First to Market

July 17, 2026

IBM'S SELLOFF OVERLOOKS THE MIPS METER

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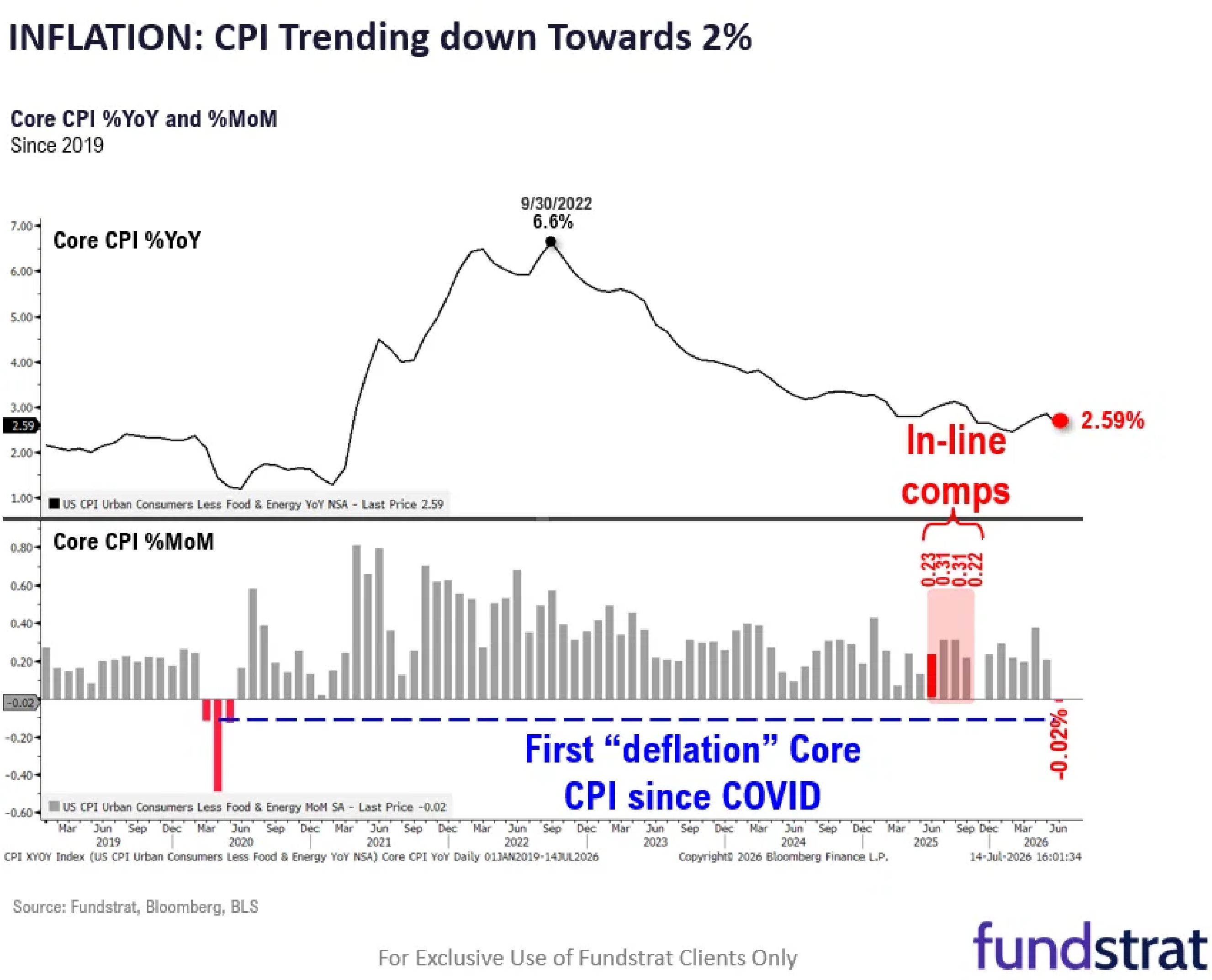
Chart of the Day



Good morning!

By now everyone knows about IBM's version of a "Terrible, Horrible, No Good, Very Bad Day" that saw its stock take its worst beating ever, even worse than 1987's Black Monday. Driving the 25% stock plunge was the company's warning that mainframe revenues would miss expectations because customers had opted to cancel or at least postpone orders to lock-in purchases of memory, servers, and storage ahead of anticipated AI-driven prices increases for those items. ($IBM is scheduled to report earnings July 22.)

The average layperson might be forgiven for nodding and assuming that this outcome was entirely predictable, rhetorically asking: "Who still needs mainframes when we have AI?" But that's not the informed response, and in the long term, that likely means good news for Big Blue's mainframe business.

Sometimes, companies don't need machines that think. If you're a global bank or major airline, for example, it's also essential that you have machines that are just really good at processing raw data. Lots and lots and lots of raw data, at blistering speeds, with as little risk of interruption as possible. Specifically, mainframes need to be capable of millions of transactions/calculations every second, up to 100 billion transactions every day, and they need to stay running 99.999% and 99.9999999% of the time (unplanned downtime of between 31 milliseconds to five minutes per year.). That's what mainframes, with multiple layers of redundant – and automatic hot-swapping – processors, power supplies, and memory-chip bundles, are for. Yet as businesses grow and mainframes age, costly and/or embarrassing outages become more likely.

That's not the only reason why companies tend to buy new mainframes every three to five years. Upgrading mainframes is widely seen as a worthwhile investment, because the software (including but not limited to data-encryption software and the mainframe operating system) that runs on them frequently bills corporate mainframe operators based on a metric called millions of instructions per second (MIPS). A simplified way of saying this is that newer/faster machines can run software more cheaply than older/slower ones. That can amount to millions or tens of millions in additional operating costs every year.

There's a considerable amount of effort being put into using AI and cloud computing to mitigate this effect, through strategies such as code tuning or moving parts of the workload away from the mainframe. Current industry estimates suggest that such practices can only mitigate a portion of those added costs, and even those savings start to erode if the number of transactions being processed increases – for instance because the company's business grows.

Also, ironically, older systems are also inherently less able to integrate with technology advances like AI integration. That means forgoing a mainframe upgrade/update to pay for AI capabilities is a bit like neglecting track upgrades while investing in high-speed trains. In fact, trying to integrate AI capacity with an older mainframe can actually increase MIPS costs.

There are a few implications for this beyond the market's knee-jerk reaction to IBM's news. The first is that while IBM's warning was seen by some as a proverbial "canary in the coal mine" for the software sector, the impact is not likely to be uniformly felt throughout. If corporate customers are delaying their mainframe updates, then the software companies that collect MIPs revenue – companies like IBM (not a typo) and Broadcom $AVGO – could ultimately benefit.

The second is that mainframe purchases haven't been canceled. They've just been delayed, so IBM's mainframe revenues are arguably likely to bounce back, sooner or later.

Economic Data Report:

The NAHB Housing Market Index (HMI) – a monthly measure of U.S. builder sentiment on a 0-100 scale – dropped 2 points to 34 in July 2026, marking a continuation of the downward trend and was slightly worse than the prediction of 35. The HMI is based on three indicators with different weights: current single-family home sales (37), expected single-family home sales over the next 6 months (43), and traffic from prospective buyers (23). Since June, all three factors have declined, demonstrating growing pessimism spreading across the housing industry. As AI data centers continue to get built out, they increase demand for electricity and materials, affecting supply chains and labor availability. Because these inputs are closely linked to housing construction, the residential market has softened home builders face slimmer margins. Additionally, renewed conflict with Iran could further add to inflationary pressure, threatening to drive up housing prices. – *Mason Yuh*

Retail Sales in June increased marginally by 0.2% to $768.6 bn. That looks weak compared to May's 1.0% gain. The slowdown was partially driven by lower spending at gasoline stations, which fell 5.3% from the past month, but is still up 20% from a year ago. That's because oil prices have subsided from their 2026 year-to-date highs. But with gas prices rising again on renewed Strait of Hormuz tensions, July's headline could arguably rebound. Excluding gas, sales rose 0.7% from the previous month. The control group, which excludes autos, gas, building materials, and food services, is the most important one to watch since it's used directly into the government's consumer spending estimate and it rose 0.6% from a month ago. This increase in the control group likely came from Prime Day and World Cup spending as online sales and the sporting goods category increased 1.9% and 1.3%, respectively. — *Micah Kim*

The Philadelphia Fed reported strong manufacturing activity and continued expansion in July. The current general activity index jumped 31 points to 41.4 from a month ago, and the index for current new orders increased by 10 points to 37; both indexes hit their highest reading since November 2021. The current shipments index also rose notably to 33.7, up 19 points from June, hitting its highest reading since April, and the employment index rose to 10 (its highest reading since December). Strong manufacturing activity in the Philly region can serve to be an early indicator into the health of the U.S. economy. Manufacturing activity can often predict broader economic changes, including recessions and recoveries. Firms continue to experience cost and price increases, however. The prices paid index marginally rose to 53.9, alongside the current prices received index, which sits at 27.4– up 7 points. Firms also continue to expect wage increases in the future: 52% of firms reported wage and compensation cost increases over the past 3 months, and 54% of firms intend to heighten their 2026 wage and compensation plan. Still, employment is expected to increase over the next 6 months. — *Dean Park*

Share your thoughts

What do you make of IBM's declines? Click here to send us your response.

✍Here's what a reader commented ✍

Q: Should U.S. companies even be using Chinese-developed AI models in the first place?

A: Framing US closed-model dominance as a Silicon Valley tailwind misinterprets China's asymmetric strategy. The sudden export-control suspension of Fable 5 and Mythos 5 proved that access to US closed models is a revocable privilege, not permanent infrastructure. For enterprises managing platform risk, this weaponization drives a pivot toward "sovereign-enough" open-weight alternatives over superior but seizable assets. Consequently, China is leveraging open weights—like its Belt and Road Initiative—to build global dependency, leaving the US unable to counter with vulnerable, closed architectures.

Catch up with Fundstrat

The big stories this week are the continued selling in Korea/AI stocks and the downside surprise in CPI and PPI. In our view, the more important is the downside reading on inflation as this sets the stage for bond markets to flip from hawkish to dovish Fed. As for AI, we think margin call-related selling is likely at play, but the fundamentals remain intact.

Technical

The equal-weighted S&P 500 closed at a brand-new all-time high Thursday despite another down day for Technology, a clear sign the market is absorbing Tech's weakness through rotation.

Crypto

The biggest development today was the accelerating selloff across AI infrastructure beneficiaries, including the miners held within our crypto equities portfolio. While the broader rotation out of AI CapEx receivers has been underway for several weeks, today's move was likely catalyzed by Chinese AI startup Moonshot releasing its new open-weight model, Kimi K3.

News We're Following

Breaking News

- S&P 500 and Nasdaq futures drop as chipmaker sell-off intensifies; Netflix slides 11% CNBC

Markets and economy

- SEC Flooded With Complaints Over Plan to Scrap Required Quarterly Earnings WSJ
- Economic outlook is worsening and Trump is getting blamed, CNBC survey finds CNBC
- Oil prices are up 13% in a week — and could head for more than $100 a barrel MW
- Semiconductor stocks are on the verge of a bear market. Is the thrill in the chips trade gone? MW

Business

- The Inside Story of IBM's Shocking Profit Warning WSJ
- Apple targets dozens of OpenAI employees with legal letters FT
- SpaceX falls further in premarket after Starship test flight aborted CNBC
- Meta Plans to Hire Top Amazon Computing Executive as it Weighs Cloud Push WSJ

Politics/U.S.

- Trump Ramps Up Effort to Sow Doubt About 2020 Election WSJ
- A Trump Obsession That Carries a Cost for Democracy NYT

Overseas

- Andy Burnham Becomes Labour Leader and Is Set to Be Britain's Prime Minister NYT
- U.S. Hits Bridges and a Port in Country's South, Iranian Media says NYT

Of Interest

- India is helping to power the AI boom - but will it shape the future or just serve it? FT

Overnight	
S&P Futures	-72 ▼ point(s) (-0.95% ▼)
overnight range:	-86 ▼ to -3 ▼ point(s)

APAC	
Nikkei	-4.03% ▼
Topix	-2.72% ▼
China SHCOMP	-3.05% ▼
Hang Seng	-1.78% ▼
Korea	-6.37% ▼
Singapore	-0.54% ▼
Australia	-0.50% ▼
India	+1.06% ▲
Taiwan	-6.47% ▼

Europe	
Stoxx	50 -1.16% ▼
Stoxx	600 -0.64% ▼

FTSE	100 +0.07% ▲
DAX	-0.87% ▼
CAC	40 -0.97% ▼
Italy	-0.80% ▼
IBEX	-0.46% ▼

FX

Dollar Index (DXY)	+0.02% ▲ to 100.79
EUR/USD	-0.03% ▼ to 1.1439
GBP/USD	-0.27% ▼ to 1.3442
USD/JPY	-0.01% ▼ to 162.41
USD/CNY	-0.07% ▼ to 6.7777
USD/CNH	-0.08% ▼ to 6.7785
USD/CHF	+0.15% ▲ to 0.8077
USD/CAD	+0.07% ▲ to 1.4033
AUD/USD	-0.34% ▼ to 0.6972

UST Term Structure

2Y-3M Spread narrowed	-2.2bps ▼ to 32.5bps
10Y-2Y Spread narrowed	-0.5bps ▼ to 40.4bps
30Y-10Y Spread widened	0.7bps to 53.5bps

USD HY OaS

All Sectors	-1.8bps ▼ to 296bps
All Sectors ex-Energy	+0.7bps ▲ 291bps
Cons Disc	+2.4bps ▲ to 444bps

Cons Disc	+2.4bps ▲ to 444bps
Indu	+1.0bps ▲ to 230bps
Tech	-0.6bps ▼ to 216bps
Comm Srvcs	-0.7bps ▼ to 283bps
Materials	-0.1bps ▼ to 265bps
Energy	-1.6bps ▼ to 275bps
Fin Snr	+0.9bps ▲ to 197bps
Fin Sub	-0.1bps ▼ to 306bps
Cons Staples	+6.0bps ▲ to 457bps
Healthcare	-0.1bps ▼ to 305bps
Utes	+1.2bps ▲ to 206bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
7/17	8:30 AM	Jun Import Price m/m	-0.7	1.9
7/17	10:00 AM	Jul P UMich 1yr Inf Exp	4.4	4.6
7/17	10:00 AM	Jul P UMich Sentiment	51	49.5

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