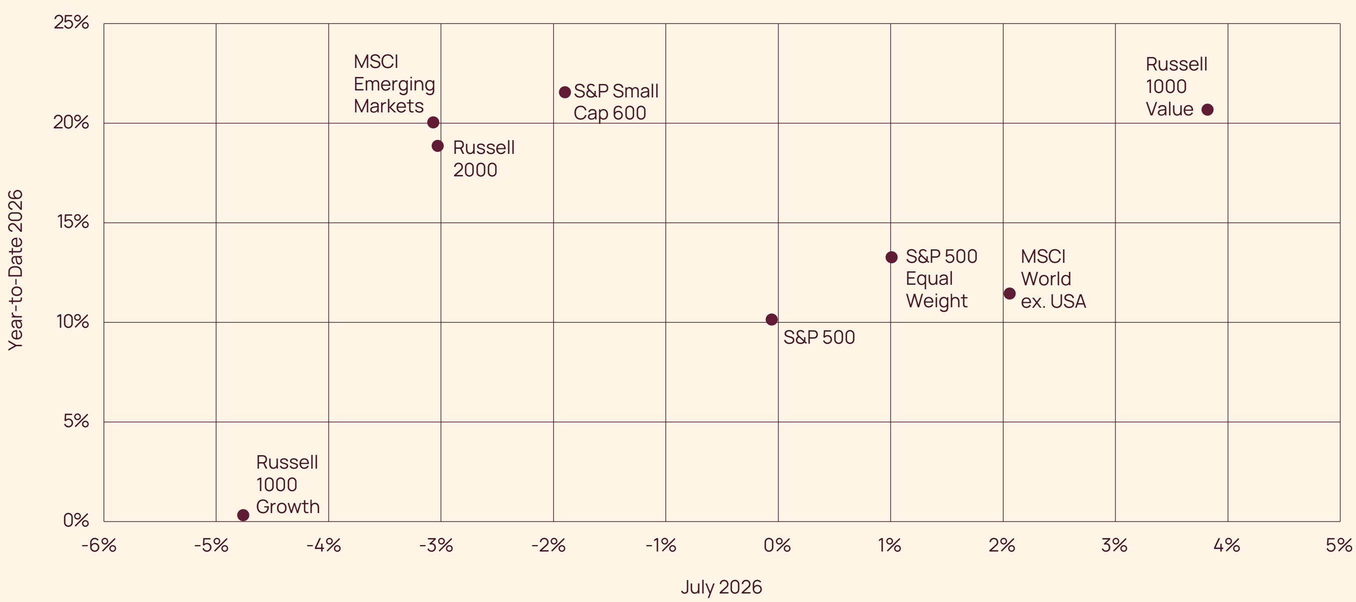
Market Review Commentary

July 2026

Market Review

Equity markets delivered some notable changes in July, some welcome, others less so. Large-cap growth stocks tumbled, pushed down by a pull-back in semiconductor stocks. Many of these stocks had returns and valuations that became, to borrow a term, “other-worldly.” Large-cap value stocks by contrast, rose, boosted by some additions to the Russell Value index at the end of June, adding to already solid gains year-to-date. Small cap stocks delivered negative returns for the month. Emerging Markets stocks also stumbled in July but are still up much more than developed market stocks for the year.

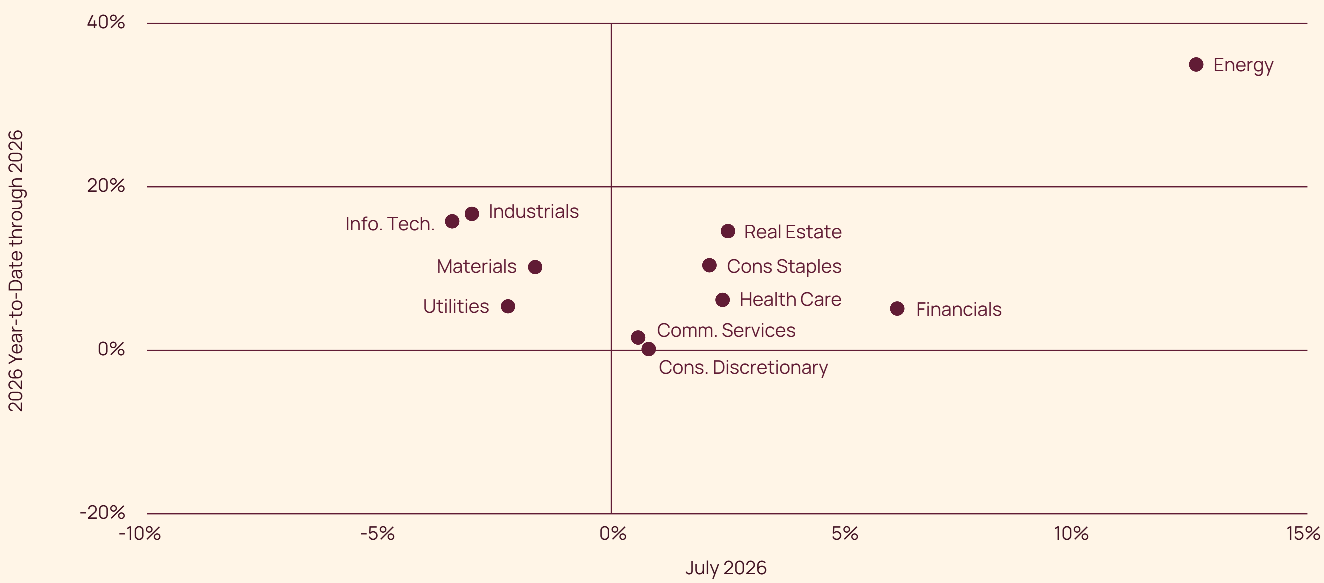
Figure 1: July Peformance Relative to Year-To-Date Index Returns



Source: FactSet Research Systems. Indices are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment. **Past performance is no guarantee of future results.**

July also produced some interesting shifts across sector returns and some notable differences between industries within given sectors. For example, in July the industrials and information technology sectors fell 3.0% and 3.4%, respectively, but are up 16.5% and 15.7% YTD. Within information technology, semiconductor and technology hardware stocks declined significantly in July but are still big beneficiaries so far this year, and software names (remember the SaaS-pocalypse?) rose for the month but are still down for the year.

Figure 2: July Peformance Relative to Year-To-Date Sector Returns



Source: FactSet Research Systems. Index Levels, Market Value & Per Share items in U.S. Dollar. Market Value in Millions. Grouped by GICS Sector & GICS Industry. **Past performance is no guarantee of future results.**

Meanwhile, Treasury yields rose to their highest levels since 2023, as bond investors reacted to a perceived lack of communication from new Federal Reserve Chair Kevin Warsh following the Fed's decision to leave short-term interest rates unchanged.

Dispersion: A Low VIX Doesn't Necessarily Mean Stock Volatility is Low

For the past few months, the spread between the VIXEQ, an equally weighted volatility index, and the more widely followed VIX has been the widest it has been since the VIXEQ was introduced. Understanding why requires a brief explanation of what each measure captures.

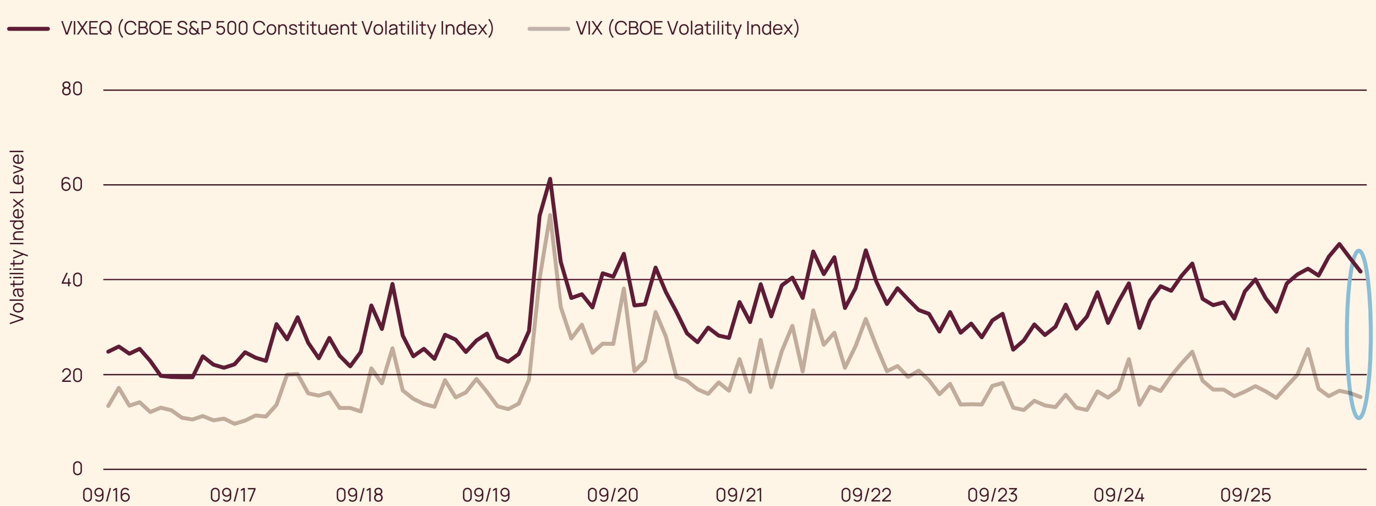
The VIX, or Volatility Index (also known as the "Fear Index"), is a measure of expected stock market volatility over the next 30 days. Derived from prices of options on the S&P 500, the VIX reflects not only the expected volatility of individual stocks, but also how those stocks are expected to move relative to one another and their market capitalization weights. In other words, the volatility of the index depends on both its components and how closely they are expected to move together.

The VIX, which has been around for decades, is useful if we're interested in the expected near-term volatility of the market as a whole. The VIXEQ, a lesser-known measure, is the average implied volatility of the S&P 500 stocks, but not viewed as a portfolio. The VIXEQ is a simple average of implied stock volatilities and doesn't depend on covariances or market weights. *If stocks are expected to move fairly independently, the VIX will be lower than when stocks are expected to move together. Put differently, dispersion puts downward pressure on the VIX, even if individual stock volatility is high.*

Comparing the VIXEQ and the VIX highlights the impact of market concentration and dispersion, which affect the VIX but not the VIXEQ. For the past few months, the gap between the two measures has been the widest on record, suggesting expectations for unusually high dispersion across stocks. A similar pattern appears in the advance-decline line, which measures market breadth. This shows the S&P 500 going in one direction, while a majority of the stocks in the index go the other way.

Figure 3: Narrow Leadership Drives Wider Dispersion

Equally-weighted VIXEQ vs. Market-weighted VIX



Data as of August 1, 2026. Source: Reuters. Indices are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment. **Past performance is no guarantee of future results.**

Even though we've seen big single-day stock moves in some larger companies recently, the VIX has stayed fairly low. Those big moves have been largely offset by other stocks moving in the opposite direction. In other words, market dispersion has been high. At a sector level, we've seen capital jumping quickly from one industry to another. As of July 27, 2026, the difference between weekly returns for the S&P 500's best- and worst-performing sectors reached double-digit percentages eight times so far this year.[1] That happened three other times this century—in 2000, 2001 and 2009.

The divergence between the VIXEQ and the VIX suggests that today's relatively low VIX may not fully reflect the level of uncertainty beneath the market's surface. While index-level volatility has remained muted, the combination of elevated dispersion and narrow breadth indicates that stock-level outcomes have varied considerably.

We believe that distinction is important for investors. When dispersion is high, individual company results can have a greater influence on returns than broad market movements. The unusually large gap between the VIXEQ and the VIX suggests that opportunities to identify stocks with more attractive risk/reward profiles than those implied by market averages may be greater than usual.

[1] Bloomberg, "Crisis-Level Swings Become New Normal in 2026 Stock Market", July 2026, https://www.bloomberg.com/news/articles/2026-07-27/crisis-level-swings-become-new-normal-in-2026-stock-market

Julie Biel, CFA

Chief Market Strategist

Julie Biel, CFA is Chief Market Strategist, Portfolio Manager, and Senior Research Analyst with primary research responsibilities for the small and mid-capitalization information technology and health-care sectors. Ms. Biel began her equity research career in 2004.

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The CBOE Volatility Index (VIX) is a measure of expected price fluctuations in the S&P 500 Index options over the next 30 days. **The CBOE S&P 500® Constituent Volatility Index (VIXEQ)** measures a weighted root mean square of the expected volatility of S&P 500 constituents over the next 30 calendar days.**The MSCI® Emerging Markets (EM) Index** which is a free float-adjusted market capitalization index tracking the equity performance of global emerging markets. **The MSCI World ex. USA Index** captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries--excluding the United States. The index covers approximately 85% of the free float-adjusted market capitalization in each country. **The Russell 1000® Growth Index** is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. **The Russell 1000® Value Index** is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. **The Russell 2000® Index** is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. **The S&P 500 Index** is a market capitalization weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. **The S&P 500 Equal Weight Index (EWI)** is the equal-weight version of S&P 500 Index and includes the same constituents, but each company in the EWI is allocated a fixed weight—or 0.2%—of the index total at each quarterly rebalance. **The S&P Small Cap 600 Index** seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The indices are calculated on a total return basis with dividends reinvested. The indices are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.