

MARKET INSIGHTS

AUGUST 2026



August begins with the same lead regime as July, but with stronger internal model alignment. Reflation / Quad 2 remains at the top of the proprietary regime framework, indicating that the model continues to identify a combination of resilient growth and persistent inflation pressure. The model's internal signal strength measure increased from 47% in July to 71% in August, although it remains below the 83% reading recorded in June. As defined in the methodology disclosure below, conviction measures the degree of agreement among the indicators used within the framework and should not be interpreted as a probability, expected return, or assurance regarding future market outcomes.

The July outlook called for a measured posture given the potential for changes in bond and currency volatility to affect financial conditions. Around the transition from July to August, bond volatility increased and our more adaptive risk-management signal responded by reducing modeled exposure. The broader Reflation regime remained in place. This illustrates the distinction between the longer-duration macro regime and shorter-duration risk signals: the two can move differently as market conditions change.

Reflation continues to lead the framework, and the higher conviction reading indicates greater internal agreement among the model's underlying indicators than was present in July. Historically, the characteristics associated with this regime have included stronger nominal growth, cyclical activity, industrial investment, and capital spending. The current model classification remains risk-on, as that term is defined within the proprietary framework. At the same time, the recent increase in bond volatility reinforces the importance of monitoring rates and currencies for changes that could affect financial conditions or alter the model's current classification.

The interaction between currency instability and the Treasury market has also become more relevant. In early August, Treasury Secretary Scott Bessent called for the Federal Reserve's Foreign and International Monetary Authorities Repo Facility, or FIMA Repo Facility, to be expanded following coordinated U.S.-Japanese foreign-exchange intervention. The Federal Reserve describes FIMA as a temporary source of U.S. dollar liquidity that allows approved foreign monetary authorities to raise dollars against Treasury securities rather than selling those securities in the open market. Bessent indicated that expanding the facility could provide additional capacity during periods of market stress. In that context, FIMA may provide one mechanism for reducing the need for Treasury sales when foreign monetary authorities require dollar liquidity. It should not, however, be viewed as eliminating the underlying risks associated with currency movements, interest rates, or Treasury-market volatility.

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Rather, the facility is designed as a liquidity backstop intended to support dollar funding and the orderly functioning of financial markets.

Earnings results have provided additional support for the economic backdrop reflected in the model. As of August 7, FactSet reported that 88% of S&P 500 companies had announced second-quarter results, with 86% reporting EPS above estimates. FactSet also reported that aggregate earnings were 29.2% above estimates. Those figures warrant some qualification: unusually large GAAP gains reported by Alphabet and Amazon materially increased the aggregate surprise and growth rates. Excluding those two companies, FactSet calculated the Q2 earnings surprise at 10.9%, still above its five- and ten-year averages.

The forward earnings picture has also remained constructive. FactSet reported that analysts increased the S&P 500 bottom-up Q3 EPS estimate by 0.3% during July, compared with the estimate reductions that have historically occurred during the first month of a quarter. The CY 2026 bottom-up EPS estimate increased 3.2% over the same period. These figures provide additional context for the earnings component of the outlook without assuring that current estimates will ultimately be realized. The quality and durability of earnings growth remain important considerations. Capital expenditures related to AI and cloud infrastructure remain elevated among several of the largest technology companies. Alphabet reported \$44.9 billion of second-quarter capital expenditures, with the vast majority directed toward technical infrastructure supporting AI investment. Meta reported \$31.1 billion of second-quarter capital expenditures and currently anticipates \$130–145 billion for full-year 2026, while Microsoft reported \$41 billion of capital expenditures in its fiscal fourth quarter, with roughly two-thirds associated with shorter-lived assets including CPUs and GPUs.

Against that backdrop, return on invested capital remains an important analytical consideration. The relevant question is not simply whether capital spending remains elevated, but whether future revenue, margins, and cash flow ultimately justify the scale of those investments. The answer will vary by company and remains uncertain.

The practical message for August is that the proprietary framework continues to classify the environment as Reflation / Quad 2 and risk-on, with stronger internal model agreement than in July. The improvement in earnings estimates and reported results provides additional economic context for

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that classification, while the increase in bond volatility around the turn of the month demonstrates that shorter-duration risk conditions can change even when the broader regime remains intact. A measured posture therefore remains part of the framework rather than a forecast of an adverse outcome. As August progresses, we will continue to evaluate bond volatility, currency volatility, credit spreads, the U.S. dollar, earnings revisions, and market leadership breadth for evidence that either supports the existing regime classification or contributes to a change in the model’s assessment.

ASSET CLASS SIGNAL STRENGTH:

ASSET CLASS	AUGUST 2026	JULY 2026	1 - 3 MONTH OUTLOOK
EQUITIES	OFFENSIVE LONG	OFFENSIVE LONG	FAVORABLE
FIXED INCOME	DEFENSIVE LONG	DEFENSIVE LONG	UNFAVORABLE
COMMODITIES	OFFENSIVE LONG	OFFENSIVE LONG	FAVORABLE
US DOLLAR	DEFENSIVE SHORT	DEFENSIVE SHORT	UNFAVORABLE
RFR (3M TBILL)	OFFENSIVE SHORT	OFFENSIVE SHORT	UNFAVORABLE
BITCOIN	OFFENSIVE SHORT	OFFENSIVE SHORT	FAVORABLE

The 1–3 Month Outlook reflects the model’s current directional assessment over approximately the next one to three months based on information available as of the calculation date. “Offensive” and “Defensive” refer to asset classifications within the proprietary framework, while “Long” and “Short” indicate the direction of the model signal. These classifications are model-based assessments only and are not recommendations to buy or sell any security or asset class, forecasts of specific returns, or guarantees of future results.

PORTFOLIO SNAPSHOT *(current exposure relative to target range)*

MODEL	EQUITIES			FIXED INCOME		
	RANGE	AUG 2026	JULY 2026	RANGE	AUG 2026	JULY 2026
BOND	--	--	--	-25 to 100%	70%	70%
PEA CORE STOCK	100%	100%	100%	--	--	--
MODERATE ARM	30 to 60%	60%	45%	10 to 40%	35%	35%
DIVIDEND INCOME	30 to 60%	60%	60%	10 to 40%	40%	40%
MACRO PERSIST	-40 to 40%	40%	30%	-40 to 40%	40%	40%
SYSTEMATIC MACRO	0 to 60%	60%	60%	--	--	--
ALL ASSET	-25 to 100%	60%	65%	-25 to 100%	30%	30%
FOCUS	-100 to 300%	54%	20%	-100 to 300%	30%	30%
Special Situation Equity	0 to 100%	90%	85%	--	--	--

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CURRENT MARKET REGIME: *signal strength 71%*

Quadrant	MARKET REGIME	
	Current % Share	Previous % Share
GOLDILOCKS / Quad 1	27%	27%
REFLATION / Quad 2	39%	38%
INFLATION / Quad 3	25%	25%
DEFLATION / Quad 4	9%	11%

Signal strength is measured as the trailing 10 year percentile rank of a cross asset class basket of equities, fixed income, currencies and commodities. High signal strength implies many of the markets in the basket are signaling bullish or bearish. Low signal strength implies many of the markets in the basket are signaling neutral. These classifications are model-based assessments only and are not recommendations to buy or sell any security or asset class, forecasts of specific returns, or guarantees of future results.

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