WEST SHORE BANK

Economic & Market Commentary

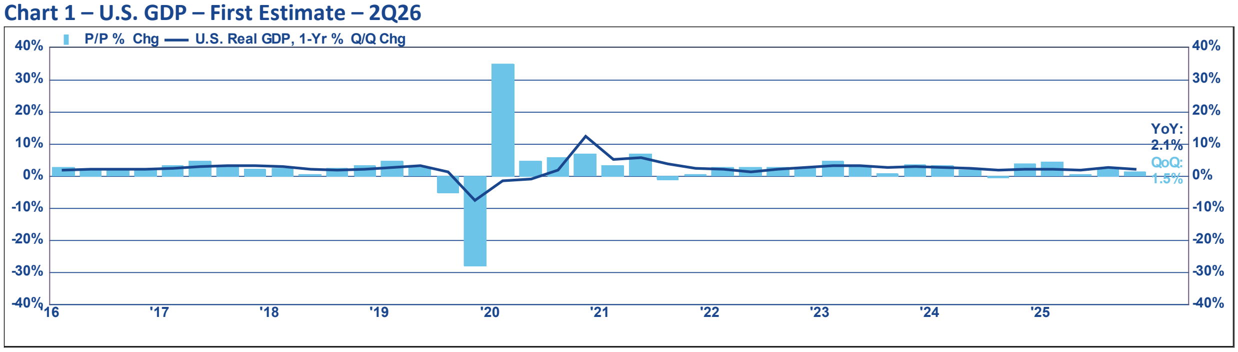
Financial markets experienced a more challenging environment during July as investors balanced resilient economic fundamentals against rising geopolitical uncertainty, higher oil prices, and renewed inflation concerns. While corporate earnings and economic activity remained supportive, market sentiment became increasingly influenced by developments surrounding the Iran conflict and their potential implications for inflation, interest rates, and global growth.

Table 1 – Equity Total Returns – as of July 31, 2026

Equity	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
MSCI Emerging	-3.07	4.82	20.04	36.44	19.33	8.03	9.19
Russell 2000	-3.03	4.99	18.85	34.18	15.09	7.11	10.63
S&P 400	-2.38	3.60	14.54	20.92	12.96	8.47	10.91
MSCI Developed	1.96	5.15	11.59	24.33	15.96	9.31	9.33
Dow Jones Industrial	0.38	6.13	10.17	20.91	15.94	10.57	13.39
S&P 500	-0.06	4.19	10.14	19.56	19.32	12.86	15.07
NASDAQ	-3.19	2.09	9.53	20.86	21.77	12.40	18.29

The primary drivers of market performance were developments in the Middle East, shifting monetary policy expectations, and a reassessment of the artificial intelligence investment theme. Early in the month, investors remained focused on AI's potential benefits, including productivity gains, capital investment, and earnings growth. As July progressed, however, markets increasingly considered whether AI-related infrastructure spending, semiconductor constraints, data center expansion, and technology price increases could add to inflationary pressure and complicate the path of monetary policy.

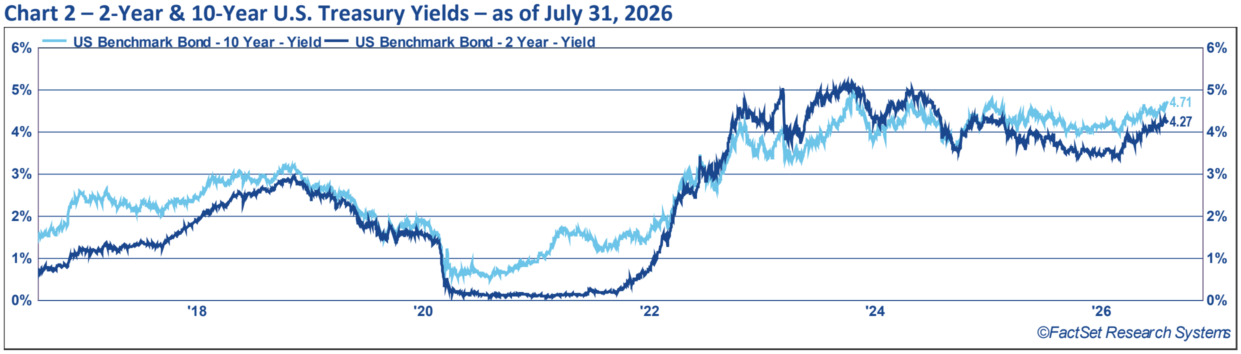
Chart 1 – U.S. GDP – First Estimate – 2Q26



Following a very strong first-quarter earnings season, early second-quarter results continued to underscore the resilience of corporate fundamentals. The advance estimate of second-quarter Gross Domestic Product (GDP) came in below expectations, with the economy growing at an annualized rate of 1.5% versus consensus expectations of 2.1%. However, the headline growth rate was influenced by strong imports—which are subtracted from GDP—and lower government spending, both of which weighed on the overall figure. These drags were partially offset by solid consumer spending and business investment, reinforcing the view that underlying economic activity remained supportive.

Geopolitical developments introduced a more significant headwind as hopes for lasting de-escalation between the United States and Iran faded. Rising concerns over potential disruptions to global energy supply pushed oil prices and Treasury yields higher, with Brent crude briefly exceeding $100 per barrel and the 10-year Treasury yield rising above 4.7%. As uncertainty increased, market leadership shifted away from many technology and AI-related companies and toward more defensive and energy-oriented sectors.

Chart 2 – 2-Year & 10-Year U.S. Treasury Yields – as of July 31, 2026



The shift in the geopolitical and inflation outlook contributed to a notable change in interest-rate expectations. Although June inflation reports generally came in softer than expected and retail sales remained resilient, investors became increasingly concerned that higher oil prices could slow progress toward the Federal Reserve's inflation objective. As a result, monetary policy expectations became more cautious, Treasury yields moved higher, and bond prices declined across much of the fixed-income market.

Table 2 – Fixed Income Total Returns – as of July 31, 2026

Fixed Income	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
Bloomberg High Yield	-0.25	0.51	1.71	5.17	8.27	4.04	5.50
Barclays Michigan Muni	-1.91	-0.41	0.53	5.37	3.19	0.55	2.11
Bloomberg Municipal	-1.85	-0.54	0.43	5.27	2.98	0.51	1.95
Bloomberg Inter Gov't/Credit	-0.43	-0.21	-0.02	2.84	4.44	0.98	1.85
Bloomberg U.S. Aggregate	-1.30	-0.76	-0.69	2.71	3.73	-0.40	1.35

The broader takeaway from July is that financial markets remained supported by solid fundamentals, even as macroeconomic risks introduced renewed uncertainty. Resilient consumer activity and supportive corporate earnings continued to provide a favorable foundation for risk assets, while rising oil prices, higher Treasury yields, and the possibility of a prolonged Middle East conflict increasingly challenged investor confidence and complicated the outlook for monetary policy. For now, the market remains in a tug-of-war between solid underlying fundamentals and the potential for persistent inflation, higher rates, and geopolitical instability to weigh more heavily on sentiment and the path of monetary policy.

Prepared by Perry Adams – SVP & Director – West Shore Bank Wealth Management – August 3, 2026

Sources: FactSet, Federal Reserve, U.S. Bureau of Economic Analysis, FactSet Earnings Insight, WSB Weekly