	-0.26	1.71	5.17	8.38	4.04
Bloomberg EM USD Aggregate	6.28	-0.04	-1.13	0.70	5.65	7.73	1.72
Bloomberg Global Aggregate ex-USD ($Hedged)	3.33	0.07	-1.09	-0.46	0.14	2.54	-0.63
Bloomberg Municipal Bond	3.93	0.13	-1.74	0.43	5.27	3.08	0.51

	Price/Yield						
	7/31/2026	1 Week Ago	1 Month Ago	12/31/2025	1 Year Ago	3 Years Ago	5 Years Ago
SOFR (yield)	3.65	3.64	3.68	4.49	4.39	5.31	0.05
30 Year Mortgage (average rate)	6.73	6.66	6.55	7.28	6.78	7.26	2.98
2 Year Treasury (yield)	4.29	4.33	4.17	4.24	3.96	4.88	0.18
10 Year Treasury (yield)	4.73	4.68	4.47	4.57	4.37	3.96	1.22
30 Year Treasury (yield)	5.27	5.16	4.95	4.78	4.90	4.01	1.89
WTI Crude (closing price)	84.67	89.31	69.50	71.72	69.26	81.80	73.95
Gold (NYM $/oz)	4,049.10	4,070.80	4,038.50	2,641.00	3,293.20	1,970.50	1,812.60

Source: Bloomberg (3- and 5-Year Annualized)
Index returns are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

Stocks

Rudderless Market Gets A Jolt From 'Mag 7' Earnings As Most Indices End The Week With Modest Gains; Developed Markets Abroad Catch A Bid As 'Anti-AI' Plays; South Korea Volatility Continues To Garner Headlines, Leading To Rotation Within Emerging Market Indices.

Rudderless Market Gets A Jolt From 'Mag 7' Earnings, But U.S. Indices End The Week Little Changed. U.S. equity indices were rudderless with a downward bias in the lead-up to the FOMC's rate decision and earnings out of the 'Magnificent 7' cohort mid-week, with market participants selling into any pockets of strength to be found. The shakeout in information technology stocks continued through Wednesday with semiconductor and memory names bearing the brunt of the selling, with the former approaching the most oversold levels seen since the onset of the conflict with Iran in late March. Continued weakness in South Korea didn't help matters as the country's KOSPI index ended the week unchanged even after a 16.6% surge on Friday alone. But with regulators there stepping in to prevent new listings of single stock leveraged ETFs, and amid rumors of a short selling ban, signs of stabilization there could allow semiconductor and memory names stateside to build on last week's rebound. The FOMC meeting and persistent volatility out of South Korea's tech-heavy market garnered headlines and contributed to subdued sentiment and risk appetite into mid-week, but 'Mag 7' earnings releases ramped up after market close on Wednesday and appeared to ease investor angst surrounding the health of the broader AI trade, allowing semiconductor and memory names to rebound sharply into the weekend.

On the earnings front, Meta Platforms (META) saw its stock price fall 7.9% Thursday after posting results as earnings per share fell short of the consensus estimate due to AI-related spending, while the midpoint of Meta's 3Q revenue guidance fell below the midpoint of the analyst range, and the company's free cash flow dropped sharply to below $1B, down from $8.5B in 2Q25. The company also raised the lower bound of its full-year capex guidance to $130B-$145B from a prior range of $125B to $145B and given there has so far been minimal return on this investment, investors increasingly view this as a 'show me story.' Microsoft (MSFT) also posted results on Wednesday evening and saw its stock rally 15.5% the following day as the company posted 43% year-over-year growth in its Azure cloud platform, surpassing the consensus expectation of 40.2%. Microsoft also increased the lower bound of its capex guidance, but given the company is already seeing a return on its AI-related investments, market participants were more willing to reward the company's share price, particularly with Microsoft entering last week as the worst performing Mag 7 name this year.

On Thursday night, Amazon (AMZN) posted results and its stock price rose 15.3% on Friday. The company's cloud computing division, Amazon Web Services (AWS), grew sales 36.7% year-over-year, above the 35% expected by analysts, and Amazon posted an operating profit margin of 13.7%, also above the 12% estimate. Impressive AWS growth and CEO commentary that the AWS division could ultimately generate $1T in annual revenue appeared to justify the increase in the capex guidance range from $200B this year to $225B. Lastly, Apple (AAPL) rounded out a big week for earnings after the bell Thursday and saw its share price fall 7.3% on Friday. Services revenue grew an impressive 12% year over year, and iPhone sales grew 22%, but overall sales of $109.4B during the quarter barely surpassed the consensus estimate of $108.6B. The company noted that after shares rallied 31.5% since the end of March, quarterly results provided a reason for investors to take profits and shift capital elsewhere.

Extreme Volatility Continues To Plague The KOSPI, Spurring Continued Rotation Within Emerging Market Indices While Foreign Developed Market Stocks Play Defense. After Selling pressure in semiconductor stocks was front and center again last week, with the Korea Stock Exchange (KOSPI) enduring a 14.7% mid-week drawdown before ending the week unchanged after bouncing back on Friday. The KOSPI narrowly avoided a 6th straight weekly decline after briefly trading below its 200-day moving average before regulatory intervention brought buyers back in on Friday. Notably, there was substantial volume behind the KOSPI's 16.6% advance on Friday which could signal that the shakeout has run its course, a positive indicator the index could be nearing a near-term turning point.

The drawdown in South Korea DRAM names wasn't enough to derail the broader MSCI Emerging Market index as it still posted a 2.3% gain on the week as rotation into Chinese equites continued with the MSCI China index rising 3.9%. Ongoing volatility tied to chipmakers and AI-adjacent equites had a negligible impact on the MSCI EAFE index which gained 2% last week as its relatively low exposure to information technology stocks provided a tailwind. The bulk of those gains were generated from the "anti-AI" segments of the market, with European markets leading the charge as sector gains centered around discretionary, staples, and healthcare segments.

Bonds

Yield Curve Steepens As Investors Attempt To Process What They Heard Out Of The FOMC; Credit Spreads Leak Wider As Investors Fear Saturation From Too Much AI-Related Issuance; Rate Volatility Ramps Up Post-FOMC And Will Likely Persist.

Yield Curve Steepens As Investors Attempt To Process What They Heard Out Of The FOMC; Inflation Data Supportive Of Pause. It was a volatile week in the rates market, with short-term yields reversing lower and yields in the belly and on the long-end of the curve rising, with the 30-year yield, specifically, rising to a level last seen in 2007. Short-dated yields fell as the FOMC stood pat on rates at its meeting, although there were 3 dissenting votes in favor of a 25-bp rate hike. In his post-meeting remarks, Chair Kevin Warsh stated that with the rise in Treasury yields following the June meeting that that bond market had to some degree done the FOMC's work for it.

Warsh's remarks led market participants to lower the likelihood of a rate hike when the Committee meets in September and yields on the long-end of the Treasury curve spiked as bond investors were both confused and increasingly skeptical that the FOMC would be as 'hawkish' and aggressive in getting inflation back to its 2% target as was previously believed. Following the release of the June Personal Consumption Expenditure (PCE) on Thursday morning, yields appeared to stabilize – albeit briefly. Headline PCE fell 0.1% month over month and came in at 3.7% year over year, with both readings in-line with consensus estimates. Core PCE, which the FOMC more closely monitors, rose 0.2% month over month and 3.3% year over year, also largely in-line with expectations. However, with Core PCE remaining 'stuck' and barely falling from 3.4% the prior month, the three 'hawkish' dissenters on the Committee could have company in that camp by mid-September.

Interestingly, even as long-term Treasury yields rose in the wake of the FOMC meeting, the U.S. dollar fell sharply versus the euro and Japanese yen, which could be a function of market participants believing the FOMC is already late to joining the inflation-fighting party. All told, the 2-year yield fell 4-bps on the week to 4.29%, while the 10-year yield closed at 4.73%, up 5-bps on the week and its highest weekly close this calendar year.

Bond Market Volatility Pushes Corporate Yields Higher With Low Quality Faring Best. Credit spreads on below investment grade bonds moved wider at the margin for the third consecutive week to end July, this trend is a continuation of the higher highs we've seen in corporate bond spreads over the last two months. The modest move wider in below investment grade spreads was largely offset by income with the Bloomberg U.S. High Yield Corporate index gaining just shy of 0.2% on the week. Beneath the surface, investors are taking a more deal-by-deal approach when allocating to corporate bonds, particularly when it comes to AI-related issues/issuers which have flooded the market with debt so far this year. Investment grade (IG) corporates saw a modest drop on the week despite valuations ending unchanged as rising rates in the belly and long-end of the Treasury curve put downward pressure on these more interest rate sensitive bonds. At the margin, investment grade bond yields hold a bit more appeal as credit spreads close in on 24-month highs, ending last week at 5.46%, but the high yield index will likely continue to be the better performer as it offers a drastically higher 7.41% yield with less than half the duration of the investment grade benchmark.

FOMC Leaves Funds Rate Unchanged In July; Odds Of A Rate Hike In September Drop Materially Post-Meeting. The Federal Open Market Committee (FOMC) concluded its two-day meeting on Wednesday, and in a 9 to 3 vote left the funds rate unchanged, with the three 'hawkish' dissenting voters favoring a 25-basis point rate hike. In his post-meeting remarks, Chair Warsh stated that, "market participants are learning to play the ball, not the referee," in reference to Treasury yields rising across the curve during the inter-meeting period in response to incoming economic data. Entering the meeting, Fed funds futures were pricing in a 33% likelihood of rate hike at last week's meeting and placed a 100% probability on a hike of at least 25 bps by mid-September. However, following the FOMC's announcement and Chair Warsh's post-meeting press conference, the odds of a September rate had fallen to around 67% by the weekend. The Federal Reserve Bank of Kansas City hosts its annual Jackson Hole Economic Policy Symposium on August 27-29, and Chair Warsh's comments will be parsed and may prove market moving as the mid-September meeting looks quite 'live.' The October FOMC meeting concludes less than one week before the mid-term elections take place, and we suspect the Committee would prefer not to act at that time, which leaves the September meeting as the most likely for any change to the Fed funds rate.

HIGHLAND ASSOCIATES
2545 HIGHLAND AVENUE SOUTH
SUITE 200
BIRMINGHAM, ALABAMA 35205

205.933.8664 PHONE
205.933.7688 FAX

BIRMINGHAM
ST. LOUIS