CYPRESS

ASSET MANAGEMENT, INC.

MARKET COMMENTARY **July 2026**

2026 ASSET PERFORMANCE

	Q2 26
S&P 500 Total Return	15.20%
NASDAQ	21.60%
Dow Jones	13.38%
Russell 2000	21.49%
World ex. US	15.29%
Gold ($4040/oz)	-12.64%
Oil ($69.50/bbl)	-31.45%
Long Term Treasury (4.9%)	0.84%
As of June 30, 2026	

The second quarter of 2026 illustrated the importance of prioritizing fundamentals over market timing. Following a highly volatile opening quarter marked by geopolitical conflicts and energy price shocks, U.S. equities delivered a strong recovery. The S&P 500 posted a 15.2% total return, converting year-to-date losses into solid double-digit gains. More importantly, the market rally underwent a meaningful structural shift. For the past two years, we have described an economic landscape dominated by mega-cap technology leaders. This quarter, participation broadened substantially, extending into more cyclical sectors, including financials and industrials. Investors have looked past immediate headline concerns to focus on the underlying reality: corporate earnings and structural productivity continue to compound at a strong pace.

Earnings Momentum and the CapEx Foundation

Elevated valuations above historical norms have drawn concern from some market observers, who cite vulnerability to correction. However, stocks have grown into their valuation, and these multiples are supported by corporate earnings growth exceeding 20%. In fact, the S&P 500 began the year trading at 22.5x forward earnings and now trades at 21.5x forward earnings.

This momentum stems from the ongoing technology and industrial infrastructure cycle. Big Tech capital expenditure remains on track to approach $650 to $700 billion in 2026—levels that would have been difficult to envision only a few years ago. We are no longer discussing a speculative market theme. This capital is flowing directly into the physical foundation of the modern economy: advanced semiconductor architecture, data centers, localized power infrastructure, and automated manufacturing facilities.

Crucially, this is not solely a technology story. Onshoring, defense spending, and energy grid requirements for artificial intelligence are driving an industrial expansion. These developments are supported by a resilient domestic consumer and an economy anchored by the strong foundation of the accumulated wealth of the baby boom generation.

Baby Boomers and the Generational Economy

The Baby Boom generation represents the wealthiest cohort in American history, delivering a foundational pillar of strength to the U.S. consumer and broader economy. Comprising roughly 76 million individuals born between 1946 and 1964, baby boomers have amassed approximately 70–90 trillion in net worth—roughly half of total U.S. household wealth—reflecting decades of post-World War II economic expansion, equity market appreciation, and real estate gains.

This substantial wealth reservoir underpins resilient consumption, as boomers maintain robust spending in retirement across categories such as travel, healthcare, dining, and recreation. Equally important, they provide meaningful financial support to their children and grandchildren, helping to mitigate affordability challenges for younger generations. As economist Ed Yardeni has noted, this intergenerational dynamic fosters a more balanced "G-shaped" (generational) economy, enabling broader access to middle-class living standards than headline income disparities might imply.

This pattern of wealth-funded consumption marks a notable departure from most of economic history. In earlier eras, shorter lifespans and more limited capital accumulation meant that income from labor remained the primary constraint on spending for the vast majority of households. Today's combination of extended longevity, broad financial market participation, and the modern economy's capacity for sustained asset growth has enabled an unprecedented accumulation of retirement resources—shifting a meaningful portion of consumption from current earnings to accumulated wealth.

Importantly, this dynamic appears uniquely pronounced in the U.S. economy, a direct reflection of America's historical economic strength, dynamism, and capacity for wealth creation. Few other nations have generated comparable scale and breadth of generational asset accumulation. This positions the United States with a distinctive competitive advantage going forward—one that complements the transformative potential of the AI investment boom and reinforces the resilience of American consumer demand.

Looking ahead, the scale and durability of boomer wealth create a powerful foundation for sustained economic growth—one that is likely to prove resilient through ordinary recessions. Backed by accumulated assets rather than current income alone, this spending capacity is unlikely to be significantly impaired absent a severe financial shock or depression-level event.

Generation	Birth years	Value of Assets	Share
Silent Generation	Before 1946	$20.1T	12.3%
Baby Boomers	1946 to 1964	$83.3T	51.0%
Generation X	1965 to 1980	$42.6T	26.1%
Millennials and Gen Z	1981 or later	$17.1T	10.5%

Source: UBS Global Wealth Report 2025

Navigating Policy and Geopolitical Headwinds

While the domestic growth picture remains constructive, we must highlight the persistent headwinds on the macro horizon. The global landscape remains complex and highly contested. The ongoing conflict in Iran continues to pose structural challenges to global supply chains and introduces lingering inflationary pressures. Concurrently, persistent tariff uncertainty and a broader restructuring of the global trading framework—marked by intense great-power rivalry, NATO reorganization, and a reassertion of American economic influence within the Western Hemisphere—introduce an enduring layer of geopolitical risk. This sticky inflationary backdrop has altered the monetary landscape. The Federal Reserve, having completed a rate-cutting cycle in late 2025, has moved to a "steady but on hold" operational stance. Central bank officials have signaled they will maintain current interest rate levels until global supply networks normalize and pricing stability is more firmly established. Furthermore, we cannot ignore structural risks closer to home: the U.S. national debt has reached a record $39 trillion, now at approximately 1.2x nominal GDP. This significant fiscal imbalance represents a long-term burden on interest rate markets that warrants continuous monitoring.

2026 Outlook: Big Picture

- Current mid-cycle economy remains resilient and positive for U.S. stocks, with solid growth and accelerating productivity expected to continue, though geopolitical shifts and policy uncertainty introduce notable risks.

- The Iran War remains unresolved, but markets have learned to live with it.

POSITIVE	NEGATIVE
• U.S. Economy Still In Mid-Cycle Growth Phase with resilient consumer spending, solid job market, and productivity gains	• Iran Conflict Has Brought Inflationary Pressure and Global Supply Disruptions
• AI & Technology Investment Boom Continues: Big Tech capex approaching $650-700B in 2026, laying critical foundation for long-term technological advantage	• Tariff Uncertainty and Global Trade Realignment -- Rising Great-Power Competition, NATO restructuring, and U.S. reassertion of influence in Western Hemisphere -- add heightened geopolitical risks
• Market Valuations: Relatively High P/E Multiples More Than Offset By 20%+ Earnings Growth	• Fed Rate Environment Stable but Fed Now On Hold Until Global Supply Chain Normalizes
• The Wealthiest Generation: Baby Boomer Spending Supporting Resilient Consumer and US Economy	• Questions Remain About the Sustainability/Profitability of the AI Spending Boom; Uncertainty Over New Fed Chair and Fed Policy; High Retail Margin Debt & Stock Speculation
• Strong Forward Earnings Outlook – Particularly in Technology and Industrials, Supported by AI Spending	• US National Debt at Record High Level ($39T), @1.2x Greater than Nominal GDP: Raising Long-Term Sustainability Concerns and Interest Burden

An Addendum: The Unseen Machinery of Progress

We recently spent time reviewing the historical logs of the early American industrial buildout, which got us thinking about a fundamental truth regarding how technology changes our world. When the locomotive was first introduced in the 19th century, or when the first commercial electrical grids were laid across American cities in the early 1900s, the public and the press focused entirely on the immediate, visible novelties. Investors speculated wildly on dozens of tiny, undercapitalized rail lines or local power companies. Most of those initial speculative plays imploded. What the contemporary observers missed, however, was that the true, lasting fortune of those revolutions didn't belong to the loudest promoters. It accrued to the "essential architects"—the massive, well-capitalized enterprises that manufactured the high-grade steel rails, forged the heavy steam boilers, and controlled the standardized electrical switching gear. The physical machinery had to be built before the economic miracle could occur.

We see a similar paradigm unfolding today. While the talking heads on financial television bicker daily over which consumer software application or AI chatbot will win the public's fleeting attention, the quiet, massive fortunes are being made by the companies fabricating the physical infrastructure. The data centers require massive industrial cooling systems; the advanced chip fabrication plants require specialized precision equipment and tooling; the digital revolution requires an unprecedented volume of physical electrical grid distribution. And underlying it all, the AI revolution and the digital economy run on the building block of semiconductor chips.

This is the unseen machinery of progress. At Cypress, we try and bypass the speculative noise and focus heavily on the foundational enablers that own the infrastructure and possess the scale to extract profits regardless of which specific trend catches fire next. Progress requires a physical foundation, and we intend to keep owning the companies that build it. That focus on durable, high-quality businesses remains the core of how we manage our portfolio.