AUGUST 2026

As we move into August, an update on the capital markets is in order.

First, we believe our strategies performed well in July. Positive returns were earned as investors rotated away from technology-related artificial intelligence (AI) stocks for most of the month, while fixed income investors sold bonds amid fears of higher oil-driven inflation and shifting expectations for Federal Reserve (Fed) policy. Crawford's strategies performed well despite these headwinds. While these developments are related, let's look at each one separately.

The purveyors of AI have been consistently increasing the capital expenditure budgets necessary for the build-out. For the most part, this spending was met with enthusiasm over the past few years from investors who saw the AI ecosystem benefiting from increasing levels of investment. The problem now is that spending is so large that many companies are taking on debt or participating in circular financing arrangements, while some have seen their free cash flow, the amount of cash flow left after capital expenditures, turn negative. In addition, advancements in Chinese AI models have raised further questions about whether this level of investment can ultimately be monetized. Together, these developments have prompted investors to reassess the outlook, contributing to a shift in sentiment. Over the short term, that shift has benefited our strategies as participation across the broader stock market broadened, favoring areas outside the AI space. It remains to be seen whether this trend continues, but leverage and speculation had become elevated in the AI portion of the stock market, and some of those excesses were at least partially unwound.

Interest rates rose in July, principally due to the escalation of the conflict in Iran. Oil prices rose, leading many to believe that the lower energy prices experienced during June would prove temporary, potentially adding to inflationary pressures. Coming into July, most Fed watchers expected the next move to be an interest rate cut, but by month-end, sentiment had shifted toward the possibility of a nearer-term rate increase. This was further underscored by several members of the Fed dissenting from the recent decision to leave rates unchanged, with three of the 12 voting members preferring an increase. Longer-term bonds with maturities of 20 to 30 years were negatively impacted by the increase in rates across the yield curve. The intermediate maturity structure of our Crawford fixed income strategies helped soften the impact of rising interest rates on bond prices.

The AI build-out and interest rates intersect in their influence on overall economic growth. The aforementioned capital expenditures have been a primary source of economic activity and growth. As a result, the future path of the economy, and ultimately interest rates, is increasingly linked to AI spending. Should AI spending grow at a slower rate, the economy will receive less support from this source, making a broader slowdown in investment an increasing risk for the U.S. economy. Higher levels of capital investment may promote economic growth but could also intensify inflationary concerns and may not be beneficial to the stocks of companies required to finance this spending. Short-term trends in both the economy and markets will be difficult to predict given these competing forces. Investors with different investment time frames will influence day-to-day, monthly, and even quarterly movements, but our focus will remain on the longer term.

It remains to be seen how all of this plays out. The last couple of days of July and the early days of August have seen significant moves in the stock market due to solid earnings reports from corporate America and expectations for a resolution to the conflict in Iran. For now, the economy seems to be on solid footing, corporate earnings are strong, and while interest rates have risen, they are not yet problematic. We are pleased to have our client portfolios positioned in a diversified mix of high-quality investments that produce income and offer attractive valuations. As always, we will continue to invest according to our long-held philosophy, focusing on quality, valuation, and long-term fundamental sustainability.
