LSAM LIFESTYLE ASSET MANAGEMENT

Market Commentary

July 2026

Equity and Bond Market Update (as of July 15, 2026)		
Index	YTD	1-Year
Dow Jones Industrial Average TR	+10.5%	+21.6%
S&P 500 Total Return Index	+11.3%	+22.7%
Russell 2000 Total Return Index	+20.7%	+36.7%
MSCI EAFE Index (net)	+10.5%	+22.8%
MSCI Emerging Markets Index (net)	+21.8%	+39.2%
Bloomberg US Aggregate Bond TR	+0.2%	+4.5%

Recent Economic Indicators	Statistic	Data as of
Unemployment Rate	4.2%	Jun 2026
Gross Domestic Product (GDP actual)	+2.1%	Q1 2026
Consumer Price Index (CPI) – Y/Y	+3.5%	Jun 2026
Consumer Confidence (1985=100)	91.2	Jun 2026
30-year fixed mortgage rate	6.62%	7/15/2026
Housing Starts (single family)	882,000	May 2026
10-Year Treasury Yield	4.56%	7/15/2026

Index returns are presented for general market comparison and do not represent the performance of any LSAM account, strategy, or recommendation. Index performance is unmanaged, assumes the reinvestment of dividends or other distributions where applicable, and does not reflect advisory fees, transaction costs, taxes, or other expenses. Investors cannot invest directly in an index. Past performance is not indicative of future results.

The Market's Foundation Is Beginning to Broaden

Investors have become accustomed to hearing that artificial intelligence has been the primary driver of equity markets over the past two years. While that observation remains true, the investment story has matured considerably. What began as a race to build increasingly powerful AI models has evolved into something much larger…an investment cycle that is spreading throughout the global economy.

The first phase centered on the companies designing advanced chips and building the computing infrastructure required to train large language models. Semiconductor manufacturers, networking companies, and hyperscale cloud providers were the early beneficiaries as demand for computing capacity accelerated.

Today, however, the investment chain has expanded well beyond technology hardware. Every new AI data center requires enormous amounts of electricity, driving substantial investment in utilities, power generation, transmission infrastructure, natural gas facilities, and grid modernization. The United States is entering one of the largest periods of electricity demand growth in decades after years of relatively flat consumption. Companies involved in electrical equipment, engineering, industrial automation, cooling systems, and power infrastructure are increasingly becoming indirect beneficiaries of AI spending.

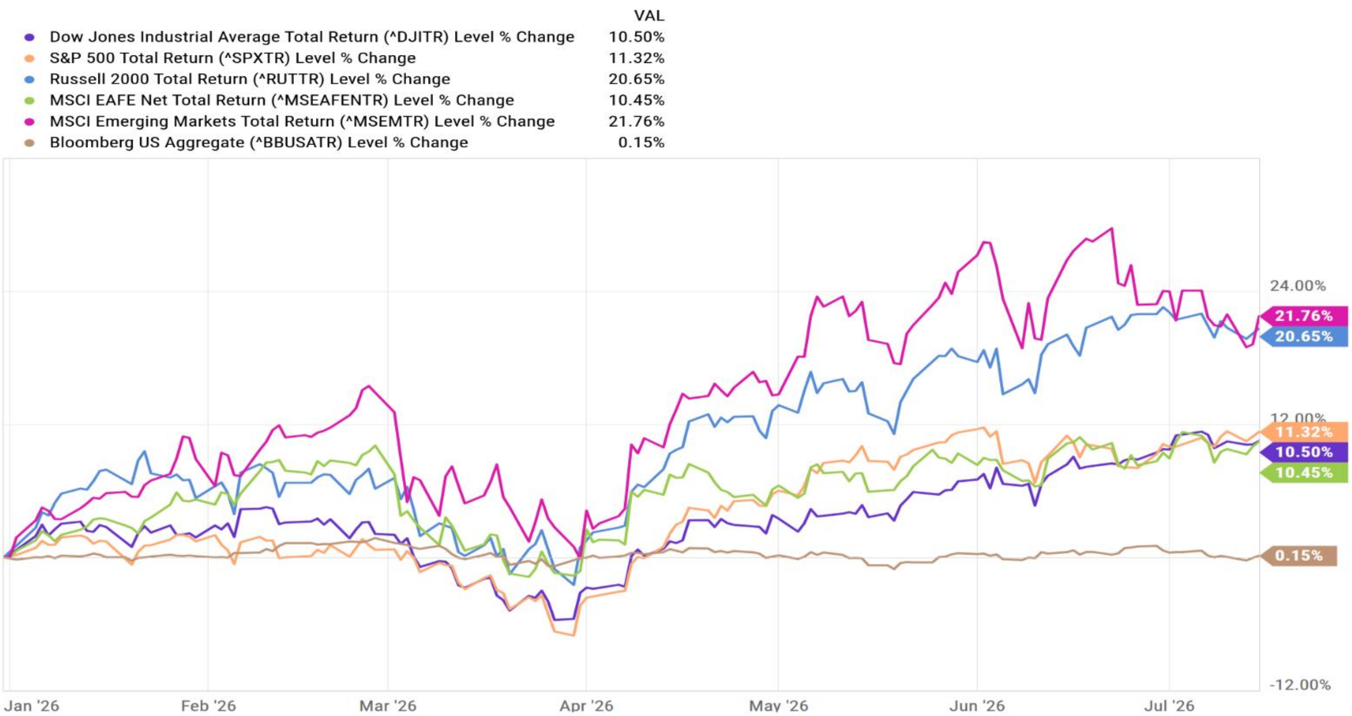
As this infrastructure is built, the next phase shifts toward software. Businesses across nearly every industry are beginning to incorporate AI into workflows, customer service, software development, healthcare, finance, manufacturing, logistics, and research. Companies that successfully deploy AI to improve productivity and reduce costs may ultimately create more lasting economic value than those simply building the underlying hardware.

Eventually, AI's greatest impact may not be measured by the number of chips produced or data centers constructed, but by its effect on productivity growth. Historically, broad productivity improvements have supported stronger corporate earnings, higher living standards, and faster economic growth while helping moderate inflationary pressures over longer periods. Although these benefits will likely take years to fully materialize, markets are increasingly beginning to price in that possibility.

At the same time, investors should recognize that technological transitions are rarely linear. Periods of rapid innovation often produce winners and losers as business models evolve. Companies that successfully adapt may enjoy significant competitive advantages, while those that fail to keep pace could face meaningful disruption.

Geopolitical developments have also remained an important influence on markets this year. The conflict involving Iran continues to create uncertainty surrounding global energy markets. Although oil prices have periodically retreated after recent geopolitical headlines, investors

Major Market Indices Total Return (YTD through July 15, 2026)



Source: YCharts

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should not assume that the risk has disappeared. The Middle East remains a critical supplier of global energy, and any disruption to production or shipping routes can quickly affect crude oil and fuel prices worldwide.

Higher energy prices affect much more than consumers filling their vehicles with gasoline. Energy costs influence transportation, manufacturing, agriculture, aviation, chemicals, and countless other industries. As a result, fluctuations in oil prices often work their way into broader inflation measures with a lag.

This relationship has created an additional challenge for the Federal Reserve. Policymakers have made considerable progress reducing inflation from its post-pandemic highs, but energy-driven inflation remains difficult to control because it originates from supply shocks rather than domestic demand. If geopolitical tensions were to produce another sustained increase in oil prices, inflation could prove more persistent than many currently expect.

That does not necessarily mean the Federal Reserve would immediately respond with additional interest rate increases. Central bankers generally look through temporary commodity price spikes if they believe underlying inflation trends remain contained. However, prolonged energy inflation could delay future rate reductions by keeping headline inflation above the Fed's long-term objective. Markets have repeatedly adjusted expectations for monetary policy as incoming inflation data and geopolitical developments evolve, and investors should expect that process to continue.

Despite these macroeconomic uncertainties, corporate earnings have remained remarkably resilient.

Ultimately, earnings drive equity values over time. While markets can react sharply to geopolitical events, economic data releases, or changes in interest-rate expectations, long-term stock prices generally follow the direction of corporate profits.

Thus far, U.S. companies have continued to demonstrate impressive resilience. Many businesses have successfully managed higher labor costs, improved operating efficiency, maintained healthy profit margins, and continued generating strong cash flows despite elevated interest rates. Technology companies remain leaders in earnings growth, but strength has become increasingly visible across industrials, financials, communication services, healthcare, and selected consumer businesses as well.

Equally important, management teams have generally maintained constructive outlooks for future earnings. While expectations always deserve careful monitoring, analysts continue to project healthy profit growth over the coming year. Those forward expectations help explain why equity valuations have remained relatively elevated despite higher interest rates than investors experienced during the previous decade.

Markets are fundamentally discounting mechanisms. Investors are not paying today's prices for yesterday's earnings; they are valuing expectations for future cash flows. As long as earnings continue expanding at a healthy pace, higher valuation multiples become easier to justify. Conversely, should earnings growth disappoint, market volatility could increase even if the broader economy remains stable.

Another encouraging development has been the gradual broadening of market leadership.

For much of the recent bull market, returns were heavily concentrated among a relatively small number of mega-cap technology companies. While those businesses remain exceptionally important, recent performance suggests investor participation is becoming more diversified.

Semiconductors continue to benefit from AI investment, but enterprise software companies are increasingly participating as customers adopt AI-enabled applications. Industrial companies tied to automation, manufacturing, electrical equipment, and infrastructure spending have also experienced stronger participation. Utilities, once viewed primarily as defensive investments, have attracted renewed attention because of growing electricity demand associated with AI data centers.

Outside the United States, several international markets have begun showing improving relative performance after years of lagging U.S. equities. Improving corporate governance, attractive valuations, and accommodative monetary policies in some regions have supported renewed investor interest. Although international markets face their own economic and geopolitical challenges, broader global participation provides a healthier foundation for long-term equity markets.

Small-cap stocks have likewise begun showing signs of renewed life. Smaller companies have generally underperformed during the period of rapidly rising interest rates, as higher borrowing costs and tighter credit conditions created greater challenges than those faced by larger corporations. If inflation continues moderating and financial conditions gradually ease over time, smaller businesses could become beneficiaries of an improving economic backdrop.

A broader market advance is generally healthier than one driven by only a handful of companies. Wider participation reflects improving confidence across multiple sectors, industries, and regions rather than dependence on a single investment theme.

Looking ahead, investors should expect volatility to remain part of the investment landscape. Geopolitical uncertainty, monetary policy decisions, inflation data, and earnings reports will continue producing periodic market swings. Such volatility is neither unusual nor necessarily unhealthy.

The more important question is whether the long-term drivers of corporate profitability remain intact. At present, the answer appears to be yes. Artificial intelligence continues to stimulate investment across multiple sectors of the economy, corporate earnings remain resilient, and market participation is gradually broadening beyond its earlier narrow leadership.

While risks certainly remain, from geopolitical conflict to inflation surprises and policy uncertainty, the underlying foundation supporting today's market appears increasingly diversified. Rather than relying on a single investment narrative, the current expansion is being supported by multiple complementary themes: technological innovation, infrastructure investment, healthy corporate profitability, and expanding market participation.

For long-term investors, maintaining a disciplined, diversified approach remains the most prudent course. Markets will continue to experience periods of uncertainty, but history has consistently shown that patient investors who remain focused on long-term fundamentals are generally better positioned than those attempting to react to every headline.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 992-9220 or by email at **pjackson@lsaminc.com** should you have any questions or comments.

Sources:	S&P Dow Jones Indices website (us.spindices.com)	FTSE Russell (www.ftserussell.com)
	MSCI Barra website (http://www.mscibarra.com)	Bankrate.com (www.bankrate.com)
	The Conference Board (www.conference-board.org)	Bureau of Labor Statistics (www.bls.gov)
	Bureau of Economic Analysis (www.bea.gov)	United States Census Bureau website (www.census.gov)
	JP Morgan Guide to the Markets	Federal Reserve Bank of Atlanta (https://www.atlantafed.org/cqer/research/gdpnow)
	CME FedWatch Tool (www.cmegroup.com)	OpenAI, ChatGPT

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The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities. The index is meant to reflect the risk/return characteristics of the large capitalization U.S. universe.

The S&P 500® Equal Weight Index is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of the 3,000 largest stocks in the United States. The Russell 2000 serves as a benchmark for small-cap stocks in the U.S. and is meant to reflect the risk/return characteristics of the small capitalization U.S. universe.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets.

The Barclays US Aggregate Bond Index is a broad-based benchmark index that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

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