Post Oak Private Wealth Advisors
ADVISORY, CONSULTING & INVESTMENT MANAGEMENT

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Monthly Market Commentary

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The “dog days of summer” tend to arrive in August as the temperature rises and added humidity makes everyone feel sluggish. The dog days came to the stock market last month too, although sluggishness was a welcome relief from the volatility of July.

So, this month’s update may be lighter on equities as I give more attention to where much of the action took place—the bond market. I’ll get into the reasons behind the rise in long-term interest rates, including a discussion on the impact of the swelling federal budget deficit. Then, I’ll turn to the short end of the bond market to preview what we can expect from the Federal Reserve in the final months of the year. But because we are primarily stock investors, let’s begin there with a focus on the primary driver of stock performance—earnings.

Another stellar season for earnings

August started well enough as stocks climbed to record levels early in the month on the strength of Q2 earnings reports. But investors remained concerned over the financing of AI spending, particularly as longer-term interest rates hit multi-decade highs. Geopolitics seemed to have fallen off the radar as stock investors shrugged off the collapse of the cease fire between the U.S. and Iran, although uncertainty did roil the oil market. For the month, the S&P 500 gained a respectable 2.7% and the Nasdaq Composite Index rose 3.9%. Technology stocks outperformed the benchmark index for the month and were the biggest contributors to the S&P 500’s monthly gain. But energy led all sectors—an unusual occurrence that speaks to the increasing breadth of returns and continued resilience among large-cap stocks.

Q2 earnings season was nearly wrapped up by month-end. The composite results showed earnings growth for the S&P 500 at 52.0% year over year. That’s the best quarter of profitability for U.S. firms since Q2 of 2021, when the economy was emerging from the pandemic. Technology firms continued to dazzle with their financial results, although energy was the leading sector for earnings growth. Beneath the headline numbers, however, there are some peculiarities that may raise concern. For example, the Magnificent-7 firms smashed earnings growth out of the park, but that was due mostly to the contributions of just Alphabet and Amazon. Moreover, according to FactSet, the earnings those two firms reported for Q2 were helped considerably by investment returns, notably $53 billion in “other income” reported by Amazon from investments in AI-developer Anthropic.

But focusing so much on tech obscures the strong earnings results across the board. Earnings beats were numerous with 86% of S&P 500 firms exceeding expectations in Q2 and 10 out of 11 sectors delivering positive year-over-year earnings growth, with health care being the only

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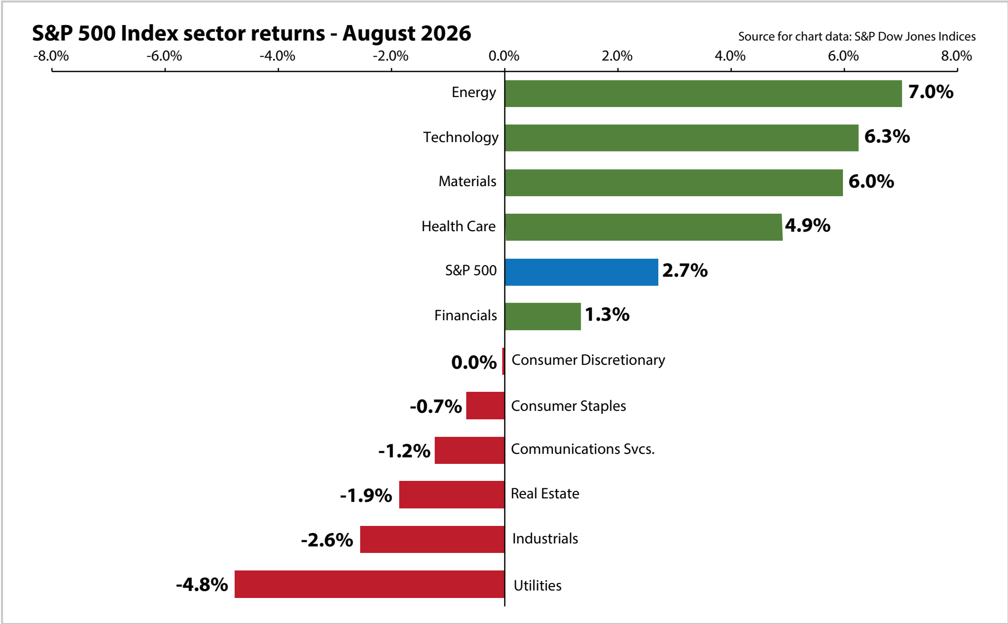

exception. But even those weak results didn't dim performance for stocks in the sector, which outperformed the market last month. Energy, materials and health care also outpaced the S&P 500, while utilities and industrials led the laggards.

What's going on with bonds?

To explain stock market performance last month, we have to look what's happening in the bond market. Long-term U.S. Treasury yields climbed to their highest levels in many years in August as investors sought higher compensation for assuming the risks of persistent inflation and the seemingly unstoppable rise in the federal budget deficit. In mid-August, the 30-year Treasury yield hit 5.31%, a nearly two-decade high, while the benchmark 10-year Treasury rate rose to 4.76% in August, its highest level since January 2025.

What's significant is that these swings occurred without much influence from monthly economic data. The jobs market was soft in July with a 23,000 decline in nonfarm payrolls for the month, while inflation was down slightly from the prior month but still elevated at 3.4% year-over-year. Neither of these data releases were enough to sway bond investors one way or the other.

Higher long-term interest rates are significant to the broader economy not just because of consumers with mortgages and credit card debt but also businesses that are looking to fund their expansion plans through borrowing. U.S. companies have borrowed nearly $1.7 trillion in the bond market for the year to date through July—a 27% increase over the same period a year ago.[1] Not all of that borrowing is earmarked for business expansion, but the bond issuance from AI-related firms is fueling a large part of this year's borrowing binge and much of that debt is meant to fund AI infrastructure spending. Goldman Sachs noted that AI-related debt in the broad bond market (including investment grade, high yield and leveraged loans) was nearly $500 billion in late July, well exceeding their early-2026 estimates of $322 billion in new AI-related borrowing.[2]

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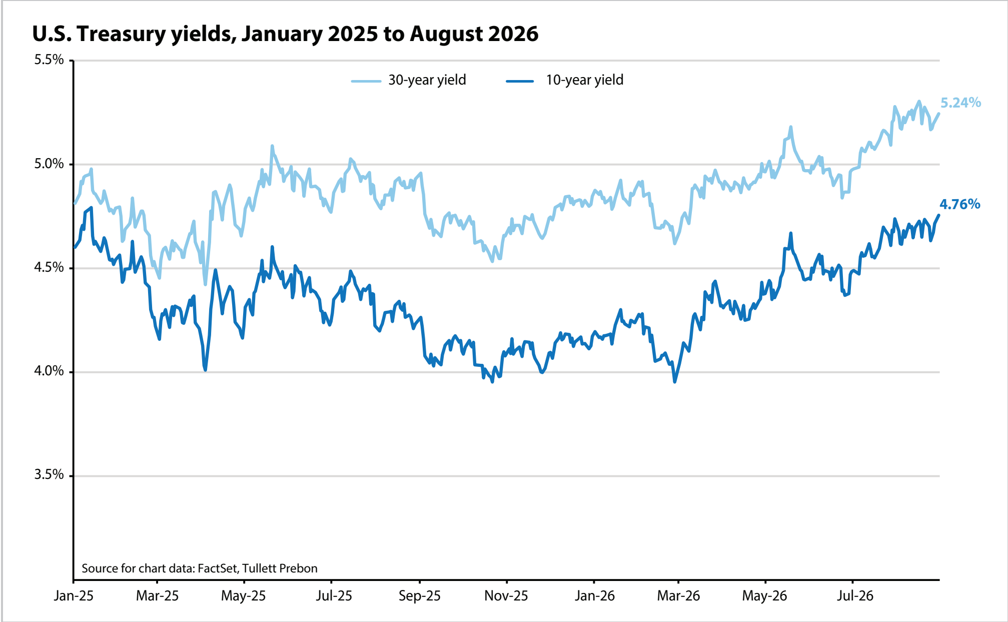
1 SIFMA, US Corporate Bond Statistics, August 4, 2026.

2 "Why Bond Yields Are Rising—and Might Keep Heading Higher" Morningstar, Aug. 20, 2026.



One notable impact of increased AI borrowing is that this bond issuance competes with Treasuries for the same pool of investor capital. With more bonds out in the market chasing the same money, yields on safe U.S. government bonds have to rise in order to attract buyers. That affects Treasuries from two-year to 30-year durations. When government bond yields rise, it also impacts the federal budget deficit, which crossed $40 trillion for the first time in August and is now more than double where it was just a decade ago.

The federal deficit feedback loop

There seems to be little interest and even less political will to address the problem of runaway government spending. Social Security and Medicare costs are big-ticket line items in the federal budget that will only grow as America's elder population continues to rise, but cuts to those programs are unpopular with citizen so lawmakers are loathe to touch them. Proposed boosts in defense and military spending will also pile on pressure to the deficit, and hits to the other side of the government's balance sheet—lower revenue from tax cuts—don't help either.

It's important to note that this isn't solely a U.S. problem; government debt yields around the world pushed higher on many of the same fiscal concerns. But perhaps the most critical issue for American citizens is the cost of interest on the debt itself. Interest payments are now one of the largest line items in the federal budget, having just overtaken defense spending and now running close to $1.1 trillion annually.

A bigger debt load produces bigger interest payments, and bigger interest payments require more borrowing to cover, which makes the debt bigger still. And as the debt rises, the market demands more compensation in the form of higher yields to assume the risk of buying new Treasury issues. It can become a nasty feedback loop—unless something or someone intervenes.

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Across the interest rate divide

One person who tried the intervention route this past month was Treasury Secretary Scott Bessett. His approach wasn't directed at slashing government spending or raising revenue but to use bond buybacks to help bring down longer-term Treasury rates. The bond market was mostly unmoved by Bessett's announcement of $2 billion pledged to buy Treasuries of 10 years and longer durations (later upgraded to $4 billion) because the amount is so small relative to the gargantuan size of the $31 trillion Treasury market.

What Bessett's plan did reveal is an apparent divide between the U.S. Treasury and the Federal Reserve in how to proceed with interest rate policy. To be sure, the two sides are looking at different sides of the interest rate market, with the Fed focused on short-term rates while Bessett takes aim at longer-term rates (which are driven primarily by market forces.) But while the Treasury Secretary is sending a message about the need for rates to come down, the Fed is planning for the likelihood of higher rates in the near term. New Fed Chair Kevin Warsh used the podium at the annual Jackson Hole conference of global central banks to essentially lay the groundwork for Fed rate hikes in the coming months, (although without saying so explicitly.) Inflation remains in the Fed's crosshairs; "We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed," Warsh said. "Otherwise, we have work to do." He also threw cold water on the notion that current monetary policy is constraining the economy to the point where rate cuts are warranted. "Credit and loan markets are showing few signs of policy restraint," he said. "On balance, I would be hard-pressed to describe broad financial conditions as restrictive."

The market got the message, as the probability of a Fed rate hike in September jumped above 50% and rose for a December hike as well. But the market's main reaction was relief, following the uncertainty created after the Fed's July rate-committee meeting. Now, all eyes will be on the Fed's September 16 meeting to see if they will deliver, although upcoming reports on employment and inflation could shift expectations.

Stay informed about the markets

If there's a single thread running through this month's letter, it's that the most important developments aren't always the most obvious ones. A quiet month for the S&P 500 masked a welcome broadening in market leadership, a rise in borrowing costs, a historic debt milestone, and a test for the Federal Reserve — none of which are clearly visible from just looking at the numbers. We think this is precisely the environment where staying informed and staying diversified show their value.

As always, we welcome the opportunity to talk through any of this in the context of your own portfolio and financial plan. We hope you and your families enjoy the last days of summer.

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