MARKET OVERVIEW

Nerves return: geopolitical tension and AI capex fears test market resilience

July saw a degradation of geopolitical sentiment after a few months of increased optimism. A new front in the Middle East war has opened, with Yemen's Iran-backed Houthis threatening Red Sea shipping — throwing a dangerous new variable at the U.S. and its allies and piling further pressure on the global economy. WTI futures rose more than 20%, returning to levels last seen in early June. On the same hand, the tech-heavy Nasdaq 100 retreated about 8%, after a 31% rally between April and June.

Adding to this, a new earnings season began with some big names releasing quarterly results. Alphabet, one of the biggest gainers of the last year and a half, beat earnings expectations but saw its stock fall about 7%. Investors were mostly concerned with Alphabet's ever-increasing spending on AI infrastructure and its descent into negative free cash flow — a trend Google's finance chief said would continue as the company deepens its investments in AI.

Meta also saw a drop in FCF, to just $784 million, missed EPS estimates ($6.18 vs. $7.22) and slightly increased capital expenditure guidance for the year to the $130bn–$145bn range. Shares fell as much as 11% in after-hours trading. On the other hand, Microsoft's stock rose around 14% following an earnings beat, healthy quarterly guidance and 18% revenue growth year on year.

Investors now await further releases to better assess whether this capex trend is gaining even more steam, and its impact on company numbers. With sentiment deteriorating through the month, these reports may prove critical: expectations remain elevated, and there seems to be little room for error.

JULY EARNINGS SCORECARD

ALPHABET
−7%
Beat on earnings, but FCF turns negative on AI capex.

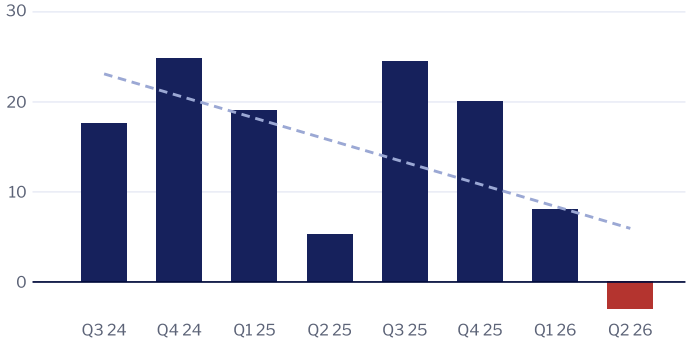
META
−11%
EPS miss ($6.18 vs. $7.22); capex guided to $130–145bn.

MICROSOFT
+14%
Earnings beat and 18% revenue growth year on year.

SPACEX
−20%
Down almost 50% from its June all-time high.

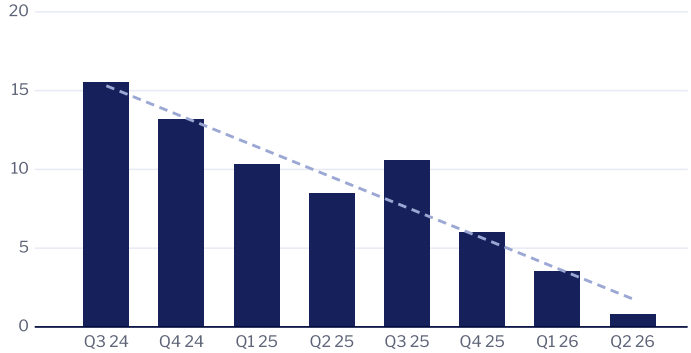
ALPHABET — FREE CASH FLOW BY QUARTER

USD billions · trailing eight quarters



META — FREE CASH FLOW BY QUARTER

USD billions · trailing eight quarters



CIO PERSPECTIVE

A more selective market: who captures the value of AI?

July marked a more selective phase for markets: the AI trade remains structurally supportive, but investors are increasingly questioning the pace and profitability of the capex cycle. U.S. equities continue to trade at elevated valuations, with the S&P 500 forward P/E around 20.1x and margins still near historic highs at 15.1%, yet market concentration remains unusually extreme. The top 10 stocks represent more than 35% of the index's market cap, leaving it more exposed than ever to any disappointment in the mega-cap complex.

Leadership has also started to broaden. While the Mag 7 continue to deliver very strong earnings growth, price performance has lagged, suggesting the market is no longer willing to reward growth indiscriminately. We are seeing a rotation toward small-cap and value, while large-cap growth has been the weakest style year-to-date. That shift is encouraging from a breadth perspective, especially as industrials, financials and healthcare begin to participate more meaningfully. At the same time, both growth and value still screen at a premium to long-term valuation averages, so selectivity remains essential.

Inflation has picked up over the last three months, largely driven by energy, while global financial conditions remain tighter. On top of that, geopolitical risks remain elevated, with market participants still arguably underestimating supply chain disruption and Middle East conflict risk. These factors support the view that volatility is likely to remain above average.

Against this backdrop, the key debate is no longer whether AI is transformative, but who ultimately captures the value. Hyperscaler capex has supported GDP growth and remains financed for the near term, but the market is increasingly focused on whether these investments will generate sufficient returns. Open-source competition, falling token costs and rising concerns around model leakage all add to the uncertainty. Our view is that the next phase of the AI trade should favour the enablers — infrastructure, data-centre buildout and "picks and shovels" names — over the most crowded beneficiaries.

IN FOCUS · INTEREST RATES

3.50–3.75% FED FUNDS TARGET, UNCHANGED

A divided Fed voted to hold: three of the twelve members voted for a hike. New Chairman Kevin Warsh emphasised that the recent rapid rise in US Treasury yields has itself raised borrowing costs, lowering the need for the Fed to act to bring inflation down. The probability of a hike at the next meeting nonetheless sits at **59%** (CME FedWatch, 30/07/2026).

IN FOCUS · SPACEX

−20% IN JULY, −50% FROM ITS JUNE HIGH

After a highly mediatic IPO last June — which saw Elon Musk temporarily become the only trillionaire on the planet — SpaceX shares fell more than 20% during July and almost 50% from their all-time high on 16 June. This confirms an old trend: the hype of companies going public is usually not sustainable.

WHAT TO WATCH IN AUGUST

01 **Nvidia earnings** — major AI infrastructure read; validates or challenges capex skepticism.

02 **Salesforce, CrowdStrike, Adobe, Palo Alto** — enterprise software and cybersecurity demand.

03 **Hyperscaler credit spreads** — look for further widening as an early AI-stress signal.

04 **Red Sea / Iran developments** — any escalation or de-escalation.

The Fixed Income View

LONG END LED

30Y US TREASURY	30Y UK GILT	30Y GERMAN BUND
5.27% +36bps	5.78% +30bps	3.65% +24bps

Developed market long-end yields rose sharply in July, although curve moves differed by market. The 30-year Treasury rose 36bps to 5.27%, against 14bps at the 2-year; the 30-year gilt rose 30bps to 5.78%, against 25bps at the 2-year; and the 30-year Bund rose 24bps to 3.65%, while the German 2-year rose 28bps. The move was therefore clearly long-end led in the US, only marginally so in the UK and broad-based in Germany. In the US, 5s30s widened 10bps to 82bps, while the 30-year real yield rose 30bps to 3.03%, accounting for most of the nominal selloff.

Our view is that long-end term premia will remain elevated across developed markets, as deteriorating fiscal positions and higher issuance meet weaker structural demand from pension and insurance buyers, leaving more price-sensitive investors to absorb supply. Front ends will diverge by policy path, with the US most likely to ease first. We expect 5s30s to steepen as the 5-year responds more to renewed easing expectations than the 30-year. The view would be challenged by renewed inflation pressure, a shift in issuance towards the front end, or stronger long-end demand.

Index performance snapshot

Yahoo Finance · data as of 31/07/2026

INDEX	MONTHLY	6M	YTD	5Y
S&P 500	−0.13%	8.28%	9.41%	70.40%
Nasdaq 100	−6.61%	8.57%	11.04%	89.00%
Dow Jones Industrial Avg.	0.32%	6.33%	9.20%	50.23%
MSCI World	0.46%	9.42%	9.42%	57.95%
MSCI Emerging Markets	−3.51%	11.51%	18.54%	30.10%
EURO STOXX 50	0.47%	7.74%	9.69%	55.48%

Market views by segment

Underweight ← → Overweight

SEGMENT	− − − NEUTRAL + + +	COMMENT
US Growth	●	High valuations, concentration and capex skepticism offset still-strong earnings delivery. Good value in memory names after the recent drawdown, as chip demand should stay high.
US Value	●	Strong earnings and increasing market breadth support the case for value, as more sectors of the economy deliver good results.
Europe	●	Heavily exposed to the Middle East conflict and shipping disruption, with limited participation in the AI theme.
Japan	●	Healthy corporate balance sheets and government reforms support the case for Japan. High energy prices, however, threaten sustained growth over time.
Emerging Markets	●	Rising odds of a Fed hike point to a stronger dollar over coming quarters — a headwind for the asset class broadly. Still, we see good relative value in regions such as LatAm.

Monthly glossary

Market breadth — the proportion of stocks moving in the same direction as the overall market; used to tell whether an index's move reflects genuine strength or is distorted by a small group of heavily weighted stocks.

Capital expenditures (capex) — funds a company spends to acquire, upgrade or maintain physical assets such as property, equipment or technology infrastructure.

Credit spread — the yield difference between a corporate (or other risky) bond and a comparable-maturity government bond, reflecting the extra compensation demanded for credit risk.

Earnings per share (EPS) — a company's net profit divided by its number of outstanding shares.

Free cash flow (FCF) — cash generated by operations after capital expenditures: the cash left to pay dividends, buy back stock, repay debt or reinvest.

Forward P/E — a valuation ratio comparing a stock's current price to projected earnings per share over the next twelve months.

Hyperscalers — large cloud computing providers operating massive, globally distributed data-centre infrastructure.

Magnificent 7 (Mag 7) — seven dominant U.S. tech mega-caps: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla.

Treasury yield — the return earned on government debt, widely used as the benchmark risk-free rate for pricing other assets.

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Market Overview · CIO Perspective



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