

Novum Partners: Biweekly Market Update

Peak Anxiety, Steady Core: Markets Navigate July's Crosscurrents

July 31, 2026



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Last 2 weeks performance

World Equity Indices

	% TRUSD	% TRLocal
MSCI World	0.3%	0.3%
S&P 500	-0.3%	-0.3%
S&P 500 Equal Weighted	0.9%	0.9%
Mag 7 Index	-4.8%	-4.8%
Russell 2000	-0.5%	-0.5%
Euro Stoxx 50	3.6%	2.9%
CSI 300 Index	1.8%	1.4%
Hang Seng Index	5.4%	5.4%
Nikkei 225	2.2%	0.3%
MSCI Asia	-1.6%	-1.6%
MSCI Latam	3.5%	3.5%
MSCI EM	-3.5%	-3.5%

S&P 500 Sectors

	% TRUSD
S&P 500 Info Tech	0.9%
S&P 500 Comm. Serv	-5.5%
S&P 500 Health Care	1.4%
S&P 500 Financials	1.3%
S&P 500 Cons Discr.	-4.1%
S&P 500 Energy	2.8%
S&P 500 Real Estate	-0.2%
S&P 500 Materials	2.3%
S&P 500 Industrials	-0.6%
S&P 500 Cons Staples	0.3%
S&P 500 Utilities	-1.1%

Key Thematic Indices

	% TRUSD	% TRLocal
ARK Innovation ETF	-3.1%	-3.1%
Software ETF	0.5%	0.5%
Memory ETF	-0.7%	-0.7%
Semiconductors ETF	-3.3%	-3.3%
Momentum ETF	-0.3%	-0.3%
GS Cyclical	0.8%	0.8%
BBG Defensive Sectors	-1.38%	-1.38%

Fixed Income

	% TR or bps
LQD (High Grade)	-1.1%
HYG (High Yield)	-0.2%
US Treasuries Index	-0.5%
TSY 2 year (bps)	6
TSY 10 year (bps)	10
Bund 10 year (bps)	3
SOFR March 27 rate (bps)	5

FX & Commodities

	% TRUSD
US Dollar Index	-0.8%
Bitcoin	-1.4%
BBG Precious Metals	1.4%
BBG Energy	-1.1%

Data as of 31 July

Executive summary

- Brent crude oscillated between roughly \$84 and \$101/bbl as the US-Iran conflict escalated sharply, paused, then reignited, driving the dominant cross-asset narrative of the period.
- Central banks converged on holds but diverged on tone: the Fed, ECB, BoE and BoJ all left policy rates unchanged, yet each surprised markets at the margin - hawkish dissents at the Fed, a still-hawkish ECB reaction function, a more dovish BoE, and a mixed BoJ outlook.
- Rates sold off and the curve steepened materially: US 30yr yields reached a post-2007 high of 5.25% and 10yr bund yields a post-2011 high of 3.20%, as energy-driven inflation fears combined with fiscal-loosening signals from the UK's new government.
- AI-capex conviction wavered, then reasserted itself: chip and AI-adjacent equities suffered repeated sharp drawdowns (KOSPI down 10%-11% on back-to-back sessions) on competition and circular-financing fears, before a blowout Microsoft

cloud beat triggered the largest single-day market-cap gain on record (+\$450bn) and a violent reversal.

Economy & Monetary Policy

Four central bank decisions fell within a nine-day window. ECB, FED, BoE and BoJ - and all four held rates. The signal each conveyed, however, differed materially.

The Fed leaves more questions than answers: Wednesday's FOMC meeting delivered an outcome markets had largely priced in - rates held steady - but the way Chair Kevin Warsh communicated it left investors with considerably more uncertainty than clarity. The contrast with his conduct at the June meeting was stark. Back then, Warsh struck a notably hawkish tone, reinforcing the Fed's inflation-fighting credibility and easing concerns that monetary policy could become unduly influenced by the White House, a stance that lent solid support to both the dollar and real yields.

This week's message was harder to parse. Markets struggled to tell whether Warsh was reaffirming the Fed's determination to bring inflation back to target, or instead signalling that tighter financial conditions had already done much of the central bank's work for it. His comments welcoming higher real yields and the more "direct" message coming from financial markets were widely read as suggesting the Fed is content to let the bond market deliver the tightening it needs, reducing the urgency for further hikes.

A more charitable reading is that Warsh was simply acknowledging that higher real yields already embed expectations of further tightening, potentially as early as September. Either way, the ambiguity itself became the story.

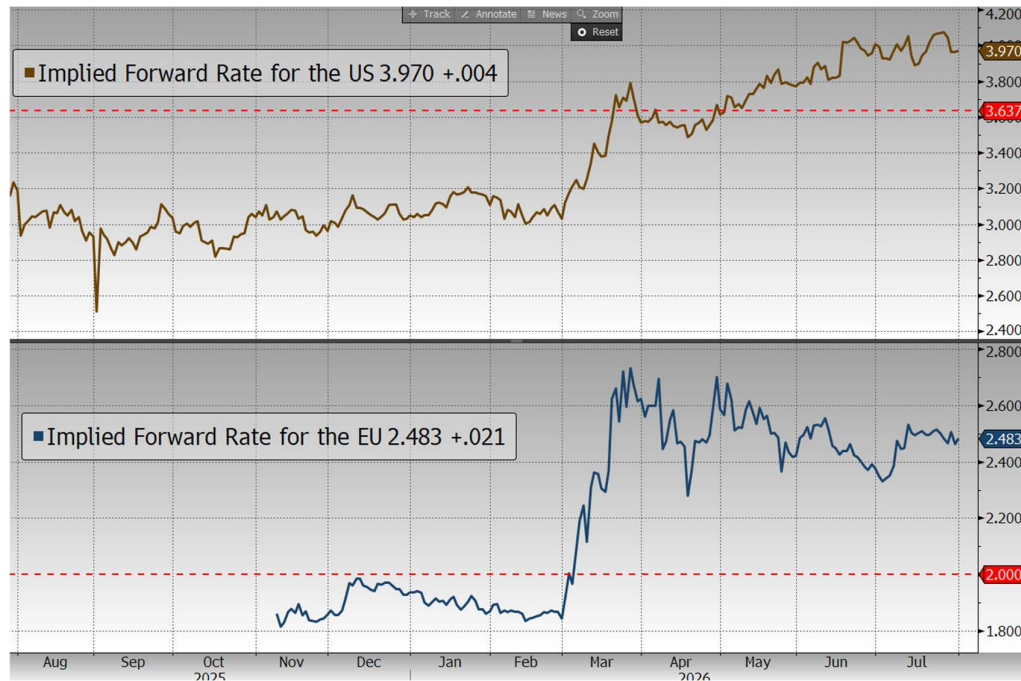


Faced with that lack of clarity, investors reacted defensively. The dollar weakened, long-dated Treasuries sold off sharply, and equities gave back earlier gains into the close. The Treasury curve steepened markedly: the 2s30s spread widened by 14bp, the 10yr yield rose 7bp, and the 30yr yield jumped 11bp to 5.25%, a post-2007 high.



The political calendar is unlikely to make the next few meetings any easier. By convention, the Fed avoids moving rates in the two months immediately preceding a US election, September and October, which means Wednesday was, in practice, the last clean opportunity for the committee to hike without inviting accusations of trying to influence the November vote. The precedent is instructive: in September 2024, the FOMC's decision, organised at the last minute under Powell's direction, to cut by 50bp rather than 25bp drew accusations from Trump-aligned voices that it amounted to a gift to Kamala Harris. Notably, even as the policy rate has fallen steadily since then, the 10yr Treasury yield has done the opposite, rising from around 3.60% at the time to nearly 4.74% today. **A hike in September remains technically possible, but would now require compelling evidence that inflation is genuinely running out of control. In practice, that raises the bar considerably: if the Fed was not prepared to move this week, it will likely find it harder, not easier, to justify doing so as the election approaches.**

Put together, this points to monetary policy taking a back seat over the coming months, not because the inflation debate has been resolved, but because the political calendar leaves the Fed an increasingly narrow and costly window in which to act.



On the market reaction itself, it is worth putting the curve-steepening move into context. Steepening from current levels is not, in isolation, alarming: the starting point at the front end was low, and the incremental widening in the 2s30s spread does not yet represent a dramatic repricing of the growth or inflation outlook. What makes this particular move more delicate is where the long end now sits. The 10yr yield, at close to 4.70–4.75%, is pressing against the upper boundary of the range it has held for years without a sustained break, a level that has repeatedly acted as resistance. A steepening move that pushed the 10yr decisively through that ceiling would carry a different, more consequential signal than one that simply reflects a modest repricing of near-term policy expectations.

It is also worth noting, as discussed separately in our analysis of capital supply and demand, that at least part of the pressure on real yields is not purely a monetary-policy story. A meaningful share of it reflects the sheer scale of capital corporates now need to raise to fund AI infrastructure investment, a structural demand-for-capital dynamic sitting alongside, and to some extent independent of, the Fed's own policy stance.

ECB: held the deposit rate at 2.25% as expected. Lagarde's comment that the ECB's reaction function was "very well understood" signalled no pushback against market pricing of a near-certain September hike.

Bank of England: held Bank Rate at 3.75% for a fifth consecutive meeting. The vote shifted more hawkish (three members favouring a hike, up from two in June), but

Governor Bailey's tone was read as dovish, cutting the priced probability of a September hike from 60% to 30%.

Bank of Japan: held rates, raised its growth outlook, but cut its core inflation forecast to 2.5% (from 2.8%); one dissent favoured a hike to 1.25%. The decision followed a suspected FX intervention that drove the yen's sharpest daily move in years.

The underlying data flow was mixed but broadly resilient. US Q2 GDP undershot expectations (+1.5% annualised vs +2.0% expected) on an import drag tied to AI-related capital goods, while underlying domestic demand held up well and core PCE slowed to +0.1% month-on-month.

Euro area Q2 GDP surprised to the upside (+0.4% q/q vs +0.2% expected). China's official PMIs, by contrast, fell into contraction for the first time since February, a genuine divergence from the broader global data pulse. Separately, the UK's political transition (new PM Andy Burnham, Chancellor John Healey) triggered, and then partly reversed, a sharp gilt selloff on fiscal-loosening signals.

Geopolitics

The US-Iran conflict was the single largest driver of cross-asset volatility across the period, moving through three distinct phases:

- Escalation: 13 consecutive nights of US strikes against Iran, met with Iranian retaliation against shipping and Gulf infrastructure, including attacks on power and desalination facilities in Kuwait and drone/missile strikes on US bases and regional allies.
- A fragile pause: from around 25 July, both sides refrained from further strikes and presented the lull as space for Omani-mediated diplomacy focused on the Strait of Hormuz - without a formal ceasefire.
- Renewed escalation: from 29 July, after the US intercepted an Iranian attack on its regional bases, strikes resumed, though apparently confined to IRGC targets rather than broader infrastructure.

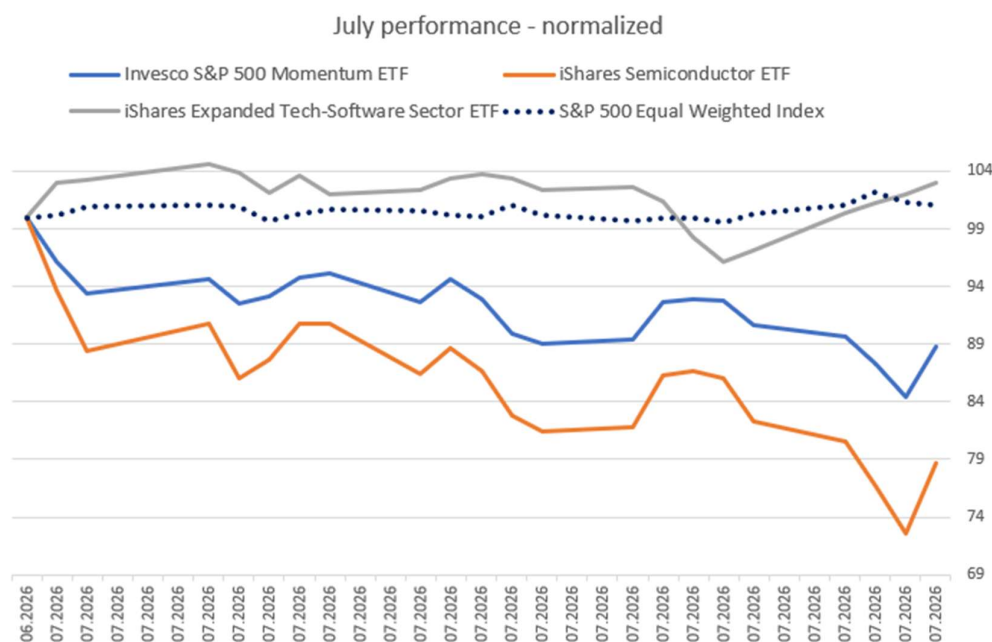
Importantly, conflict spillover broadened beyond direct US-Iran exchanges: Houthi attacks on Saudi energy infrastructure, and on tankers transiting the Red Sea and Strait of Hormuz, raised the prospect of simultaneous disruption to both Gulf and Red Sea export routes.

A second, structurally important geopolitical thread ran in parallel: intensifying US-China technology competition. Evidence that Chinese AI models are approaching frontier performance at a fraction of the cost, a reported breakthrough in domestic deep-ultraviolet lithography production, and the blockbuster Shanghai IPO of chipmaker CXMT (+466% on debut, briefly China's most valuable listed company) all reinforced a narrative of accelerating Chinese semiconductor and AI self-sufficiency,

with direct, negative read-through for Western chip-equipment and AI-capex-linked names such as ASML and Nvidia.

Capital Markets

Beneath the index, a very different story developed. For this note we're widening the lens from the usual two-week window to the full month, since the moves that matter here trace back to late June, when the current rotation out of AI-infrastructure names first took hold. Looking at July on a normalized basis tells a story that headline index levels alone would miss entirely.



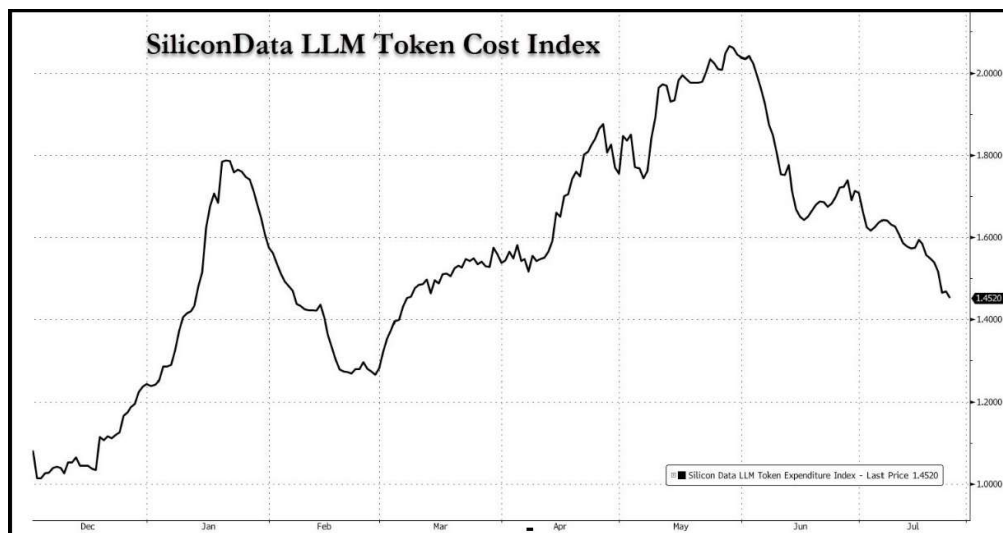
The S&P 500 Equal Weighted Index has been the steadiest line on the chart all month, it dipped modestly in the second half of July alongside everything else, but has since recovered and is now printing fresh all-time-highs. In other words, this doesn't look like a market under stress. The damage has been real, but it has been concentrated, not systemic.

That damage is unmistakable once you look inside the AI-adjacent complex. The iShares Semiconductor ETF has been the worst-hit corner of the market by some distance, falling from its late-June starting point to a low around thirty points lower on the normalized scale before a partial, still-incomplete rebound - it remains deep in negative territory for the month, easily the epicentre of the drawdown. The Invesco S&P 500 Momentum ETF, which by construction is heavily loaded with the same AI-infrastructure winners of the past two years, has followed a similar, if less

extreme, path: a sharp drop into late July, a bounce off the lows, but still a clearly negative month overall.

The iShares Expanded Tech-Software ETF tells the mirror-image story: software was the sector originally punished by the AI theme itself, on fears that AI would erode the value of traditional software businesses, so its underperformance predates this month's semiconductor rout. Aside from a shared, temporary dip when the broader market sold off on oil-driven geopolitical risk, the roles have essentially reversed over the past month - profit-taking on memory and chip names has coincided with short-covering and renewed buying in software.

Underlying this rotation is a theme we've flagged separately: open-source AI models are gaining real ground on their closed, US-proprietary counterparts, and that's showing up directly in the cost of using AI. The SiliconData LLM Token Cost Index has fallen roughly 30% from its May peak, continuing to grind lower through July.



In our view, falling token costs are a genuine profitability and sustainability question for the infrastructure providers, but they are disinflationary and productivity-enhancing for everyone downstream, which is broadly consistent with the sector rotation we're seeing rather than a signal of a demand problem.

Two more datapoints from the last few days look, to us, like classic capitulation signatures rather than the start of something more disorderly. The first is the reported trouble at Leopold Aschenbrenner's Situational Awareness fund, a \$20bn, heavily leveraged AI-focused vehicle that was up 439% net through June, now reportedly seeking fresh capital from existing investors and lenders, and offering some of them the option to buy portfolio assets directly, after sharp losses in names like Oracle, AMD and a cluster of "neocloud" and memory stocks. A fund that rode

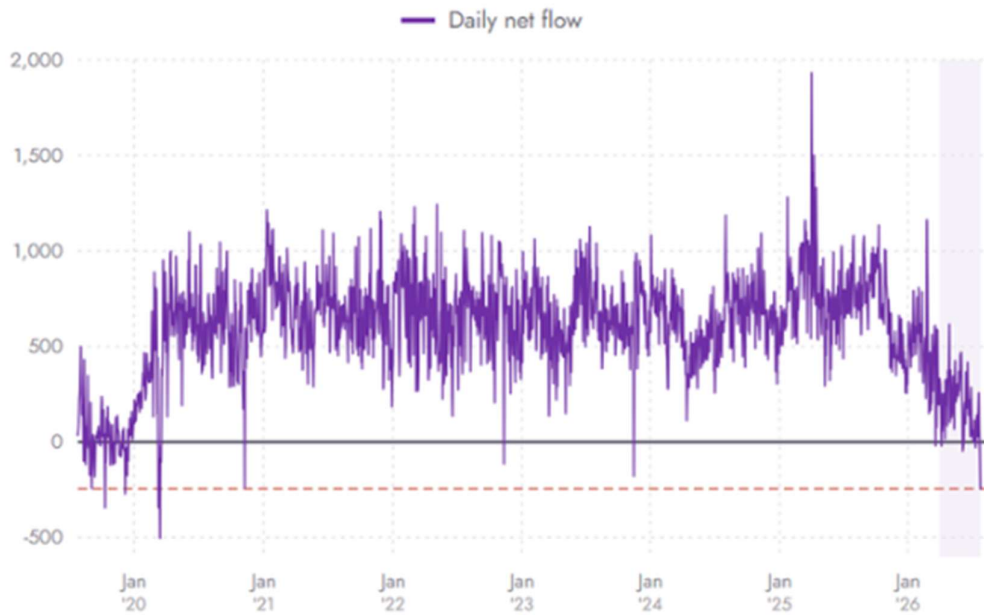
the AI trade to spectacular gains being forced into an ad hoc capital raise is precisely the kind of forced-deleveraging event that tends to mark drawdown exhaustion rather than its beginning.

The second is the retail-flow picture: daily net retail buying of single US stocks has collapsed to its weakest pace since Covid, a sharp reversal after years of retail consistently buying every dip. Retail stepping back that abruptly, right as a leveraged AI-focused fund is unwinding, is the kind of combination that has historically marked washout points rather than the middle of a decline.

RETAIL FLOWS

Retail sold single stocks at the fastest pace since Covid

Daily retail net flow, US-listed single stocks, USD mn



Put together, the message we'd take from July is not that the broader equity market is under threat - the equal-weighted index making new highs argues against that - but that a specific, crowded corner of the market (AI infrastructure) has gone through a genuine, sentiment-driven flush. The rotation and the capitulation signals both point the same way: this looks more like a necessary reset within a still-intact broader market than the opening chapter of a wider correction.