

August 6, 2026

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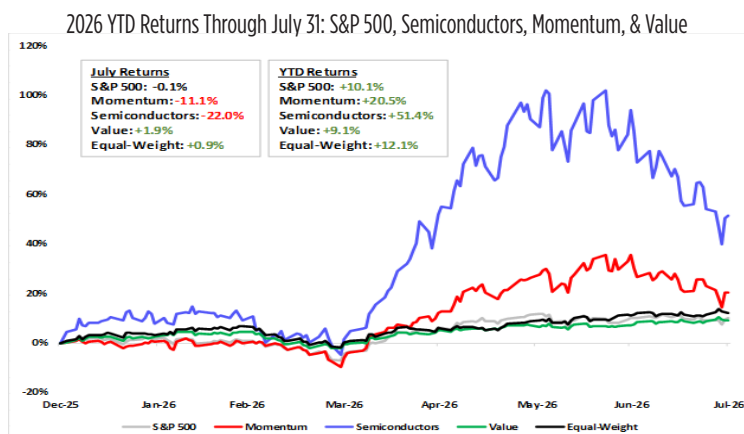
Dear Reader,

Momentum Trade Unwinds In July on Profit-Taking and Liquidity Pressure

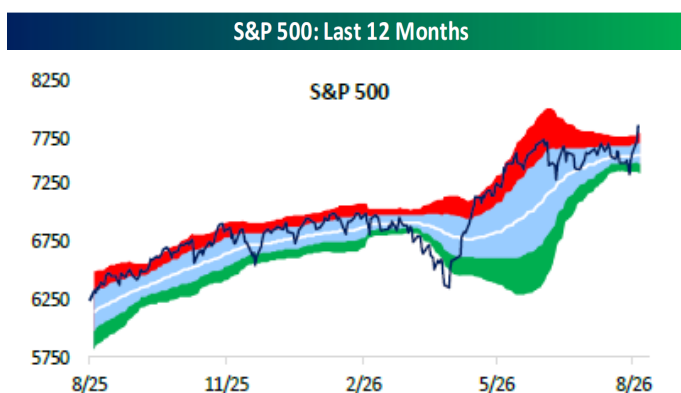
The S&P 500 was essentially flat in July, returning -0.06%. That calm at the index level, however, masked sharp volatility and sector rotation underneath — a recurring pattern in recent months.

The momentum trade, concentrated across the highest-flying AI-related stocks, came under significant pressure. Semiconductors sit at the epicenter: the S&P Semiconductors Index had more than doubled YTD by its June peak, with

many individual names even stronger. In July, the sector fell roughly 22%, while a basket of momentum stocks (S&P 500 Momentum index) declined about 11%.



Note: 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 is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance; The S&P 500® Value index measures constituents from the S&P 500 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price; The S&P Semiconductors Select Industry Index comprises stocks in the S&P Total Market Index that are classified in the GICS Semiconductors sub-industry; The S&P 500® Momentum index is designed to measure the performance of securities in the S&P 500 universe that exhibit persistence in their relative performance.



margin calls and executed a distressed sale of its leveraged holdings to Citadel. Once that overhang was removed, the stocks rallied sharply, reinforcing our view that the pressure was primarily liquidity-driven rather than fundamental.



Source: Bespoke Investment Research, July 31, 2026

Note: reflects basket of stock holdings reported on Situational Awareness' most recent ADV, price fluctuations from June 2026 – July 2026, including the 14% increase (per Bespoke) on July 31, 2026

Strong Fundamentals Intact as Earnings Growth Underpins This Bull Market

We believe the resolution of the Situational Awareness matter has largely cleared the liquidity overhang, allowing investors to refocus on underlying fundamentals. With the bulk of earnings season now behind us, the key secular drivers supporting this bull market — robust capital spending to power the AI buildout, margin expansion, and strong top-line growth — remain firmly intact. Each of the major hyperscalers has either reaffirmed or raised its capital investment plans, reinforcing that the demand fueling the AI ecosystem should persist for years. We view AI-related capital spending, and the resulting revenue growth for key beneficiaries, as a multi-year secular trend rather than a temporary surge.

This elevated capital spending is translating into robust earnings growth: S&P 500 corporate profits are on track to rise 25–30% in 2026, with consensus forecasts pointing to mid-teens growth in 2027. Despite recent macro volatility, earnings continue to provide the fundamental support underpinning this bull market.

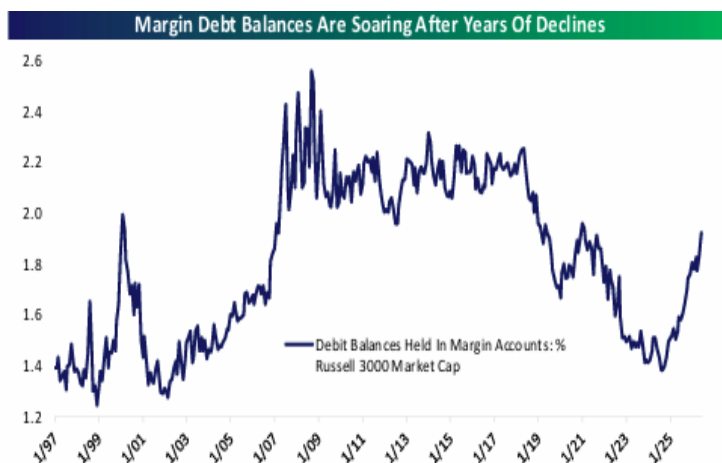
At the same time, valuation multiples have compressed. The S&P 500 now trades at roughly 19x next year's expected earnings — broadly in line with its long-term average and well below the 22x forward multiple at the start of the year.

With more moderate valuations and still-elevated earnings growth, we view the recent pullback as an attractive entry point into high-quality growth companies for long-term stock investors.

The Economy Keeps Chugging Along – Capital Investment Providing The Fuel While Consumers Remain Resilient

Second-quarter GDP grew 1.5% annualized, moderating from 2.1% in the first quarter. While the headline figure appears soft, the underlying details tell a more constructive story. Consumer spending expanded a healthy 3.2%, and business investment rose 8.4%, confirming that private-sector activity remains in solid expansion despite elevated energy prices. The labor market continues

to show resilience, with both the unemployment rate and jobless claims remaining low by historical standards. The modest contraction in government spending — which weighed on the headline GDP print — was largely an accounting effect from Strategic Petroleum Reserve releases rather than a meaningful pullback in real outlays.



Source: Bespoke Investment Research, July 31, 2026

Other indicators reinforce this constructive backdrop as well. Manufacturing and services PMIs both moved higher in July and remain firmly in expansion territory, while retail sales growth remains positive. Overall, the U.S. economy appears on solid footing, supported by a resilient consumer and lifted by robust capital investment.

Looking Forward - Elevated Securities Leverage Keeps Us On Our Toes Despite Robust Underlying Fundamentals

Given strong underlying economic and corporate fundamentals, reasonable valuations, and a robust growth backdrop, we remain constructive on the outlook for stocks. That said, we are watching the rise in leveraged speculation with some caution. While the Situational Awareness resolution largely cleared the immediate overhang, the proliferation of leveraged products — particularly single-stock ETFs (including recent launches in South

Korea) — and the rapid increase in margin debt warrant ongoing attention.

Margin debt has climbed sharply this year. While the absolute level is not alarming relative to market capitalization, the pace of acceleration is notable. Combined with growth across leveraged ETF products, speculative activity has clearly risen, especially in AI-related names. We do not believe elevated leverage alone is likely to end the bull market, but it may contribute to more frequent pockets of volatility as the cycle matures — similar to the recent Situational Awareness episode.

Overall investor sentiment, however, remains muted, which we view as a bullish contrarian indicator. The latest AAI survey shows only 31% of respondents bullish and 42% bearish, compared with long-term averages of roughly 38% and 31%, respectively. Bullish sentiment stood at 42% at the start of the year.

Hyperscalers refer to massive cloud service providers that operate at an enormous, globally distributed scale to deliver the computing power, storage, networking, and specialized hardware required for modern artificial intelligence workloads. The term "hyperscaler" comes from hyperscale computing — architectures designed to scale dynamically and seamlessly to handle exponential growth in demand (millions or billions of users, or massive AI training/inference jobs). These companies run thousands of hyperscale data centers packed with servers, often containing tens of thousands of units each, optimized for high-performance, low-latency operations. In AI specifically, hyperscalers are the foundational infrastructure providers that make large-scale AI possible. These companies include Microsoft, Amazon, Google, Meta, and Oracle.

This persistent skepticism has been reflected in valuation multiple compression, as earnings have grown meaningfully faster than stock prices.

Putting it all together, it's hard to imagine a more constructive fundamental backdrop for stocks, especially given that muted investor sentiment has kept valuation levels modest compared to the growth outlook. Macro risks — such as the Iran conflict and interest-rate volatility — along with rising securities leverage, may produce intermittent volatility. However, we view these as temporary pauses within a longer secular bull market that we believe still has substantial runway.

As always, we value your trust in us and urge you to call with any questions concerning your financial matters.

Sincerely,



CJ Brott



Karen Burns



Andrew Kerai