Fighting the Current | 07.27.2026

The S&P 500 sits less than 3% below its all-time high, but the past few weeks have made for a bumpier ride. Last week, attacks around the Strait of Hormuz and the Bab-el-Mandeb pushed oil prices toward $100 a barrel. Over the weekend, the U.S. and Iran agreed to pause further strikes and allow negotiations to continue, which helped bring crude back down to around $86 a barrel. A Federal Reserve with less room to maneuver, rising long-term interest rates, and questions about the pace of spending on AI infrastructure are also drawing attention, alongside a seasonal calendar that has historically been unkind to midterm years. Still, these look like short-term challenges rather than deeper economic problems. The labor market is holding up, credit conditions remain stable, and beneath the surface, investors are shifting money between different types of stocks rather than leaving the market.

The Strait of Hormuz has been the main flashpoint for months, but in recent weeks, attention has shifted to another key shipping route nearby, the Bab-el-Mandeb strait off Yemen, where renewed Houthi attacks raised fears of a wider conflict. The agreement this weekend that helped calm oil markets also eased some of those geopolitical concerns. It is an encouraging step, though the pattern of on-again, off-again escalation this year argues for treating it as a pause rather than a resolution.

Even with that pause, the sharp swings in oil prices make an already difficult job harder for the Federal Reserve. Chairman Warsh has repeatedly expressed concern that inflation is not falling as quickly as hoped, while reaffirming the Fed's commitment to its 2% target. A period of calmer oil prices would give inflation more time to subside on its own, but the committee seems unlikely to look past another sharp run-up in energy costs if the pause does not hold. Markets entered the year expecting interest rate cuts but have reversed course and are now betting on the equivalent of two hikes by year-end. Much of that outlook now depends on whether this weekend's agreement holds.

The 10-year Treasury yield, a benchmark that influences everything from mortgage rates to stock valuations, has also pushed above 4.6%. The move reflects growing worry that the conflict, even with this pause, will widen an already stretched federal deficit. Higher interest rates make future profits worth less today. This hits hardest for projects that may not turn a profit for years, particularly affecting companies investing heavily in artificial intelligence. Investors are also taking issue with how quickly those same large technology companies have increased their spending. In its second-quarter report, Alphabet spent more cash than it brought in for the first time since going public and raised its 2026 spending plan to over $200 billion. Analysts expect Meta and Amazon to follow suit when they release their reports. Investors are beginning to question the sustainability of that investment and are moving money into other areas of the market.

Choppier markets are not unusual ahead of midterms, but the foundation of the U.S. economy remains intact: unemployment is low, consumer spending remains healthy, and credit conditions are stable.

What we see appears to be a shift in market leadership rather than a widespread sell-off, presenting an opportunity for stock pickers who carefully choose individual companies rather than relying on the market's biggest names. The next few months may test investors' patience more than the last few have, but the best response to uncertainty has never been to predict every turn in the market. It is to stay focused on owning high-quality businesses positioned to grow through a wide range of economic conditions.

Thanks,
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