GLR PARTNERS

MARKET UPDATE

What a Difference a Month Makes

A Month Ago We Said "Party Like It's 1999." Here Is What Changed.

July 22, 2026 • All data as of market close, July 21, 2026

A month ago, in "Party Like It's 1999," we made an uncomfortable argument: that the AI trade had the look and feel of a late-stage party, valuations stretched to a degree the market had reached only twice before, and that the prudent response was not to leave the room but to diversify around the risk. It was, admittedly, a call that felt early. The market kept climbing. What a difference a month makes. Since then, the party has broken up in exactly the places we were worried about. The picks-and-shovels of the AI buildout, the very engine of this cycle, have been taken apart: the semiconductor ETF (SOXX) is in a bear market, the memory ETF (DRAM) fell roughly 40% peak to trough, and the data-center infrastructure ETF (DTCR) has been hit hard as well, none of them recovering. What makes it easy to miss is the headline: the S&P 500 still sits within striking distance of its record high, held up by a handful of mega-caps. The index looks like the party is still going. Underneath it, for most of the market, the music has already stopped. (Our February "Picks, Shovels & Disruption" paper laid the groundwork for why we own this layer in the first place, and we still do.)

> *In June we warned the party looked like 1999. A month later, the index still says the music is playing, while the AI buildout underneath it has quietly gone into a bear market. That gap is the whole story.*

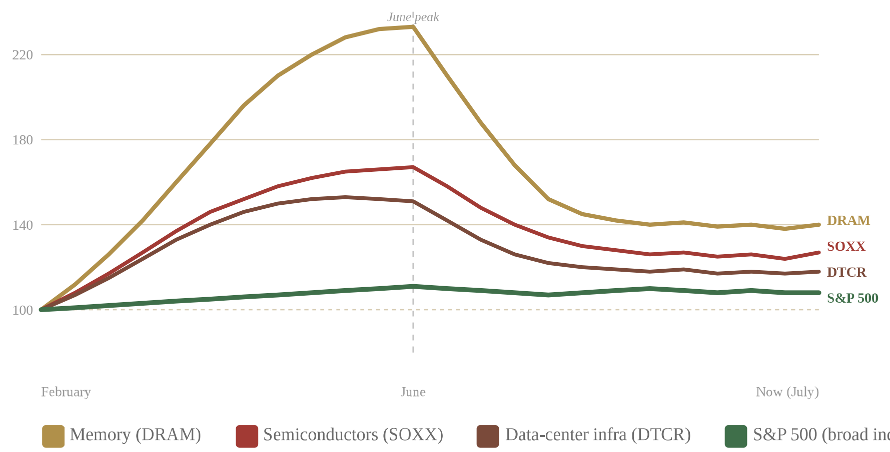
~7,509	$2.3T	-20%	-40%	~41
S&P 500 LEVEL ≈ FLAT VS. JUNE UPDATE	MAG 7 VALUE ERASED IN JUNE	CHIP INDEX (SOX) DROP PEAK TO TROUGH, ~1 MO	MEMORY ETF (DRAM) PEAK TO TROUGH	SHILLER CAPE STILL NEAR RECORD

The Divergence in One Picture

Strip out the noise and the picture is stark. The S&P 500 has climbed back toward its record, carried by a narrow set of mega-caps. But the AI-infrastructure trade, the "picks and shovels" we championed in February, has gone the other way and stayed there. Since the winter, the cohort ETFs that track it, semiconductors (SOXX), memory (DRAM), and data-center infrastructure (DTCR), have fallen anywhere from roughly 20% to 40% peak to trough, and none has recovered with the index. We continue to believe in these businesses. The point is what the index hides: own it passively and you are betting on a handful of mega-caps while the broad market underneath quietly repriced.

The Index Recovered. The Buildout Did Not. (indexed to 100, since February)

A few mega-caps hold the index near its record. The infrastructure names that led the cycle are still far below their peaks.



Cohort ETFs (SOXX, DRAM, DTCR) indexed to 100 at February. They ran up hard into the June peak, then sold off and stayed down, while the S&P 500 climbed to a new high and held. Stylized for illustration; not exact index tracks.

What Actually Happened

WHAT BROKE

Investors lost patience with the gap between enormous AI capital spending and returns still ramping, the very gap we flagged in February. The selling hit the infrastructure layer hardest: the semiconductor ETF (SOXX) fell into a bear market, and the more concentrated corners, memory (DRAM) and data-center infrastructure (DTCR), were hit worse. The crowded trade became the fragile trade.

WHERE IT STANDS NOW

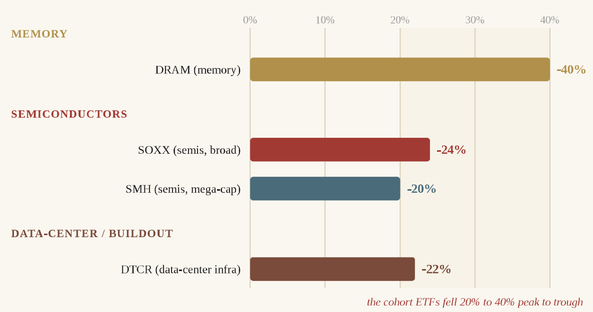
There has been no real recovery in the ETFs that track this thesis. Each still sits meaningfully below its 52-week high, memory (DRAM) the furthest, with semiconductors (SOXX) and data-center infrastructure (DTCR) not far behind. But a great deal of the froth has now been wrung out. We still own this exposure, and after a drawdown this size, we are starting to see opportunity here, not just risk, in the very names the market left for dead.

The Lesson: Concentration Is Volatility You Can't See

To be clear, this is not a reason to abandon AI, and we have not. The underlying businesses are real, and several are still growing revenue at extraordinary rates even as their stocks have fallen. The point is what sits inside a "passive" index: a small number of names now drive both its gains and, when sentiment turns, its air pockets, while a much larger group of AI-infrastructure stocks can be cut in half without the headline ever letting on. That is exactly the single-theme risk our February paper warned would define this cycle.

The AI-Infrastructure ETFs Sold Off, Peak to Trough

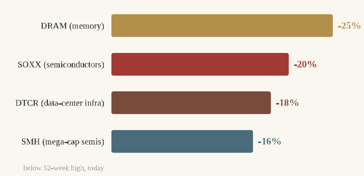
Peak-to-trough decline into the July lows, by cohort ETF



The memory, semiconductor, and data-center ETFs all repriced sharply and, unlike the broad index, have not recovered. These track the "picks and shovels" we discussed in February; the drawdowns ran from roughly 20% to 40%.

Still Down: How Far Off Their Highs

Percent below 52-week high, as of today



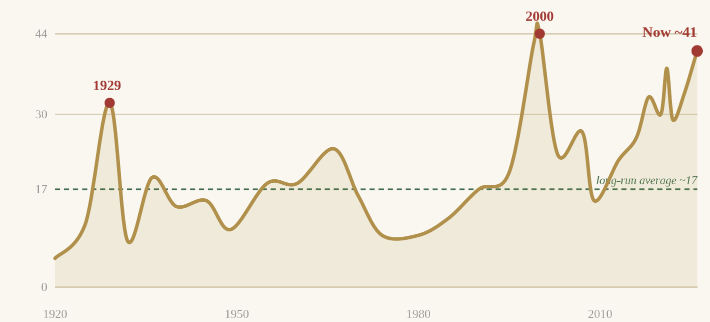
This is the part the index hides. The cohort ETFs have not bounced back with it; each still sits well below its high while the S&P 500 trades near a record.

Valuations: Nothing Got Cheaper

The selloff did not fix the market's core problem. On a cyclically adjusted basis, U.S. large-caps remain about as expensive as they have ever been, a level reached only around 1929 and the 1999 to 2000 peak. Lower prices in the infrastructure ETFs coexist with an index whose overall valuation is still near a record.

The S&P 500 Is Near Its Most Expensive Ever

Cyclically-adjusted P/E (Shiller CAPE) through history



~41 today vs. ~17 long-run average; comparable only to 1929 and the 1999 to 2000 peak.

WHAT TODAY'S PRICE IMPLIES

At this CAPE, Shiller's own framework has historically implied roughly **1 to 2% real annual returns** for U.S. large-caps over the coming decade. High starting valuations have reliably preceded disappointing long-run returns. No single metric times a market, but the signal is hard to dismiss when the index is this expensive and this concentrated at the same time.

~41 SHILLER CAPE VS. ~17 AVG	**1 to 2%** IMPLIED REAL RETURN NEXT DECADE	**~88%** OF S&P NAMES BEATING Q2 PROFIT ESTIMATES

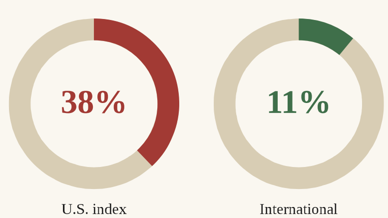
Why This Reinforces the Case for Diversification

June's report made the argument; the months since have stress-tested it. An investor who thought owning the index meant owning "AI" instead owned a handful of mega-caps holding up a market whose infrastructure names were quietly cut in half. A genuinely broad portfolio, spread across geographies, asset classes, and sources of return, does not depend on that narrow group staying aloft. That is the entire point of diversification, and this market is making it for us.

> *When the index and the market underneath it diverge this sharply, diversification is what keeps a portfolio from depending on the few names still standing.*

The Opportunity Set Outside U.S. Large-Caps

Concentration: top-10 weight in the index

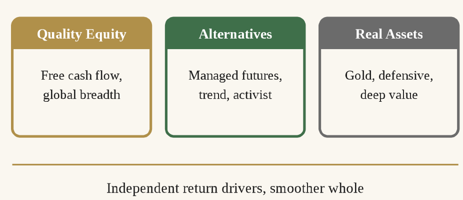


Top-10 companies as share of index

The top 10 U.S. names are ~38% of the index vs. ~11% abroad, far less single-theme risk.

Three Independent Sleeves

How the portfolio is built to behave



Each sleeve is designed to earn its return from a different driver, so no single air pocket sinks the whole.

The Three Pillars: Where We Stand Now

Our framework reads the Economy, Monetary Policy, and Market Conditions. A month of turbulence did not change the read; if anything, it reinforced it. The economy still supports staying invested, but two of the three pillars flash caution, and the one holding up the market does so on narrow, near-term momentum while its own long-term valuation gauge sits at an extreme.

ECONOMY

Constructive

Late-cycle growth, tightening credit, offset by fiscal support. Constructive on net, fragile underneath.

MONETARY POLICY

Neutral

Fed near neutral; inflation re-accelerating on higher oil. Market now prices a rising chance of a hike, not a cut.

MARKET CONDITIONS

Stretched

Index near its high on narrow leadership, but breadth is poor and long-term valuation is at a rare Extreme (CAPE ~41).

What This Means for Portfolios

WITHIN EQUITIES

Stay fully invested, but favor quality and durable free cash flow over story and momentum. In ETF sleeves that means leaning on quality-screened funds such as SPHQ for the core and QGRW for quality-oriented growth, rather than simply owning the whole cap-weighted index. Where clients hold individual names, we continue to own AI-infrastructure beneficiaries such as Broadcom, Comfort Systems, KLA and Nvidia for their fundamentals. With much of the froth now wrung out of the buildout, we view this weakness as an opportunity to add to that exposure selectively, not a reason to abandon it.

AROUND THE CORE

Keep meaningful exposure outside U.S. large-caps, where valuations are lower and concentration far smaller. Lean on the Alternative Allocation we built for exactly this regime: managed futures for crisis alpha, deep value for mean reversion, and strategic gold as an inflation hedge, for returns that do not depend on the AI trade continuing.

None of this is a call to abandon equities, to abandon AI, or to time a top. We said in February that this was a moment for measured conviction, not panic and not complacency, and that remains our view. A market where the index sits near a record while much of what is underneath has been cut deeply is precisely the environment we have been building portfolios for: diversified enough that we do not depend on a handful of mega-caps to keep standing, yet still holding the buildout exposure that now looks more reasonably priced than it has in a year. We remain constructive on markets over time and disciplined about the price we pay to participate. We would welcome the chance to review how your portfolio is positioned for the environment described here.

With regards,

GLR Partners

Independent Wealth Advisory

References: Builds on GLR Partners, "The AI Gold Rush: Picks, Shovels & Disruption" (February 2026) and "Party Like It's 1999: Valuations, AI, and the Case for Diversification" (June 2026). S&P 500 level and CAPE data via S&P Dow Jones Indices, Robert Shiller / multpl, GuruFocus (July 2026). ETF moves (SOXX, SMH, DRAM, DTCR) via Bloomberg, CNBC, Yahoo Finance, and issuer data (June to July 2026); peak-to-trough and off-high figures are approximate, drawn from those reports. AI capex figures per Forbes and hyperscaler guidance.