Weekend Alpha

Relentlessly Surging Oil Prices Give Investors a Reality Check

Thomas Lee, CFA AC
HEAD OF RESEARCH

- The U.S.-Iran war hostilities escalated in the past week, with both greater attacks in the Strait of Hormuz and a new focus, by the US, on Pickaxe Mountain. This mountain is where Iran might have moved nuclear enrichment facilities and is substantially more difficult to destroy with existing bombs. The odds of a US invading Iran before 2027 rose to 31% Thursday from 10% a week ago.
- As we have seen multiple times in the past few years, equity markets tend to over-react to war developments, partly because war events tend to create uncertainty. But these periods of risk-off have been buying opportunities in the past, and we expect this to be the case again.
- Recall, the S&P 500 fell 9.9% during the first wave of US attacks on Iran earlier this year. And that was followed by a massive V-shaped rally.

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Mark L. Newton, CMT AC
HEAD OF TECHNICAL STRATEGY

- The concerns at present revolve around WTI crude's ongoing rally, a short-term breakout in the US Dollar Index, and most importantly Treasury yields, with ^TNX having broken out of a three-year consolidation this week in what constitutes the first sign of the US bond market starting to follow suit to the weakness seen in many European and Asian bond markets.
- Importantly, the patterns for the S&P 500 and QQQ are more neutral than bearish over the last couple of months, and weakness is merely short-term, not intermediate-term in nature.
- There continues to be meaningful sector bifurcation, as the weakness in consumer stocks is not really being seen in Healthcare, Financials, or Industrials, all of which hit new all-time highs just three weeks ago.

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Sean Farrell AC
HEAD OF DIGITAL ASSET STRATEGY

- Sentiment around the Clarity Act deteriorated following public pushback from several Democratic senators and comments from Senate Majority Leader John Thune suggesting the legislation is unlikely to reach the President’s desk before the August recess. The market responded accordingly on Thursday, with several Clarity-sensitive assets weakening into the close.
- The remaining point of contention continues to center on the ethics provisions, specifically who should enforce them. Republicans currently favor the federal Attorney General, while Democrats prefer state attorneys general, reflecting concerns over potential conflicts of interest.
- At this stage, the debate appears to be centered more on enforcement than on the underlying ethics provisions themselves.

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L. Thomas Block

WASHINGTON POLICY STRATEGIST

- The U.S. House of Representatives wrapped up a busy week working on budget issues and went home for their annual August break.
- Before heading to the airport, they passed legislation to fund the government via a Continuing Resolution (CR) through the elections.
- The House approved CR runs until Dec. 4. At this point, it is not clear whether the Senate will approve the House CR. However, all Congressional leaders are committed to passing legislation to avoid a government shutdown weeks before the November mid-term election.

Read the Latest US Policy

RELENTLESSLY SURGING OIL PRICES GIVE INVESTORS A REALITY CHECK

Hardika Singh

ECONOMIC STRATEGIST, MARKET INTELLIGENCE

Key Takeaways

- The S&P 500 edged down 0.6% to 7,411.96 points this week, while the Nasdaq Composite slipped to 24,975.82, down 2.1%. Bitcoin was at USD 64,160 on Friday afternoon.
- Fundstrat Head of Research Tom Lee said that while it's unfortunate that the war is dragging on, the U.S. will be a beneficiary of higher oil prices.
- Head of Technical Strategy Mark Newton said that bitcoin's lows are still not in yet.

"Without mathematics, there's nothing you can do. Everything around you is mathematics. Everything around you is numbers." — Shakuntala Devi

Good evening,

Corporate earnings are coming in strong, but investors' attention has instead gravitated toward a renewed increase in oil prices.

The S&P 500 lost 0.6% this week to 7,411.96 points. Only three out of the 11 sectors were in the red: communication services, consumer discretionary, and staples. Heavy weighting for the first two dragged down the broader market even though eight sectors were in the green. Energy stocks were the best performers, catching a bid from the escalated fighting.

Even Saudi Arabia's workaround for avoiding sending oil exports through the Strait is coming under pressure. Prices for Brent crude, the international oil benchmark, rose to $92.35 per barrel this week.

The pickup in worries marks a sharp U-turn from earlier in the summer, when investors just moved past the war because of epic gains in shares of memory and storage companies. But now gas prices are once again above $4 a gallon, while diesel's over $5. Tariffs are also back on the table. As a result, inflation worries have increased. That has sent Treasury yields higher, adding further pressure on stocks.

Fundstrat Head of Research Tom Lee, however, reiterated that the U.S. is more insulated from the war than Europe and Asia.

"While nobody wants the war to escalate, investors need to be mindful that the impact of war on the U.S. economy is on balance positive," he said in his note. "And the U.S. economy's exposure to higher oil is less negative than that of other nations. So, I would urge investors to not de-risk simply because war risks are rising."

Head of Data Science Ken Xuan said he's not too worried about inflation because there's more visibility on it now than a few weeks ago. He likes that consumer spending remains strong, which is a bullish sign for the economy.

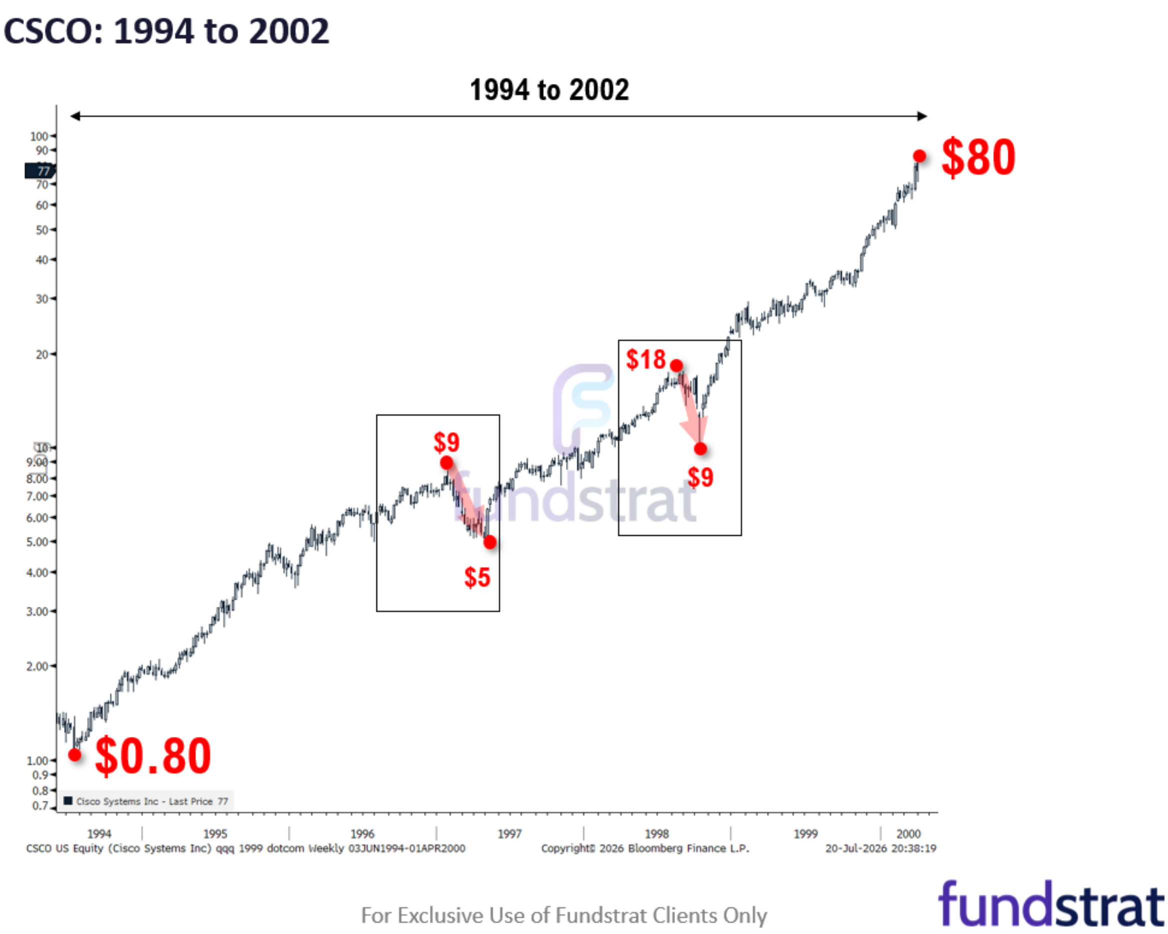
"Financial banks' reporting is actually fundamentally pretty solid," he said during the weekly huddle. "Consumers remain strong, which was mentioned by all major banks, and I think that actually mitigates a lot of concerns about recession, at least from the consumer side."

The Federal Reserve meets on Tuesday and Wednesday. Investors largely expect the committee to hold interest rates steady, but the chances of a hike have risen in recent days. Higher interest rates could drag down highflying tech shares, which have already slumped in the summer.

In Micron's case, Lee said the declines remind him of Cisco from 1994 to 2002. If you had sold Cisco at the first big dip, then you would have missed out on the subsequent moves higher.

"I think it's important to keep in mind that selling your winners and holding your losers is like cutting flowers and watering the weeds, as Peter Lynch famously said," Lee said in his Macro Minute video. Lynch is a legendary stock picker.

Our Chart of the Week has more details:



Further weighing on sentiment this week were weak earnings from Google $GOOG and Tesla $TSLA. Google-parent Alphabet's earnings on Wednesday showed that revenue rose, but increased capex guidance led the stock to finish Thursday down 6.9%. It also posted its first ever quarterly negative free cash flow. Tesla increased its spending, as well, dragging its free cash flow into the negative for the first time in two years. Shares fell 15%.

And increasingly, there are signs that AI is advancing too rapidly for most to keep up with. OpenAI agents, for example, hacked into another AI company, Hugging Face.

For Lee, this reminded him of Japanese roboticist Masahiro Mori's essay "The Uncanny Valley." Mori's hypothesis is that there's an unsettling feeling when we encounter something that looks almost human. In the era of AI, there's going to be an uncanny valley of wealth and that's when AI and robots potentially possess greater wealth and capabilities than their human owners.

"AI is eventually going to be a growing share of our income," Lee said. "Maybe we'll be happy in the beginning because we're making more money, but at some point, they might have more wealth than us, and that'll make us wonder if we work for AI."

In that circumstance, Lee sees it benefiting crypto because of its decentralized nature. Many would not trust governments to put a kill switch on AI.

Head of Technical Strategy Mark Newton said the market should still be able to push back to new highs. He said that if he had new money to invest, he would still prefer a diversified approach between now and the midterms. He's continuing to stick with financials and healthcare.

On crypto, meanwhile, Newton is downbeat, calling the nascent gains in bitcoin a headfake. Sean's in agreement with him.

"My conclusion yesterday was that we're in the seventh inning stretch, and we likely have a pullback into September or October, and that's really when you want to buy," Newton said. "That's when I think the entire four-year cycle is done."

Newton believes the low is close, but there's one more leg down needed. He recommends buying at around $52,000.

Sean Farrell, Head of Digital Asset Strategy, said he's been constructive on a tactical rally and the potential prospects of the Clarity Act passing, but from a macro perspective, it's "not a super favorable environment of risk-reward."

He estimates bitcoin could trade in a range of $48,000-$52,000.

Elsewhere

Intel blew past estimates for the second quarter, posting its fastest quarterly revenue growth in over 15 years. Revenue rose 25% year-over-year to $16.13 billion, easily topping analyst forecasts of $14.42 billion. The surge was propelled by unprecedented AI-driven demand for server chips, which boosted data center and AI segment revenue by 59% to $6.3 billion. On the back of the strong performance, Intel raised its 2026 capital expenditure outlook to over $20 billion from $18 billion. Shares on Friday finished down 7.9%. Intel is seeking a partner to help run its delayed Ohio chip-making facility, considering South Korean memory giant SK Hynix among potential operating collaborators.

The U.S. House passed the Stop Insider Trading Act in a 232–198 vote, barring lawmakers, their spouses, and dependent children from buying new individual stocks in publicly traded companies. However, the legislation faces a steep uphill battle in the Senate as critics slam key loopholes: the bill allows members to keep existing holdings, omits investments in private companies, and excludes executive branch officials like the president. Opponents also point to an attached voter ID requirement as a "poison pill" likely to sink the measure in the upper chamber.

At 12:01 a.m. ET Friday, President Donald Trump's new 10% to 12.5% tariffs took effect, targeting 59 countries and the European Union following Section 301 trade investigations over alleged failures to ban goods made with forced labor. Designed to permanently replace global tariffs struck down by the Supreme Court earlier this year, there are legal questions about whether tariffs can be instituted in such a sweeping manner under Section 301. Still, analysts expect the economic impact to remain limited since the rates closely mirror existing U.S. global tariffs.

Peking University graduates Hong Wang and Yu Deng were named among the four recipients of the Fields Medal—often referred to as the Nobel Prize of mathematics for researchers under 40—even as both currently hold professorships at top Western institutions. The historic milestone comes amid an intensifying global fight for scientific talent, where federal research budget cuts under the Trump administration contributed to a 15% drop in U.S. doctoral admissions this year, aiding China’s efforts to recruit leading researchers back to its domestic institutions.

And finally: A Brown University professor's crackdown on suspected AI cheating saw exam scores collapse after forcing students to take an in-person final. Economist Roberto Serrano instituted an in-person exam after a take-home midterm yielded a suspicious 96% average score (compared to a historical norm below 80%) alongside AI-generated answer patterns. Following the switch, 27 students dropped out or skipped the test, and the class average plummeted to 48%.

Important Events

Durable goods order Est.: 1.5% Prev.: -4.5%	Mon, Jul 27 8:30 AM ET
Conf. Board Consumer Confidence Est.: 92.3 Prev.: 91.2	Tue, Jul 28 10:00 AM ET
FOMC Rate Decision	Wed, Jul 29 2:00 PM ET
Initial jobless claims Est.: 205k Prev.: 187k	Thu, Jul 30 8:30 AM ET

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