Marketline July 2026

Stocks:

Earnings reports are still trickling in, and investors have decidedly marked down the share prices of tech companies deemed to be spending "too much" on infrastructure buildouts. Other than that, and the occasional idiosyncratically poor result, profits continue to show impressive gains. On the other hand, interest rate increases are posing a challenge to further progress in the indices (see below). This old-fashioned battle – between strong earnings and higher rates – is often mediated by the economy: if employment remains steady, stocks can maintain value. The month was a good illustration of that struggle: the Dow crept up 0.3%, while the S&P was flat and the Nasdaq declined 3.2%.

Foreign stock index results ended the month on the positive side of the ledger, mostly: the Canadian exchange posted a 1.1% increase, and over in Europe, the index price rose a healthy 3.5%. Mexico was less fulfilling, with a tiny point loss that barely registered, but a loss nonetheless.

Nike has graduated from our watchlist to our buy list. After a "balance of the evidence" evaluation, we decided that initiating small positions was appropriate. We'll be creeping into the stock over time as more data becomes available. We noticed that the World Cup didn't particularly help Adidas, which reported higher revenues but also high expenses as a result of marketing like mad during the matches. Management at Nike has stated that revenue recovery is a couple of quarters off, still. But the company's strongest units are performing well. Too, Nike's troubles are no secret. At some point we have to ask, what if something goes right?

Bonds:

Now here comes trouble. Interest rates rose throughout the curve last month: the two-year popped from 4.17% to 4.29%; the ten-year surged from 4.46% to 4.73% (that won't do mortgage rates any favors); and the thirty-year stormed past 5% on its way to 5.27%. Several factors played into this upsurge: inflation statistics were problematic again, no one liked what the new Fed chair Kevin Warsh had to say, and the over in Japan, the yen started crashing.

Who cares about the yen? We need to. Japanese households and governments own a lot of our Treasury securities. If the yen sinks, the best way to defend the currency's value is to hike interest rates. If Japanese rates rise, then all those households and governments have less need for our securities: they can buy their own. That could lead to sales of our Treasuries and more upward pressure on our interest rates in an unforgiving cycle.

And then there are our debt statistics. We're borrowing a lot of money at the federal level. If we were in a less inflationary situation with resources and labor – ie, not *undoing* all the globalization we just spent the last 40 years *doing* - all this debt might be having the opposite effect, but it's not. We're in a crowded resource era – we're looking for more energy, more food, more cement, more wood, more water, more skilled labor, more plants, factories, and housing … at the same time that we are encountering impediments to obtaining these things, whether those be wars, climate issues, or regulations. All is not lost – I'm confident we'll solve these issues – but getting from here to there will entail higher interest rates.

While higher rates are bad from the perspective of the bond owner who is locked into a static portfolio, they can be good for almost everyone with a flexible portfolio. Paring back a few highly appreciated stocks to reinvest in bonds paying higher rates is not such a bad deal: you lock in a profit and increase your income. We're constantly scanning for how we might improve income generation, to help protect portfolios against inflation. We have a gift right now in the form of stocks near all-time highs while bonds are yielding more, and we're capitalizing on that.

Next month, I'll write a bit about Mr. Warsh, our new Fed chairman, and why Wall Street needs to quit griping about a guy who wants to let the market have its say.

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