Monthly Market Update for July 2026: AI Volatility, Rising Yields, and Middle East Tensions

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A Difficult Month, Not a Broken Market

Bottom Line: July reinforced the importance of keeping a long-term perspective, reminding investors why portfolios are built before volatility arrives. Market challenges can create opportunities for investors who are positioned across it.

July gave investors plenty to worry about.

Major indices finished the month modestly lower as concerns over artificial-intelligence spending, rising Treasury yields, renewed conflict in the Middle East, Federal Reserve uncertainty, and additional tariffs competed for attention.

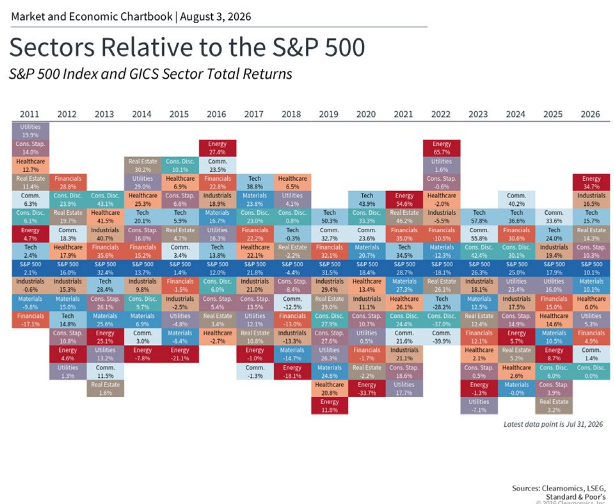
That is a crowded list of concerns.

But context matters.

Markets remain solidly positive for the year, the broader equity market is still near record territory, and several of the forces creating volatility are the same forces supporting long-term investment opportunities.

July's lesson was not that the market's foundation has weakened.

It was that leadership is becoming more selective and investors should be too.



Key Market and Economic Drivers in July

- The S&P 500 and Nasdaq declined -0.1% and -3.2%, respectively, while the Dow Jones Industrial Average rose 0.3% in July.
- Volatility jumped in the middle of the month with the VIX index climbing as high as 21 before settling back toward 16.
- International developed markets returned 1.9% based on the MSCI EAFE Index in U.S. dollar terms, while emerging markets fell -3.3% based on the MSCI EM Index.
- The 30-year Treasury yield surged to a 19-year high to close around 5.28% and the 10-year Treasury yield ended the month at a peak of 4.74%. The Bloomberg U.S. Aggregate Index fell -1.3%.
- Oil prices rose with Brent crude climbing above $100 before closing at $90 per barrel and WTI at $85 per barrel.

- The U.S. Dollar Index (DXY) fell just under 100 while the Japanese Yen depreciated significantly, closing around 157. Gold ended the month approximately unchanged at about $4,050 per ounce.
- Second quarter real GDP growth increased at an annual rate of 1.5%, down from the 2.1% growth recorded in the first quarter of the year.
- At the July FOMC meeting, the Federal Reserve decided to keep rates unchanged at 3.50%-3.75% in a 9-3 vote.

AI Is Still Transformative. The Economics Are Being Questioned.

Second-quarter earnings raised an increasingly important question:

How much money must companies spend on artificial intelligence before investors begin demanding a clearer return?

The largest technology companies, the hyperscalers, continue committing hundreds of billions of dollars to data centers, computing capacity, cloud infrastructure, and power systems. Data-center construction has become a meaningful contributor to U.S. economic activity, now exceeding every other category of office construction.[1]

The investment cycle is real.

So is the scrutiny.

Investors are increasingly focused on what this spending means for free cash flow, margins, and returns on invested capital. Announcing another multibillion-dollar AI project is no longer enough. Markets want evidence that the spending will eventually translate into durable earnings.

That shift contributed to sharp swings across technology markets in July, particularly among global semiconductor companies. After a remarkable run in 2025, the South Korean KOSPI 200 fell 24% during the month as major chip suppliers corrected.

The AI thesis did not disappear.

The price investors were willing to pay for it changed.

New Models Are Changing the Competitive Landscape

The release of Moonshot AI's Kimi K3 added another layer of uncertainty.

The model reportedly competes with advanced systems from OpenAI, Anthropic, and Alphabet. It is also "open weight," meaning organizations with sufficient hardware can operate the model themselves rather than relying exclusively on a proprietary platform.[2]

Last year, DeepSeek demonstrated that capable models could potentially be developed more efficiently.

Kimi K3 raises a different question:

What happens when open models begin competing directly with the most advanced proprietary systems?

That could reshape the economics of AI. It may influence hardware demand, infrastructure spending, software pricing, and which countries or companies lead the next phase of development.

Fitch also highlighted what it described as significant credit risk across the AI ecosystem, citing slowing consumer momentum and the interconnected financing and supply relationships among major participants.[3]

This does not mean AI investment is ending.

It means the market is beginning to separate technological potential from financial durability.

That is healthy.

Transformative technologies create tremendous value, but they rarely distribute that value evenly.

AI Is Not the Entire Market

It is easy to discuss the stock market as though it were simply an AI scoreboard.

It is not.

Energy, Industrials, and several other sectors have performed well this year. Market leadership has broadened, even as technology continues to dominate the headlines.

That breadth is important because the AI trade will remain volatile. Expectations are high, capital requirements are enormous, and the competitive landscape continues to evolve.

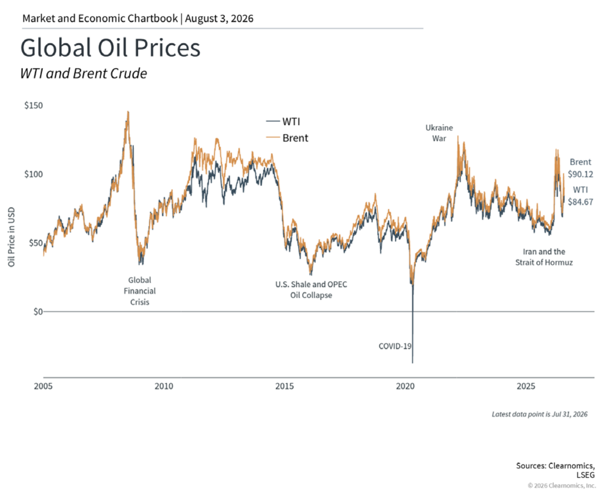
A balanced portfolio does not require abandoning AI.

It requires avoiding the assumption that AI is the only source of return available.

The Middle East Put Energy Back in Focus

Geopolitical risk returned abruptly in July.

Middle East conflict briefly pushes oil back above $100



The U.S. conducted additional airstrikes against Iranian military sites, traffic through the Strait of Hormuz slowed, and the conflict expanded toward the Bab al-Mandeb Strait after Houthi forces struck Saudi oil tankers.[4]

Brent crude briefly rose above $100 per barrel before settling near $90 at month-end. Earlier in July, it had traded as low as $72.[5]

That is an extraordinary range in a short period.

Higher energy prices matter because they travel quickly through the economy. They raise transportation, manufacturing, and household costs while complicating the Federal Reserve's inflation outlook.

Gasoline prices near $4.10 per gallon may also keep headline inflation elevated even if other areas of the economy continue to cool.

The market often treats geopolitical events as temporary until they affect energy supply.

July was a reminder that critical shipping routes can turn a regional conflict into a global economic issue very quickly.

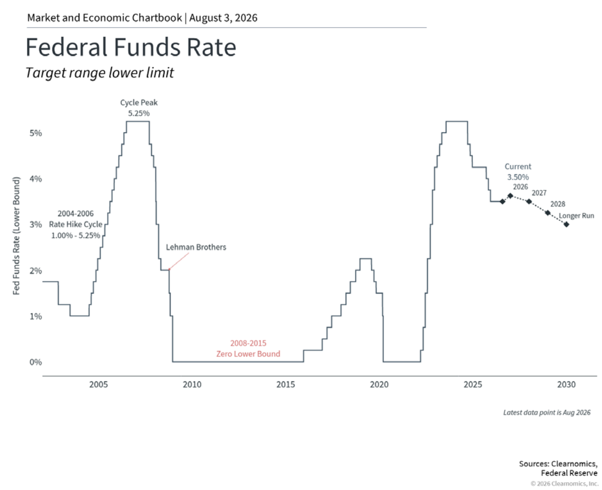
The Fed Is Saying Less and Markets Are Guessing More

The Federal Reserve kept the federal funds rate unchanged at a range of 3.50% to 3.75% at its July meeting.[6]

The decision itself was not the primary source of uncertainty.

The communication strategy was.

The Federal Reserve holds rates amid a divided committee



Chair Kevin Warsh has intentionally reduced forward guidance. The Federal Open Market Committee's statements are shorter, and Warsh has avoided outlining how the Fed might respond to every possible economic scenario.

That approach may encourage investors to focus more closely on the data.

It also means markets have less help interpreting what comes next.

Treasury yields rose following the meeting, with nominal and real rates reaching their highest levels in years. Market expectations now suggest the Fed could raise rates once by October and potentially twice by the middle of 2027.

Three officials dissented in favor of an immediate increase, the most significant level of internal disagreement since September 2016.

That tells us something important.

The Fed may be standing still, but the debate inside the institution is moving.

If inflation remains elevated, particularly because of energy prices, tariffs, or AI-driven investment demand, the path of policy could become more restrictive.

That will likely create additional volatility in bond markets.

It will also create opportunity. Higher yields improve the income potential of fixed-income portfolios and give investors more attractive alternatives to equities than they had during the low-rate era.

Tariffs Remain Complicated, but Not Catastrophic

Trade policy added another layer of uncertainty during the month.

After the Supreme Court ruled that reciprocal tariffs imposed under the International Emergency Economic Powers Act were unlawful, the administration introduced new tariffs under other trade authorities.

Many countries now face tariff rates between 10% and 12.5%, while certain Canadian goods, including cement, dairy products, and alcohol, face rates as high as 50%.[7]

The legal mechanism has changed.

The economic debate has not.

Tariffs can increase costs, disrupt supply chains, and place pressure on certain industries and consumers. But companies are not passive. They can shift suppliers, adjust pricing, absorb part of the expense, or redesign how goods move through their supply chains.

The effects will take time to become clear.

So far, the broader economy has continued growing, corporate earnings have remained resilient, and the S&P 500 has reached repeated record highs over the past year.

That does not mean tariffs are harmless.

It means the economic system has been more adaptable than many feared.

The Bottom Line

July was uncomfortable, but it was not unusual.

Markets were forced to process questions about AI profitability, energy security, monetary policy, tariffs, and global conflict, all at the same time.

That produced volatility.

It did not produce a collapse in the long-term investment case.

AI spending remains a major economic force, but investors are demanding greater accountability. Higher Treasury yields create pressure on valuations, but they also improve the opportunity set in fixed income. Rising oil prices complicate inflation, but energy remains strategically important. Tariffs increase uncertainty, but companies and consumers continue to adjust.

The correct response is not to chase every headline.

It is to maintain balance across sectors, regions, and asset classes while distinguishing temporary disruption from lasting economic change.

July did not tell investors to abandon the market.

It reminded them why portfolios are built before volatility arrives.

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