ARGUS
ARGUS ECONOMIC COMMENTARY

August 24, 2026

The Stock Market as Summer Winds Down

Chronological summer runs from June 21 to September 21 or thereabouts, but many folks -- students and parents most prominently -- regard summer as the three core months between Memorial Day and Labor Day. "Wall Street summer" is also on that June-August timeline.

This summer is shaping up as above average for investors, but only because August has (so far) saved the day. Since 1980, the S&P 500 has averaged a paltry 1.2% gain across June through September. The ninth month is one of the market's worst, averaging a decline of almost 1%. But even backing September out of the returns, the S&P 500 over "Wall Street summer" (June through August) has averaged just a 1.9% gain since 1980. In 2026, and with about half of August to go, the S&P 500 has risen 2.7% over Wall Street summer. And that is despite declines of 1.1% in June and 0.1% in July.

Prospects for peace between the U.S. and Iran, along with normalization of traffic through the Strait of Hormuz, were strongest in June, which has been the worst month of the three core-summer months. Conversely, with tensions rising and tanker traffic slowing to a trickle through the contested waterway, stocks are having their best month in August. When war erupts, it is all-consuming. But war on distant shores eventually lessens its grip as a public preoccupation, and that may be happening this time.

The economy and job situation have shown some strains, as we noted last week. But the artificial intelligence (AI) transition will likely keep the broader economy moving higher, even as semiconductor and technology imports suppress the headline GDP number. Stocks have rallied in August due to gobsmacking technology earnings, which has led to yet another revival in the AI trade.

The Stock Market in 3Q26

For 3Q26 to date, meaning July through mid-August, the S&P 500 is up 3.8%. The quarter has been bifurcated at the sector level, with growth leadership subject to profit taking in the first three weeks of July but recovering in August amid remarkably strong calendar 2Q26 earnings results. Stocks with defensive, cyclical, rate-sensitive, or inflation-hedge characteristics have had the opposite experience, as a strong start has given way to weaker performance over the six-week span.

At midquarter, the best-performing sector has been Energy. In a tumultuous year, Energy soared 36% in 1Q26, retraced 12.6% in 2Q26, and is up 16.0% in 3Q26 to date. Next up is Financial, up 8.5% on the heels of terrific big-bank earnings that kicked off calendar 2Q26 EPS season. In descending order, other sectors that are outperforming the index in 3Q26 are Healthcare, up 5.4%; Communication Services, up 5.4%; and Materials, up 4.8%.

Consumer Staples is positive for 3Q-to-date, but with a 3.6% gain that is just behind the S&P 500's 3.8% gain. Also positive for the quarter while lagging the index are Real Estate, up 2.7%; Industrial, up 1.8%; Information Technology, up 1.3%; and Consumer Discretionary, up 0.8%.

The third quarter has featured some churn in Information Technology after a 39% surge in 2Q. IT shares were slammed for much of July but have recovered in August. Investors, after a multiyear love affair, now want to hate IT stocks with AI sensitivity. But earnings for IT industry leaders have been exceptional, driving overall EPS growth that has been the best since the pandemic recovery period.

(continued on next page)

The lone sector in the negative column for 3Q26 has been Utilities, down 1.8%. This sector has been punching above its 2% sector weight in recent years amid the decline in interest rates since 2022, investments in power and grid infrastructure to support AI sector build-outs, and climate change–driven third quarters (the prime air-conditioning quarter for most utilities). Those latter two factors are still in place, but war- and tariff-related inflation have pushed interest rates back up and reduced attractiveness of Utility-stock yields as a fixed-income alternative.

The Stock Market Year-to-Date

The 2026 trading year has seen an uncommon amount of transition in sector leadership. In broad strokes, the first quarter was risk-off and led by inflation-hedge beneficiaries such as Energy and Materials; the second quarter was a risk-on rally, led by Information Technology and Consumer Discretionary; and the third quarter, as described above, has been trickier to categorize, with out-of-favor sectors such as Healthcare and Communication Services delivering top-tier performances.

Where does that leave the stock market as summer winds down and the midterm elections come into view? The tag teaming of sector leadership throughout the year means that the leader board as of mid-August shows no clearly dominant theme. Four sectors are doing better than the broad market; two are just behind the index; and five sectors are lagging the market, including two in negative territory. Notably, the two negative sectors on a capital appreciation basis swing to slightly positive on a total return basis (including dividends).

In this year of soaring prices for crude oil and all derivatives, Energy is the unsurprising leader, with a year-to-date gain of 38.1% as of August 14, 2026. Information Technology has used its 2Q rally to move into second place, with a 28.0% gain as of mid-August.

Materials are up 22.2% year-to-date, buoyed by commodities pricing partly reflecting dollar weakness but mainly related to supply uncertainty and AI demand. The fourth and final sector leading the broad market year-to-date is Industrial, up 14.5%. Unlike past technology inflections such as the cloud, which was mainly software-based, the AI revolution is very much a hardware-intensive transition. All of that hardware needs to reside in cooled racks in power-intensive data centers, and the industrial companies have a huge role in building the infrastructure enabling the AI revolution.

Two sectors are almost tracking the market. Real Estate is up 11.9% year-to-date, and Consumer Staples is up 10.8%. Next are Healthcare, up 8.5%, and Financial, up 7.3%. The laggards in 2026-to-date include Utilities, in ninth place, with a 3.8% gain after multiple years of top-tier performance. Consumer Discretionary is down 1.0% in 2026, as too many consumers are just getting by with nothing left over for discretionary spending.

Sweeping up the parade is Communication Services, down 4.1%. In this barbell sector, the legacy telcos (Verizon Communications Inc. and AT&T Inc.) are in a fight for wireless subscribers in a mature and slow-growing pool. The AI names in this sector (Alphabet Inc. and Meta Platforms Inc.) have lagged on concerns about through-the-roof AI capital spending.

Valuations: Reasonable But Not Cheap

With just a handful of major retailers and technology companies yet to report, S&P 500 earnings from continuing operations for calendar 2Q26 are up over 50% from 2Q25, according to the tracking firms Bloomberg, FactSet, and Refinitiv. That 50% growth rate includes onetime gains from Alphabet and Amazon.com Inc. totaling more than $150 billion. Even excluding those gains, the blended 2Q26 EPS growth rate is closer to 30% — the second-best growth since 2Q21.

Over 85% of companies have surpassed prereporting consensus expectations, well above normal. And the magnitude of the EPS beat -- even after backing out those giant onetime gains -- is well above the long-run average. AI is driving technology earnings growth, but it is not all Magnificent 7. And while AI captures the headlines, an equally important story in this reporting quarter is across-the-board earnings strength, with sectors such as Materials, Energy, Industrial, Financial, and Utilities delivering double-digit EPS growth.

Argus President John Eade calculates that stocks appear to be reasonably valued, but they are not bargains. The Argus stock/bond barometer suggests that bonds are currently a better value, though not by a huge margin. The valuation level for stocks as expressed in this model is at the higher end of the normal range, without straying into overvaluation territory.

Other measures of valuation show reasonable multiples for stocks, most notably forward P/E. Based on our estimates of S&P 500 earnings from continuing operations for 2026 and 2027, the S&P 500 is trading at a two-year forward multiple of 21.4-times, in line with the trailing-five-year multiple of 20.9-times. At this point in the year, many investors have moved on to valuing the market on 2027 earnings. The S&P 500 is trading at just 19.9-times forward earnings for 2027.

Conclusion

The two big events facing the market in the remaining four and a half trading months of the year are also the two big uncertainties: the midterm elections and the outcome of the war with Iran. Normally, the president's party would lose Congressional seats in the midterms. But gerrymandering and the president's popularity with the MAGA core could make the election a toss-up. If some kind of resolution is reached in the war with Iran, that too could influence election results.

Without predicting either outcome, we can say that investors appear to be paying the most attention to the strength in earnings and the ways in which the rise of agentic AI is broadening out to encompass more and more parts of the economy. That may be enough to sustain or even build on double-digit stock gains in this second and toughest year of the presidential election cycle.

Jim Kelleher, CFA,
Director of Research

KEY ECONOMIC FORECASTS

- The $32 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in Artificial Intelligence. Nvidia CFO Colette Kress estimated, on May 20, that AI infrastructure spending is on track to reach $3 - $4 trillion annually by the end of this decade.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1%, on average, through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- Our 2026 gross domestic product growth forecast is 2.1%. Our 2027 forecast is 2.2% In the Monetary Policy Report to Congress, the Federal Reserve said, "Overall, economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East."
- National gasoline prices once again exceed $4.00 a gallon as tensions between the U.S. and Iran remain. Gas prices below $4.00 are important to consumers with the holidays around the corner. Inflation is likely to be a key issue in fall elections for control of the House and Senate.
- The Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate is below the average of 9.2% since 1949, but it rounds to 7.4% from 6.7% in January. Unemployment is low at 4.1%. Inflation remains elevated, but CPI eased to 3.4% in July from 3.5% in June.
- We are monitoring financial conditions and high-frequency indicators. They show ongoing economic resilience and financial system stability that accommodates saving, borrowing, and investing.
- Argus expects S&P 500 EPS to rise almost 25% to $340 in 2026 and increase about 15% to $390 in 2027. EPS is helped by an increase in operating margins to about 19% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 64% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 19%. Argus expects the S&P 500 to trade in a range of 6,730-8,225 over the next 12 months. Our year-end 2026 price target for the S&P 500 is 8,000 based on a multiple of 20.5-times our 2027 EPS estimate.
- The Federal Open Market Committee voted 9-3 in July to maintain the federal funds target at 3.5%-3.75%. Following the meeting, Argus Fixed Income Strategist Kevin Heal reiterated his expectation for the Fed to maintain the current funds target in 2026 and cut rates by 25 basis points in the second half of 2027. We expect the dollar to be slightly stronger in 2026 driven by foreign demand for shares of innovative U.S. companies, continuing economic growth, and elevated interest rates.
- Gold is likely to remain at high levels amid global uncertainty. The safe-haven asset topped $5,000 an ounce in 1Q. It has fluctuated on prospects for a deal with Iran and the probability of tight Fed policy. Higher interest rates raise the opportunity cost for holding gold, which doesn't pay interest.
- What could go right? Low unemployment, spending by wealthy consumers, strong S&P earnings, strong capital investment in Artificial Intelligence, productivity gains, and ongoing innovation.
- Risks: Strains on affordability from years of elevated inflation, uncertainty related to hostilities with Iran, higher interest rates, a weak housing market, low income consumers are struggling, spending by affluent may depend on stock market gains.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
13-Aug	PPI Final Demand	July	5.5%	4.9%	4.9%	**4.7%**
	PPI ex-Food & Energy	July	4.7%	4.2%	4.1%	**4.2%**
14-Aug	Retail Sales	July	**6.8%**	6.1%	NA	**5.0%**
	Retail Sales ex-autos	July	6.9%	6.6%	NA	**5.8%**
	Business Inventories	June	**3.2%**	3.0%	NA	**3.0%**
	U. Michigan Sentiment	August	55.2	54.5	54.6	**51.0**
18-Aug	Industrial Production	July	**1.3%**	1.3%	NA	**1.1%**
	Capacity Utilization	July	**76.2%**	76.2%	NA	**76.3%**
	Housing Starts	July	**1,415K**	1,325K	1,342K	**1,239K**
	Import Price Index	July	**6.7%**	7.2%	6.7%	**5.9%**
20-Aug	Leading Index	July	-0.2%	0.2%	0.1%	NA
25-Aug	New Home Sales	July	628K	630K	620K	NA
	Consumer Confidence	August	90.8	90.0	90.2	NA
26-Aug	GDP Annualized QoQ	2Q "Second"	1.5%	1.5%	1.5%	NA
	GDP Price Index	2Q "Second"	6.2%	6.2%	6.2%	NA
	PCE Deflator	July	3.7%	3.6%	3.6%	NA
	PCE Core Deflator	July	3.3%	3.3%	3.3%	NA
	Personal Income	July	3.9%	3.5%	NA	NA
	Personal Spending	July	6.3%	5.5%	NA	NA
	Durable Goods Orders	July	9.2%	16.0%	NA	NA

Disclaimer