WEEK OF AUGUST 24, 2026

Market Navigator

Stocks moved lower, with weakness in technology and semiconductors. Emerging markets remained relatively strong as the weak dollar helped buoy the MSCI Emerging Markets Index despite concerns about rising U.S. yields. The Treasury's efforts to slow the increase in long-term yields had little effect.

Quick Hits

1. **Beyond the headlines:** A spectacular earnings season with a few caveats.
2. **Report releases:** Minutes from the Federal Reserve's (Fed's) July meeting indicated a slightly less hawkish tone than expected.
3. **Financial market data**: U.S. stocks moved lower, ending a three-week streak of gains.
4. **Looking ahead:** Consumer confidence will remain in focus this week as elevated oil prices continue to pressure consumers.

Beyond the Headlines: A Spectacular Earnings Season with a Few Caveats

The S&P 500 is on track to deliver nearly 51 percent earnings growth in the second quarter, an amazing number given that the market is already coming off consecutive years of double-digit earnings growth. The last time earnings growth was this strong was in the second quarter of 2021, following the Covid-19 lows. Roughly 86 percent of S&P 500 companies have beaten estimates, which is well above the 10-year average of 76 percent. Analysts had expected earnings growth of 23.1 percent at the end of the quarter.

Should We Temper Expectations?

Earnings growth has been impressive, but some factors are unlikely to be repeated. Two of the largest S&P 500 companies reported significant earnings beats, making up a large portion of the unexpected upside. Alphabet reported earnings per share of $9.11 versus expectations for $2.88, and Amazon reported earnings per share of $5.75 against expectations for $1.82. The Alphabet figure includes $98 billion in unrealized gains on equity securities, due in part to the recognition of a gain on its holdings in SpaceX, which recently went public. Similarly, Amazon reported a large gain from its stake in Anthropic, which was revalued upward and could pursue an IPO this year.

Although these huge revaluations are unlikely to be sustainable, they reflect the significant value created from these firms' investments in AI. Excluding those two companies from the S&P 500, the index would still be reporting earnings growth of more than 30 percent. Looking at the S&P 500's top-line growth, the index is expected to see revenue growth of close to 15 percent—nearly 3 percentage points higher than expected at the end of the second quarter.

The Biggest Surprises

The sectors with the biggest positive surprises were communication services and consumer discretionary, which include Alphabet and Amazon, respectively. Health care and financials reported positive surprises of 18 percent and 14 percent, respectively, for the quarter, beating out technology at 11 percent. The Russell 1000 Value Index has outperformed the Russell 1000 Growth Index by nearly 20 percent year-to-date through August 20. Another major second-quarter surprise came from the energy sector, which is expected to see nearly 150 percent earnings growth. The rise in oil prices due to the war in Iran has significantly benefited the sector.

Looking Ahead

Earnings growth is set to remain strong, with growth expected to remain above 25 percent in the third and fourth quarters and above 31 percent for the full year. Earnings growth is expected to moderate to 13 percent in 2027 and then move higher to 15 percent in 2028—well above the 7.6 percent average from 2001 to 2025. Strong earnings growth expectations have helped bring valuations below 20x forward earnings, placing the market on solid footing if it can meet the lofty earnings expectations. Much of the decline in valuations comes from the top 10 companies in the S&P 500, which are now valued at 20.9x forward earnings estimates, down from more than 30x near the end of 2025. The remaining S&P 500 companies are valued at 18.9x forward earnings estimates, almost 20 percent higher than their long-term average, as the appreciation in value stocks has narrowed the differential between value and growth stocks.

With the market in better balance from a valuation perspective, the next few earnings seasons will be critical to watch. Earnings estimates for technology companies reflect nearly 40 percent growth over the next year, as expectations for AI growth present both opportunities and risks. Earnings for the rest of the index are expected to grow at a rate closer to 10 percent.

Report Releases: August 17–21, 2026

NAHB Housing Market Index
August
(Monday)

Home builder confidence improved more than expected but remained in contractionary territory.

- Expected/prior month NAHB Housing Market Index: 33/34
- Actual NAHB Housing Market Index: 35

Housing Starts and Building Permits
July
(Tuesday)

These two volatile measures of new home construction were mixed last month; housing starts plummeted, and permits rose more than expected.

- Expected/prior month housing starts monthly change: –5.9%/+19.7%
- Actual housing starts monthly change: –12.4%
- Expected/prior month building permits monthly change: +0.6%/–2.6%
- Actual building permits monthly change: +5.0%

Federal Open Market Committee (FOMC) Meeting Minutes
July
(Wednesday)

Minutes from the most recent FOMC meeting showed signs of a divided Fed, with three members advocating for a rate hike to combat inflation.

>> The Takeaway

- Housing sector data was mixed. Housing starts were down more than expected; permits and confidence were slightly better than anticipated.
- Minutes from the latest FOMC meeting, which didn't move markets much, showed that some Fed members expect inflation to step down as the effects of tariffs and energy prices wane.

Financial Market Data

Equity

Most major indices fell amid higher yields, rising oil prices, and weakness in crowded AI and momentum trades, ending a three-week streak of gains for the S&P 500, Nasdaq Composite, and Russell 2000. The Nasdaq posted the largest decline because of weakness in semiconductors and big tech. Emerging markets remained a bright spot, rising more than 1 percent on continued dollar weakness.

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	−1.39%	2.55%	12.93%	21.87%
Nasdaq Composite	−2.02%	3.23%	13.07%	24.83%
DJIA	−0.78%	1.62%	11.96%	20.95%
MSCI EAFE	−0.53%	2.31%	14.67%	22.43%
MSCI Emerging Markets	1.24%	3.50%	24.46%	39.49%
Russell 2000	−1.61%	3.05%	22.61%	34.48%

Source: Bloomberg, as of August 21, 2026

Fixed Income

The 30-year yield continued to hover near its highest level since 2007, even as the Treasury used its buyback program in an effort to contain long-term yields. Despite an initial decline, yields mostly rose across the curve. Assets associated with the debasement trade, including gold, silver, and cryptocurrencies, also rose.

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	−0.10%	0.35%	−0.34%	2.48%
U.S. Treasury	−0.08%	0.30%	−0.54%	1.81%
U.S. Mortgages	−0.10%	0.59%	0.14%	3.94%
Municipal Bond	−0.58%	0.22%	0.65%	5.00%

Source: Bloomberg, as of August 21, 2026

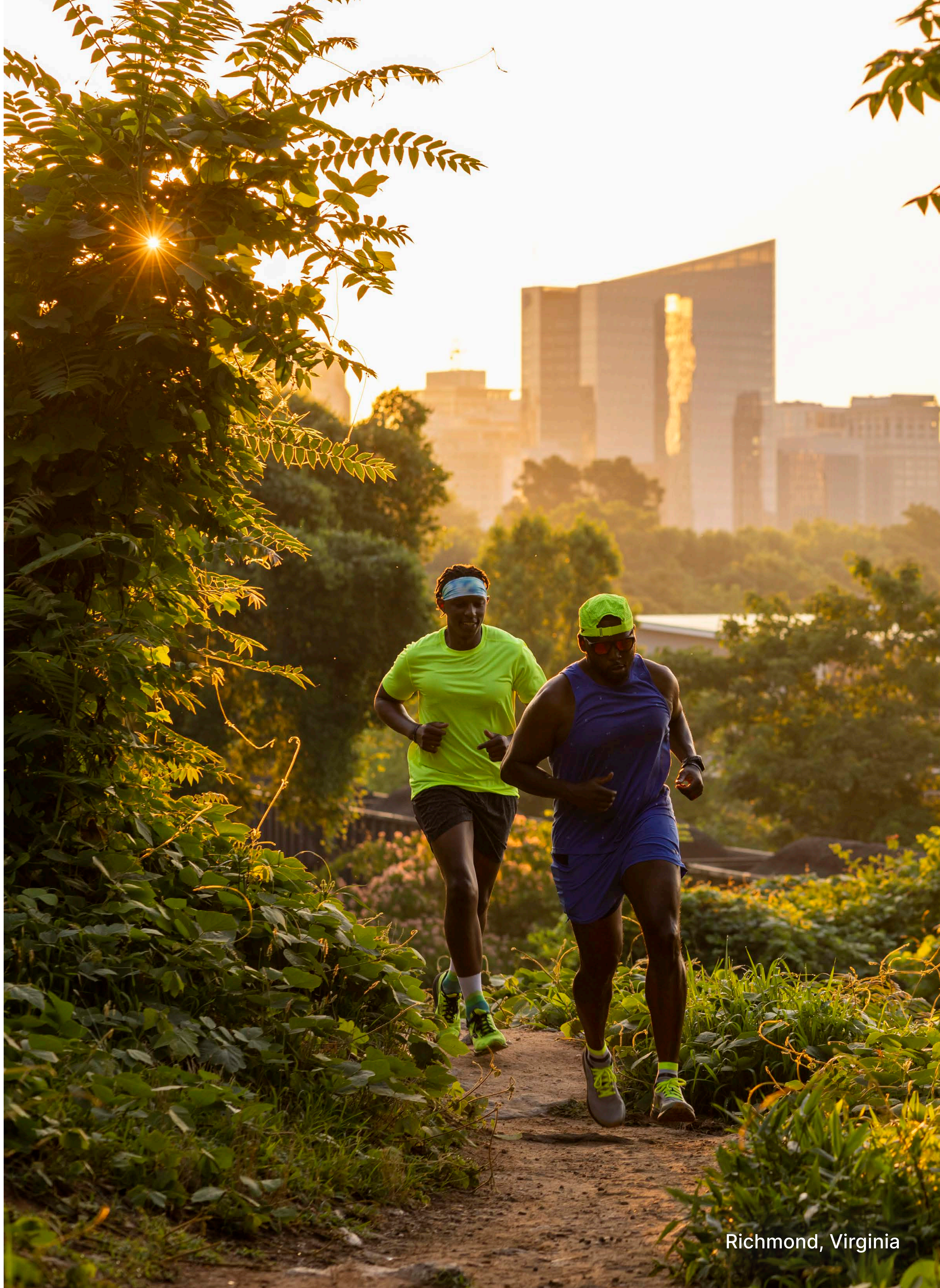
>> The Takeaway

- U.S. stocks fell, ending a three-week winning streak, while the weaker dollar helped push emerging markets higher.
- Yields continued to move modestly higher despite Treasury efforts to slow the ascent.

Looking Ahead

It will be a quiet week for economic data, with updates on consumer confidence and durable goods orders being the only scheduled reports.

- The week kicks off Tuesday with the Conference Board Consumer Confidence Index for August, which is expected to show a modest drop in consumer confidence.
- On Wednesday, preliminary durable goods orders for July will be released. Economists expect to see solid growth.



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