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Monthly Digest

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Broader, and Costlier: What August Told Us About Participation, Profits, and the Price of Money

In June, in our mid-year outlook, we wrote that the market was higher, and narrower. In July we wrote that it was broader, and cooler. August gives us a third pairing, and it is the one that asks the most of us: the market was broader, and costlier.

Broader, because the widening we noticed in July continued and deepened — the average stock did better than the index, and American companies turned in what may be the best reported earnings season on record. Costlier, because in the same month the government sold thirty-year debt at the highest yield in a quarter century, and because the Federal Reserve spent the last week of August reminding everyone that the inflation fight is not finished. Both halves are true. The work of the month is holding them together.

THE MARKET GOT WIDER

The clearest evidence is the simplest. Through August 28, the capitalization-weighted S&P 500 was solidly positive on the year — and equal-weighted equities, mid caps, small caps and dividend-oriented indices were all ahead of it.

Index	Approx. YTD total return
S&P 500	+13.4%
S&P 500 Equal Weight	+16.1%
S&P MidCap 400	+15.5%
S&P SmallCap 600	+21.9%
Dow Jones U.S. Select Dividend	+17.7%
Nasdaq-100	+16.9%

Approximate total returns through August 28, 2026. Index returns are unmanaged, do not reflect fees or expenses, and cannot be invested in directly. Past performance does not guarantee future results.

Bespoke Investment Group put numbers on the rotation itself. From May 18 through August 21, the equal-weighted S&P 500 gained 9.3 percent against 3.7 percent for the capitalization-weighted index. Over the same stretch, semiconductors gained 4.9 percent and the largest technology names collectively declined about 3 percent. The market kept advancing. It simply stopped requiring the same small group of stocks to do the advancing.

This matters for a reason we have made before and will keep making: because the index weights by size, a handful of very large companies can make a narrow market look healthier than the average stock. In a concentration cycle that flatters the headline. In a rotation it does the opposite — several mega-caps stall while participation improves underneath. August was the second kind of month.

Momentum tells the same story from the other side. Strategies built around the market's strongest recent performers rolled over hard after peaking in June, with the technology, media and telecom version surrendering its entire gain for the year. We would not read that as bearish. We read it as a crowded trade being repriced, and as evidence that investors have started distinguishing among companies that a single theme had been carrying together.

Breadth does not eliminate volatility, and a broader market can still be expensive and still correct. What breadth does is reduce concentration risk and increase the number of independent earnings streams a diversified portfolio can draw on. The important change in August was not that technology stopped leading. It was that the market needed technology less.

THE BEST EARNINGS SEASON ON RECORD

Underneath the price action, the fundamentals were extraordinary. With roughly 83 percent of the S&P 500 reported as of mid-month, Jonathan Golub and the team at Seaport Research Partners calculated second-quarter earnings growth of 53.1 percent against a historical median near nine and a half percent. Revenue grew 15.1 percent. Companies beat consensus in aggregate by nearly 30 percent.

The strength was not confined to one corner. Seaport put technology growth at 107.3 percent, led by 138.2 percent in semiconductors. Energy earnings grew an estimated 143.1 percent on higher oil prices. Financials delivered 24.6 percent and beat expectations by nearly fifteen points. Health care was the notable laggard, and even there the decline traced largely to a single acquired-research charge at one company rather than to broad deterioration. Estimates for the third quarter and for 2027 kept rising while the second quarter was still being reported — the same pattern we flagged last month, and not what a deteriorating earnings picture looks like.

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AND THEN THE FINE PRINT

Here is where a reader should slow down, because this is the part of August that will matter longest.

A meaningful share of that record profit was not operating profit at all. Writing in The Wall Street Journal on August 14, Jonathan Weil documented that Amazon and Alphabet together reported roughly $121 billion of after-tax other income last quarter, nearly all of it paper gains from marking up equity stakes in private companies — among them SpaceX and the artificial intelligence developer Anthropic. By the Journal's analysis, Alphabet's share alone accounts for about ten percent of the entire index's second-quarter earnings, and Amazon's another five. Other income represented 71 percent of Alphabet's quarterly profit and 66 percent of Amazon's.

Those gains are legitimate under generally accepted accounting principles. They are also unrealized, non-recurring, and — as Weil argues — not the sort of thing to which any investor should apply an earnings multiple. On a trailing four-quarter basis the Journal put index earnings growth at 31 percent using reported net income. Excluding those two companies, growth was 24 percent. Still spectacular. Just different.

The inconsistency in how Wall Street treats these markups is its own caution. Nvidia reported $58.3 billion of net income last quarter and directed analysts toward a lower adjusted figure that stripped the unrealized gains out — a rare instance of a management team arguing for the more conservative number. Alphabet and Amazon did not, and analysts followed each company's lead. Identical accounting events, opposite treatment, both waved through into the index-level figures investors rely on.

Seaport ran the same arithmetic and reached a conclusion worth holding onto: strip out the roughly twenty points of one-time gains and the quarter is still the strongest on record outside post-recessionary rebounds, with the aggregate surprise falling from 29.7 percent to 10.6 percent. That is the honest read. The quarter was excellent. It was not 53 percent excellent.

Valuation compounds the point. Weil calculated that even counting the markups, the index traded near 27 times trailing reported earnings against a long-run average closer to 16. The broader economy makes the same demand from a different direction: pre-tax corporate profits reached roughly 14.9 percent of gross domestic income in the second quarter, an unprecedented share in the modern data. Record margins are a gift in the present and a burden on the future. When the profit share is already exceptional, the next leg of earnings growth has to come from revenue, productivity or genuine operating leverage, because it cannot come from another easy expansion in margins.

THE MEDIAN COMPANY

One number deserves to stand by itself, because it connects the two halves of this letter. While the capitalization-weighted index grew earnings 53.1 percent, Seaport calculated that the median S&P 500 company grew roughly 13.8 percent — about a quarter as much.

In June we argued the index was narrow and we meant it about prices. August tells us the narrowness runs through the earnings as well. Thirteen-point-eight percent growth at the typical American public company is healthy, unremarkable and entirely respectable. It is also nothing like the headline. An investor who reads the headline and believes he owns it does not own what he thinks he owns — which is precisely why the broadening described above is worth more than a percentage point of index return.

Bespoke's work points the same way from the selection side. Its framework combining sales growth, operating margins, return on invested capital against cost of capital, shareholder yield and free-cash-flow margins produced an equal-weighted basket that rose 11.2 percent from mid-May through August 21 against 3.7 percent for the index, with 29 of 41 constituents positive. We would not treat that as proof any single screen keeps working, and Bespoke does not present it as one. We read it as confirmation of a direction: when borrowing costs are high, the ability to fund yourself becomes a competitive advantage rather than a footnote.

INFLATION COOLED. THE MEASURE THAT MATTERS DIDN'T.

The July consumer price report, released August 12, was genuinely encouraging. Headline prices rose 0.1 percent after June's 0.4 percent decline, bringing the annual rate to 3.4 percent — a second consecutive monthly improvement. On a three-month annualized basis headline inflation ran at 0.5 percent and core at 1.6 percent. The Cleveland Federal Reserve's trimmed-mean measure annualized to roughly two percent across the latest quarter.

Then the personal consumption expenditures data arrived, and told a harder story. Core PCE — the measure the Fed actually targets — ran above a three percent annualized pace across the one-month, three-month, six-month and twelve-month windows. The year-over-year figure has now been above 2.5 percent for more than five years. And rent inflation, which has done more disinflationary work than any other component over the past three years, appears to be stabilizing near three percent rather than continuing to fall. One of the strongest tailwinds of this cycle is fading.

Both things are true, and the difference between them is not a technicality. It is the difference between the number that makes headlines and the number that sets policy.

Chair Kevin Warsh's August 28 remarks at Jackson Hole moved the two-year Treasury yield about twelve basis points higher, and fed funds futures shifted to price better-than-even odds of a September increase. That is not the opening of an aggressive new tightening cycle — the market still expects a limited adjustment — but the direction of risk has clearly changed. A month ago the debate was when the Fed might ease. It is now whether the Fed will hike.

The practical consequence is one we would ask clients to sit with. A resilient economy plus sticky core inflation leaves the central bank with less room to support asset prices than investors spent a decade becoming accustomed to. Policy rates may well come down eventually. That is a different question from whether long-term real yields return to the levels of the 2010s, and we would not assume they do.

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WHAT THE LONG BOND IS ACTUALLY SAYING

On August 13 the Treasury's auction of thirty-year bonds cleared at 5.216 percent, the highest yield at a thirty-year auction in 25 years. The headline invited alarm. The mechanics did not support it: the auction stopped within half a basis point of the when-issued yield, the bid-to-cover ratio came in at 2.39, down from 2.44 at the July reopening of the same maturity, and indirect bidders took 66.8 percent versus a 67 percent average. That is a mildly soft auction. It is not a buyers' strike.

The composition of the move matters more than the level. A long nominal yield is, conceptually, three things stacked together: expected real short rates, expected inflation, and a term premium for bearing duration risk. Long-dated breakeven inflation pricing has been remarkably steady — the ten-year breakeven has actually drifted down since the end of 2024 — and the New York Fed's Adrian-Crump-Moench estimate of the ten-year term premium has been comparatively stable for about two years. Meanwhile long yields have risen across a wide set of developed economies with very different fiscal positions and very different central banks. Japan's ten-year reached a three-decade high in mid-August.

If it is not expected inflation and it is not term premium, and it is happening nearly everywhere at once, then the most straightforward explanation left is that the expected real return on productive capital has gone up. Artificial intelligence, data centers, semiconductors, electrical infrastructure, automation and reshoring are absorbing enormous amounts of capital. When private investment offers better inflation-adjusted returns, government bonds have to offer a higher real yield to compete for the same savings.

This does not make fiscal risk disappear. Deficits and heavy Treasury issuance can still raise what investors demand to own duration, and we would not pretend otherwise. It does argue against reading every rise in Treasury yields as an unambiguously bearish signal about the economy. Sometimes a higher hurdle rate is what a healthy investment cycle looks like from the bond market's seat.

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The strain is showing at the edges, as it should. Reporting in mid-August described troubled loans swelling across private credit, and at least one large manager scaled back a flagship vehicle after investors pushed back on valuations. John Silvia of Dynamic Economic Strategy offers the useful historical frame: commercial paper survived Penn Central, high yield survived Drexel. Financial innovations that outrun their economics tend to get repriced and redefined rather than abolished — painful for the last dollar in, rarely fatal to the instrument.

COOLER, NOT BROKEN

The economy underneath all this looks less alarming than the headlines suggest, and less comfortable than the equity market implies.

Labor data have been the hardest signal to read, because the establishment survey materially overstated job creation for several years running. The newest benchmark information is therefore meaningful: the preliminary 2026 adjustment was only modestly negative, and the pattern of progressively harsher downward revisions appears to have ended. That is consistent with the labor market's worst deterioration having occurred in late 2025 rather than accelerating through this year. Conditions are not tight the way they were. Job switching has slowed and workers are less confident about finding something better. But slower churn is not a collapse in employment or household income.

Spending bears that out. Real personal consumption was flat in July, yet the preceding months were strong enough that three-month annualized real spending growth stayed in the top quintile of observations since 2007. It also helps to remember that wages and salaries account for less than half of total household income — which is why softer hiring does not translate mechanically into weaker consumption.

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Headline output understates the same resilience. Second-quarter real GDP was unrevised at a modest 1.5 percent annualized. But final sales to private domestic purchasers — which strips out government spending, inventories and net exports — rose 4.2 percent in real terms and close to 10 percent nominally. Inventories and trade create large quarterly swings that say very little about the durability of domestic demand.

Housing is the exception, and it is the cleanest illustration in the economy of what a higher cost of capital actually does. July new-home sales fell 10.5 percent from June, inventories remain elevated relative to sales, and the pipeline of homes not yet started is unusually large. Prices have held up better than transaction volumes, which is the signature of an affordability problem rather than a credit-driven collapse. The point worth taking is that higher rates are not suppressing the economy uniformly. They are redistributing it — toward the uses of capital that can clear the higher bar, and away from the ones that cannot.

FROM BUILDOUT TO PAYOFF

Artificial intelligence remains the most consequential secular theme in this market, and August was the month the market started asking a different question about it.

Nvidia's results late in the month were reassuring and helped the mega-cap complex. But the broader AI complex has stopped moving as one thing. Bespoke's data-center picks-and-shovels basket has trended lower since the spring, higher-beta AI momentum names weakened, and a basket of companies once considered especially vulnerable to AI disruption recovered much of its earlier decline. Even the language is shifting: across Apple, Amazon, Alphabet, Meta, Microsoft and Nvidia, mentions of artificial intelligence on quarterly earnings calls fell to 364 in the latest quarter from a peak of 450 in early 2025. That is not less commitment. It reads to us like a technology moving from announcement toward integration, deployment and measurement.

The first phase of this cycle rewarded the companies that supplied the semiconductors, servers, networking, power, cooling and physical capacity. The second phase gets judged on what the buyers earn on all of it. If billions of dollars of spending generate returns below the buyer's cost of capital, revenue grows while value is destroyed. If instead the spending raises productivity, lowers labor intensity, improves asset turns, reduces error rates or strengthens pricing power, the economics can be excellent — and, importantly, excellent well outside the technology sector.

The first serious evidence arrived on August 19, in a paper from the Federal Reserve Bank of Boston. Studying why tariff-driven costs produced so much less consumer inflation than most models predicted, the researchers found the answer on the production side. Across 63 industries, productivity improved in 37. They estimated tariffs raised domestic production costs about 1.1 percent and added roughly 1.4 percentage points to core PCE inflation — but that accelerating labor productivity cut costs 1.3 percent and subtracted 0.9 point back out, leaving a net contribution near half a point. The industries most exposed to the cost shock tended to post the largest productivity gains. The authors stop short of claiming causation, and so do we. But if the capital being deployed is doing anything real, unit costs are exactly where it should surface first.

Two qualifications keep us honest. First, a large share of the hardware in American data centers is imported — July's preliminary trade data showed the goods deficit deteriorating sharply on capital-goods imports, with computers, peripherals and semiconductors central to the move. Imported equipment counts as investment when installed here but is subtracted elsewhere in the national accounts, so the gross spending figure overstates the direct contribution to domestic output. The domestic value added is in the site work, structures, power, engineering, installation, cooling, networking, labor and financing.

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Second, and more encouragingly, this capital cycle is not only American. Business surveys have improved in parts of Europe, South Korean manufacturing sentiment has reached new cycle highs, and Japanese machine-tool orders have accelerated sharply, with industrial-robot orders up 26.4 percent year over year — the strongest since 2021. Germany and Sweden made new highs while some Asian markets consolidated. The equity response is uneven, as it should be. But automation, semiconductor demand, electrical infrastructure and manufacturing investment are becoming a synchronized global story rather than a single-country trade — which is one more reason to think the real return required to attract savings is genuinely higher than it was in the 2010s.

WHAT WE ARE WATCHING

A short list, in descending order of how much it would change our thinking:

- Whether the earnings base keeps broadening. The median company at 13.8 percent is the number we track, not the index at 53 percent.
- Whether the market keeps distinguishing between companies that fund themselves and companies that must return to the capital markets. August rewarded the first group. Refinancing schedules, interest coverage and fixed-versus-floating exposure are where that distinction will show up next, as legacy low-coupon debt continues to mature.
- Core PCE, and specifically whether the shorter windows come back below three percent. Rent stabilizing near three percent removes a tailwind we have leaned on for three years.
- Orders and shipments of nondefense capital goods, which Silvia identifies as the cleanest early signal of whether the investment boom is normalizing. Railroads eventually stopped ordering rail.
- Financial stress measures and corporate bond spreads, as the market's own read on whether the private credit repricing stays contained.
- The Strait of Hormuz, which remains the swing factor for energy prices and therefore for the entire rate conversation.

HOLDING BOTH HALVES

Silvia closes his August note with a formulation we would happily borrow: no collapse is on the horizon, and a reasonable amount of caution is nonetheless required. That is very close to where we sit.

Three months, three pairings. Higher, and narrower. Broader, and cooler. Broader, and costlier. In each case it is the second adjective doing the work — the qualification that keeps the first from becoming a story you tell yourself. A record earnings season is a real thing. So is the fact that a fifth of it came from revaluing private holdings. A genuinely wider market is a real thing. So is a thirty-year bond yielding more than it has since 2001, and a central bank that spent the last week of August talking about raising rates rather than cutting them.

What has actually changed this year is the hurdle. For most of the last decade, capital was close to free, and a compelling story could substitute for demonstrated profitability. It cannot now. The question is no longer only whether a company can grow, or whether a theme is real. It is whether the growth converts into cash and whether the return on the next dollar invested exceeds what that dollar costs. That is a harder test. It is also, we would argue, a healthier one — and it is why a broader market and a costlier one are not contradictions but the same development seen from two sides.

As always, our goal is not to predict the next headline. It is to give you a clear and balanced read of the ground you are standing on — and to keep your plan anchored to your goals rather than to the market's mood. If anything here raises a question about your own situation, please call us. That conversation is the entire point.

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CLIENT UPDATES

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Growth Is in Our DNA: Employee Milestones

Andrew Browne, Financial Consultant, is now a CERTIFIED FINANCIAL PLANNER® professional, having earned one of the most widely recognized credentials in the financial industry.

This accomplishment reflects his dedication to continued professional development, further enhancing his ability to serve our clients with thoughtful, comprehensive financial guidance.

Learn more about Andrew here.

We're proud to congratulate Corey on being named a 2026 40 Under 40 honoree. Since joining our firm in 2012 as a Client Associate, Corey has grown alongside the firm, advancing to his current role as Executive Vice President and becoming a CERTIFIED FINANCIAL PLANNER® professional. His commitment to our clients, professional growth, and community reflects the values we strive to uphold every day.

Learn more about Corey here.

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Upcoming Office Closures

As a friendly reminder, our office will be closed in observance of Labor Day on Monday, September 7. We wish you and your family a safe and enjoyable holiday.

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Achievements Worth Sharing

Moran Wealth Management® is honored to be recognized on the 2026 Inc. 5000, the annual ranking of the fastest-growing private companies in America.

This recognition reflects the continued growth of our firm and our longstanding commitment to serving clients with thoughtful, personalized wealth management.

Because of you, we're celebrating today.

We're proud to be honored by the community we're rooted in. This recognition is especially meaningful because it wouldn't be possible without your votes. Thank you to everyone who voted for us.

We're proud to be named the Best Financial Advisory Firm for the second consecutive year.

The Best of Business awards recognize outstanding companies across nearly 30 categories throughout Southwest Florida, with winners selected entirely by the readers of Gulfshore Business.

Visit https://moranwm.com/disclosures for the complete list of methodologies and disclosures for referenced financial accolades. Rankings are not indicative of future performance, nor should they be seen as an endorsement. Rankings may not reflect any one client's experience.

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Nine Wealth Strategies That Matter More Than Ever | Quarter Over Quarter E025

Markets change, tax laws evolve, and economic conditions shift. While those forces are beyond an investor's control, the strategies used to navigate them can make a meaningful difference over time.

Tom and Don revisit key conversations from the season, highlighting nine wealth planning strategies for navigating changing markets, evolving tax laws, and economic uncertainty. The discussion covers liquidity planning, sequence of returns risk, tax loss harvesting, alternative investments, international diversification, market concentration, commodity investing, Roth conversions, estate planning, and charitable giving.

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FEATURED MEDIA

Market Shocks and Investor Mistakes: What History Teaches Us | Quarter Over Quarter E026

Market corrections are an inevitable part of investing, but every downturn brings a unique set of headlines, emotions, and uncertainties.

While the causes may differ, the principles of long-term investing often remain remarkably consistent. In this episode, Tom and Don discuss how investors can prepare for periods of market volatility before they occur, rather than reacting after markets have already declined.

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Global Equity (GEQT)

This strategy seeks to optimize returns in a risk-controlled framework, delivering consistent added value over a full business cycle.

What is the Global Equity Strategy?

- Designed to capture the benefits of diversification and the advantages that come from the dissimilarity in return patterns across different asset classes.
- Invests primarily in equity securities believed to have strong growth potential.
- In addition to this strategic allocation, the strategy utilizes tactical active risk management driven by an informed view of current market conditions.

For more information on GEQT and other strategies, please visit our website.

Your financial advisor will begin building your portfolio by first identifying your unique investment style based on a variety of factors, such as income, risk tolerance, diversification, investment and financial goals, and preferred market exposure. This will help us select a suitable strategy for you, allowing us to use a personalized approach designed to help pursue your short- and long-term financial goals.

Where Strategy Begins

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