

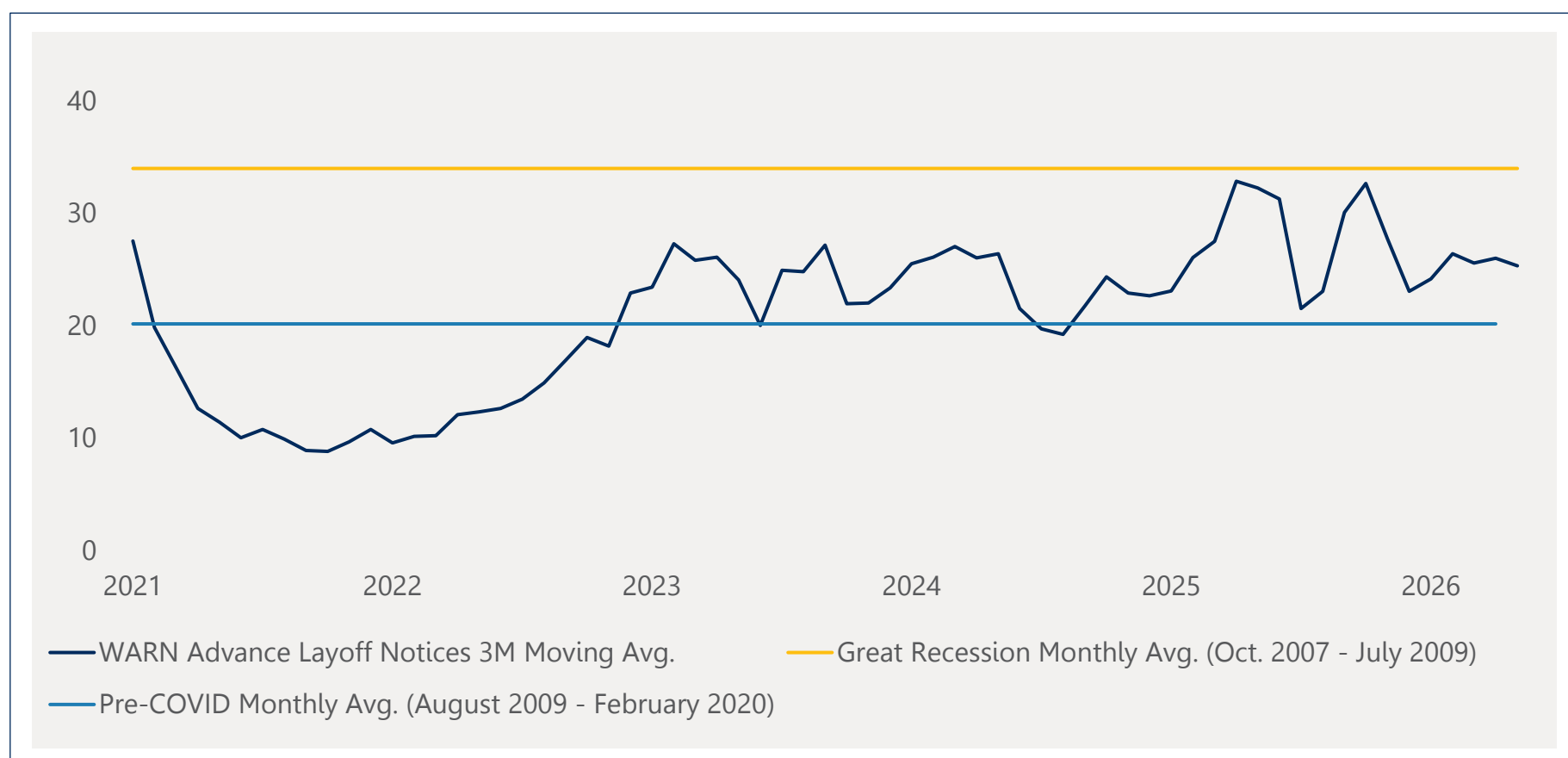
August 2026

Market Review



Job Cut Trends Remain Tame

WARN Advance Layoff Notices: 3M Moving Avg.



Source: Bloomberg. Past Performance does not guarantee future results.

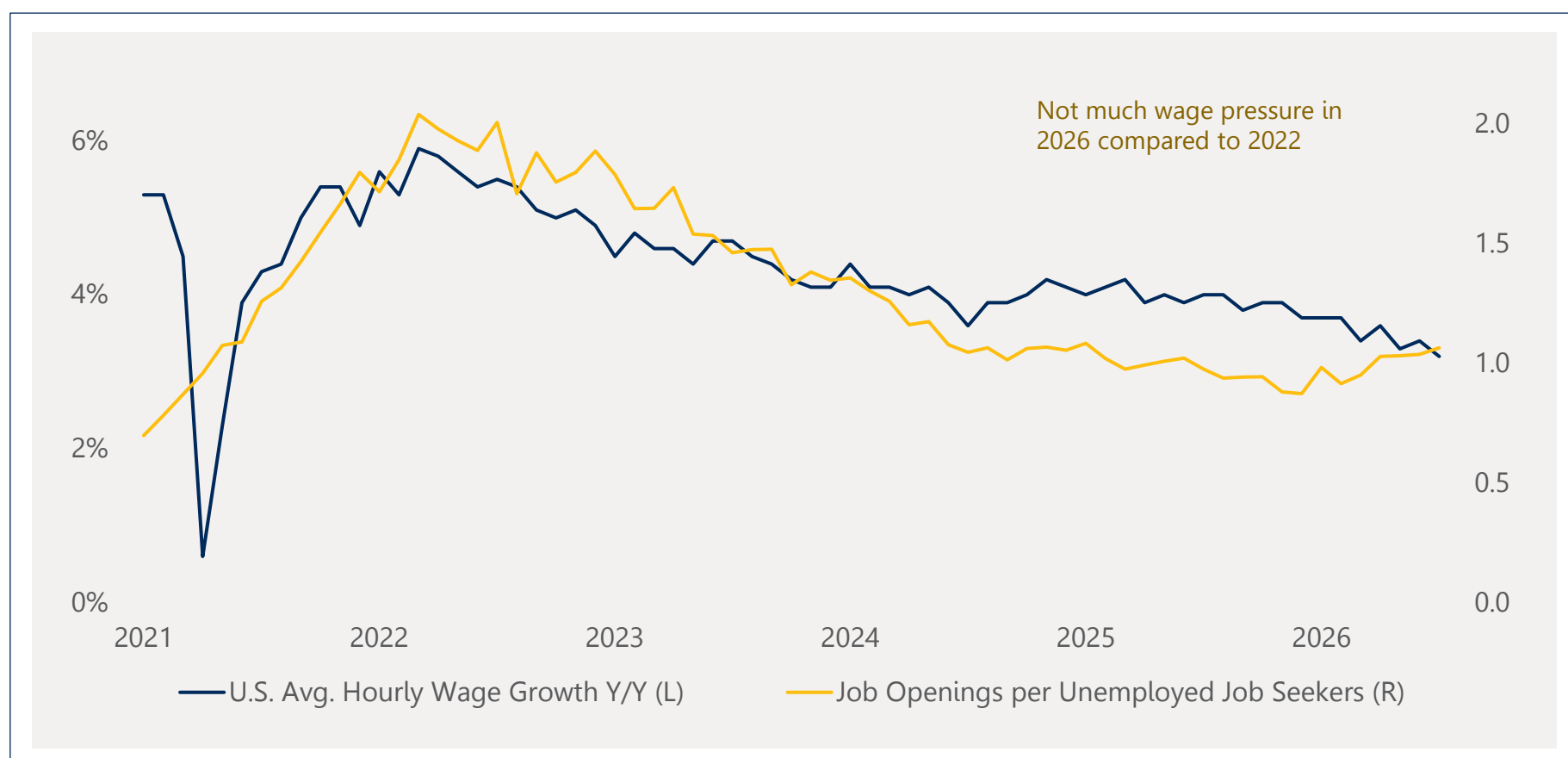
Weaker-than-expected July payrolls data confirmed that hiring activity across U.S. employers has slowed, however, plans for broad-based workforce reductions have noticeably stabilized. As shown in the accompanying chart, the 3-month moving average of advanced WARN layoff notices has settled back down toward 25,000, recovering from a mid-2025 spike driven by federal DOGE restructuring.

This contrast underscores a key structural feature of the current labor market: while net hiring remains subdued, we are not seeing an acceleration in actual layoffs. Announced layoff volumes remain well below Great Recession levels (34,000/month) and only modestly above the pre-COVID baseline (20,000/month).

Because the federal Worker Adjustment and Retraining Notification (WARN) Act mandates employers with 75 or more full-time employees provide a 60-day advance notice for mass layoffs, it serves as a useful leading indicator. Research from the Cleveland Fed observes that WARN spikes reliably predict upticks in initial jobless claims a month in advance. The recent leveling off in advance notices should provide investors some reassurance that despite cooling hiring demand, the labor market does not appear to be slipping into a widespread firing cycle.

Wage Pressure Trends: 2026 is not 2022

Y/Y Wage Growth and Job Openings to Unemployed Ratio



Source: Bureau of Labor Statistics. Past Performance does not guarantee future results.

While the oil price volatility of recent months has triggered investor memories of 2022, we believe today's underlying macroeconomic backdrop is fundamentally different. Unlike the severe post-COVID supply bottlenecks and emerging wage-price spirals of four years ago, the current labor market is far more balanced.

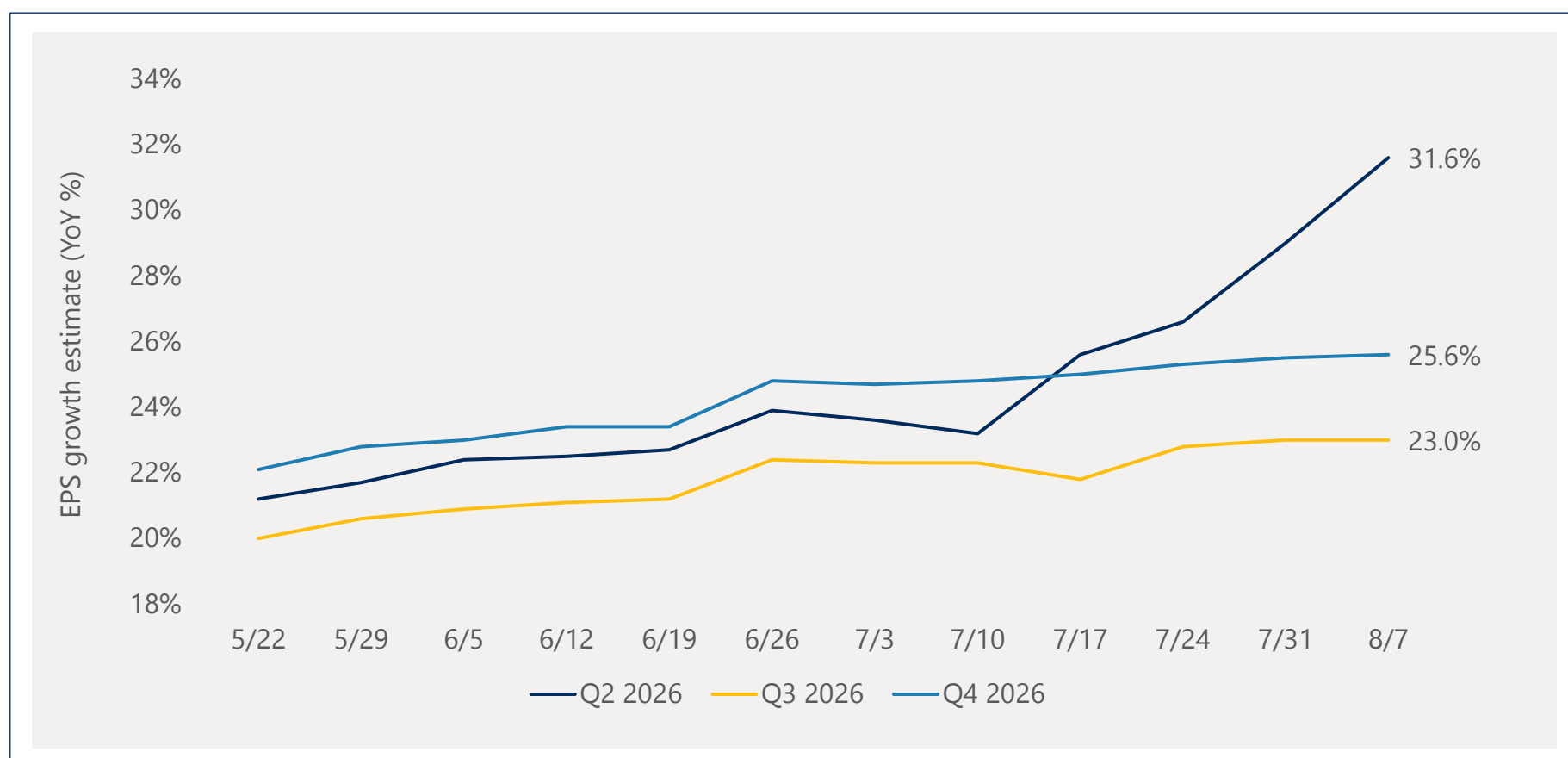
Year-over-year average hourly earnings growth has cooled significantly from near 7% in 2022 to a pre-pandemic trend, reaching a five-year low of 3.2% in July. Simultaneously, the ratio of job openings to unemployed job seekers has normalized to near 1.0. This is a far cry from the acute worker undersupply that fueled aggressive wage competition in 2021 and 2022.

Because persistent inflation is historically driven by accelerating wage growth rather than transitory energy shocks, the risk of a 1970s-style wage-price spiral likely remains low.

These core differences have major implications for the likely paths of monetary policy and corporate sector health. Rather than embarking on the aggressive, profit margin-crushing rate hikes of 2022-2023, Federal Reserve policymakers should feel more comfortable maintaining a patient, watchful stance.

Rising Earnings Expectations

S&P 500 quarterly EPS growth estimates revised higher



Source: Bloomberg. Past Performance does not guarantee future results.

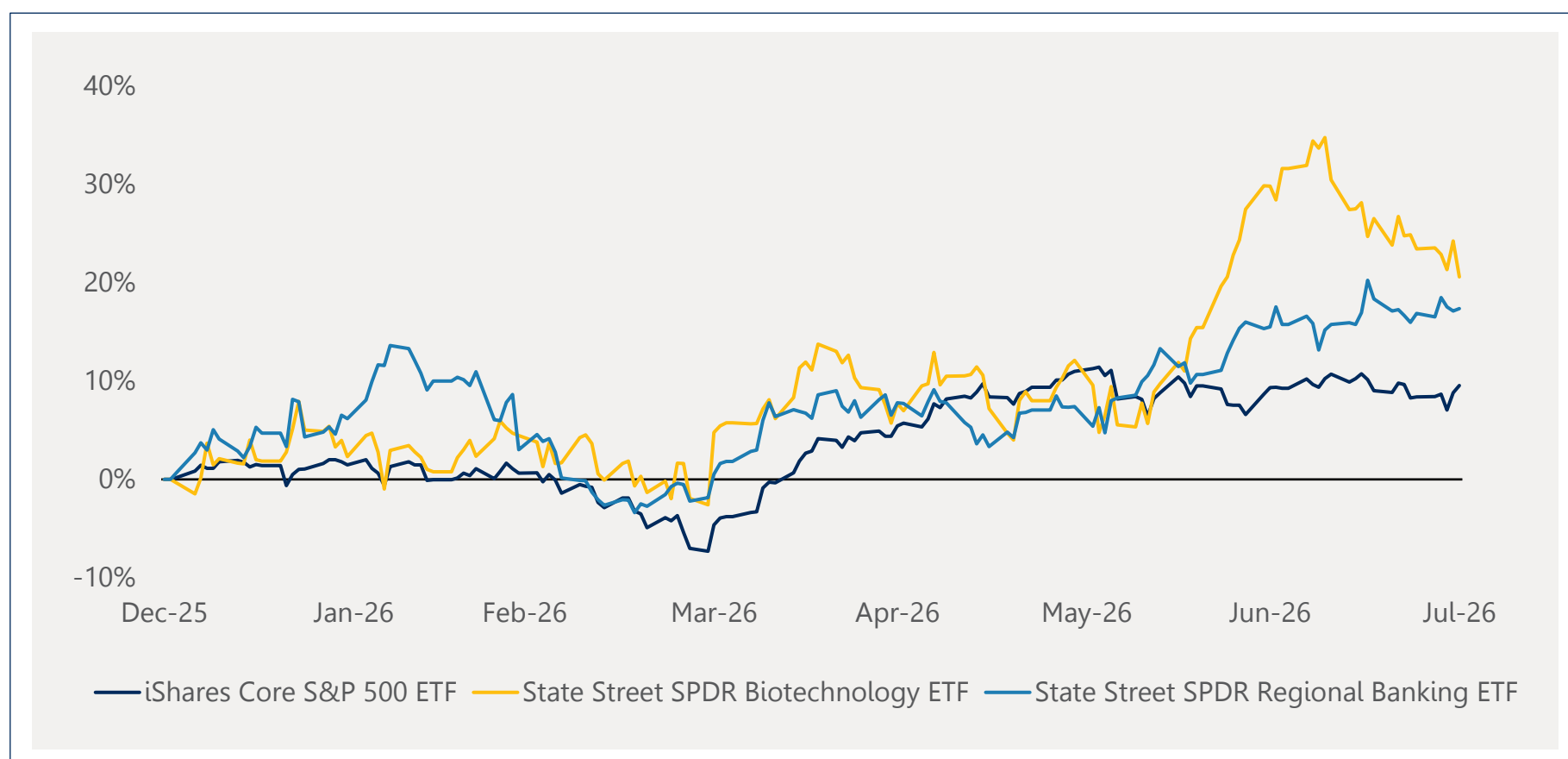
U.S. equities finished July essentially flat, with the S&P 500 easing 0.06% for its second consecutive monthly decline. The index stayed mostly range bound for a second straight month, rallying early before geopolitical and policy crosscurrents pulled it back. A renewed flare-up in the U.S.-Iran conflict, a climb in long-term Treasury yields to their highest levels in years, and mounting scrutiny of AI-related capital spending offset an otherwise exceptional corporate earnings backdrop.

Corporate results were the quarter's standout. With more than 80% of S&P 500 market value reported, second-quarter earnings grew roughly 32% year-over-year, well ahead of the 23% expected growth entering the season.

Overseas, the semiconductor-heavy MSCI Korea Index was among the month's most volatile major markets. Its heavy weighting in memory chip makers tied it closely to the global semiconductor selloff, dragging the index into a near 40% drawdown from its recent peak before a sharp rebound trimmed the monthly loss to 17%. Even after that swing, Korea remains up 81.5% year-to-date, by far the best showing among the world's major equity markets. European equities, with their lighter technology exposure, outperformed the U.S. as the MSCI Europe Index gained 1.61% for the month.

Surprising Leadership

YTD Performance: S&P 500, Biotech, Regional Banks



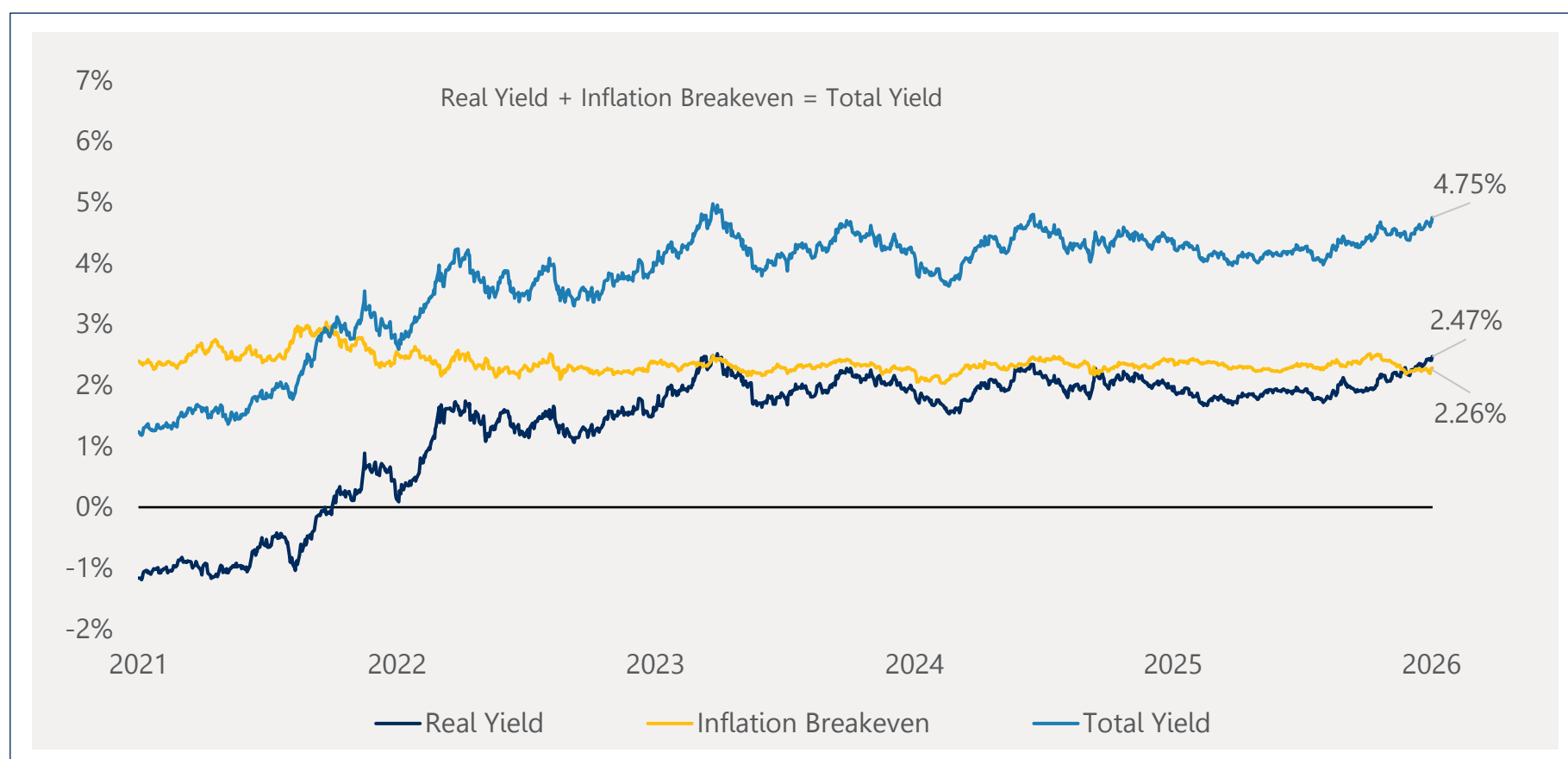
Source: Bloomberg. Past Performance does not guarantee future results.

Market leadership showed signs of a large shift during the first part of summer. While AI infrastructure stocks across the semiconductor and data center power supply chains carried the index throughout the first half of the year, a surprising divergence emerged in mid-June. Beginning in the second half of the month, both biotechnology and regional banks detached from their tight correlation with the broader market and turned sharply higher.

Biotech's run was the more dramatic of the two, including a nearly 25% surge over just three weeks. After several quiet years, a wave of biopharma M&A, a pickup in IPO activity, and a slate of highly anticipated clinical readouts have injected fresh liquidity and investor optimism back into the space. Regional banks broke out at the same time, climbing out of a multi-month consolidation to as much as a 20% year-to-date gain. Despite persistent "higher-for-longer" interest rate pressures, the industry is benefiting from stable credit metrics, improving deposit-rich funding niches, resilient net interest margins, and M&A activity.

This nascent June and July rotation looks like a healthy widening of market participation, as investors lighten up on the AI infrastructure winners and rediscover corners of the market with differentiated catalysts.

Breaking Down the U.S. 10-Year Treasury Yield Real Yield and Inflation Expectations



Source: Federal Reserve Bank of St. Louis. Past Performance does not guarantee future results.

The nominal 10-year U.S. Treasury yield is composed of two primary drivers: expected inflation and the real (or inflation-adjusted) yield. As seen in the accompanying chart, the nominal 10-year yield has climbed roughly 50 basis points in 2026 to 4.75%.

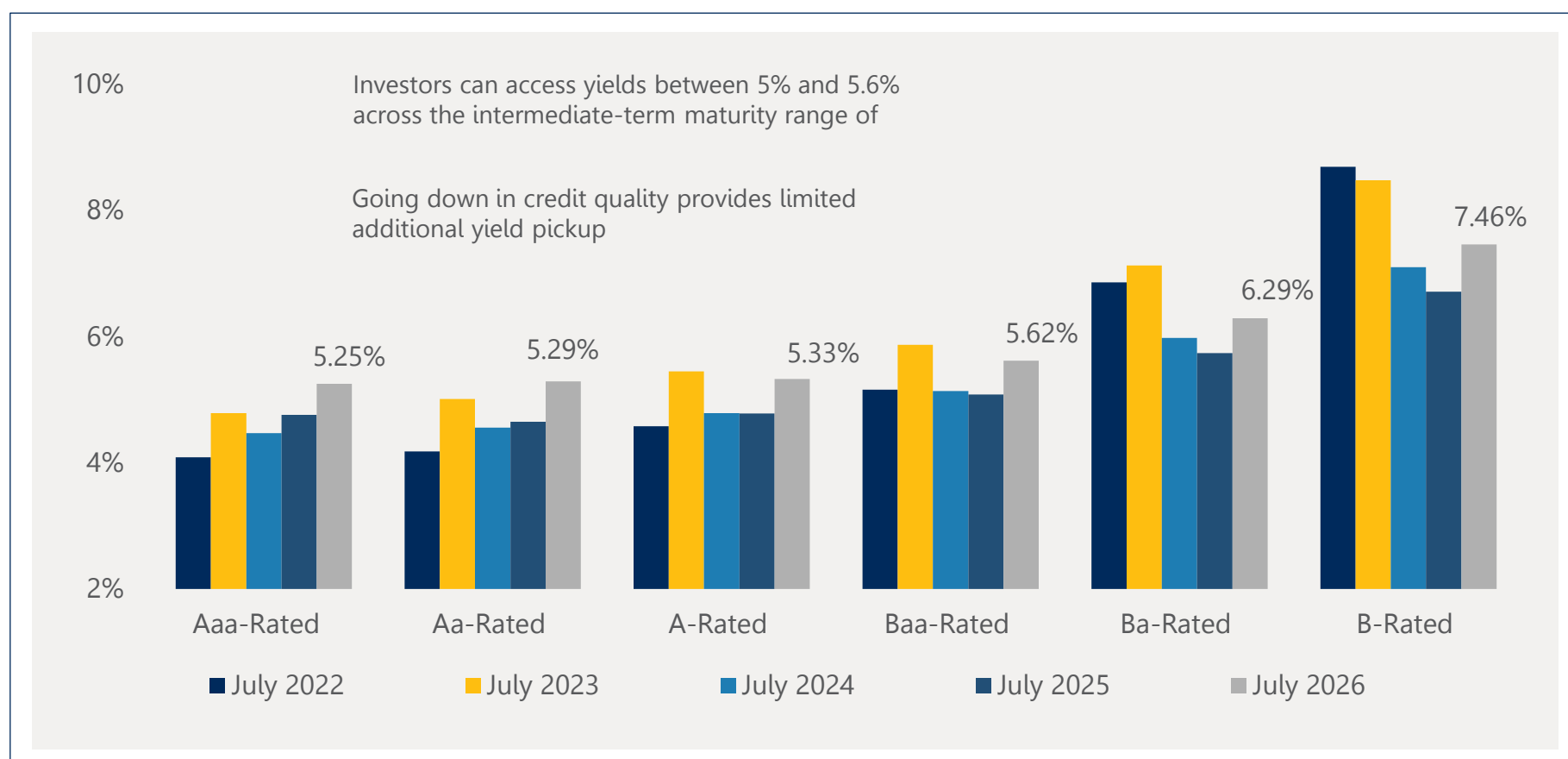
It is important for investors to realize that this move has not been driven by an inflation scare. Despite geopolitical energy shocks, 10-year inflation breakevens remain well-anchored at 2.26%. Instead, the entire repricing has been driven by real yields, which have risen to near 2.5%.

This surge in real rates reflects a domestic economy that continues to surprise to the upside along with concerns about growing fiscal deficits. The market is not pricing higher inflation; it is pricing the demand and supply of capital, driven by AI infrastructure spending layered on persistently high government borrowing needs.

Investors should not automatically fear real yields at current levels considering they have pushed above 2% four times over the last three years. A move above 3%, however, would represent a tightening of financial conditions and enter territory last seen prior to the recessions of 2001 and 2007-2009.

Solid Yields, Tight Spreads: Corporate Bond Market Dynamics

U.S. Corporate Bond Segments Yield to Worst



Source: Bloomberg. Past Performance does not guarantee future results.

Investors can access annual yields between 5% and 5.6% across most of the investment-grade corporate bond universe. As of July 31, the yield-to-worst (YTW) on the A-rated Bloomberg Index of U.S. corporate bonds was 5.33% compared to yields between 4.35% and 4.75% in the 5-to-10-year portion of the U.S. Treasury yield curve. YTW is a measure of the expected annualized yield of a bond or group of bonds held to maturity, adjusted for the impact of call features.

Corporate issuers have generally enjoyed strong demand for their new debt as investors remain comfortable with trends in earnings growth, leverage, and interest coverage. The current demand for yield from high-quality corporate bonds seems likely to persist throughout the remainder of 2026.

In recent years, there is less additional yield available to investors to by going down the quality spectrum. At the end of July, the YTW of a Ba-rated index (6.29%) was 96 basis points (bps) above an A-rated index (5.33%). Three years ago, the YTW of a Ba-rated index (7.13%) was 168 bps higher than the A-rated index (5.45%)

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