Prime Capital FINANCIAL

MONTH IN REVIEW

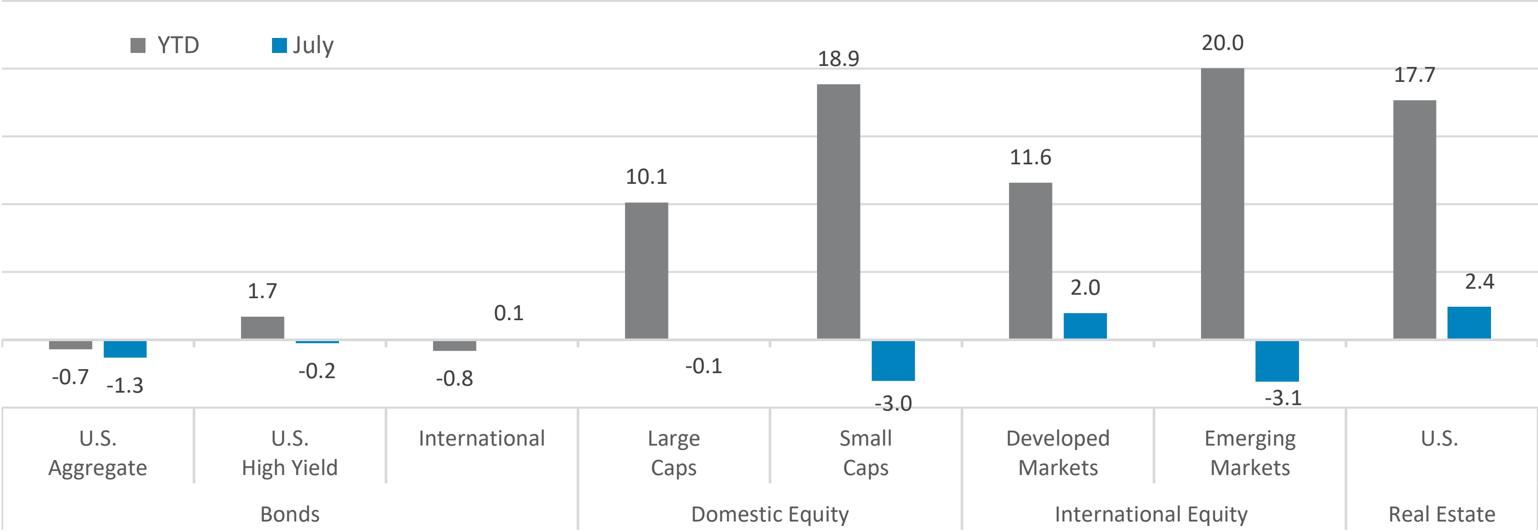
JULY 2026

Quick Takes

- **Equities Rotated.** Stocks diverged in July, with investors rotating out of tech and the AI trade as concerns over AI monetization rose ahead of Q2 earnings season. Emerging markets legged lower in sympathy with tech stocks while developed markets were the only equity gainer.
- **Inflation & Interest Rates.** The yield curve steepened in July as the Fed held rates steady at 3.50%-3.75% for its fifth-consecutive meeting. Three dissents and a lack of forward guidance amidst reigniting tensions in Iran drove the 30-year yield to its highest level since 2007.
- **Hormuz Reopens, Then Closes.** The 60-day Islamabad Memorandum, signed in mid June, unraveled in July as both sides resumed strikes, Iran moved to block tankers in the Strait of Hormuz, and the U.S. resumed its blockade, sending oil prices back above $90 per barrel.
- **Hyperscalers Split.** Microsoft and Amazon shares surged on strong cloud revenue growth, helping to ease concerns over AI monetization. Meta sank as ambiguous capex commentary gave investors little clarity on 2027 spending plans to justify their outlays.

Asset Class Performance

U.S. large-caps finished roughly flat in July, while small-caps as sank as renewed Iran War escalation, worries of reaccelerating inflation, and a Fed hold drove long-dated yields to multi-year highs. Developed markets outperformed, aided by their smaller tech weighting while emerging markets fell on their semiconductor exposure.



Source: Bloomberg, Goldman Sachs Investment Research, as of August 3, 2026. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

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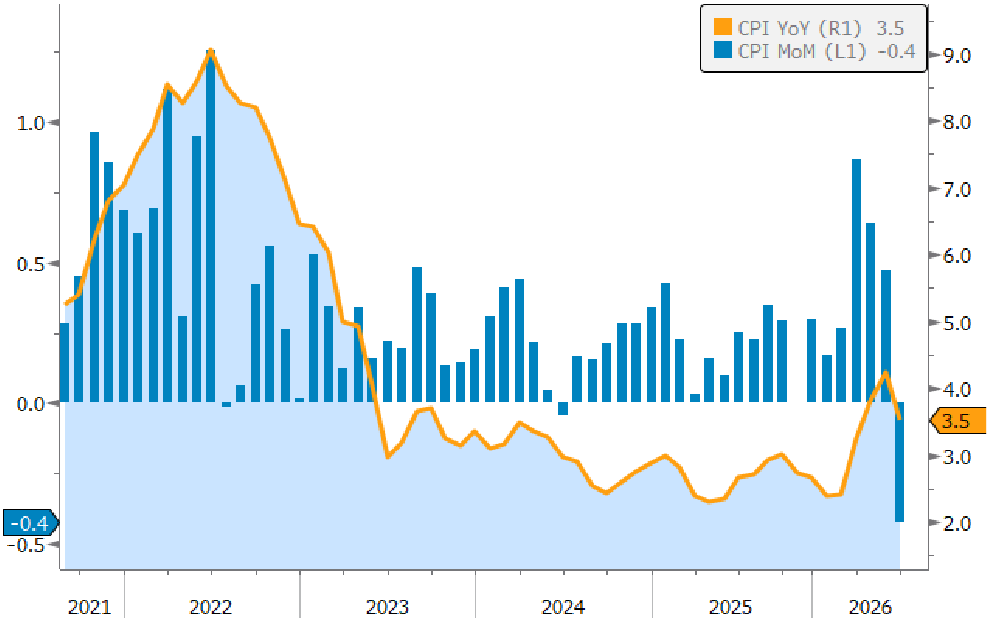
Markets & Macroeconomics

Ceasefire collapse lifts oil and yields while AI names selloff

CPI MoM & YoY

June's CPI reading falls on Iran War deescalation and sinking oil prices



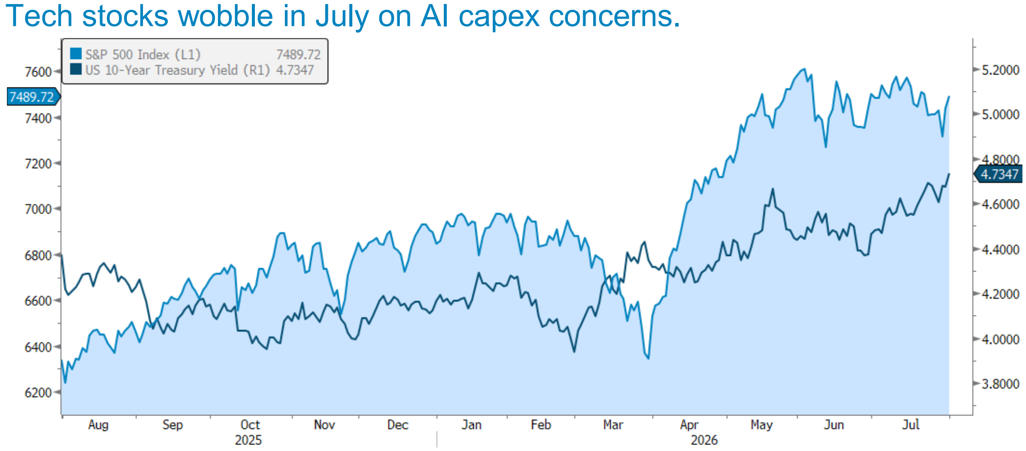
Source: Bloomberg

June's 60-day Iran War ceasefire memorandum was short-lived. Iran struck multiple tankers in the Strait of Hormuz in the first week of July, triggering a chain of retaliatory strikes between the US and Iran that ended the deal. Brent prices surged from their post-ceasefire lows to above $90 per barrel, the national average gas price crossed back above $4 per gallon, and energy-driven inflation fears reignited. However, July's economic releases covered June, when the ceasefire deal and falling gas prices strengthened a host of economic data. Headline CPI fell 0.4% MoM in June, the largest decline since April 2020, leaving the annual rates at 3.5% YoY and core at 2.6% YoY. Headline PCE followed, down -0.1% MoM and 3.7% YoY, with core results of 0.1% and 3.3%, respectively. Labor cooled alongside inflation, with the US adding just 57,000 jobs in June against estimates of 113,000, with hiring concentrated in Education & Health Services (+69K), while Leisure & Hospitality shed 61,000 jobs, its steepest decline since 2020. Unemployment fell to 4.2%, though for the wrong reason as the participation rate fell 0.3 points to 61.5%. Q2 GDP's advance reading showed the economy grew just 1.5% annualized, versus estimates of 2.0% as a surge in imports offset strong consumer spending and business investment. Final sales to private domestic purchasers, a narrower metric of underlying private demand, rose 3.9% in Q2, more than double its Q1 pace. The University of Michigan's Consumer Sentiment index hit a five-month high of 55.2 in July, up from 49.6 in June but 11% below its year-ago reading. The Fed weighed disinflation with war escalation at its July FOMC meeting, with markets pricing a one-in-three chance of a rate hike. The committee voted 9-3 to hold at 3.50%-3.75%, with the dissents in favor of a 25-basis-point hike. Long-end yields rose, with the 30-year Treasury reaching its highest yield since 2007. In equities, semiconductor and AI stocks unwound for most of the month, with the SOXX falling ~22% as investors questioned valuations and whether AI returns justify the massive capital outlays. Investors rotated into software, with IGV rising ~4.4%. However, Q2 earnings in late July selectively restored confidence in the AI trade as hyperscalers like Microsoft and Amazon soared on accelerating returns and robust capex plans.

<u>Bottom Line:</u> With the Iran War back on, June's disinflationary data was already stale, gas prices and long-end yields rose, and the AI trade wobbled on spending concerns.

S&P 500 vs 10Y Treasury Yields 1Y

Tech stocks wobble in July on AI capex concerns.



Source: Bloomberg

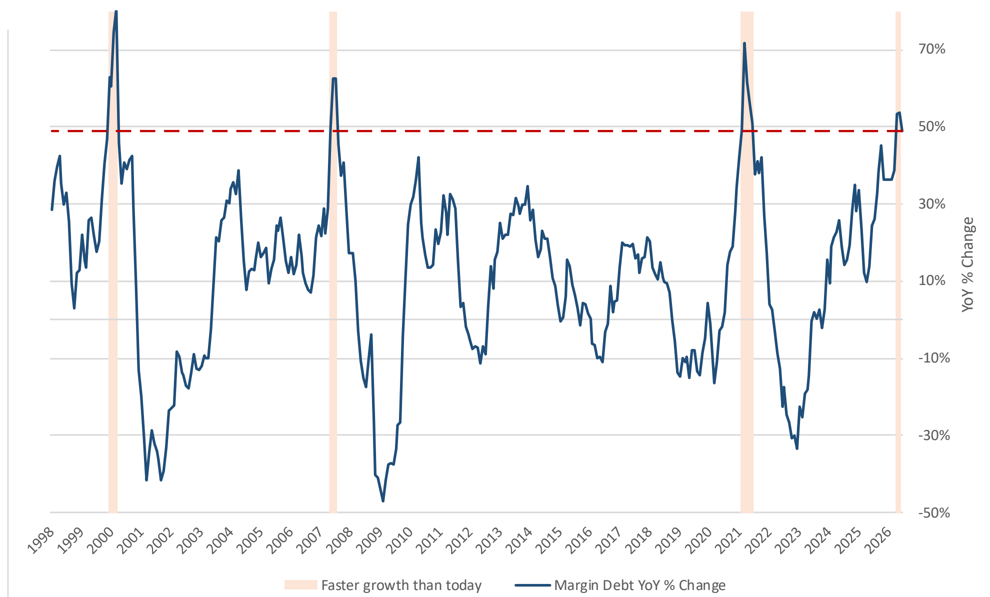
July 2026

What’s Ahead

The Situational Awareness Implosion and Korean Retail Leverage

FINRA Margin Debt, YoY % Change

Retail borrowing is growing at a pace only seen three times in 29 years



Source: FINRA

Leopold Aschenbrenner, a 25-year-old former OpenAI researcher, started a hedge fund named Situational Awareness in 2024, building into a $45B fund on the thesis that AI was progressing faster than anyone expected, and that the bottlenecks in the buildout were worth owning. The fund rose over 1,000% since inception, owing to as much as 4x leverage against holdings including Micron, SanDisk, CoreWeave, Bloom Energy, and SK Hynix, alongside a private portfolio including a reported $5B investment in Anthropic. That leverage meant that modest moves in those names produced outsized swings in the portfolio, and it came to a head in July, when the Philadelphia Semiconductor Index fell over 20% as Chinese progress in domestic chipmaking and scrutiny over massive hyperscaler financing plans revived questions regarding the returns on AI capital spending. SA’s positions cratered with the selloff, sending the fund down a reported 67% on the month. In a late July letter, Aschenbrenner embraced the selloff as a buying opportunity and invited investors to commit fresh capital. The calls weren’t enough, and by the end of July, the fund faced massive margin calls from Goldman Sachs, JPMorgan, and Bank of America. Citadel stepped in, buying the vast majority of its public portfolio at a reported discount of more than 10%. The fund’s assets fell from $45B to roughly $10B, leaving its Anthropic stake and private equity vehicle. The same dynamic played out across Korean retail accounts. The Korean Stock Exchange entered July up over 100% year-to-date, having peaked in mid-June before falling 22% in July. The AI selloff was amplified in the KOSPI as Samsung and SK Hynix account for over half the index. Retail financed much of that rally, with margin balances peaking above 38.6T won in June and much of it going to single-stock levered ETFs. The selloff and subsequent leverage unwind tripped index-level circuit breakers four times in July, generating margin calls on 1.2 million levered accounts, 350,000 of which were fully liquidated. The unwind skewed heavily towards younger demographics, with an estimated 1 in 30 adults called in July. Margin balances ended July at 28.9T won, the first reading below 30 trillion in six months. In both cases, leveraged trading amplified the severity of the event. In the U.S., margin debt reached a record $1.50T in June, raising concerns of a similar unwind. July’s reading, released mid-August, will show whether there’s been any unwind in U.S. leverage.

Korean Stock Exchange Performance YTD

Retail leverage and levered ETFs drive volatile moves in the KOSPI

Source: Bloomberg

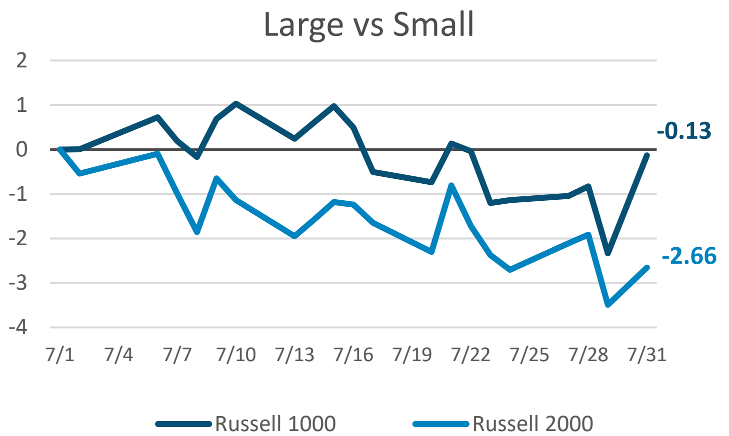
<u>Bottom Line:</u> The same AI leverage unwind took out a $45B hedge fund and 350,000 Korean retail accounts in July, with U.S. margin debt sitting at a record $1.50T.

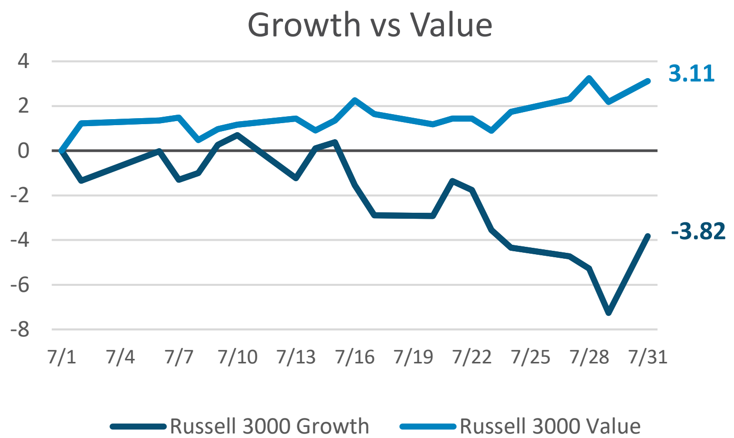
July 2026

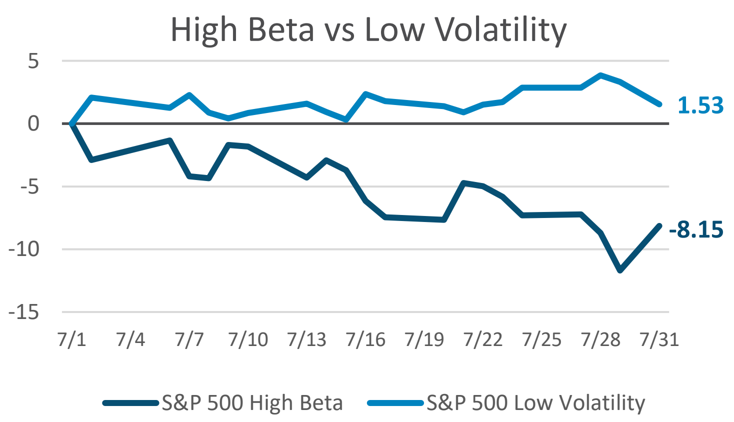
Equity Themes

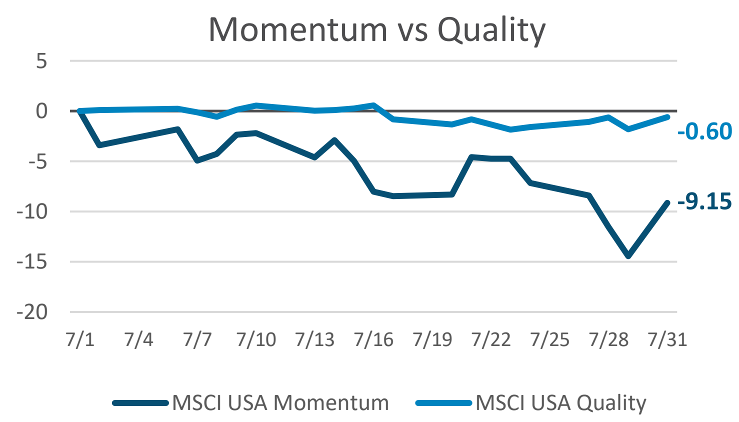
What Worked, What Didn’t

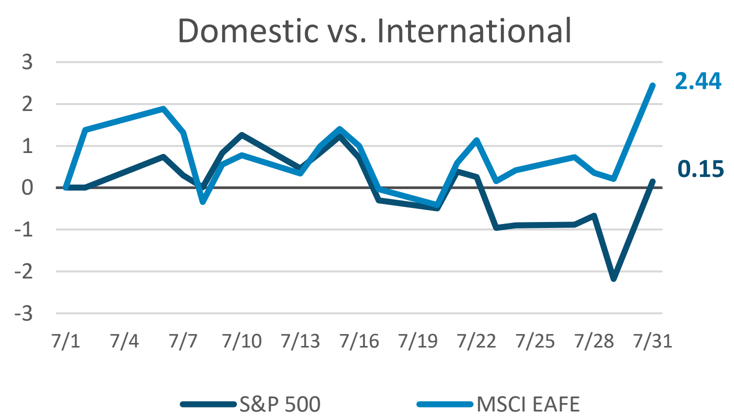
- **Large Caps Outperformed Small while Value Beat Growth.** Tech weakness drove outperformance in value while a late-month rebound in hyperscaler stocks solidified large over small caps.
- **Low Vol and Quality Outperformed.** Low volatility stocks beat high beta as AI monetization concerns unwound momentum stocks.
- **International Over Domestic, Developed Over Emerging.** International markets rallied on U.S. tech weakness while emerging’s heavy weighting to semiconductors hindered its performance.

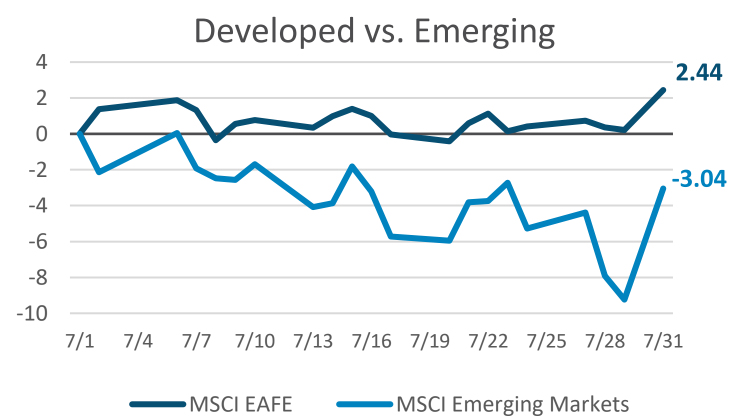












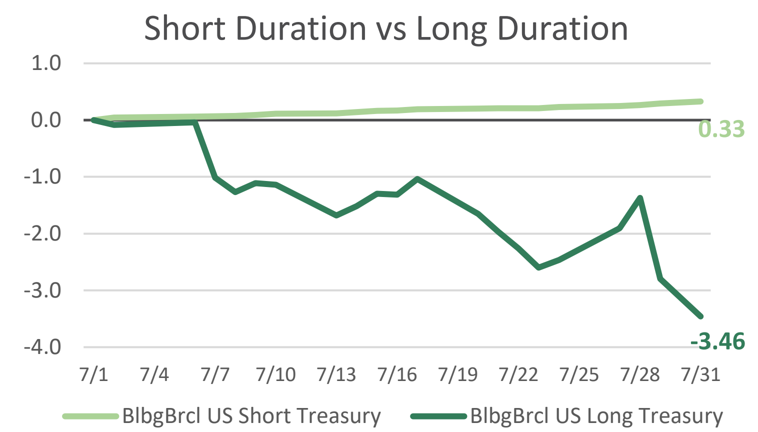
Source: Bloomberg.

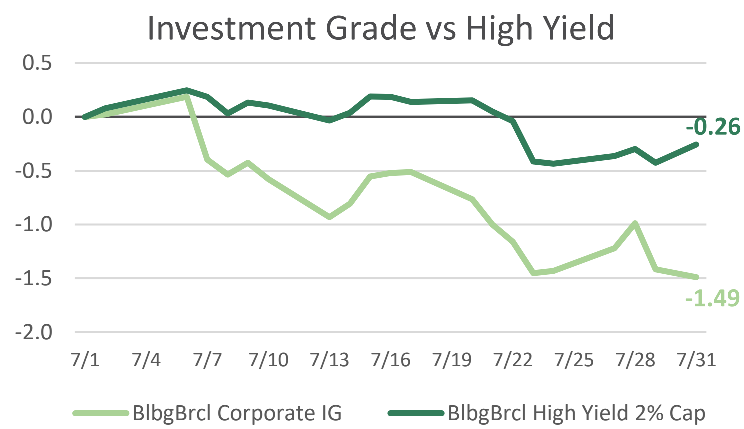
July 2026

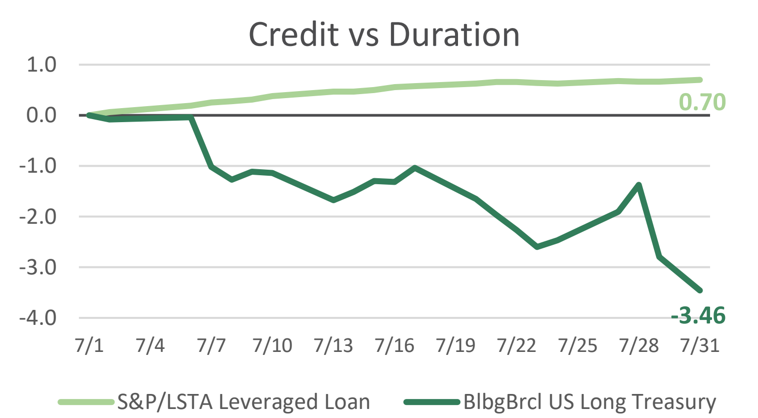
Bond Themes

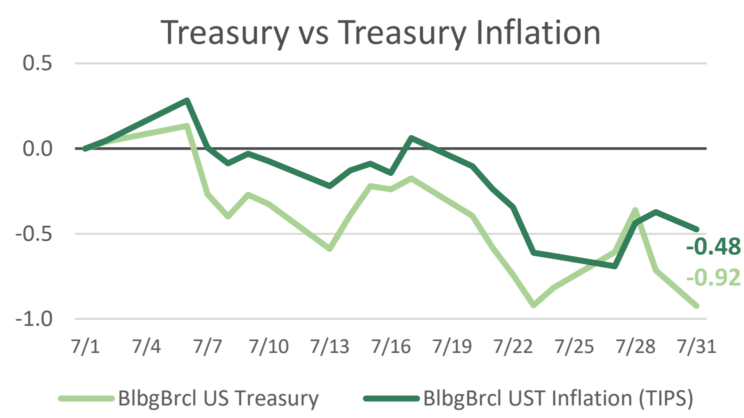
What Worked, What Didn’t

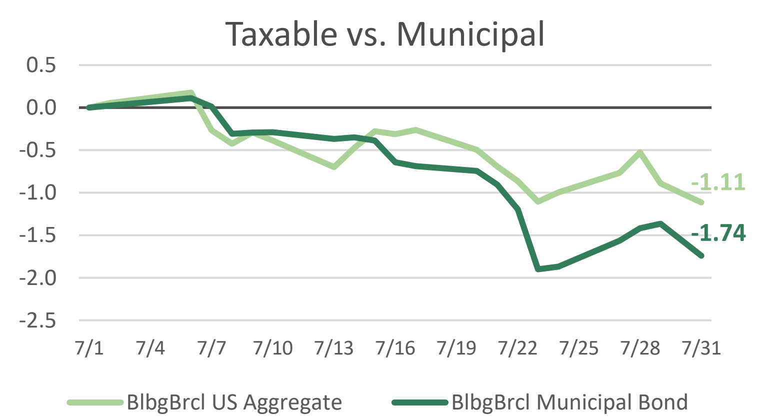
- **Short Duration Outperformed Long while High Yield Beat Investment Grade. T**he 30-year rose to its highest yield since 2007, while high yield’s shorter duration limited its downside.
- **Credit Beat Duration, TIPS Over Treasuries.** Rising yields at the long end of the curve hindered duration, with TIPS besting Treasuries as a new round of Iran War escalations stoked inflation fears.
- **Taxable Over Munis and International Outperformed Domestic.** Munis fell further than the US aggregate on rich valuations, while a decline in the dollar benefited foreign bonds.

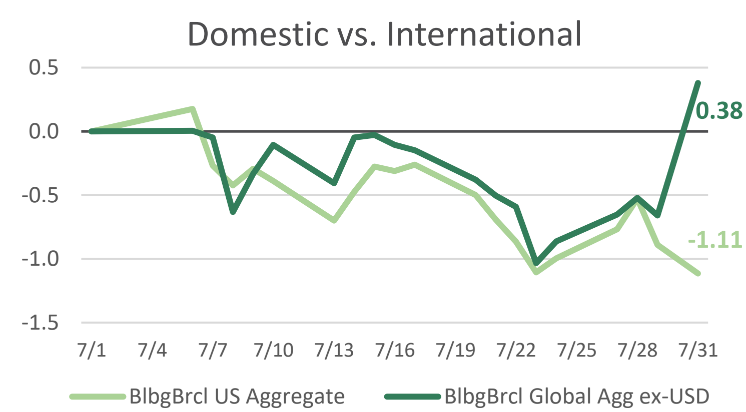












Source: Bloomberg.

July 2026

Asset Class Performance

The Importance of Diversification. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

	Jul-01	Jul-02	Jul-06	Jul-07	Jul-08	Jul-09	Jul-10	Jul-13	Jul-14	Jul-15	Jul-16	Jul-17	Jul-20	Jul-21	Jul-22	Jul-23	Jul-24	Jul-27	Jul-28	Jul-29	Jul-30	Jul-31	Jul	YTD	
High	LCV 0.60	IEQ 1.31	EM 2.85	RE 1.24	EM 0.78	MCG 1.64	LCG 0.53	RE 0.57	EM 1.81	SCV 0.77	RE 2.33	USB 0.07	EM 0.43	EM 2.80	IEQ 0.18	RE -0.23	RE 2.19	SCG 0.89	MCV 1.15	IBD 0.29	EM 4.13	EM 0.79	LCV 3.26	SCV 22.87	High
	RE 0.45	RE 1.27	LCG 1.52	LCV 0.20	LCG 0.37	SCG 1.62	IEQ 0.39	LCV 0.32	LCG 1.35	IEQ 0.66	SCV 1.31	SCG -0.12	LCG 0.08	SCG 2.00	MCV 0.10	USB -0.25	MCV 0.94	LCV 0.60	LCV 0.92	HYB -0.23	LCG 2.96	LCG 0.76	IEQ 2.48	LCV 20.55	
	SCV 0.23	LCV 1.20	IEQ 1.04	HYB -0.14	HYB -0.13	LCG 1.23	RE 0.31	MCV 0.16	SCG 0.79	IBD 0.58	MCV 1.13	RE -0.15	HYB 0.04	LCG 1.56	LCV 0.03	MCV -0.27	LCV 0.84	MCV 0.60	SCV 0.88	RE -0.23	IEQ 2.78	LCV 0.44	RE 2.32	MCV 19.18	
	MCV 0.15	MCV 0.73	MCG 0.87	MCV -0.20	USB -0.17	SCV 0.84	MCV 0.26	SCV -0.09	IEQ 0.70	LCV 0.37	LCV 0.88	IBD -0.16	MCG 0.00	MCG 1.49	IBD 0.00	MCG -0.30	IEQ 0.50	MCG 0.56	RE 0.58	USB -0.38	SCG 2.69	HYB 0.01	MCV 1.35	EM 17.73	
	HYB -0.01	IBD 0.48	SCG 0.83	USB -0.46	MCG -0.25	EM 0.83	SCV 0.21	HYB -0.24	MCG 0.61	LCG 0.28	USB -0.01	HYB -0.19	IBD -0.16	IEQ 1.45	HYB -0.16	HYB -0.36	SCV 0.38	IEQ 0.48	IBD 0.26	IEQ -0.50	MCG 2.35	60/40 -0.08	IBD 0.32	SCG 14.92	
	USB -0.15	60/40 0.17	60/40 0.63	IBD -0.56	IBD -0.35	MCV 0.78	LCV 0.19	USB -0.38	60/40 0.48	60/40 0.24	HYB -0.01	60/40 -0.46	USB -0.25	SCV 0.93	USB -0.16	LCV -0.54	IBD 0.23	EM 0.46	USB 0.24	60/40 -0.81	60/40 1.31	IBD -0.12	HYB -0.14	RE 12.80	
	IBD -0.47	HYB 0.15	IBD 0.24	SCV -0.70	60/40 -0.37	60/40 0.55	EM 0.18	IBD -0.68	IBD 0.39	RE 0.23	60/40 -0.37	IEQ -0.46	60/40 -0.29	60/40 0.68	60/40 -0.16	SCG -0.57	USB 0.12	SCV 0.33	HYB 0.19	MCV -0.85	IBD 0.80	SCV -0.25	SCV -0.21	IEQ 11.67	
	60/40 -0.48	USB 0.11	HYB 0.20	60/40 -0.77	IEQ -0.77	IEQ 0.54	60/40 0.08	60/40 -0.82	USB 0.30	HYB 0.16	IBD -0.61	MCG -0.56	LCV -0.43	LCV 0.19	LCG -0.34	EM -0.60	60/40 0.05	60/40 0.28	60/40 0.02	LCV -1.00	LCV 0.48	USB -0.26	60/40 -0.40	60/40 7.14	
	SCG -0.73	SCV -0.17	SCV 0.19	SCG -1.10	SCG -0.79	IBD 0.52	HYB -0.05	IEQ -1.04	HYB 0.20	SCG 0.15	IEQ -0.80	LCV -0.57	RE -0.51	MCV 0.12	SCV -0.39	SCV -0.66	HYB 0.00	USB 0.24	IEQ -0.02	SCV -1.12	HYB 0.29	MCV -0.31	USB -1.15	HYB 1.53	
	IEQ -0.83	SCG -1.10	LCV 0.17	IEQ -1.23	LCV -1.03	LCV 0.48	USB -0.10	MCG -1.30	SCV -0.08	USB 0.14	MCG -1.40	MCV -0.64	MCV -0.67	RE -0.03	EM -0.54	60/40 -0.70	LCG -0.79	IBD 0.13	SCG -0.50	MCG -1.34	SCV 0.09	MCG -0.32	EM -3.60	MCG 0.23	
	LCG -0.93	EM -1.17	USB 0.05	LCG -1.34	SCV -1.14	RE 0.20	IBD -0.13	SCG -1.48	MCV -0.14	MCV -0.08	SCG -1.40	SCV -0.82	SCV -0.67	HYB -0.04	RE -0.54	IBD -0.71	SCG -1.01	HYB 0.05	LCG -0.55	EM -2.07	USB 0.07	RE -0.55	LCG -3.82	LCG 0.17	
	MCG -1.00	MCG -1.37	MCV 0.01	MCG -1.57	MCV -1.21	USB 0.14	MCG -0.95	LCG -1.90	RE -0.31	EM -0.15	LCG -1.93	EM -1.40	SCG -0.70	IBD -0.10	MCG -0.59	IEQ -1.30	MCG -1.21	RE -0.34	MCG -0.97	LCG -2.09	MCV -0.22	IEQ -0.62	SCG -5.22	USB -0.56	
Low	EM -2.82	LCG -1.51	RE -0.75	EM -2.74	RE -1.65	HYB 0.11	SCG -1.07	EM -3.59	LCV -0.50	MCG -0.87	EM -2.10	LCG -1.50	IEQ -0.74	USB -0.21	SCG -1.41	LCG -1.93	EM -1.97	LCG -0.44	EM -1.98	SCG -2.14	RE -1.25	SCG -0.75	MCG -5.45	IBD -1.95	Low

Legend

60/40 Allocation (60/40)	Large Growth (LCG)	Mid Growth (MCG)	Small Growth (SCG)	Intl Equity (IEQ)	U.S. Bonds (USB)	Intl Bonds (IBD)
	Large Value (LCV)	Mid Value (MCV)	Small Value (SCV)	Emg Markets (EM)	High Yield Bond (HYB)	Real Estate (RE)

Source: Sources for this market commentary derived from Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees and do not necessarily represent performance of specific mutual funds andor exchange-traded funds recommended by Prime Capital Financial. The performance of those funds in February may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as “Allocation” is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate. 080223006 - MAH

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