August 3, 2026 • Investment Updates, Market Updates, Monthly Investment Updates

Monthly Update – August 2026

Old habits hardly ever die and history rhymes once again

Markets have an uncanny knack for creating conditions so alluring that investors are often forced to re-learn lessons from the past. Even though the lexicon is littered with various reminders that “those who cannot remember the past are condemned to repeat it”[i], markets constantly remind us that long-standing behaviors are truly tough to change. The travails of Situational Awareness, the firm founded by Leopold Aschenbrenner that was forced to liquidate a majority of its book last week to Citadel, only serve as the most recent reminder.[ii]

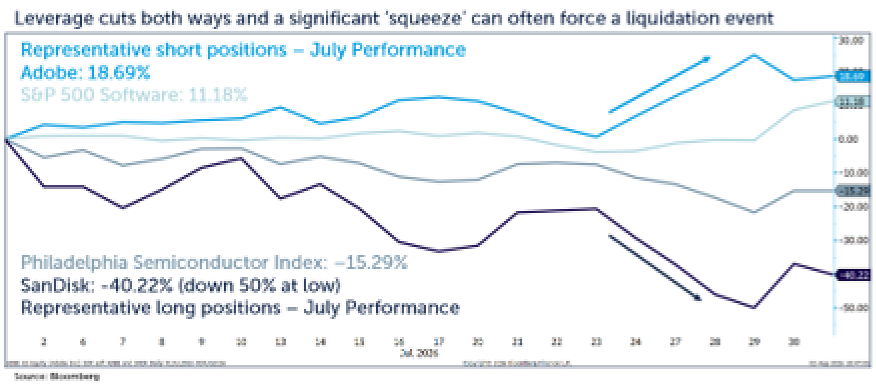
It’s a cautionary tale, but it deserves some attention to highlight a few lessons about risk management. Aschenbrenner founded Situational Awareness in 2024 armed with knowledge he gained while working for OpenAI. He started working on a paper he titled “Situational Awareness” regarding the future potential of AI which he published shortly after departing from OpenAI. It drew tremendous interest from potential investors.[iii]

Situational Awareness enjoyed tremendous success from its start through the middle of this year taking a fund from just over $200 million at launch to as much as $45 billion.[iv]

verage (on the order of 3-4x), concentrated positions and a lack of risk control he meteoric rise, however it also set the stage for a dramatic unwinding. The collapse was triggered by a combination of factors including skepticism over AI demand, potential for competition from new Chinese models, and the subsequent sell-off in the AI complex.**v**

A rotation of investment dollars back into software companies perceived to be vulnerable to the AI build-out also pressured the firm's short positions (see Adobe in the chart below).

A classic 'squeeze' of leveraged positions developed and once the trading community discovered the irony that Situational Awareness had found themselves 'situationally unaware', the pressure intensified and the firm ultimately agreed to sell most of its public stock portfolio to Citadel at a discount prior to the market open on July 30th.**vi**



Aschenbrenner was once referred to as "the Nostradamus of AI" for his prescient views on many of the hyperbolic AI stocks including the likes of SanDisk, Micron, SK Hynix and Bloom Energy. The investment thesis isn't what caused the collapse – the leverage, concentration and lack of risk control did. Leveraged bets without proper risk control turn an investment firm into little more than a gambling enterprise. Unforeseen volatility can inflict fatal outcomes to leveraged positions even if the long-term thesis proves to be of merit.

The forced sale of Situational Awareness' book was only one factor that influenced returns last month. Before we move on to the implications for the outlook and additional issues to consider, let's review the details of July's market performance.

July Market Review

Despite headwinds from higher oil prices and bond yields, markets showed rising breadth and resilience:

- Domestic large cap equities finished the month nearly flat as strong earnings lifted value stocks, offsetting volatility from AI-related concerns.

oped international equities managed a small positive gain, supported by dollar ness.

- Bonds retrenched as the 10-year Treasury yield rose 27 basis points.
- Emerging markets suffered due to excessive volatility from high relative exposure technology.
- U.S. small and mid-cap stocks lagged large caps due to higher sensitivity to interest rate changes and weaker relative earnings revisions.

Market Returns Ending 7/31/2026

Category	July	YTD	TTM
US Stocks			
S&P 500	-0.1%	10.1%	19.5%
MSCI US All Cap	-0.5%	10.7%	20.0%
Russell 2500 SMID	-2.6%	19.6%	30.7%
International Stocks			
MSCI ACWI ex-US	0.4%	14.5%	29.2%
MSCI Emerging Markets	-3.0%	20.3%	37.0%
Bonds			
Bloomberg Aggregate Bond	-1.3%	-0.7%	2.7%
Bloomberg US High Yield Bond	-0.2%	1.7%	5.2%

Source: Bloomberg
Notes: YTD = Year-to-date; TTM = Trailing twelve-months

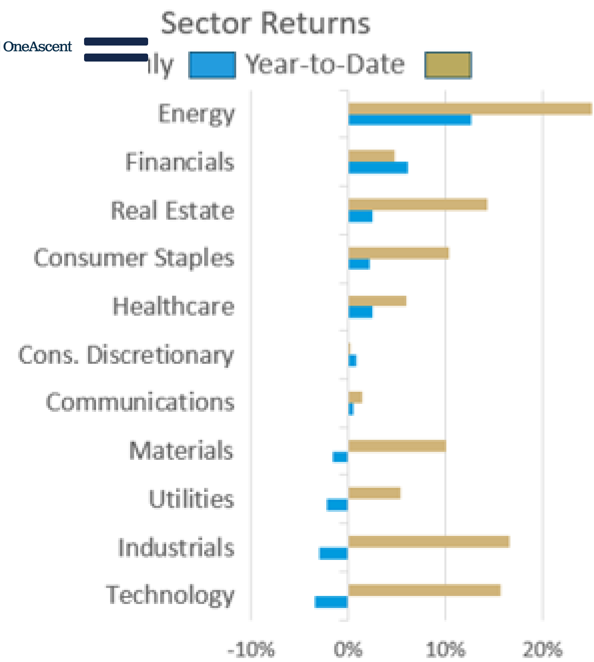
Market Returns Ending 7/31/2026

Category	July	YTD	TTM
Russell 3000 Growth	-4.8%	0.8%	8.6%
Russell 3000 Value	3.6%	20.8%	31.6%

Source: Bloomberg

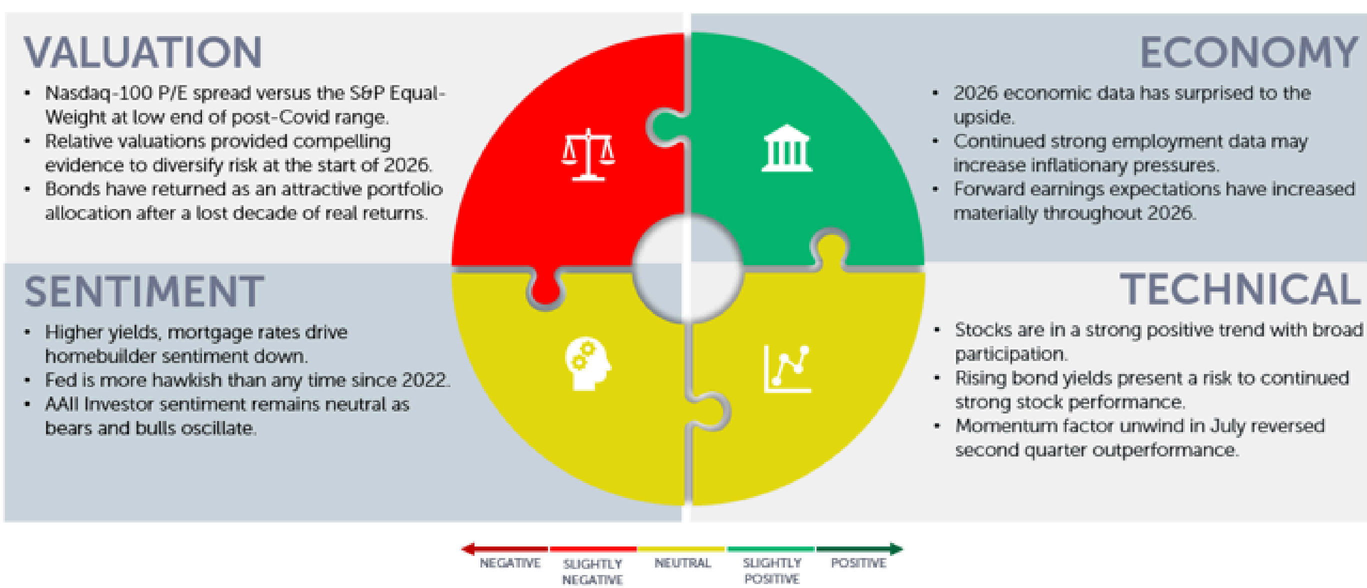
A strong sector rotation took hold as investors shifted back towards defensive and value sectors:

- Energy stocks led the market, climbing nearly 13% as oil prices rose on the Middle East conflict and the associated decline in crude oil reserves.
- Defensive sectors featuring dividends and value (financials, real estate, staples and healthcare), followed energy with solid performance.
- A steep sell-off across AI-related stocks pulled technology lower, led by a more than 20% drop in the Philadelphia Semiconductor Index. Industrials, utilities and materials were also impacted.
- From a factor standpoint, momentum and high beta suffered double digit declines.



Our Navigator framework informs our outlook.

August 2026 Navigator Outlook:



Economy: 2026 economic data has surprised to the upside. strength. Continued strong employment data may increase inflationary pressures. Forward earnings expectations have increased materially throughout 2026.

Technicals: Stocks are in a strong positive trend with broad participation. Rising bond yields present a risk to continued strong stock performance. Momentum factor unwind in July reversed second quarter outperformance.

Sentiment: Higher yields and corresponding higher mortgage rates drive homebuilder sentiment down. Fed is more hawkish than any time since 2022. AAII investor

: remains neutral as bears and bulls oscillate.

Valuation: Nasdaq-100 P/E spread versus the S&P Equal-Weighted index is at the low end of the post-Coved range. Relative valuations provided compelling evidence to maintain diversification at the start of 2026. Bond yields have returned to attractive portfolio allocation levels after a lost decade of real returns.

Outlook and Recommendations: Resilient market absorbs risks and embraces broadening

While the Situational Awareness liquidation event created some fireworks late in the month, the timing offered the market a two-day recovery trade after the transaction with Citadel closed. As such, the S&P 500 provided a flattish return for the month demonstrating how resilient the market can be in the face of risk events. Some investors drew parallels to the Long-Term Capital Management implosion of 1998, suggesting there could be ample time for the market to continue climbing before reaching the limits of this AI expansion.

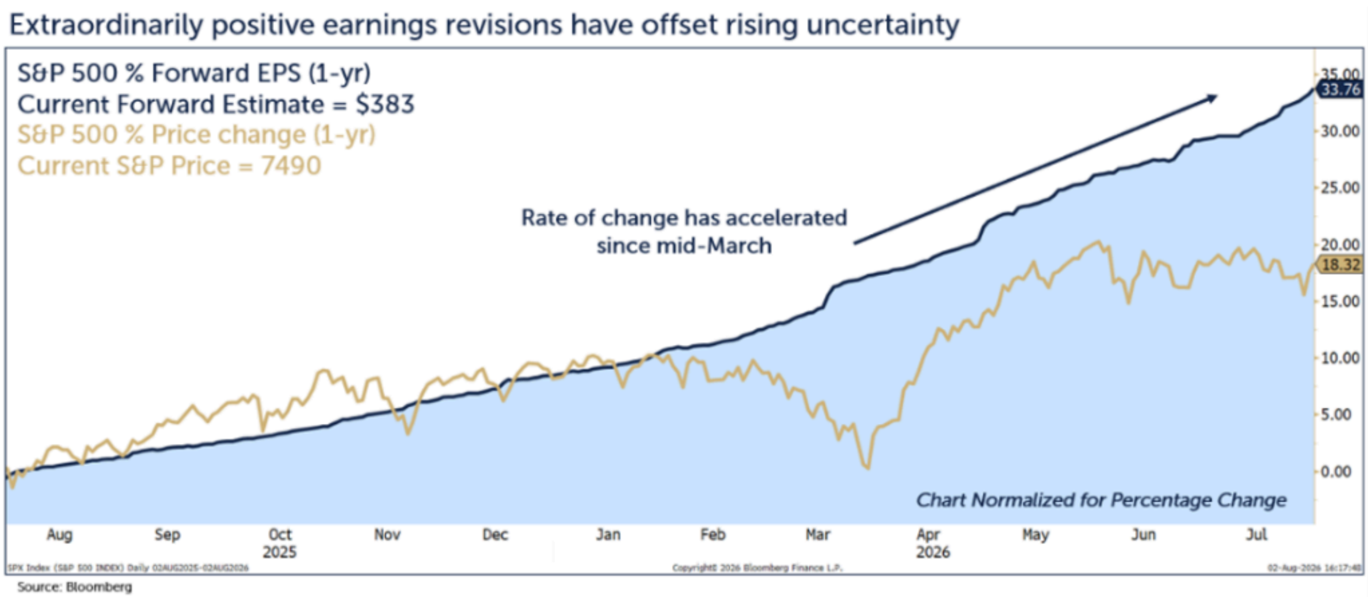
The market has far more to digest than technical factors associated with a deleveraging event, however. The Fed held its July meeting last week and elected to leave rates unchanged; however, there were three dissenting votes signaling some support for tighter monetary policy. The market is now pricing in a 66% probability of a Fed hike in September, up from less than 50% at the end of June.vii As we have highlighted, the early months of Fed leadership changes tend to introduce some repricing of uncertainty, and Chair Warsh has expressed his intentions to not only adjust how the Fed communicates, but how frequently as well.

Forward P/E ratio for the S&P 500 has contracted as interest rates have risen

Source: Bloomberg

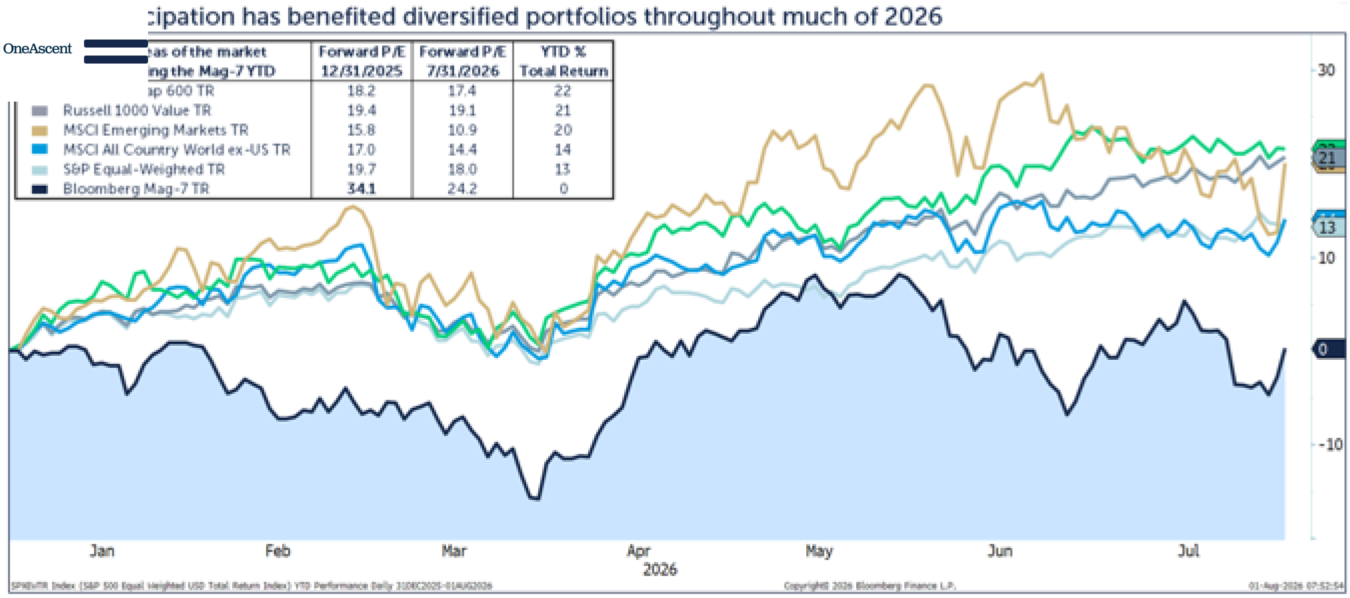
ates continued to rise throughout July on the back of surging oil prices due to the
st conflict and fears about declining levels of reserves as shown in the chart above. The 10-year yield has an inverse relationship with valuations, and the forward P/E ratio has declined by about two multiple points since the beginning of the year.

The rise in rates and the corresponding contraction in valuations provide evidence that the market's discounting mechanism is hard at work incorporating current risks to the outlook: the Fed's fight against inflation and its desire to deliver price stability, war with Iran and its impact on oil prices and consumers, and mid-term elections.



Counterbalancing the rising risk concerns remains the underlying strength of the economy. Weekly jobless claims continue to run at low levels, manufacturing data continues to point towards expansion, and corporate profitability is running near record levels. These factors suggest the AI CapEx buildout is continuing apace, and they are also contributing to the extraordinary increase in earnings estimates for the S&P 500 as shown in the chart above. Over the past twelve months, forward 12-months earnings estimates have increased by more than 33%. This has offset a significant portion of the P/E multiple compression from higher rates and rising uncertainty.

An additional benefit of the rising earnings paradigm has been the broadening of market participation. Market leadership has finally expanded beyond the Mag-7 after three years of concentrated market performance. The chart below illustrates the outperformance of small cap stocks, value stocks, emerging markets, international equities and the S&P Equal-Weighted index over the Mag-7 through end of July. The Mag-7 stocks have largely delivered healthy earnings thus far, but their valuations have compressed as fundamentals have broadened to other areas of the market. This graphic highlights the importance of diversification, but it also emphasizes the importance of valuation discipline.



Source: Bloomberg

It remains to be seen whether market participants will adjust their behavior in response to the warning against taking unnecessary risk through excessive leverage and concentration. History would suggest that the lesson will be forgotten. For now, the fundamental outlook continues to support broadening across sector, style, capitalization and geography.

Portfolio Construction and Positioning

Our Navigator process helps guide our portfolio construction, reflecting the broadly supportive economic outlook. Our portfolio is focused on the following:

- Mid-cap and international equities: These segments offer attractive valuations relative to U.S. large caps and provide long-term diversification benefits. The market is beginning to recognize these advantages.

- Balanced exposure across styles: We maintain a mix of growth and value stocks poised to benefit as broadening trends take hold.

- Fixed income remains compelling: Bond yields exceed the earnings yield of large-cap equities, and real (inflation-adjusted) yields are positive—supporting the case for continued fixed income exposure.

- Mortgage-backed securities: We see favorable risk-reward dynamics here as even a modest increase in pre-payments could be a catalyst. Corporate credit spreads remain narrow, limiting upside in riskier sectors of the bond market.

- Alternative investments: We continue to find meaningful opportunities in both non-correlated public strategies and private market investments which offer potentially higher returns than the public markets.

et has shown remarkable resilience through a period of rising uncertainty and the g of a leveraged hedge fund. The case for diversification and valuation discipline is only strengthened by these developments. We counsel investors to ignore the noise and maintain focus on long-term goals and objectives.

This material is intended to be educational in natureviii, and not as a recommendation of any particular strategy, approach, product or concept for any particular advisor or client. These materials are not intended as any form of substitute for individualized investment advice. The discussion is general in nature, and therefore not intended to recommend or endorse any asset class, security, or technical aspect of any security for the purpose of allowing a reader to use the approach on their own. Before participating in any investment program or making any investment, clients as well as all other readers are encouraged to consult with their own professional advisers, including investment advisers and tax advisors. OneAscent can assist in determining a suitable investment approach for a given individual, which may or may not closely resemble the strategies outlined herein.

Quote from George Santayana from his 1905 book, *The Life of Reason.*

Source: Wall Street Journal article, *"As the Wedding Guests were Arriving, His $45 Billion Fund Was Falling Apart"*, dated August 1, 2026. Transmitted by Bloomberg.

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Source: Financial Review article, *"The world's sexiest hedge fund just imploded. Here are the lessons"*, dated August 1, 2026. Transmitted by Bloomberg.

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Source: Bloomberg WIRP function.

Market Returns reference the following indices: Large Cap – S&P 500, Mid Cap Growth – Russell Midcap growth, Mid Cap Value – Russell Midcap Value, Small Cap – Russell 2000, Developed – MSCI EAFE, Emerging – MSCI Emerging Markets, Aggregate – Bloomberg US Aggregate, High Yield – Bloomberg High Yield

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Investment Updates , Market Updates , Weekly Investment Updates

Weekly Investment Update July 27, 2026

Investment Updates , Market Updates , Weekly Investment Updates

Aligning Values with Planning, Investing, & Giving

Our business model reflects our belief that financial planning and wealth management are engaged partnerships between clients, financial advisors, and investment resources.

OneAscent

100 Grandview Place, Suite 200, Birmingham, AL 35243
(205) 313-9142
info@oneascent.com

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