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Wealth Advisory Market Update

July 9, 2026

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Market Update

Market Commentary

Markets finished the month slightly lower. Despite the pullback, both the Nasdaq and the S&P 500 posted their strongest quarterly gains since the second quarter of 2020. Momentum in semiconductor names continue to push the market higher accounting for nearly 70% of the S&P 500's return so far this year. All time high retail leverage continues to fuel gains in memory semiconductor stocks, as ongoing chip shortages have driven prices to roughly eight times their levels from a year ago. Current market exposure to semiconductors sits at 18% which is the highest it's ever been in history.

The June meeting of the Federal Open Market Committee (FOMC) marked the first under new Chair Kevin Warsh and introduced notable changes to the Federal Reserve's policy framework and communication strategy. Meanwhile, geopolitical tensions intensified as developments in Iran raised the risk of broader conflict at the start of the new month.

Equities

As noted, leverage has become a defining feature of the current market environment. Net of free credit balances, investors now owe a record $992 billion more than they hold in cash—the highest level on record. Margin debt relative to the personal savings rate has also reached an all-time high, suggesting investors are highly leveraged with limited liquidity available to absorb market volatility.

Should a meaningful market decline trigger widespread margin calls, many investors may lack sufficient cash to meet those obligations, forcing brokers to liquidate positions, accelerating the selloff. These episodes can unwind rapidly and exacerbate market volatility. While we closely monitor these indicators, we remain disciplined by focusing on fundamentally attractive value-oriented companies rather than participating in areas where valuations have become detached from underlying business fundamentals.

Market concentration also remains a significant concern. During a recent 28-session rally, just 10 stocks accounted for approximately 70% of the S&P 500's gains. At the same time, the spread between momentum and low-volatility stocks has widened to roughly five standard deviations, highlighting the degree of market imbalance.

Memory semiconductor companies have been among the largest beneficiaries of the ongoing chip shortage. Over the past six months, forward profit margins for the S&P 500 have expanded by 138 basis points, with approximately 64% of that increase attributable to semiconductor companies. While profitability has surged, we question the sustainability of these margins. For example, Micron's gross margin has expanded from roughly 40% last year to approximately 86% in its most recent quarter. Such elevated profitability may prove difficult to maintain as customers have hinted at seeking lower-cost alternatives or demand softens in response to higher prices. Recent price increases by companies such as Apple and Microsoft illustrate how rising input costs are being passed through the supply chain. Eventually, when supply constraints ease, pricing power across the memory industry is likely to normalize back to margins closer to 10%. Memory is a commodity and it's not different this time.

Geopolitics and the Federal Reserve

The situation involving Iran remained relatively quiet for much of June before deteriorating sharply after Iran attacked three commercial oil tankers. In response, the United States carried out targeted military strikes, and U.S. officials have since indicated that peace negotiations have effectively ended. While financial markets continue to price in the possibility of renewed diplomacy, rhetoric from both sides suggests the risk of further escalation remains elevated.

The June FOMC meeting was closely watched, not because investors expected a change in the federal funds rate—which remained unchanged as anticipated—but because it offered insight into Chair Warsh's policy philosophy.

Chair Warsh emphasized reducing the Federal Reserve's reliance on forward guidance, arguing that pre-committing to a policy path limits the Committee's flexibility to respond to changing economic conditions. He also announced the formation of a task force to review five key areas: communications, the balance sheet, data, productivity and employment, and the inflation framework. The findings are expected later this year.

Warsh has repeatedly argued that inflation is ultimately a consequence of monetary policy and has expressed a commitment to restoring price stability. He believes monetary policy remains restrictive for housing but less so for financial markets, suggesting the Federal Reserve could place greater emphasis on reducing its balance sheet to withdraw excess liquidity—a policy tool that has played a central role since the 2008 financial crisis.

Strategy

Given the elevated levels of leverage and market concentration, we remain committed to our investment discipline rather than chasing momentum-driven returns. Our focus continues to be on businesses with strong balance sheets, durable demand for their products and services, and consistent free cash flow generation. These characteristics provide greater resilience in periods of heightened market uncertainty.

We continue to identify opportunities in sectors where valuations remain below our estimates of intrinsic value despite possessing these attractive fundamental characteristics.

Although Treasury yields have retreated from their highs earlier this year, they have recently moved higher following developments in the Middle East. We believe this presents an attractive opportunity to modestly extend portfolio duration and lock in higher yields. Our preference remains the intermediate portion of the yield curve, where we believe the risk-reward profile is more compelling than longer maturities, which remain more exposed to inflation and long-term economic uncertainty. Within fixed income, mortgage-backed securities (MBS) continue to offer some of the most attractive yields on a risk-adjusted basis.

Outlook

Although recent years have tested investor patience, history has consistently demonstrated that disciplined investing and thoughtful risk management are rewarded over time. We remain committed to an active, research-driven investment process focused on preserving capital while identifying long-term opportunities. We appreciate your continued trust and partnership as we navigate an evolving economic and market landscape together.

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