Osprey
PRIVATE WEALTH

July 2026 Commentary

With the FIFA World Cup tournament narrowing down to the round of 16 teams, while the outcome for the U.S. men's national team was not what we had hoped for, the team at Osprey continues to enjoy watching the spirited competition between countries. And, as we kick off the second half of the year with the 250th anniversary of our nation's founding and enjoy the spectacular fireworks displays in cities and towns across the land, we are grateful. As we honor the past this July Fourth, we also look ahead with optimism.

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It has been an event-filled quarter for investors. Leading into the quarter we saw the price of crude oil spike to levels approaching $120 as hostilities between the U.S. and Iran closed the Strait of Hormuz and led to concerns that oil shortages would occur. Recently, the price of oil has reversed, declining to $70 at quarter end on the belief that a cessation of hostilities across the Middle East might lead to a peace deal.

Partly due to events in the Middle East, inflation accelerated during the quarter and has become more of a focal point for investors and the greater public. The question remains as to whether the uptick in inflation is temporary or will become a more persistent problem. In 2022, the Federal Reserve was slow to act, holding on too long to its view that inflation was "transitory" and will likely be biased against a repeat of that mistake.

Regarding the Fed, Jerome Powell's term as Fed Chair ended in May, and he was replaced by Kevin Warsh. Warsh got off to a quick start by adopting a hawkish tone at his first Fed meeting as chair in mid-June, noting among other items that the Fed has missed its inflation target for five years, something that he intends to fix. Stocks responded to this change in tone by declining nearly 3% over the following week, as investors raised the odds that the Fed may hike interest rates later this year, and this, in turn, pushed the value of the U.S. dollar higher relative to other currencies.

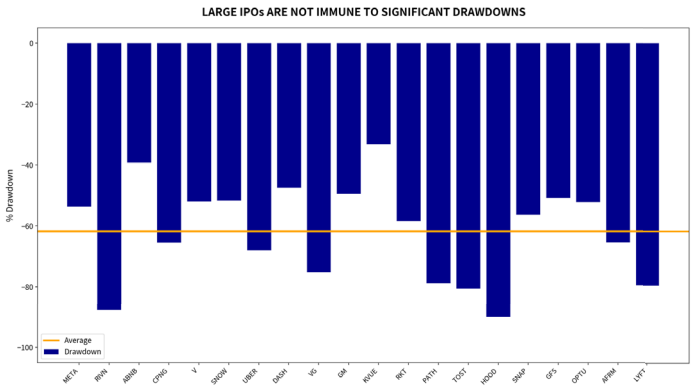
Meanwhile, due to the underlying strength in the economy, boosted in part by massive spending on the buildout of artificial intelligence (AI) infrastructure, companies reported robust first quarter earnings during April and May. This helped push the stock market to new highs, as the S&P 500 index topped 7,600 in early June.

Exemplifying the market's enthusiasm, June saw both an $85 billion secondary listing by Alphabet, and the largest initial public offering (IPO) in history with the listing of Space Exploration Technologies "SpaceX," which raised $75 billion. The company's market capitalization is currently $2.25 trillion, which places it as the sixth largest company in the U.S. stock market, behind Nvidia, Alphabet, Apple, Microsoft, and Amazon.

SpaceX

While the company's IPO took place in June, SpaceX was founded 24 years ago with the ambitious goal of making it possible to establish bases, and ultimately, civilization, on the moon and on Mars. All of what SpaceX does is impressive, and what the company aims to achieve in the future is even more so.

The company has three business segments, Connectivity (Starlink satellite-based communications), Space (launching payloads into orbit and ultimately beyond), and AI (data center infrastructure along with its xAI large language model). Connectivity is the only segment which is profitable today, with nearly 10,000 Starlink satellites providing global broadband coverage for customers. About 7% of those satellites are designed for customers with mobile devices who have plans that provide access to the Starlink constellation.



The AI segment could become profitable this year based on recent deals SpaceX signed with both Alphabet and Anthropic to rent part of its data center capacity at very attractive monthly rates. SpaceX's xAI has built what it believes are the largest AI training data center clusters on earth, Colossus and Colossus II. Impressively, against the industry standard which is two years to bring a new data center online, SpaceX brought Colossus online in 122 days, and Colossus II online in 91 days!

Like many investors, we are intrigued by the innovation taking place at the company, and the founder/CEO Elon Musk's track record of success. The valuation, however, gives us pause, and therefore we are sitting on the sidelines for now. Investors in Tesla, which has typically carried a high valuation and has had a lot of doubters in the investment community, have been rewarded over time. One could argue that it is a cult stock, and shares of SpaceX may follow a similar path.

The chart above shows that over the past two decades, the 20 largest U.S. IPOs by market capitalization have experienced an average pullback of 62% during their first year of being publicly traded. All such pullbacks were at least 33%. This does not guarantee that SpaceX will follow the same pattern, but we believe there will likely be more attractive entry points ahead. In our view, the odds are high that investors could at some point see the share price decline by approximately 40-50%. Even then, the valuation may be tough to justify.

Artificial Intelligence (AI)

One hallmark of the stock market this year has been the exuberance about all things AI. It is yet to be determined if that exuberance is irrational or rational. Although we lean towards the former in many cases, particularly in these early days of the new technology, it's clear that the potential gains in productivity from AI are massive, and some exuberance seems justified.

A historical pattern that has been observed in the stock market when there are a large number of IPOs and other stock offerings, is that this may precede a period of weaker returns. The rationale for this behavior is that management teams see that investors are willing to pay up for stocks with exciting stories, and decide to strike while the iron is hot, so to speak, by listing their company in an IPO, or selling additional shares in a secondary offering.

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We've seen signs of this recently, with Alphabet (Google) on June 1st doing a secondary offering of shares ($85 billion worth). While the company typically generates a lot of cash flow, Alphabet and peer hyperscalers are currently engaged in a significant expansion of AI computing and infrastructure assets, and the company believed a sale of shares at this price level was a good way to access the capital it needed. Management may also have seen the SpaceX IPO on the near horizon, as well as IPOs of other AI companies potentially arriving later this year, and wanted to raise capital ahead of those "competing" stock offering events to maximize its odds of a successful fundraising while the stock market 'window' was still open and amenable to large deals.

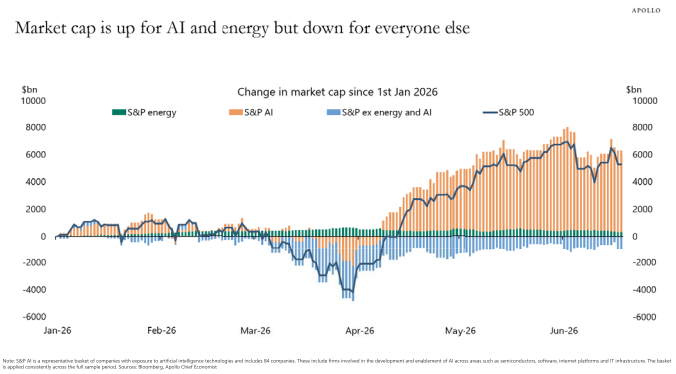
Given all of the dollars being spent on data center computing infrastructure for AI, investors have logically looked to invest in beneficiaries of this spending where demand for their products may get a significant boost. Shares of semiconductor makers, particularly memory companies, optical component companies, hardware used in electrical power transmission, and some other related areas have in some cases experienced shockingly large moves this year as a result.

Looking at the performance of the top 50 companies in the S&P 500 index year-to-date, nearly 80% can be tied directly to the buildout of AI. The top 20 companies are up more than 100% (!) year-to-date, with the highest returns accruing to what have historically been the most commodity-like technology companies, those making memory chips or those making storage devices utilizing memory chips.

Making matters more challenging for investors seeking exposure to AI, because these stocks have been informally tagged by investors as "AI" stocks, on any given day (depending on whether the "AI theme" is in or out of favor) these stocks are extremely volatile, with daily moves that can be up or down as much as 10%. This hyper-focus on such a narrow segment of the stock market is beginning to feel a bit more like a casino than a market of stocks.

Market Breadth

This brings us to market breadth, or how broad (or narrow) the participation in the market's returns has been across the companies in the S&P 500 index. One of our research providers has taken all of the stocks in the index and created a bucket of companies with businesses that are exposed to artificial intelligence. In the chart below, this "AI bucket" is shown in the orange bars. If we take this bucket of stocks together with stocks in the energy sector (green bars), and we exclude those two groups, the rest of the stock market (blue bars) is actually down on a year-to-date basis (as of June 19th).



This demonstrates how incredibly narrow the market's breadth has been so far this year. Another way to see this is the year-to-date sector returns of the S&P 500 index, where two sectors are showing negative returns and three others are lagging the market despite being in positive territory. It's as if the boom in AI has sucked all of the oxygen out of the other sectors in the stock market.

Inflation

The AI boom has created pressure on the availability of many goods and services, adding to inflationary pressures that were already above the Fed's targets for maintaining price stability. Included in this list are a variety of types of semiconductors, natural gas turbines to generate electricity, optical fiber, and certain kinds of construction equipment, among many other items. (In recent weeks, Apple, one of the largest consumers of semiconductors, said it would have to significantly increase the prices of its products due to the higher costs of memory chips from its suppliers.) In addition, we can now layer on pressures from the supply constraints resulting from the Iran conflict and the closure of the Strait of Hormuz.

Despite the recent pullback in the price of crude oil to near pre-conflict levels at quarter end, global economies are still suffering the effects of elevated prices for gasoline and other fuels, LNG, and other commodities exported from the Persian Gulf. Elevated prices for energy products tend to get embedded into prices of other goods as transportation costs rise to account for higher fuel costs, and those transport costs are paid for by increasing the price of goods at the cash register or somewhere in the supply chain. Those higher costs then ripple through the economy and can take several months or more to return to prior levels even after the commodity price has already done so.

Hopefully this means that within a few months (assuming the Iran conflict has indeed ended), the inflation attributable to the conflict will begin to dissipate.

If we look at the Fed's preferred inflation measures, CPI came in at 4.2% for May, as a result of the elevated crude oil price. Core CPI, which was 2.9% in May, was better than expected, and has a shorter distance of travel to reach the Fed's 2% goal. There are a number of different inflation data points the Fed evaluates, some of which are showing that inflation is a problem, while others appear to be closer to the target.

The new Fed chair, Kevin Warsh, appeared somewhat hawkish when he gave his first press conference, giving the impression that interest rate hikes may be on the way. In part this may be because he wants to change how the Fed operates, with less jawboning, shorter press conferences and speeches, and perhaps even changing the data sets it uses to assess inflation. This is a dramatic shift from how the Fed has operated under Powell and his recent predecessors—who provided significant forward guidance. It is too soon to tell, but Chairman Warsh may be trying to take the Fed back to the Greenspan era (1987-2006) and this may take investors some time to get used to.

Macro Commentary

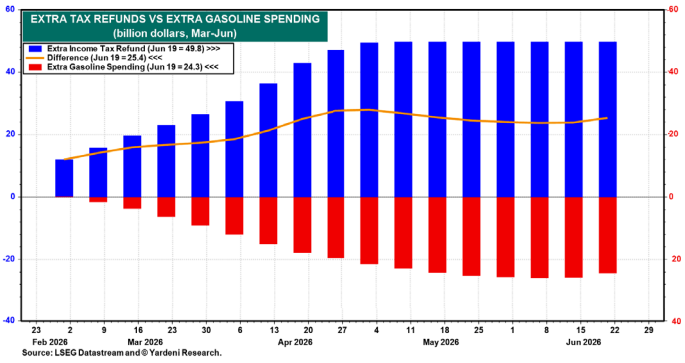
Notwithstanding chairman Warsh's hawkish demeanor, and the Fed's unfortunate and incorrect use of the word "transitory" to describe inflation throughout much of 2021, there are reasons to believe a good part of the inflation we are seeing today could actually be transitory. The period of elevated crude oil prices could potentially be over, if the fragile agreement with Iran can be transitioned into a lasting ceasefire.

Lower crude oil prices would remove a key driver of the inflation we've experienced in recent months, and in turn, could take some pressure off the Fed to restrain that inflation by hiking rates. However, other measures of inflation, notably relating to services, remain a concern, and the Fed is scrutinizing these as well. In this area, recent data provide support for the Fed's more hawkish stance.

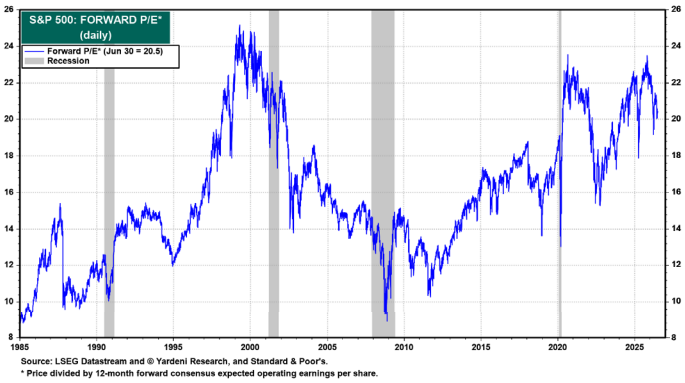
As of now, wage increases have not been a meaningful contributor to inflation, and we believe it is likely that this trend will continue. With baby boomers retiring in large numbers from the workforce, this has the effect of lowering the average wage rate paid across the economy as younger, less-experienced workers take their place. Productivity is also on the rise, which means that workers are producing more output per hour through greater efficiencies, mostly as a result of technology, and perhaps increasingly, from AI.

While CEOs of some of the firms that produce AI models previously said that they believed AI would result in significant job losses, they have since walked back those comments, stating that AI can be a productivity multiplier, and also noting that some companies which have been heavy adopters of AI are actually hiring more workers. Across the economy, hiring remains robust, with job openings (in the two most recent JOLTS reports) the highest since November. Smaller companies have reported the most job openings, which could indicate that AI tools are increasingly making it easier for small companies to grow.

Despite pressure from inflation, consumers are generally in decent shape. Retail sales have been robust, even as higher gasoline prices take a slice from discretionary budgets. Consumer confidence and sentiment remain somewhat depressed, but these indicators in recent years have not been representative of spending intentions or actual consumer spending. On a positive note, higher tax refunds this year have more than offset the drag from higher gasoline prices.



Corporate earnings, too, are robust, and estimates for future quarters and next year continue to rise, more signs that the economy is in good shape. In fact, valuation multiples for the stock market have fallen, because earnings estimates are increasing at a faster pace than overall stock prices. Earlier this year the forward P/E ratio of the S&P 500 index was over 23, but it currently sits at 20 (lower excluding the Mag 7). This has happened in the backdrop of the forward EPS estimate for the S&P 500 index rising from about $315 on January 1st to about $370 today, an increase of 17%.



Outlook

As we consider these developments, our takeaway is that the stock market appears to be reasonably valued, with a healthy economy and the possibility that a key inflation driver may be abating. Since the new Fed chair has made it clear that he wants prices to stabilize, a peaceful resolution of the Iran conflict is the lynchpin of our constructive view. Carrying this hypothesis out a bit further, we could see more relief ahead at the gas pump helping cool down inflationary pressures, which in turn should tamp down more aggressive action by the Fed.

If, however, the memorandum of understanding between the U.S. and Iran fails to sustain peace, then investors may have fewer reasons to feel sanguine about the coming months. In that scenario, it seems more likely to us that the Fed may hike rates, perhaps even more than once. Since interest rate hikes are to growth stocks like kryptonite is to Superman, we could see some choppy times ahead for the stock market if this scenario were to unfold. We are also mindful that it is a midterm election year, which may lead to some extra volatility in the run up to the election.

For now, we lean towards the former view, leaving investors with a relatively constructive environment as we enter the second half of 2026, but we are prepared to respond if this outcome does not materialize. We hope everyone has an enjoyable summer with family and friends, and as always, we welcome any questions or feedback.

—The Team at Osprey

About Osprey Private Wealth

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As an independent Registered Investment Adviser (RIA) registered with the SEC, we provide ongoing investment advice through separately managed accounts. Our professionals each have more than 25 years of experience in independent investment advisory firms, directly advising clients and managing portfolios.

We focus on growth and preservation of wealth, tailoring investment portfolios based on your objectives through individual investment selections. Our dedicated Wealth Advisors and team members handle portfolio management, wealth advisory, and client contact with a highly personalized approach.

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