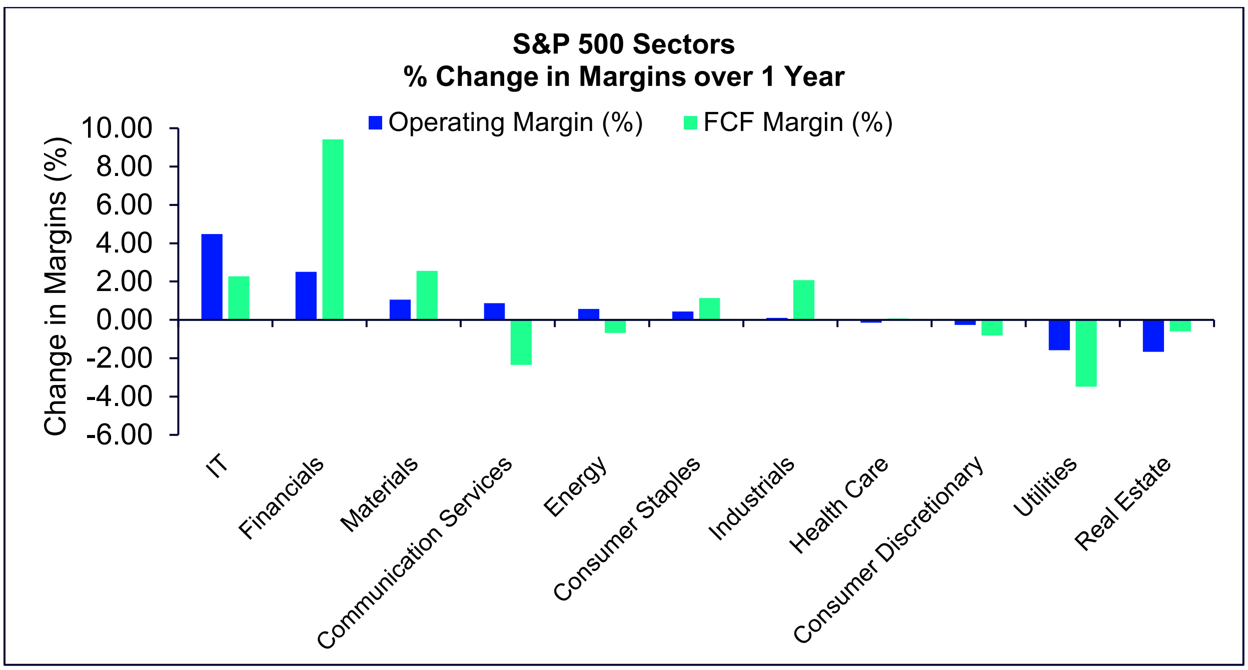
COMMENTARY
July 30, 2026

Mind on the Market

Chart of the Week



Source: FactSet, S&P. Change in margin (%) calculated as the difference between the current margin (%) as of 7/29/2026 and the margin (%) one year ago, expressed in percentage points.

Are businesses still profitable in a higher-cost, higher-rate world? Earnings season suggests that they are, but investors may need to look beyond EPS beats. While operating margins, which reflect the profitability of a company's core business, have remained broadly resilient, free cash flow margins are beginning to diverge across sectors. Since free cash flow (FCF) ultimately reflects the cash available to repay debt, return capital to shareholders, or reinvest in the business, it may provide a more complete picture of financial health. As AI-related capital spending accelerates, FCF margins could become an increasingly important measure of whether strong earnings growth is translating into sustainable shareholder value, especially in an environment marked by persistent inflation and higher capital costs.

Contact

Christine Norton, CFA
Investment Strategist

Dane Smith
Head of Investment Strategy & Research – North America

Weekly Highlights

Month-to-Date Total Return of S&P 500 IT	10Y US Treasury Yield	S&P 500 Banks Industry Q2 YoY Earnings Growth
-7.76%	4.67%	+33.81%
Source: FactSet, as of July 29, 2026. Total returns in USD.	Source: FactSet, as of July 29, 2026.	Source: FactSet, as of July 29, 2026.

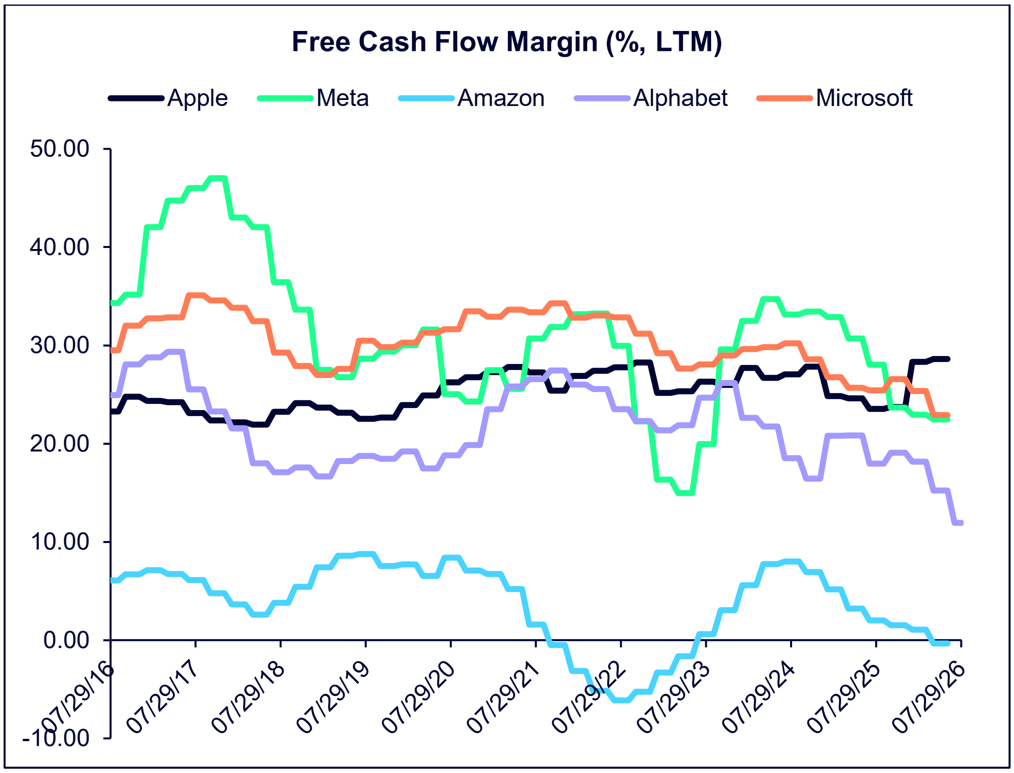
Rising Rates, Higher Standards

Rising rates, inflation, and geopolitical uncertainty would normally challenge equities, but the market has remained resilient through rotation rather than broad weakness. Leadership has broadened beyond AI-linked and semiconductor names, with more cyclical sectors such as Energy and Financials assuming a greater share of market leadership. Higher yields may be contributing to this shift by pressuring long-duration growth assets whose valuations rely heavily on future cash flows.

In an earlier edition, we noted that strong earnings growth had largely allowed technology companies to look through a higher-rate environment. Today, that relationship appears to be shifting. Earnings expectations remain robust, but investors are placing greater weight on tighter financial conditions and whether future growth can justify demanding valuations, particularly as free cash flow comes under pressure and the return on today's investments remains largely prospective.

Interestingly, fixed income markets appear to be sending a similar message. Spreads have remained relatively contained at the broad index level, suggesting credit markets are not pricing in a meaningful deterioration in economic or corporate fundamentals. However, spreads on hyperscaler debt have drifted wider as investors absorb record levels of issuance. That theme is also showing up in credit default swap markets, where CDS spreads for hyperscalers such as Alphabet, Amazon, and Meta have recently reached record levels.

Investors demand more than just earning’s growth. The chart below illustrates how FCF margins have evolved across hyperscalers over the past decade. While the trend has varied by company, this year free cash flow margins have come under pressure as AI-related capital expenditures accelerated. Apple stands out as the exception, having maintained and recently improved its cash flow generation.



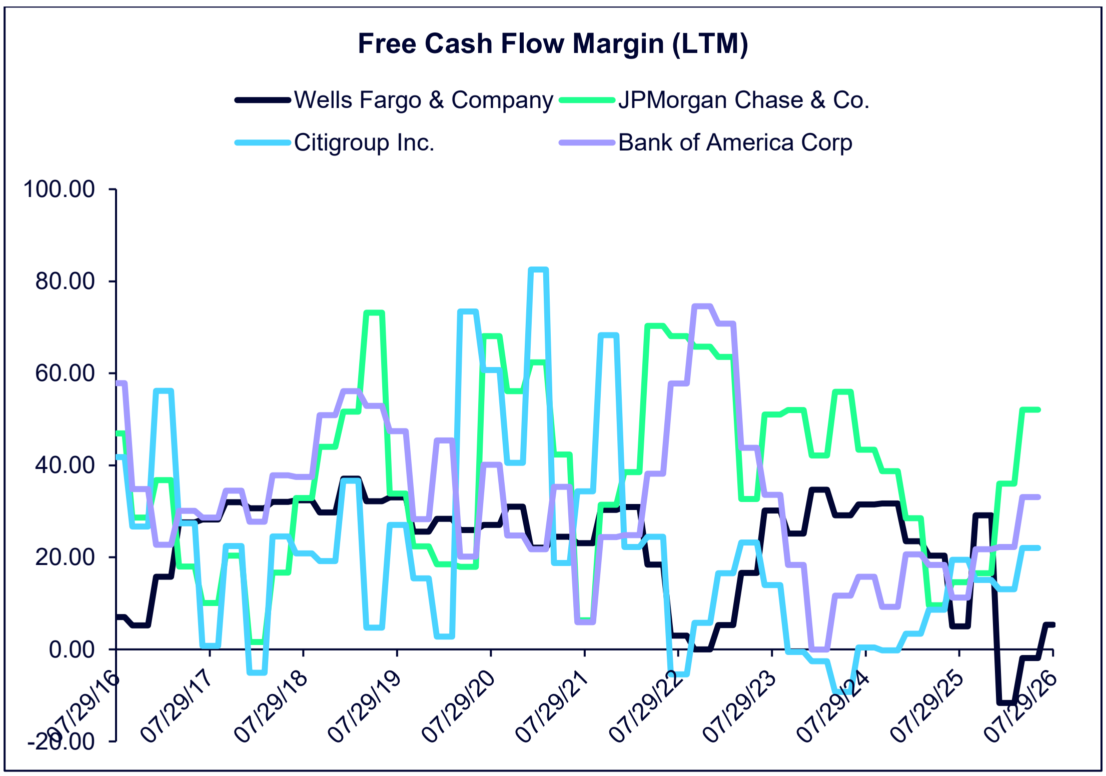
Source: FactSet. Data as of 7/29/2026 where available.

Alphabet's Q2 earnings results illustrate the debate between earnings and cash flow. Revenue growth remained robust, Google Cloud revenue surged, operating income expanded, and earnings largely exceeded expectations. Yet investors focused less on the strength of the quarter and more on management's decision to raise capital expenditure guidance. Alphabet shares fell roughly 7% in the trading session following the earnings release.

Microsoft's results offered a different perspective. The company delivered strong top-line growth, Azure revenue accelerated, and management highlighted continued adoption of its AI offerings, including more than 30 million paid Copilot seats. The quarter provided some of the clearest evidence to date that AI investments are beginning to translate into meaningful revenue growth.

Meta's results fell somewhere in between. Revenue growth exceeded expectations and advertising fundamentals remained healthy, but investors continue to wrestle with the cost of the company's AI ambitions. Operating margins compressed meaningfully from a year ago as expenses accelerated, while free cash flow remained limited despite strong revenue growth. Unlike Alphabet, Meta did not raise capital expenditure guidance, but the quarter nevertheless highlighted the growing tension between investing aggressively for future growth and preserving profitability.

Financials offer a particularly revealing point of comparison. The chart below illustrates how free cash flow margins have evolved among some of the largest banks in the S&P 500.



Source: FactSet. Data as of 7/29/2026 where available.

Bank's free cash flow margins have historically been more volatile than those of the hyperscalers, reflecting the unique nature of financial institutions' balance sheets and capital management practices. However, the group generally maintains higher free cash flow margins than many large technology companies investing heavily in AI infrastructure, and those margins have improved this year. The contrast highlights a key theme of the current market rotation: investors are rewarding sectors/industries that can demonstrate strong earnings growth alongside improving cash generation (ex. Materials +13% YTD, Industrials +14% YTD, Banks +8% YTD).

Despite ongoing questions surrounding rates and the economic outlook, many banks have reported strong results. With all banks having reported, the group delivered earnings growth of approximately

33%, exceeding expectations by roughly 20%. Standout performers included Citigroup, JPMorgan Chase, Citizens Financial, Huntington Bancshares, and Truist Financial, each posting earnings growth of more than 30% year over year. Importantly, 84% of banks reported positive earnings surprises, helping lift the Financials sector's expected earnings growth rate to roughly 20%.

Several common themes emerged across the results. First, capital markets activity remained exceptionally strong. Many banks pointed to one of the healthiest dealmaking environments in years, as investment banking and trading activity benefited from robust IPO issuance, elevated M&A activity, healthy equity capital raising, and increased market volatility. Second, the credit environment remains healthy. Management teams consistently pointed to resilient consumers, stable credit quality, and ongoing spending activity, helping support solid loan performance and improving business conditions. As a result, there has been little evidence of the credit deterioration that would typically accompany concerns about an economic slowdown. Together, these trends drove fee income meaningfully higher and provided a significant tailwind to earnings.

With roughly half of the S&P 500 having reported, earnings season has generally exceeded expectations, pushing quarterly growth estimates higher. Yet market reactions suggest investors are becoming increasingly selective about what constitutes a positive result. While the economy remains resilient and AI demand continues to expand, higher rates and persistent inflation are raising an already high bar for capital efficiency.

Source: State Street Investment Management, FactSet, S&P. Data as of 7/29/2026 unless otherwise stated. Total returns in USD unless otherwise stated. The performance data quoted represents past performance. Past performance does not guarantee future results. Investing involves risk, including the risk of loss of principal.

About State Street Investment Management

At State Street Investment Management, we have been helping to deliver better outcomes to institutions, financial intermediaries, and investors for nearly half a century. Starting with our early innovations in indexing and ETFs, our rigorous approach continues to be driven by market-tested expertise and a relentless commitment to those we serve. With over $5 trillion in assets managed*, clients in over 60 countries, and a global network of strategic partners, we use our scale to deliver a comprehensive and cost-effective suite of investment solutions that help investors get wherever they want to go.

* This figure is presented as of March 31, 2026 and includes ETF AUM of $1,940.32 billion USD of which approximately $184.18 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

Important Risk Information

ssga.com

Marketing Communication

State Street Global Advisors (SSGA) is now State Street Investment Management. Please go to statestreet.com/investment-management for more information.

Important Risk Information

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

The information provided does not constitute investment advice as such term is defined under the Markets in Financial Instruments Directive (2014/65/EU) and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell any investment. It does not take into account any investor's or potential investor's particular investment objectives, strategies, tax status, risk appetite or investment horizon. If you require investment advice you should consult your tax and financial or other professional advisor.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable regional regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

The performance data quoted represents past performance. Past performance does not guarantee future results. Investing involves risk, including the risk of loss of principal.

Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Diversification does not ensure a profit or guarantee against loss. It is not possible to invest directly in an index. Index performance does not reflect charges and expenses associated with the fund or brokerage commissions associated with buying and selling a fund. Index performance is not meant to represent that of any particular fund.

The views expressed in this material are the views of Christine Norton and Dane Smith through the period ended July 30, 2026 and are subject to change based on market and other conditions.

This document may contain certain statements deemed to be forward-looking statements. All statements, other than historical facts, contained within this document that address activities, events or developments that SSGA expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by SSGA in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances, many of which are detailed herein. Such statements are subject to a number of assumptions, risks, uncertainties, many of which are beyond SSGA's control. Please note that any such statements are not guarantees of any future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions.

Companies with large market capitalizations go in and out of favor based on market and economic conditions. Larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the value of the security may not rise as much as companies with smaller market capitalizations.

Investments in small-sized companies may involve greater risks than in those of larger, better known companies.

Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic and political changes, change in interest and currency exchange rates.

Asset Allocation is a method of diversification which positions assets among major investment categories. Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond values and yields usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities.

Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Increase in real interest rates can cause the price of inflation-protected debt securities to decrease. Interest payments on inflation-protected debt securities can be unpredictable.

There are risks associated with investing in Real Assets and the Real Assets sector, including real estate, precious metals and natural resources. Investments can be significantly affected by events relating to these industries.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.

AdTrax: 5064514.162.1.GBL.RTL
Exp. Date: 7/31/2027.