Abacus® FINANCE

MONTHLY ECONOMIC BRIEFING

July 2026

US Economy

As we move into the second half of the year, the apparent end of the Iranian War allows investors to concentrate on economic and earnings fundamentals as the major drivers of further equity market advances. The US economy has arguably been driven by the AI capital spending cycle, although it could never grow at its current trend rate of 2.0% without a reasonably strong consumer. Job growth is expected to remain comfortably positive for the remainder of this year and into 2027.

Monetary Policy

After overseeing the decision to hold the federal funds rate steady at his first meeting as Fed Chair, Kevin Warsh surprised investors somewhat by strongly stating that the Fed under his leadership will achieve price stability. Given the inflation rate is meaningfully higher than the 2% target and the maximum employment mandate has largely been achieved, inflation is the problem the Fed needs to currently confront. Q2 ended with probability of a rate hike before year-end close to 85%.

Bond Markets

Now that the Iran war appears to be near an end and energy prices have fallen, there is likely room for the entire yield curve to shift down. However, given the current strength of the US economy, a certain amount of curve steepening should be expected with the intermediate-to-long rates staying around current levels for the rest of the year as short rates decline. Another factor that could keep intermediate rates higher is ever increasing budget deficits, which would make longer-term bond buyers a little more cautious.

Equity Markets

Second-quarter earnings for the S&P 500 companies are expected to grow 23% year-over-year when earnings are reported this month. This is a notable increase from the +19% predicted by analysts at the beginning of the quarter. For full-year 2026, earnings are expected to grow in a range of 21%-23%. This level of earnings growth should allow US equity markets to easily offset the increase in interest rates and recover the lost ground from the first quarter.

LBO Market Commentary

In July 2026, U.S. leveraged buyout activity shows tentative reacceleration as sponsors re-engage on quality assets following a reawakening of larger-cap sponsor M&A activity in late June, driven by stronger deal flow even as AI-related software reassessment weighs on credit quality. The Fed's hawkish hold under new Chair Warsh introduced renewed uncertainty around H2 2026 borrowing costs, keeping sponsors disciplined on leverage. Competition for high-quality buyout targets remains firm, particularly in resilient sectors such as energy, infrastructure, and healthcare, but lenders are capitalizing on the lender-friendly reset, with direct-lending spreads widening, and underwriting standards facing heightened scrutiny.

LBO Market Data was provided by Refinitiv LPC

Forecast Provided by Cerity Partners

	Current
Fed Funds Rate	3.63%
US 10-Year Treasury Yield	4.44%
S&P 500 Index	7,499
HY Fixed Income Spread**	300 bps

	2025	2026 est.
World GDP Growth Rate	3.25%	3.00%
US GDP Growth Rate	2.25%	2.20%

**Source: Factset*
***High Yield Spread is the BofA Merrill Lynch High Yield Master II relative to the US 10-Year Treasury Bond.*

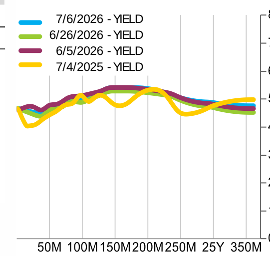
Rate Environment

Treasury Statistics/Rate

	Current	YTD %	Historical 52- Wk HI	Historical 52-Wk LO
US Treasury 2yr	4.15%	0.67%	4.23%	3.39%
US Treasury 5yr	4.20%	0.48%	4.32%	3.52%
US Treasury 10yr	4.44%	0.27%	4.66%	3.95%
US Treasury 30yr	4.93%	0.09%	5.18%	4.54%
SOFR - 3 Month	3.73%	0.08%	4.33%	3.63%
SOFR - 6 Month	3.87%	0.30%	4.27%	3.56%
SOFR - 12 Month	3.99%	0.57%	4.08%	3.40%

Treasury Statistics and SOFR Curve provided by Factset

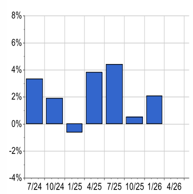
SOFR Curve



Key Economic Data

REAL GDP

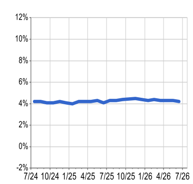
Change from previous quarter



Source: Department of Commerce

UNEMPLOYMENT RATE

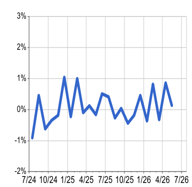
Monthly seasonally adjusted rate



Source: Bureau of Labor Statistics

INDUSTRIAL PRODUCTION

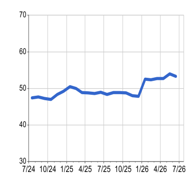
Change from previous month



Source: Federal Reserve

PMI

Reading above 50 indicates expansion in mfg. activity



Source: Institute for Supply Mgmt.

Equity Market Performance

Index	Current	% Change Last Week	% Change YTD	% Change 52 Week	52 Week HI	52 Week LO	Trailing P/E	Forward P/E	Current Yield
DOW	52,319.20	3.65%	9.76%	20.65%	44,094.77	44,094.77	21.98	20.44	0.00%
S&P500	7,499.36	0.47%	10.21%	22.32%	6,204.95	6,204.95	23.83	20.58	1.10%
NASDAQ	26,213.72	2.77%	20.31%	34.38%	20,369.73	20,369.73	31.52	25.94	0.00%
R2000	3,024.37	5.57%	22.57%	40.78%	2,175.04	2,175.04	35.66	26.51	0.00%
VIX (S&P)	16.45	-1.50%	10.03%	-1.67%	16.73	16.73	N/A	N/A	N/A

**Source: Factset*

LBO Market Performance