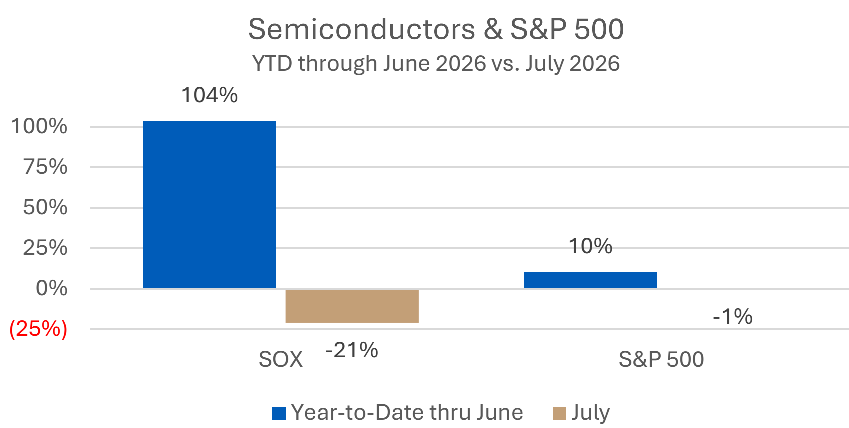
As the old Wall Street saying goes, "The Market giveth and the Market taketh away." In the month of July there was a good deal of taketh away-ing. To understand the changes in the market, we must step back and look at performance coming into July.

Not surprisingly, Artificial Intelligence (AI) was the driving force in the market. Stocks tied to AI had risen a good deal in the first half of 2026. Investors applauded as the leading hyperscalers, Alphabet, Amazon and Microsoft - the builders of data centers - increased their capital spending plans. Higher spending on data centers fueled demand for networking equipment, cooling equipment, data storage, and, most importantly, computer chips. For these suppliers the data center boom was a gravy train, and their stocks reflected the current environment.

That exuberance, however, began to fade in July as investors increasingly questioned whether massive hyperscaler expenditure would ultimately generate adequate returns. To be sure, those concerns had lingered for many months, but in July it became a focus for the market...and then a drumbeat. In short order, announcements of increased capital expenditures or growing backlogs were reasons to sell stocks instead of buy them. And sell stocks investors *did*.

The chart below illustrates just how dramatically sentiment shifted. Through June, the Philadelphia Semiconductor Index (SOX) had gained more than 100% for the year, with the S&P 500 gaining 10% over the same time. But that enthusiasm quickly disappeared in July.



Sources: Nasdaq/FRED (SOX), S&P Dow Jones Indices/FRED (SPX)

July was particularly difficult for many of the AI-related stocks, especially semiconductor stocks, which fell more than 20%. Yet the story did not end there. On July 29, Microsoft reported its earnings, followed a day later by Amazon. Both companies increased capital spending plans, exactly what had worried investors throughout July, but both companies reported very strong and accelerating profits from their hyperscaler operations. Coming on the heels of increased investor skepticism, these results helped restore confidence. The day following their earnings release, both Microsoft's and Amazon's stock each rose roughly 15%, with Microsoft adding roughly $480 billion to its market capitalization and Amazon adding over $550 billion.

The debate over AI spending and AI profitability is far from over. At Argent, we will continue to hunt for Enduring Businesses that can benefit from this evolving technology while remaining disciplined as the AI landscape continues to change.

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Sincerely,

Ken Crawford, Portfolio Manager Emeritus (kcrawford@argentcapital.com)