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From the US Market Desk

Earnings Drive the Tape

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Macro

- Our real gross domestic product (GDP) forecast for 2026 is 2.5% (based on our Global Investment Management Survey) versus the Federal Reserve's (Fed's) forecast of 2.2% and the Wall Street consensus of around 2%. The main drivers of our GDP forecast are the continued capital expenditure (capex) by big tech to build out artificial intelligence (AI) infrastructure, and the resilient consumer. Bank of America CEO Brian Moynihan was on CNBC last week and said that customer spending was up 5% year-over-year (y/y) in July, consistent with the last few quarters. His view was this level of consumer spending is consistent with 2.5% real GDP. The consumer is resilient.
- Last week there were a handful of economic data points. The July Institute for Supply Management (ISM) Index came in at 55.6, ahead of the market consensus estimate of 53.9. Readings over 50 are consistent with an expanding economy. ISM New Orders printed 56.7, in line with expectations and at levels last seen in March of 2022. Finally, ISM Services came in at 54.1 versus expectations of 54.5, and ISM Services New Orders printed 57.2 versus expectations of 55.9. The economy is humming along.
- Oil prices have now pulled back about 20% to US$76.63. Our core Personal Consumption Expenditures (PCE) forecast for the year is 3.0% - 3.5%; the June reading was 3.3%.
- The two-year note yield is 4.22%, down from the recent high of 4.36%. It is still about 50 basis points (bps) over the federal funds rate, but off the boil.
- Breakeven rates declined in tandem with two-year note yields. One-year breakeven rates are 1.61%, two-year breakeven rates are 2.10%, and five-year breakeven rates are 2.20%. These numbers represent the bond markets' pricing of annualized inflation out one, two, and five years. Breakevens are still at odds with the message from two-year yields.
- Meanwhile, the fed funds futures market is indicating there is a 57% chance of a 25-bps hike in September and a 47% chance of a hike in December. This data moves very fast, so this picture can and will change quickly depending on incoming data.
- On the currency front, we are expecting the US dollar to be essentially flat for the year despite the recent volatility. The US Dollar Index is trading at $99.85.

Equities

- We are constructive on US equities and have established a year-end target range of 7400 - 7800 for the S&P 500, driven by 15+% Y/Y earnings-per-share (EPS) growth. Second-quarter (Q2) earnings are BOOMING, with blended growth rates about +47% Y/Y and with EBIT margins approaching 17%. Much of this EPS power is Magnificent Seven-driven in Q2. Consensus expectations (Bloomberg) for 2026 now sit at US$359.44, up about 17% Y/Y. For 2027, the consensus earnings estimate stands at US$404.66, representing a 13% Y/Y growth rate versus 2026. Earnings estimates have ticked up virtually every week this year. Amazing. (See Franklin Templeton Institute's Global Investment Management Survey for more on earnings and our forecasts.)
- If we assume the consensus earnings estimates are reasonably correct, that puts the tape at 21.46x this year's earnings and 19.01x 2027 estimates. The long-term historical, forward multiple is about 17x. Portfolio managers are now focusing their efforts on corporate earnings power for calendar year 2027. I can't make a strong argument that the tape is "cheap" here, but I also can't make the argument that a 19.01x forward multiple is crazy rich either—unless bond yields move significantly higher. We don't expect that, but it is a risk.
- Consider this: The S&P 500 is up 13% year-to-date (YTD) and S&P 500 earnings estimates are up 16% from January 1. Coincidence? I think not. Stocks follow earnings over time.
- All 11 S&P GICs sectors have positive earnings YTD. The top-three performers are energy +29%, information technology +22%, and industrials +19%. In January, our top-three favorite sectors for the year were energy, tech, and industrials. It's working.
- There was a flurry of new all-time highs last week, including, but not limited to, the S&P 500 Index, the S&P 500 Equal Weight Index, the Russell 1000 Value Index, the Russell 2000 Index, The S&P MidCap 400 index, and the S&P 500 Financials Index. New highs are bullish, as is the breadth of participation. The "Get ready for a broader market" theme we published in our paper from January of 2025 has been spot on, and we expect this to continue amid broad earnings growth.
- I want to call attention to an AI/tech "Talking Markets" podcast that I recently recorded with Putnam equity Portfolio Managers Andy O'Brien and Bobby Gray. Andy and Bobby shared their views on where we are in the AI buildout, why they believe in the long-term implications and what the risks are. Find 30 minutes for this and I promise you that you will have a better understanding of the space.
- Bottom line: We think it's prudent to have a diversified equity playbook that includes US large-, mid- and small-cap exposure with a balance of growth and value. Large-cap growth is on sale here. The same can be said for ex-US equity exposure; emerging markets and Japanese stocks look attractive. That involves reducing concentration and spreading one's bets. We favor buying on pullbacks.

Fixed Income

- We expect the 10-year US Treasury bond to yield in the range of 4.25% - 4.75% for the year. As of this writing, the last trade was 4.65%. We think adding duration risk is attractive over 4.75% or so. Core and core plus strategies should get closer looks, should rates remain elevated.
- The US yield curve was essentially flat on the week. The two-year/10-year spread is now 42 bps.
- We expect short duration fixed income mandates and corporate credit to outperform cash again this year. Considering our views on US 10-year yields, we do not expect duration to be a significant driver of total return this year. Rather, all-in yield capture seems to be the play, although recent spread widening might create an opportunity for additional total return. Clipping coupons looks attractive.
- Credit spreads remain well behaved in the face of higher yields. Investment-grade spreads, as proxied by the Bloomberg US Corporate 1-3 year Option-Adjusted Spread (OAS), are now 44 bps over comparable Treasuries, in three bps over the past week. Investment-grade spreads are still a few basis points from five-year tights. High-yield spreads, as proxied by the Bloomberg US Corporate HY OAS, are now 267 bps over, tighter by 22 bps on the week. These are both relatively tight levels from a historical perspective, reflecting a strong fundamental backdrop with corporate profitability being the main driver.
- We are bullish on municipal bonds and find taxable equivalent yields to be attractive, along with robust fundamentals. Importantly, municipal bonds can offer potential diversification benefits in the form of low correlations to various equity markets, relative to most taxable fixed income mandates. The market is on pace for another year of record supply; however, tight spreads in taxable bonds have helped the markets absorb these high supply levels.

Sentiment

- The percentage of bullish investors in the latest AAII survey (the week ending August 5) ticked up to 37% from 31% in the prior week, which was a very low reading. The percentage of bearish investors in the AAII survey is now at 38%, down from 42% in the prior week. The wall of worry is still in place.
- Bull markets peak on euphoria. I don’t think we are there yet.

I will continue to analyze the markets and will offer insights again next week.

Source of data (except where noted) is Bloomberg and Franklin Templeton Institute, as of August 6, 2026. Important data provider notices and terms are available at www.franklintempletondatasources.com.

The Franklin Templeton Institute Global Investment Management Survey is a biannual outlook survey designed to give a view across our investment teams. The Franklin Templeton Institute identifies the median across the survey answers and develops the outlook. The survey received responses from around 200 portfolio managers, directors of research and chief investment officers, representing participation across equity, private equity, fixed income, private debt, real estate, digital assets, hedge funds and secondary private markets. Each of our investment teams is independent and has its own views.

Glossary of Terms

The AAII (American Association of Individual Investors) Sentiment Survey: This survey offers insight into the opinions of individual investors by asking them their thoughts on where the market is heading in the next six months.

Breakeven rates: The difference between yields of Treasury bonds and TIPS for issues of the same tenor/maturity, calculated by subtracting TIPS yields from Treasuries; a measure of inflation.

Capital expenditure (capex): Funds that companies spend to acquire, upgrade or maintain physical assets, such as buildings, technology or equipment, with the purpose of maintaining or growing future operations.

Duration: A measure of how much a bond's price changes relative to changes in interest rates.

Earnings per share (EPS): The portion of a company's profit allocated to each outstanding share of common stock. An index EPS is an aggregation of the EPS of its component companies.

EBIT: Earnings before interest and taxes.

Fed funds (FF) rate: The interest rate that depository institutions such as banks charge other institutions for holding overnight reserves.

Global Industry Classification Standard (GICS®): Developed in 1999 by S&P Dow Jones Indices and MSCI, GICS was designed in response to the global financial community's need for accurate, complete and standard industry definitions.

Hit rate: The percentage of positive positions or returns over a specific period.

Magnificent Seven: Refers to shares of Apple, Microsoft, Amazon, Alphabet, Meta Platforms, Nvidia, and Tesla.

Option-adjusted spread (OAS): Measures the spread between a bond's interest rate and the risk-free rate, while adjusting for any embedded options like callables or mortgage-backed securities.

Tape: A reference to broad market performance, based on the ticker tape that transmitted stock prices during the 19th and 20th centuries.

Taxable-equivalent yield: The yield of a municipal bond investment calculated to reflect the benefits of income tax exemption and to be comparable to the yield of a taxable bond.

Yield spreads/tights: Spreads are the difference between yields on differing debt instruments of varying maturities, credit ratings, issuers or risk levels. "Tight" in reference to spreads indicates small differences in yields.

Indexes

Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator of future results.

Bloomberg US Corporate High Yield Index: Tracks the performance of the USD-denominated, high yield, fixed-rate corporate bond market.

Russell 2000® Index: A market capitalization-weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

Russell 1000® Value Index: A market capitalization-weighted index that measures the performance of Russell 1000® Index companies with relatively lower price to-book ratios and lower forecasted growth rates.

S&P 500 Financials Index: Comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

S&P 500® Index: A market capitalization-weighted index of 500 stocks, a measure of broad US equity market performance.

S&P 500 Equal Weight Index: The equal-weight version of the S&P 500 Index. The index includes the same constituents as the capitalization weighted S&P 500, but each company is allocated a fixed weight, or 0.2% of the index total, at each quarterly rebalance.

S&P MidCap 400® Index: A market capitalization-weighted index of 400 stocks of mid-size companies, distinct from the large-cap S&P 500.

US Dollar Index: A basket of six foreign currencies (euro, Japanese yen, UK pound sterling, Canadian dollar, Swedish krona and Swiss franc) used to track the relative strength of the US dollar, with a higher index value representing US dollar strength.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

The allocation of assets **among different strategies, asset classes and investments** may not prove beneficial or produce desired results.

Diversification does not guarantee a profit or protect against a loss.

Equity securities are subject to price fluctuation and possible loss of principal.

Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default.

International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets.**

The **investment style** may become out of favor, which may have a negative impact on performance.

Large-capitalization companies may fall out of favor with investors based on market and economic conditions.

Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks.

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