J.P.Morgan | Data Assets & Alpha Group

US MARKET INTELLIGENCE | MORNING BRIEFING

AUGUST 3, 2026

IDEAS & INSIGHTS – IN BRIEF

- **US MKT INTEL VIEW** – **Tactically Bullish** and we update the **Monetization Menu**
- **WHAT ARE WE WATCHING FROM HERE?** Given the choppiness, we flag some things that we will be watching to confirm / refute market direction across bonds, credit, factors, foreign markets, sectors. Plus, we include some near-term catalysts that we are monitoring.
- **ADDITIONAL THOUGHTS** – earnings, economic update, Fed thoughts, and an US / Iran update
- **POSITIONING INTELLIGENCE** – Prime Time / Monthly Wrap | HF Performance Drops Amidst Strong De-Grossing; Set-up Cleaner Despite LT Positioning Risks
- **NOTES FROM RATES TRADING** – **Joe Mazzurco** updates us on desk views
- **MACRO CORPORATE SPOTLIGHT** – JPM Research addresses issues for corporate treasurers for 26H2

JPM MARKET INTEL MORNING UPDATES

- **SPX +0.5%, NDX +0.5%, RTY +0.6%.** WTI -569bps at $79.85, NatGas +102bps to $2.78, UK NatGas -19bps to £1.4400, Gold +16bps to $4,053, Silver +102bps to $58.18, 10Y @ 4.688%, and VIX @ 16.06.
- **US**: Futures are higher with both NDX and RTY outperforming as Trump points to a deal / discussions which is pushing energy prices and bond yields lower as the USD depreciates. WTI is under $80/bbl dragging the Energy complex lower as we see this move boosting both Base and Precious Metals with Ags lower. In Eqys, the Tech tape is being led higher by Mag7 with Semis lagging. Energy is lower with the remaining sectors seeing a bid pre-mkt as the lower oil / bond yields are creating a an 'Everything Rally'. Though Kospi was down overnight, EWY is +1% pre-mkt. Today's macro data focus is on ISM with an eye towards Friday's NFP print.
- **EU/UK**: Major markets are all higher as the region see a stronger rally in bonds, bull steepening most regional curves. Germany / France / MCX are leading with UK lagging. Luxury and Software are among the top performing D1 baskets with Energy and Semis among the top laggards. Both legs of LT Momentum are being unwound whereas in the US Momentum is higher pre-mkt. Beta / Value are

leading, ResVol / Momentum are lagging; Cyclicals over Defensives. UKX -0.1%, SX5E +1.0%, SXXP +0.4%, DAX +1.4%. CSI -1.0%, HSI +0.5%, NKY -0.9%, ASX +0.5%, KOSPI -5.1%.

CATALYSTS TODAY (WEEK AHEAD)

- **US MACRO DATA:** PMI-Mfg (Revision) at 9.45am ET. **ISM-Mfg (New Orders / Employment / Prices Paid)** and Construction Spending at 10am ET. Total Vehicle Sales.
- **US EARNINGS:**
    - **BMO: BRK/A,** ECHO, KRYS, MAR, TSN, TWST
    - **AMC:** ADTN, AEIS, AESI, BWXT, CLX, FANG, OKE, ON, **PLTR,** POWL, SBAC, SNAP, STRL, TKO, UCTT, **VRTX,** WHR, WMB
- **GLOBAL MACRO DATA: [SUNDAY / AUG 2] –** (Japan) PMIs (Revision) at 8.30pm ET. (**China) RatingDog PMIs at 9.45pm ET. AUG 3 –** (France) PMIs (Revision) at 3.50am ET. (Germany) PMIs (Revision) at 3.55am ET. (Eurozone) PMIs (Revision) at 4am ET. (UK) PMIs (Revision) at 4.30am ET.

JPM MARKET INTEL EQUITY & MACRO NARRATIVE

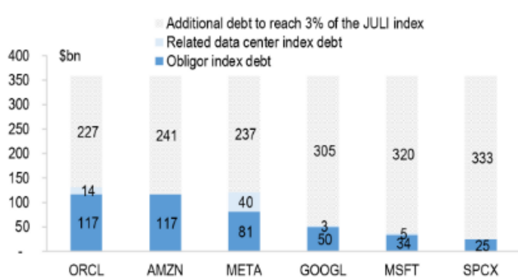
Last week, the SPX was +1.1% as the AI / Semis / Tech trade appears to have climbed the wall of worry with DX outperforming SPX and KOSPI exploding higher. SOX was down 4.3% on the week but retraced ~62% of its losses on Thursday before seeing Friday's gain truncated as yields continued to rise. Fed credibility and higher bond yields are a new risk. Positioning is cleaner, though US Semis did not experience a flush with positioning dipping to 80^{th} percentile. A few thoughts on markets:

- The 2 biggest news items were (i) another deal being reached in the Middle East as Trumps pauses attacks and (ii) FX intervention to the support the Yen. In both cases, there may be limited impact on US markets as bond yields may not reset lower in response to weaker oil prices and Fed credibility issues may not dissipate quickly.
- While Warsh's press conference introduced more vol and credibility issues, we agree with his view that the US economy remain on solid footing with resilient consumer and corporate sectors. Further, we think there are upside risks to consumption forecasts based on a *'no hire / no fire'* labor market, positive wage growth, and historically strong cash levels (checking + savings + consumer MMFs). On cash levels, nominally, the aggregate consumer has set a new record 7 consecutive quarters. In real terms, the top 4 income quintiles have between 8% and 30% for cash relative to 19Q4. The post-COVID retail sales growth rate has more than doubled compared to the 5-6 years coming into COVID;

Retail Sales averaged $420bn / month in 2014, $495bn / month in 2019, and now $747bn / month in YTD26 ($726bn / month in FY25). The **Market Intel** *Consumer Cash Pile* note is here.

- Deleveraging appears to be largely completed as we have consensus across the firm, from **Mixo Das** (here), **Nikos** (here), and **Positioning Intel** (July 30, *Tactical Takes*).
- Hyperscaler credit concerns seem to be overstated as **Nate Rosenbaum**, Head of IG Strategy, sees the cohort having the ability to add $1.7T in new debt to get to an index weighting that may create headwinds (here); in CMBS the datacenter widening has not seen the same magnitude of widening. That said, AI capex new issuance continues to priced wider than the index but continues to perform well. The rebound in credit points to a further recovery in Equity prices.
- Bond yields / bond vol are the biggest near-term challenge. It is tough to point to a level that will pull money out of the market; but the rate of change is something to monitor with the 10Y up 13.7bps over the last three sessions and the 30Y yield up 18.5bp; though 2Y and 5Y real yields declined over the time period which may be why there was not a greater headwind to Equities. **Jay Barry** updates his YE26 forecast, raising his estimate for the 10Y yield to 4.85% from 4.70% and the 30Y from 5.20% to 5.40% (full note is here), driven by inflation expectations and term premium.

Figure 7: Estimating $1.7tr of USD HG hyperscaler debt capacity for each to hit 3% of the USD HG index



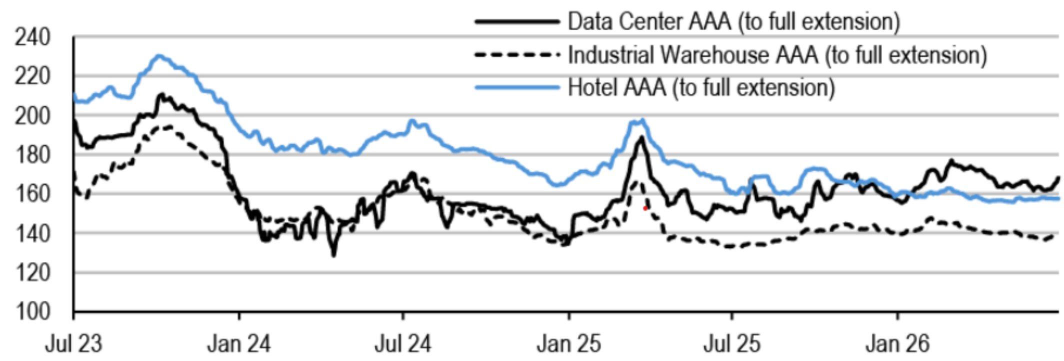
Source: J.P. Morgan, Bloomberg Finance L.P.

Figure 8: The impact of hyperscaler spread widening has been de-minimis on the broader IG index

Source: J.P. Morgan

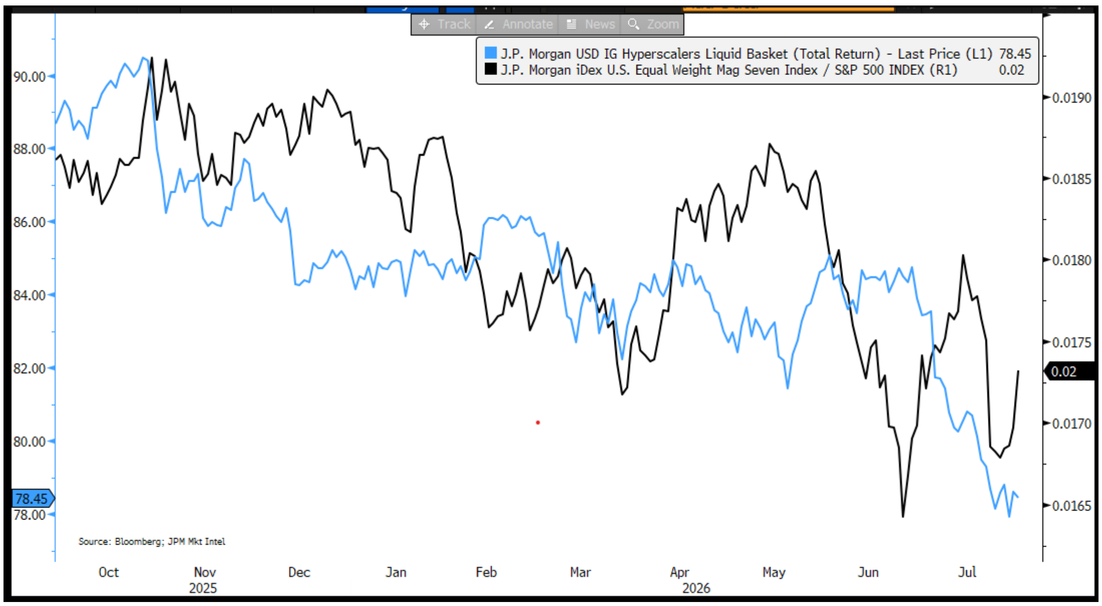
Figure 11: CMBS data center AAAs widened modestly this past week, underperforming core CMBS sectors

J.P. Morgan Floating-Rate SASB Index discount margin to 1m Term SOFR to full extension (bp), as of July 29, 2026

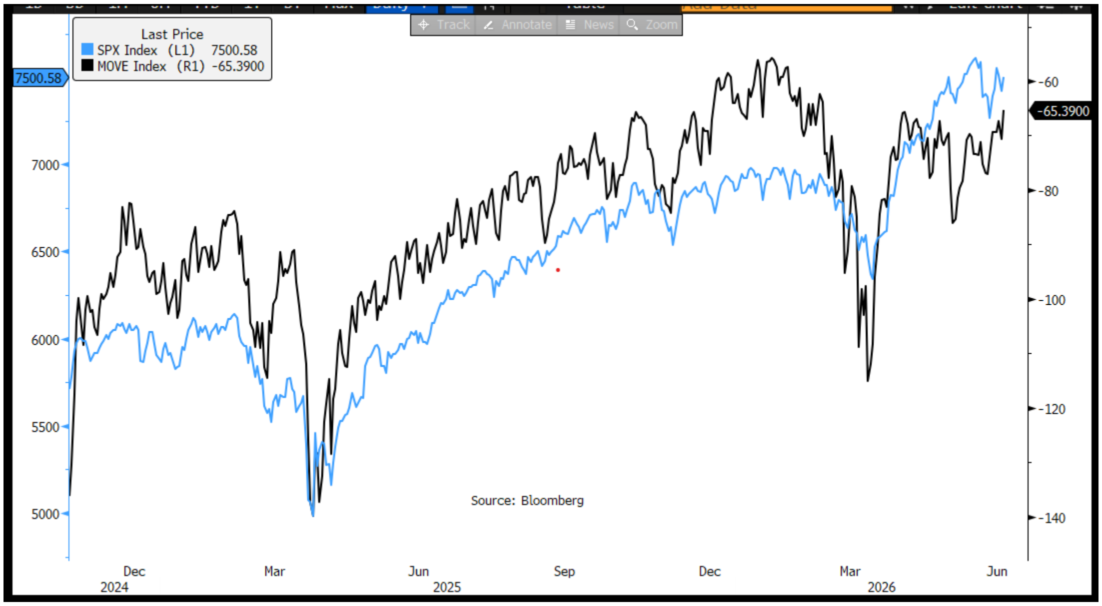


Source: J.P. Morgan, Pricing Direct

JPM HYPERSCALERS IG DEBT TOTAL RETURN vs. MAG 7 / SPX RATIO



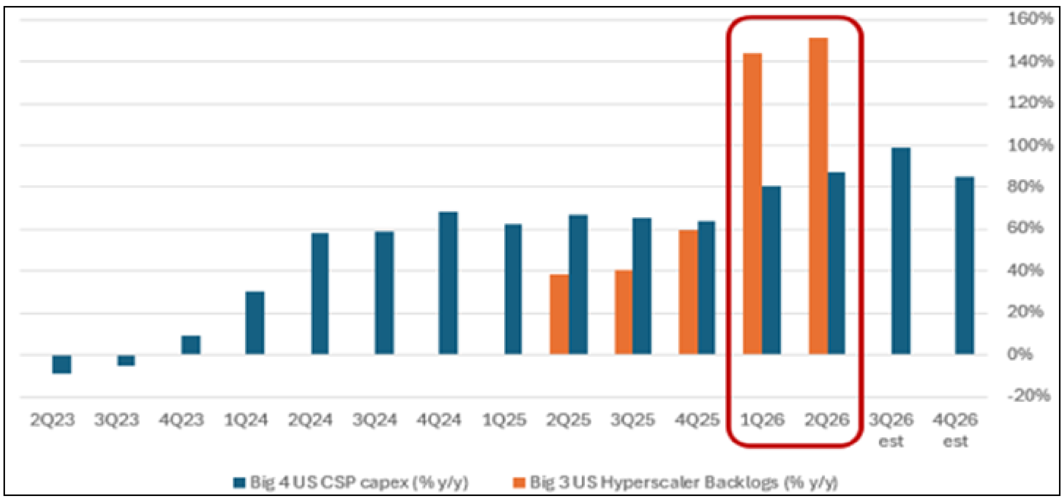
MOVE INDEX [INVERTED] vs. SPX



- **US MKT INTEL VIEW** – **Tactically Bullish** with near-term bond vol / yields and a potential resumption of the AI unwind being the biggest risks. The macro picture is one of resilience with the Consumer and AI capex continuing to support the economy. Earnings delivery has been spectacular with blended growth rates for EPS now exceeding 47% YoY with profit margins approaching 17% (16.7% 26Q2 vs. 12.9% 25Q2), driven by Mag7 earnings. NVDA and Jackson Hole loom large the week of Aug 24.
- **MONETIZATION MENU (AUG 3)** – We have advocated for the Tech / Cyclicals with HC as a third segment providing uncorrelated expressions to our macro view. We still like this approach with some tweaks, (i) **Tech** – we like tactical long in Mag7 to play a rebound plus global Semis as we think there is a reversion trade for APAC AI plays, specifically Korea. (ii) **Cyclicals** – we previously favored Financials and Consumer plays especially those tied to SoH reopening (similar to COVID reopening playbook) but given the shift in positioning, we think it makes sense to reduce Financials in favor of Industrials given the potential for improve economic and earnings data, globally, plus a potential tailwind from re-risking in the AI theme. Further, if the Momentum unwind has completed some of the 'Anti-Momentum" trades such as Quality Cyclicals and Defensives may consolidate. (iii) **Uncorrelated Plays** – Healthcare still makes sense (**Dubravko** has a detailed note here) and we would flag EM ex-AI given the potential for the US to stabilize, or decline further, which regionally would point to Latam as an expression of this view.
    - **TECH THOUGHTS** – Conversations with Tech specialists have generated these thoughts: (i) Mag7 / hyperscalers where under the microscope for capex spend and AI ROI and the cohort may be changing minds on AI ROI based on the backlog growing more than 150% YoY to

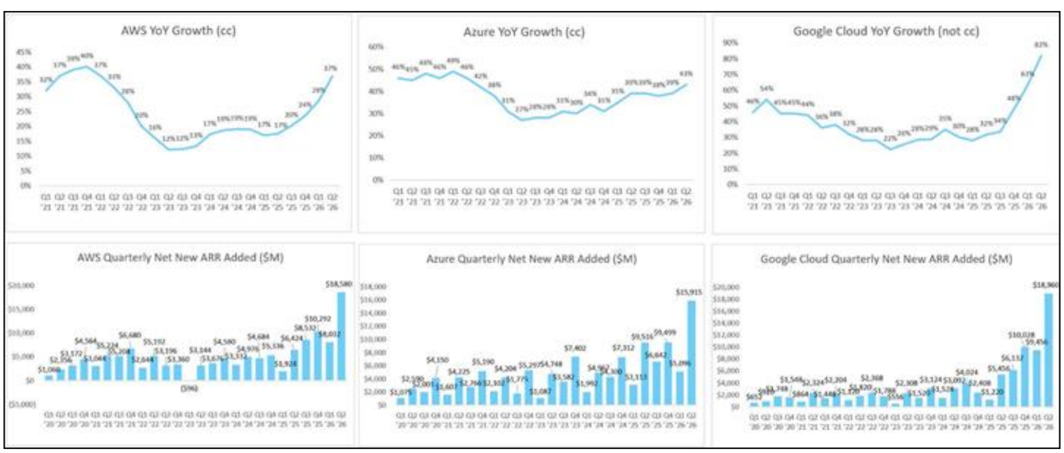
~$1.7T vs. capex growth of ~80%. (ii) Further, net new ARR also grew ~150%. (iii) AMZN's CEO comments are bullish for the cohort. Stated differently, it may not be the case that forward revenues will exceed capex, assuaging ROI concerns. **This points to a catch-up trade in the Mag7 / MegaCap Tech ex-Semis**; the group is trading more than 2 standard deviations below its mean from 2018Q3 to Friday, on a forward P/E basis. This implies ~30% upside to just one standard deviation below its mean and ~56% upside to return to average valuation.

CSP BACKLOG (AMZN, GOOG, MSFT) vs. CAPEX GROWTH (AMZN, GOOG, META, MSFT)



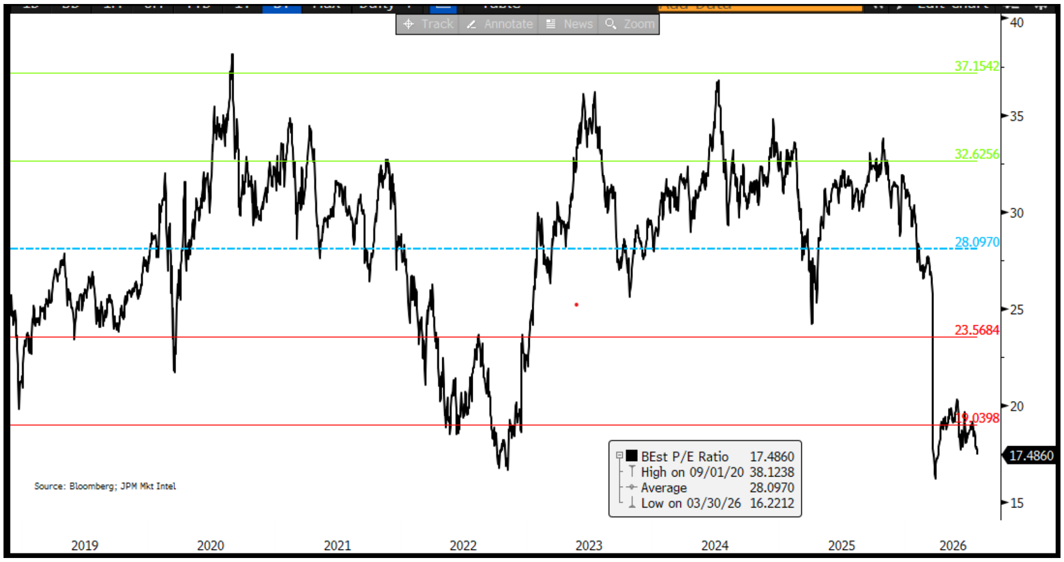
Source: Bloomberg

CSP: QUARTERLY GROWTH vs. NET NEW ARR



Source: Altimeter

MAG7 FWD P/E: MEDIAN vs. STD DEV



JPM DELTA-ONE IDEX – TMT MONITOR

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Ticker	Ticker	%1D	Pct Chg on Day (Z-Score)	%5D	%1M	%YTD
						Broad Tech (3
US Smid Tech (i)	JP1STC	+1.62%	0.77	+6.39%	+0.37%	+32.45%
US Tech (i)	JP2TEC	+1.01%	0.55	+2.09%	-1.41%	+31.87%
XLK	XLK	-0.22%	-0.10	-0.30%	-2.90%	+21.80%
						Key AI Themes (
AI Vulnerable	JPAIVUL	-1.12%	-0.59	+6.39%	+7.27%	-16.25%
AI Capex Spenders	JPAICAPX	+2.35%	1.44	+4.68%	+1.86%	-1.60%
Physical AI & Robotics	JP1XREAI	+2.22%	0.92	+2.23%	-5.91%	+9.49%
OpenAI Ecosystem	JPAIOPEN	+1.22%	0.34	+0.99%	-3.75%	+14.64%
Autonomous Cars & Robotaxi	JP1XADAS	+1.52%	0.49	-0.07%	-7.49%	+23.04%
Google AI Ecosystem	JPAIGOOG	+1.64%	0.44	-0.48%	-6.62%	+43.55%
AI Core Infrastructure Revenue	JPAICREV	+0.87%	0.22	-3.23%	-7.19%	+70.63%
AI Photonics & Optics	JP1XLGHT	+1.97%	0.40	-3.46%	-14.38%	+57.49%
AI Data Center & Power	JP11DCEN	+0.42%	0.18	-4.35%	-4.03%	+27.14%
AI Bottleneck	JPAIBTNK	+0.95%	0.21	-5.17%	-14.63%	+79.16%
CPU Ecosystem	JPCPUECO	-0.66%	-0.16	-5.83%	-14.51%	+71.84%
AI Memory & Storage	JP1XAIME	-2.87%	-0.46	-8.04%	-16.78%	+240.13
						Software (11)
US Application Software (i)	JP2APSF	+1.23%	0.40	+12.48%	+11.41%	-24.12%
AI Vulnerable Software	JPAIVULS	--	0.00	+10.36%	+9.90%	-25.58%
US Smid Cap Software (i)	JP2SSOF	+0.86%	0.33	+9.05%	+7.37%	-6.53%
US Software (i)	JP2SOF	+0.71%	0.31	+7.84%	+5.12%	-6.97%
US Vertical Software (i)	JP2VESF	-0.51%	-0.20	+7.67%	+5.65%	-21.74%
IGV	IGV	+1.36%	0.61	+7.50%	+1.08%	-10.51%
US Expensive Software (i)	JP1XSFT	+1.04%	0.41	+7.49%	+1.78%	-0.25%
US Large Cap Software (i)	JP2LSOF	+0.61%	0.27	+7.42%	+3.99%	-7.48%
AI-Resilient Software (r)	JPRAIRES	+1.08%	0.38	+6.26%	+1.52%	+8.53%
US Infrastructure Software (i)	JP2INFSF	+0.95%	0.34	+5.45%	+3.87%	+27.08%
US Security Software (i)	JP2SESF	+1.94%	0.63	+2.42%	-2.20%	+25.99%
						Semis/Hardware/Netwo
US Hardware (i)	JP2HWR	+1.09%	0.46	+1.75%	+0.30%	+51.78%
US Networking (i)	JP2NETW	+1.55%	0.51	+0.01%	-3.37%	+48.53%
SMH	SMH	+0.30%	0.09	-3.68%	-8.74%	+50.09%
US Smid Cap Semis (i)	JP2SSEM	+1.04%	0.22	-3.96%	-14.42%	+88.53%
US Semis (i)	JP2SEM	+0.68%	0.17	-4.10%	-13.14%	+62.42%
US Large Cap Semiconductors (i)	JP2LSEM	+0.10%	0.03	-4.31%	-12.55%	+62.13%
US Analog Semis (i)	JP2ASEM	-1.11%	-0.31	-4.44%	-12.07%	+40.04%
US Fabless/SPE Semis (i)	JP2FSEM	+0.15%	0.04	-4.80%	-13.17%	+67.49%
						Other Tech + Interne
US IT Services (i)	JP2ITSV	+0.57%	0.21	+12.47%	+9.07%	-35.62%
US Travel/Food/Tech (i)	JP2ATRFD	+0.09%	0.05	+9.52%	+1.99%	-4.75%
US Events/Sports (i)	JP2LIVE	-1.64%	-1.06	+4.96%	+2.71%	+33.65%
US Internet (i)	JP2INET	-1.27%	-0.72	+4.65%	-2.28%	-12.23%
US Advertising (i)	JP2ADV	+0.15%	0.10	+3.32%	-2.39%	-4.35%
US Payments/FinTech (i)	JP2PMT	-1.88%	-1.03	+3.27%	+0.91%	-6.06%
US Media (i)	JP2MEDI	-2.35%	-1.92	+3.13%	-1.60%	-0.77%
US E-Commerce (i)	JP2ECOM	-1.50%	-0.81	+3.10%	+0.18%	-4.84%
US Telco/Cable/Towers (i)	JP2TELC	-0.61%	-0.49	+0.63%	+0.66%	+1.37%
US Digital Infrastructure (i)	JP2DIGI	-1.00%	-0.62	+0.36%	-0.53%	+25.73%

Source: Bloomberg; JPM Delta-One

- **OLD MONETIZATION MENU (JULY 27)** – We make no changes WoW as we think the market is setting up for a Tech rebound as questions surrounding capex, funding sources, demand, and AI efficacy are answered this with the ancillary tailwinds mentioned previously (lower bond yields, weaker USD, lower vol). Should the market continue to broaden from here, we feel the barbell approach will capture this; but, if we see a rotation away from the US, then look for the US to lag its DM peers.
- **EM VIEWS (JULY 20)** – We expect growing divergence in EM performance at the country/sector level and hence view country-relative trades as more relevant for the EM monetization strategy in the current environment. Key themes and trades include: (i) **TACTICALLY LONG** China H-shares over A-shares; H-shares have lagged YTD, as South Korea, Taiwan, and A-shares have benefited from AI

optimism. We see cyclical segments of H-shares as key beneficiaries of cost-effective corporate AI build-out and commercialization. Meanwhile, given the strong performance in China's AI supply chain and models YTD, we could see further profit-taking in crowded AI longs. (ii) **TACTICALLY LONG ASIA REFINERS** – geopolitical uncertainty and refinery utilization have pushed Asia gross refining margins to a new record high, and the current supply/demand backdrop should continue to support higher GRMs. While the group has rallied MTD, it is still 9% below its February high. (iii) **HEDGES** — We like long LatAm (ILF) as a diversifying play against a potential pullback in the EM AI theme and for relative resilience against geopolitical risks.

WHAT ARE WE WATCHING FROM HERE?

Here are some items that we are tracking to give insight into the direction of risk.

- **BONDS** – The move in the 30Y during / after Warsh's press conference appears to be the market expressing its view that the Fed it is wrong similar to the Dec 2024 cut, where the 10Y moved from 4.39% on Dec 17, 2024 to 4.79% on Jan 14, 2026. The optimistic view is that there is some uncertainty and the move was exacerbated by quant / systematics / CTAs. If bond yields continue to move higher this week, then that is a worrying sign for Equities; look for pain in both the Tech and Cyclicals tape while simultaneously removing bonds and gold as areas of safety.
- **CREDIT** – Do we see credit spreads widen from here for hyperscalers? This could be hastened by debt raises following earnings but think the vast majority of hyperscalers have material room to issue additional debt, say up to $50bn per firm with minimal concessions. **Nate Rosenbaum**, Head of IG Strategy, tells us that recent bond performance is less about the market's capacity to absorb more debt, pointing to investors' ability to dictate terms as the driver in the recent widening (full note is here). Further, **Nate** tells us that to get to the point where capacity issues become a headwind, you would need hyperscalers to get to ~3% index weight, which implies $1.7T in additional IG / HG debt issuance (a detailed note from **Nate** is here).

Figure 4: Hyperscaler & AI/Data Center Investable Universe ($bn)

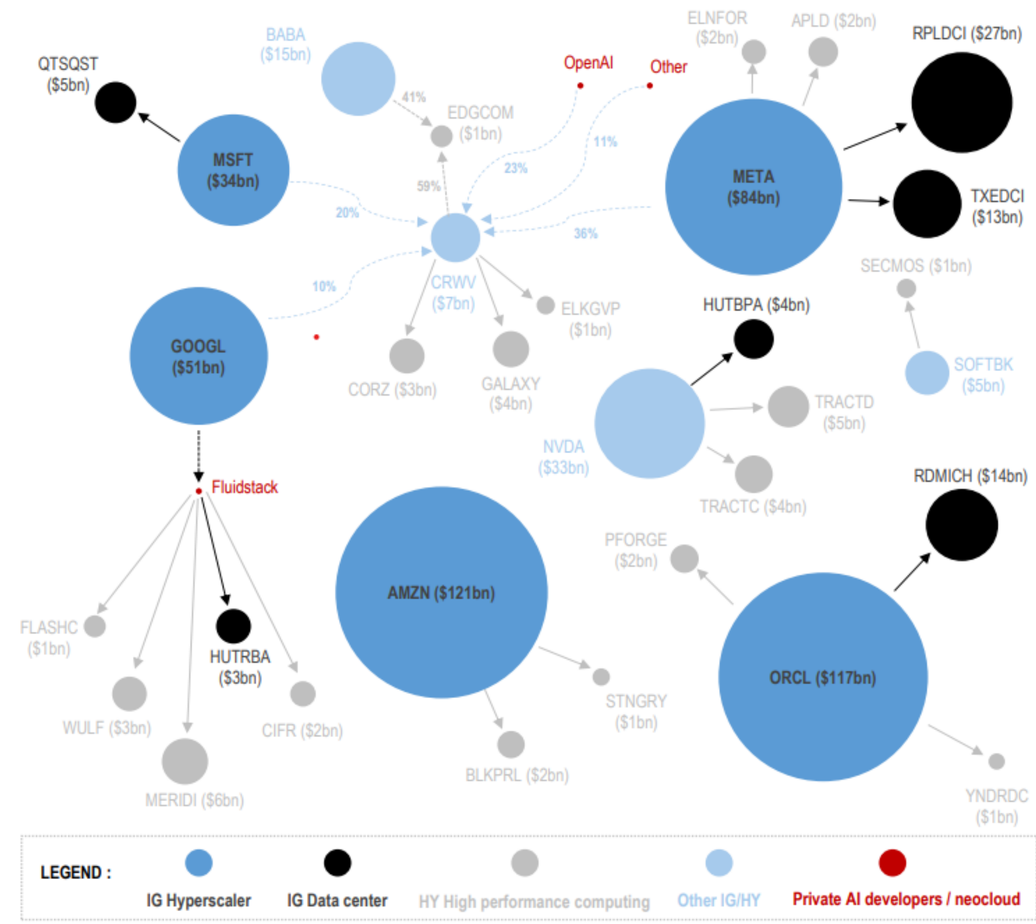
		Proportionate Share of DC Lessor Debt		Total Related
	Direct IG Index Debt	IG Index	HY Index	Obligations
AMZN	$121	$0	$3	$124
MSFT	$34	$5	$1	$40
GOOGL	$51	$3	$13	$67
META	$84	$40	$7	$131
ORCL	$117	$14	$3	$134
Other	$73	$4	$29	$106
Total	**$480**	**$66**	**$56**	**$602**

Source: J.P. Morgan.

HYPERSCALER & HPC (HIGH PERFORMANCE COMPUTE) RELATIONSHIPS

Figure 5: Hyperscalers and the HPC Universe Credit Linkages Simplified

Note: Solid arrows: single-tenant projects. Dotted arrows: multi-tenant or intermediary structures; % reflects estimated revenue share



Source: J.P. Morgan, Bloomberg Finance L.P.

- **FACTORS** – Momentum is the key, given the weighting for our client base's portfolios. Generally, when Momentum and Beta are trending higher, that is a positive for Equities. Right now, it feels like Long Momentum is the more challenging portion of the trade. Last week's price action seemingly revived Semis, AI, and Mag7 which points to a rebound in Momentum. Our **Delta-One** team flags that this current Momentum drawdown in the Long leg is the greatest underperformance relative to the Short leg in the past 20 years, illustrating the depth of the Semis / Tech decline and degree of crowdedness surrounding Semis. Lastly, they flag that the drawdowns of this magnitude point to upside.
- **FOREIGN MARKETS** – (i) **AI / Korea** – Friday saw the biggest single day gain for KOSPI in its history with a surge in foreign buyers, based on Bloomberg data. History suggests a pullback before resuming its up-trend. Earlier this week, investors had rotated into ex-Korea/Taiwan Tech plays which may rotate back to Korea / Taiwan as the Semis trade re-ignites. (ii) **JPY** – BOJ intervened in FX

markets as it held rates constant, perhaps as much as $59bn per Reuters; this intervention was done in combination with BOK. US Treasury warns that it may also intervene in the JPY market. The risk is a more hawkish BOJ and/or gov't policy that pulls money away from US markets, pressuring longer-dated yields higher. (iii) **Latam / UK** – a surge here could be investors looking to insulate themselves from the AI trade and another potential downdraft.

- **SECTORS** – If Mag7 and Semis are both moving lower from here, then we have a serious problem with US Equities; earnings seemingly assuage this concern. Per **Positioning Intelligence** data, we never saw the flush in US Semis so there remains risk of a shift in the fundamental narrative (overspending on a nonexistent ROI for Mag7 and demand will crack once circular financing is remove for Semis) may return.
- **WILDCARD**: **US v. Iran** – this situation continues to spiral with Iran seemingly eliminating all off-ramps. News of Iran broadening is sphere of attacks as well as receiving Chinese weapons creates more risk than the market is pricing (Reuters). Further, the US has historically low levels of oil reserves with ammunitions levels declining faster than the replacement rate (US EIA; CSIS); if the US wants to extend the kinetic conflict that points to escalation to end the engagement quickly and/or reducing future capabilities.
- **KEY NEAR-TERM CATALYSTS** – (i) **EARNINGS** – NVDA on Aug 26; (ii) **MACRO DATA** – ISM-Mfg on Aug, ISM-Srvcs on Aug 5, NFP on Aug 7, CPI on Aug 12, PPI on Aug 13, Retail Sales on Aug 14, PMIs on Aug 21; (iii) **MACRO EVENTS** – Jackson Hole Aug 27 – 29.
  - **JPM EVENTS (MOLLY COSTICH)** – **HARDWARE & SEMIS** | Asia Tech Tour; AVGO; AAPL; & More → 1) very limited seats for our 11th Annual Asia Tech Tour on 8/18-20 in TW; 8/20-21 in Korea; and then out Japan Industrial Tech Forum on 8/27-8/28. AWESOME LINE UP – contact your **JPM Sales Coverage** if you want more details. *deadline to request has well passed* 2) AAPL HQ Visit – 8/13 at 4 PM ET w/ t he CFO and IR in Cali; 4) Hardware & Semis Access Forum on 8/12 in Cali – 45 min analyst led fireside chat and Q&A – 650 Group; Lumentum; Lam Research; Cadence; Applied Optoelectronics; Lunch; Optical Components Expert Panel; QCOM. 5) DELTA call on Today 6) Save the date on our Rising Tech Forum on 9/10 in NYC. Details TBA here but last year's attendees include CALIX; CIEN; HP; NTAP; SANM; SMTC; & 7) Sandeep hosts a SEMIs road trip in Europe – 9/10-11.

ADDITIONAL THOUGHTS

- **EARNINGS UPDATE (FactSet)** – Entering the earnings season, expectations were for revenue growth of 12.2%, EPS growth of 23.3%, and margins of 14.1%. With 61% of the SPX having reported, we are seeing blended (actual + forecasts of remaining reports) growth rates of 14.1% (Rev), 47.4% (EPS), and margins of 16.7%. 10 of 11 sectors are experiencing positive YoY earnings growth with 8 of 11 seeing double-digit earnings growth.

  - **BEATS** – 77% of companies are beating Revenue estimates (vs. 70% 5-yr avg). 86% of companies are beating EPS estimates (vs. 78% 5-yr avg).
  - **MAGNITUDE OF BEATS** – Companies are beating Revenue estimates by 2.9% (vs. 1.9% 5-yr avg) and EPS estimates by 31.4% (vs. 7.0% 5-yr avg).
  - **PRICE RESPONSE** – beats have seen an average price decrease of 0.1% (+1.0% is 5-yr avg) with negative surprises seeing a price decrease of 2.4%. (a decline of 3.0% is the 5-yr avg) FactSet views the time range from 2 days before earnings to 2 day after the release.
  - **SECTOR DRIVERS** – (i) Revenue: Tech, Energy, and Comm Srvcs. (ii) EPS: Energy, Comm Srvcs, Comm Srvcs, and Tech. (iii) Margins: Tech, Comm Srvcs, and Fins.

- **EARNINGS, MACRO READ-THRU** – As a reminder, **Ellen** has this section in the *Afternoon Briefing* during earnings season.
  - Corporate comments continued to reflect healthy consumer and demand, with the strongest comments coming from **American Express**, saying that this is their strongest level of consumer spending growth since 2018 Q1 (+11%). Another interesting comment I would highlight is also from **American Express**, as the firm spoke about their ROI from AI spending, *"I'm not so sure how many companies have really committed to actual P&L savings [from AI] for 2026 and probably not even for 2027."* If this does reflect the consensus views from corporates, we will likely see higher tolerance for actual AI spending in the P&L from management teams in the near-term.

  - We found **Ford's** comments on the IEEPA tariff benefit versus input cost headwinds most interesting: *"We have the $1.3 billion in IEEPA tariff benefit, but we now expect commodity headwinds of just above $2 billion, about $1 billion higher than our previous estimate, largely due to higher aluminum pricing driven by global supply constraints."* While this may be an idiosyncratic case given **Ford's** large exposure to commodities, supply chain constraints apply to many industries. In addition, **Visa's** comments were in line with large-cap banks, as they are not seeing any weakening in consumer spending. However, **Coca-Cola** seems to have a more conservative tone on some parts of the consumer backdrop.
  - We want to highlight **P&G's** comments on their inflation outlook: *"Most of this [cost] impact will be felt in the first half of fiscal '27, as those materials were produced when the underlying oil price was above $100 a barrel."* For reference, **Feroli** sees Headline CPI YoY of 3.4% for FY26 and 2.3% for FY27. However, it seems that what corporates are seeing is a stickier

inflation pattern driven by higher production costs. On the consumer side, comments were largely positive, with not much impact from recent energy costs; SoFi highlighted decent credit performance.

- **ECON UPDATE** – **Feroli** pulled forward his rate hike from 27H2 to December but sees it as a one-time hike with the Fed on hold throughout 2027 (here). Core PCE MoM was +0.13% the lowest since Mar 2025, implying a 1.6% annualized rate. The 3-month annualized rate was 2.9% (vs. 2.8% a year earlier). 6-month was 3.8% (vs. 3.1%). 12-month was 3.3% (vs. 2.8%). For growth, Feroli sees 26H2 averaging 1.8% before accelerating to 2.3% for 27H1 (full note is here). He does see a dip in corporate profits for 26Q3 before resuming profitability similar to 26Q1.
- **FED THOUGHTS** – Some thoughts stemming from client conversations: **(i)** Warsh's shift to reduce communication is not well-received. Reducing market information is never a good thing. **(ii)** He talks hawkish but acts dovish. While his meetings have skewed very hawkish he move to use alternative inflation measure will mean that inflation prints are lower than established metrics of CPI and PCE. This does not speak to someone who is serious about reducing consumer-experienced inflation. **(iii) Jay Barry** tells us that the potential usage of the balance sheet to fight inflation means the curve may bearishly steepen (full note is here). **(iv) Jay** also flags that there is a risk that the Fed adopts a new inflation target, which could happen before 2% is achieved in PCE. **(v)** if there is a broader plan from Warsh, it is unclear, and the task forces may be performative. **(vi)** there remains debate over how successful Warsh will be in rallying the balance of the FOMC; that Powell remains in his Governor seat points to a Fed that may not be willing to change with radical speed. Overall, Warsh's credibility is in question something flagged by the media (BBG; CNBC; WSJ) which means that bond yields are likely biases higher.
    - Fed officials who voted to hike rates say action is needed now against inflation (CNBC)
    - Fed dissenters sketch the case for a rate hike (RTRS)
- **MACRO DATA THIS WEEK** – This week, the focus is on ISM, NFP, and Fedspeak given the reduction in guidance from Warsh. **Feroli** sees ISM-Mfg printing 54.0 (vs. 53.3 prior), ISM-Srvcs printing 54.5 (vs. 54.0 prior), and NFP of +75k jobs (vs. +57k prior) which will increase the unemployment rate (U.3) to 4.3% from 4.2% (full note is here). Combined this points to not only economic resilience but an economy that may be inflecting higher. Given the hawkish Fed dissents, keep an eye on the Prices Paid components of the ISM releases.
- **US / IRAN** – Last week, the US–Iran news flow swung between de-escalation and renewed tension. Earlier last week, both sides paused strikes after nearly two weeks of intensifying air activity. Midweek, sentiment reversed after reports of a surprise Iranian attack on US forces in Jordan and tougher US rhetoric ("hitting Iran hard"), alongside a report of a drone hitting a US-owned gas storage

tanker in Egypt; additional regional-security headlines (Kuwait intercepting hostile drones and Iran blocking passage of multiple tankers in Hormuz) kept risk elevated. We finished the week with Brent at $90, $3 above Natasha's fair value model. However, it is worth noting that the base case of her fair value model assumes "that the Strait of Hormuz would have begun reopening on June 1, with the tanker traffic, including re-routing, recovering to roughly 73%" (here), but the current situation has been far from the June 1 reopening scenario.

  - Exxon, Chevron Warn Fuel Prices to Endure as War Knocks Refining (BBG)

POSITIONING INTELLIGENCE – ***Prime Time / Monthly Wrap*** **| HF Performance Drops Amidst Strong De-Grossing; Set-up Cleaner Despite LT Positioning Risks**

BRIEF SUMMARY: **HF performance took a hit in July amidst the Tech/Momentum unwind.** A reversal of some sort was not that surprising, given the extreme level of performance and positioning in Tech and Momentum. However, the speed of the reversal caught many by surprise and seemed to reach a breaking point earlier this week as we saw extreme de-grossing from Mon-Wed. Given the extreme de-grossing, dip in performance, and fall in our US TPM to an "attractive" level about a week ago, it seems like the market could be set for a recovery going forward. However, the recovery could be choppy and factor / sector positioning remains stretched on a longer-term basis, which poses lingering risks. In addition, the fact that a recovery appears to be consensus also poses a potential risk.

KEY POINTS:

- **HF performance dipped in July (-3%) as the Momentum unwind hurt longs.** Through 7/30**,** YTD performance is around +8% across all strategies. Global long-short spreads flipped to -2% MTD (from +4%) and were most negative in APAC (-5%) and EU (-3%) vs. nearly flat in N. America.

- **Crowded Tech stocks and Asia were key pain points, alongside EU shorts.** Crowded Tech longs were -21% in N. Am. vs. shorts -6%, reversing part of the +40% spread we saw in June. APAC Tech crowded longs were -37% in Jul while shorts were flat, for a very negative spread of -38%. EU shorts (in aggregate) were up >5% in July, which put pressure on overall EU HF returns.

- **De-grossing and rotation dominated July (seasonal pattern repeated):** US HF de-grossing is more negative than every year except 2020 and 2022, and the sharp 3-day de-gross episode was comparable to late-Jan '21 and mid-Nov '22.

- **Post de-grossing, flows may stay choppy near-term—but seasonals suggest a rebound in gross flows:** After large de-grossing episodes, gross flows have historically been uneven (not an immediate re-gross), yet seasonal trends often point to more consistent re-grossing into mid-September.

- **Leverage stayed broadly steady despite active risk reduction…Eq L/S 8wk net decline could be followed by a bounce:** Overall HF leverage was roughly unchanged MoM as negative performance offset exposure reductions; gross leverage remains elevated (~80th %-tile on a 12m basis / ~96th on 5yr). Eq L/S net was especially volatile—falling to its lowest level since last May mid-month before rebounding, ending at ~23rd 12m / 65th 5yr %-tile. Notably, the 8-week decline in Eq L/S net leverage hit about -2z by mid-July; similar declines in recent years have often been followed by market rebounds.
- **US Tactical Positioning Monitor fell into late July, triggering an "attractive" set-up:** The US TPM's 4-week change fell below -1.5z by Jul 23. The level of positioning ended July at the ~20th %-tile since '15, in line with late Mar '26.
- **Regional flow picture diverged meaningfully:** EMEA HF net flows were basically flat. Asia was mixed—China local and Japan were bought while AxJ was sold; CTAs also reduced Japan to ~56th %-tile, nudged Europe up to ~75th, and increased HK materially to ~49th.
- **Factor and sector positioning suggest an unwind occurred, but longer-term crowding risks remain:** The 6m combined HF positioning + factor performance for Momentum hit ~-2z in late July (often consistent with rebound potential), alongside stronger de-grossing and more Momentum selling. However, longer-term positioning remains elevated (Momentum still >90th %-tile LT; Size still high), while "riskier" factors (Beta, Residual Vol, Liquidity) have started to pull back.
- **US flows rotated, with positioning still stretched:** Combined (HF + Retail + ETF) flows showed strongest buying in Financials (ETFs solid) while Industrials and Consumer Discretionary were most net sold. Energy saw limited enthusiasm despite outperformance. HFs sold Tech Hardware and Semis while buying Software via covering; positioning remains extended in Tech Hardware/Semis (~+3z since 2018; 80th %-tile 12m), while Software is still the most bearish (-3z since 2018; ~26th %-tile 12m).
- **Europe flows were volatile, but positioning mostly in line with past skews:** Banks were the most sold (mainly late-month) though positioning remains high. Semis flipped back to buying late July, leaving MTD near neutral but positioning still near highs (EU Semis L/S ~99th %-tile LT). Software saw late-month buying, yet positioning remains very low (as do Autos/Media/Transports/FBT/Real Estate).

NOTES FROM RATES TRADING – Joe Mazzurco summarizes desk views

Latest deep dive on the Fed from our NA Rates Trading Head **Eric Childs**. The TLDR? Our base case is that the reaction over the prior few days is the market's first real digestion of what we've described below. Our guess is the process has fairly more room to run and will likely overshoot in the short run before gradually stabilizing. We continue to like risk premia expansion trades in most of the spaces we are operating in. This includes curve steepening exposure between the front end and the belly, positive curvature exposure through paid barbells in the belly of the forward curve and short positions in the longer end of the asset swap curve. In vol, we expect some continued demand for gamma and vol across the surface with near term activity likely to be focused on longer tails until markets complete the current repricing cycle.

Some additional bullet points:

- **MARKET SHIFT & FOMC PHILOSOPHY –** The market's implied neutral rate rose notably ahead of the FOMC, reflecting the impact of reduced forward guidance. Chairman Warsh's approach is more monetarist, emphasizing the policy rate as the primary tool and viewing other tools (balance sheet, guidance) as fungible but with distinct effects.
- **WARSH'S STANCE – "OWL" NOT HAWK OR DOVE -** Warsh is neither strictly hawkish nor dovish; he's a technocrat ("Owl") focused on data-driven, long-term financial and economic health. He prefers a clean-slate approach to each decision, values differences in policy transmission, and aims for steady rates with "watchful thinking."
- **COMMUNICATIONS –** Warsh advocates for less forward guidance, letting markets react to data rather than central bank signals. He values vote accountability and sees dissents as a feature, not a flaw.
- **BALANCE SHEET –** Warsh believes the balance sheet transmits policy differently than rates, potentially distorting risk pricing and productivity. He favors normalizing the balance sheet to return risk to private markets, supporting productivity and financial stability.
- **INFLATION FRAMEWORK –** Warsh is committed to a 2% inflation target, viewing credibility as a key policy instrument. He's open to broader inflation measures and expects future strategy updates.
- **DATA & DECISION-MAKING –** Warsh cares more about data trends than individual prints, and has initiated task forces to improve data infrastructure and signal extraction.
- **JOBS & PRODUCTIVITY –** Warsh emphasizes supply-side factors, especially AI-driven investment, and rejects the idea of fine-tuning aggregate demand. He sees price stability and full employment as complementary, not competing.

- **TERM PREMIUM NORMALIZATION –** Warsh wants term premium to return to normal levels, believing this will improve capital allocation and financial stability. He's cautious about rapid adjustments that could destabilize markets.
- **EXECUTION RISKS –** The reform program is interconnected and carries execution risk. Markets may overshoot in the short term, and rapid repricing could challenge financial stability and Fed credibility.
- **INVESTMENT IMPLICATIONS –** The note favors risk premia expansion trades, curve steepening, and volatility exposure as the market digests the new policy regime.

MACRO CORPORATE SPOTLIGHT: AN UPDATE ON MACRO ISSUES FOR CORPORATE TREASURERS GOING INTO 2H26. The full note is here.

1. Has the Middle East conflict produced a change in reaction functions by central banks? The front end of most DM rates curves have exhibited strong directionality with respect to energy prices since the conflict broke out, with markets pricing in a more hawkish reaction from central banks as oil prices have risen. The Fed's tolerance for above-target inflation appears to be waning. Page 3.

2. What might the future of the Strait of Hormuz look like? For decades, the prospect of Iran disrupting the Strait of Hormuz has been framed in military terms: mines, missiles, and naval confrontation. But there is another, more subtle way to exert leverage over the world's most important oil chokepoint. Rather than closing the strait outright, Iran appears to be seeking to regulate it. Page 5.

3. How is the oil market being reshaped? Once flows through Hormuz resume, the market could pivot from an acute supply shock to a rapid supply rebound, which may outpace a still-fragile demand recovery. The conflict may accelerate investment in resilience, including expanded bypass pipeline capacity, larger strategic storage buffers, and faster inventory rebuilding. Page 6.

4. Will there be a durable shift in GCC USD flows? Early evidence points to some pullback in outbound investment from the GCC, but this is a modest share of foreign holdings of US assets and there are other offsets. Despite the severe shock from the conflict and disruptions to shipping, we continue to view the GCC FX pegs as both secure and economically beneficial. Page 7 .

5. Will the USD range break in 2H26? 2026 has featured 'shades' of US exceptionalism: our forecasts call for a moderate +1.2-2.5% USD TWI appreciation over the next year, but Fed hikes could result in a range-break for the dollar. Substantial divergence in regional EM FX performance is likely to continue, but more narrowly. Page 10 .

6. Is the rush for gold over for now? Until buying from other demand sectors (central banks, retail, private banks, and Asian physical demand) re-intensifies and while the Fed maintains a hawkish bias, the outlook for gold will be capped. We ultimately see further recovery in prices coming in 2027 towards $5,000/oz as structural central bank and physical buying eventually re-strengthens. Page 14 .

7. Will the outcome of the US midterms be relevant for US rates, USD and EM? Historically, there has been no discernible trend in Treasury yields under split midterm outcomes. The dollar will likely show the highest (negative) sensitivity to fiscal developments post-elections. For EM, the midterm results may matter for USMCA and the durability of the tariff architecture. Page 16 .

8. Will fiscal differentiation re-emerge as a theme for rates and FX? Over the last three years, a large shift in the composition of demand for Treasuries toward more price-sensitive investors has justified a rise in the term premium and long-end yields staying anchored at higher levels. Fiscal concerns are now exerting less influence on FX markets compared to last year. Page 18 .

9. What could be the macro impact of a strong El Niño weather phenomenon? The latest developments point to a rapidly strengthening El Niño that could be among the strongest observed in recent decades. A very strong El Niño raises global food inflation by roughly 0.7%-pt at its peak, with effects typically emerging four to eight months after onset. Page 20 .

10. Will the AI/semiconductor cycle continue to support the overall global risk cycle? The AI cycle remains intact and fundamentally supported, with AI companies expected to deliver roughly +20% earnings growth over the next two years. The widening in hyperscaler spreads reflects a supply story more than a solvency one. Page 22 .

NEWS LINKS

- Trump Holds Off Iran Strikes on Pledge a Hormuz Deal Is Close (BBG)
- Saudi Prince Concerned Over Trump's Iran Strike Plan: Axios (BBG)
- OPEC+ Makes Small Quota Hike to Finish Unwinding 2023 Cuts (BBG)
- Exxon, Chevron Warn Fuel Prices to Endure as War Knocks Refining (BBG)
- Op-ed: The U.S. lead over China in AI is all but gone (CNBC)
- Japan to announce that Tokyo and Washington took joint action to support the yen, Reuters reports (CNBC)
- Investors scored on Iran war's oil market boom. Staying long the trade will get trickier (CNBC)
- Why flights are so expensive and will likely stay that way (CNBC)
- Treasury selloff signals need to bolster Fed's inflation credibility, Musalem tells FT (RTRS)
- US Treasury yield curve 'twist' reflects view Fed may not hike again (RTRS)
- Rare joint currency intervention sends strong message to markets (RTRS)
- Brazil's budget deficit nears pandemic-era levels as fiscal concerns linger (RTRS)
- America Is Great at Creating Stock Market Bubbles—and Shrugging Them Off (WSJ)
- Wall Street Thinks It Knows How Tech Giants Will Make AI Pay (WSJ)
- The Race to Build an American Alternative to Cheap AI From China (WSJ)