

EQUITY MARKET UPDATE

As of August 31, 2026

Volume 15, Issue 8

U.S. equities advanced in August as investors balanced evidence of a still-expanding economy against a backdrop of moderating inflation and resilient corporate earnings expectations. The broad market posted solid gains across most capitalization ranges, while leadership rotated toward Energy, Information Technology, Materials, and Health Care.

Economic releases reflected a mixed but generally constructive environment. Inflation measures remained relatively contained on a month-over-month basis, labor market conditions stayed healthy, and manufacturing activity continued to expand despite some pockets of consumer weakness. At the same time, analysts continued to raise earnings expectations for the third quarter, an unusual development this late in the reporting cycle.

Performance



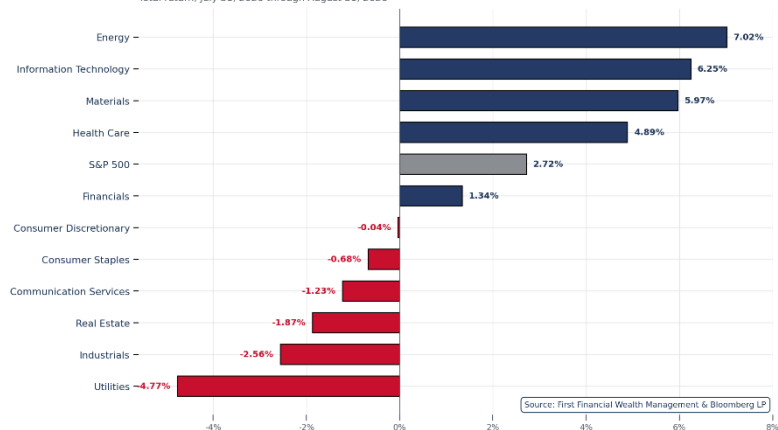
August produced positive results across most major domestic equity benchmarks. The S&P 500 gained 2.72%, while the Dow Jones Industrial Average advanced 1.47%. Broader participation was evident as the NASDAQ Index rose 3.99%, outperforming both the S&P MidCap 400 (+0.15%) and S&P SmallCap 600 (-0.60%).

Sector leadership was concentrated in areas most closely tied to earnings acceleration and economic activity. Energy led all sectors with a gain of 7.02%, followed by Information Technology (+6.25%), Materials (+5.97%), Health Care (+4.89%), and Financials (+1.34%). Defensive sectors lagged, with Utilities declining 4.77%, Industrials falling 2.56%, Real Estate down 1.87%, and Consumer Staples lower by 4.06%.

Market breadth also improved during the month. Within the S&P 500, leadership came from several technology and semiconductor-related companies, including NVIDIA, Super Micro Computer, Amazon, Tesla, and Palantir. Meanwhile, several power and utility names were among the largest detractors from index performance.

August 2026 Monthly Sector Performance

Total Return, July 31, 2026 through August 31, 2026



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Recent economic data suggested that overall activity remains resilient, although growth has become increasingly uneven across sectors of the economy.

Inflation readings continued to show progress relative to earlier peaks. Consumer Price Index (CPI) inflation measured 3.4% year-over-year in July, while Core CPI eased to 2.5%. The Federal Reserve's preferred inflation measure showed similar stability, with Core PCE holding at 3.3% year-over-year.

Labor market conditions remained healthy. Initial jobless claims generally stayed near the 200,000 level throughout August, and continuing claims remained below 1.8 million, indicating that layoffs remain limited.

Business activity continued to expand. ISM Manufacturing registered 54.6 in August, remaining above the expansion threshold of 50, while employment within the manufacturing survey improved to 51.2. Regional manufacturing surveys, including the Philadelphia Fed and Dallas Fed indexes, also reflected ongoing growth.

Consumer data, however, painted a more measured picture. Retail sales declined 0.6% in July, consumer confidence softened modestly, and sentiment surveys remained subdued. Housing activity similarly remained mixed, with lower housing starts offset by stronger building permit activity.

Overall, the data points to an economy that continues to grow but at a slower and more selective pace than earlier in the cycle.

Valuation & Earnings



The earnings backdrop remains one of the market's strongest fundamental supports.

According to FactSet, analysts currently expect third-quarter S&P 500 earnings growth of 28.5% year-over-year. If achieved, this would mark the third consecutive quarter of earnings growth above 25% and the eighth straight quarter of double-digit earnings expansion. All eleven sectors are projected to report positive earnings growth.

Importantly, earnings revisions have remained positive during the first two months of the quarter. Analysts increased aggregate third-quarter earnings estimates by approximately 1.3% from June 30 through early September, a notable departure from the historical trend of declining estimates as quarters progress.

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The strongest earnings growth is expected to come from Energy, Information Technology, Communication Services, and Materials. Within Technology, semiconductor companies continue to be a primary driver of earnings growth and revenue expansion.

Valuations remain reasonable relative to recent history. The forward 12-month price-to-earnings ratio for the S&P 500 stands at 19.5x, slightly below its five-year average of 19.90x and modestly above its ten-year average of 19.1x.

Portfolio positioning continues to emphasize businesses with durable competitive advantages, strong balance sheets, and attractive long-term earnings prospects.

S&P 500 Forward P/E Ratio



Recent market leadership and earnings revisions reinforce our constructive view toward selective opportunities in Information Technology, particularly areas benefiting from continued investment in artificial intelligence infrastructure and semiconductor demand. Upward earnings revisions within the technology sector remain broad-based and continue to support long-term fundamentals.

We also remain attentive to opportunities within Energy and Financials. Energy currently exhibits the strongest projected earnings growth among S&P 500 sectors, while Financials continue to benefit from improving earnings expectations and positive estimate revisions.

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Conversely, we continue to evaluate sectors where earnings revisions have weakened, including portions of Materials, Consumer Staples, and Health Care. While these areas may offer selective value opportunities, earnings momentum has become less favorable in recent months.

August demonstrated that equity markets can advance even in an environment of slower economic growth, provided corporate earnings continue to improve. Market performance broadened beyond a narrow group of mega-cap companies, while analysts raised earnings expectations and corporations issued an unusually high level of positive guidance.

Looking ahead, we remain focused on companies with sustainable earnings growth, pricing power, and financial strength. Current earnings trends favor select opportunities in Technology, Energy, and Financials, while valuation levels remain near historical norms. We believe maintaining a disciplined, fundamental approach remains the most effective way to navigate a market increasingly driven by earnings quality and long-term cash flow generation rather than short-term economic headlines.

Equity Market Update

Quarterly perspective on rates,
credit, and the economy



Abilene | Beaumont | Bryan/College Station | Fort Worth
Houston | Odessa | San Angelo | Stephenville | Sweetwater

Investment & Insurance Products Are: Not A Deposit | Not FDIC Insured | Not Insured by
Any Federal Government Agency | Not Guaranteed by the Bank | May Lose Value

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