

The Bridge

From the Office of the CIO

Weekly Market Tides

Weekly Market Tides: Trends to Watch

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A tug-of-war in equities, a new Chinese AI contender, and record-setting bank profits

1. Markets pulled in two directions last week

Stocks are bouncing back this morning after the past week's losses. Most major equity markets ended last week in negative territory as a sharp decline in semiconductor and AI-related names offset strength in financials and softer inflation. In the U.S., the S&P 500 fell approximately 1.6% and the Nasdaq Composite dropped nearly 3%, with semiconductors leading the decline down roughly 9% over the five sessions. The pressure carried into Monday, when Wall Street reversed early gains to end lower as Treasury yields moved higher alongside oil. The S&P/TSX Composite held up relatively well, finishing modestly lower, as gains in energy stocks tied to higher oil prices helped offset weakness in Canadian technology and gold names. On the positive side, June CPI in the U.S. came in cooler than expected, with headline inflation falling 0.4% on the month. The major U.S. banks kicked off earnings season with all five reporting stronger-than-anticipated results, led by JPMorgan Chase's record quarterly profit discussed further below. Middle East tensions remain elevated after the breakdown of the U.S.–Iran ceasefire, with oil prices climbing sharply again on Friday, though a 10-day ceasefire proposal is now on the table. This week brings another dense calendar: Alphabet, Tesla, and IBM report Wednesday, Intel reports Thursday, and the European Central Bank delivers its rate decision on Thursday, where markets widely expect it to hold following its June hike. Flash PMIs for the U.S., eurozone, UK, and Japan are all due Thursday.

2. China's Kimi K3 revives questions about the cost of AI

A substantial development of the past week came from a Chinese AI startup. On July 17, Beijing-based Moonshot AI released Kimi K3, a large AI model with roughly 2.8 trillion parameters. This model was published openly for developers to use and build on. Independent benchmarks placed the model competitively against the leading U.S. models from Anthropic and OpenAI, and by Friday the news had triggered a sharp global selloff in semiconductor and memory names. The parallels to DeepSeek's release in early 2025 were evident, and analysts have described the reaction as "the latest DeepSeek moment." The concern from investors is straightforward: if high-performing AI models can be built and released at lower cost, the case for the extraordinary levels of AI infrastructure spending by U.S. hyperscalers may need to be revisited. There is, however, a counter-argument. Serving very large models to millions of users still requires enormous compute resources, and past episodes of concern about efficient competition, including DeepSeek itself, have coincided with continued growth in overall AI capital spending. Whether this remains the pattern will depend in part on what the U.S. mega-cap technology companies say about their capital plans this earnings season. Alphabet's results on Wednesday will be the first meaningful test.

3. Bank earnings pointed to a capital markets cycle at full strength

Another significant development from last week was the strength of the second-quarter results from the largest U.S. banks. JPMorgan Chase reported net income of \$21.2 billion, the highest quarterly profit in U.S. banking history, aided by a sharp jump in trading revenue tied to the SpaceX IPO. Setting aside one-time gains, the underlying business results were still meaningfully ahead of expectations. Every one of JPMorgan's business lines posted record revenue, and management raised its full-year net interest income guidance. In addition, Goldman Sachs, Wells Fargo, Citigroup, and Bank of America all beat estimates, and the five institutions collectively generated roughly \$49 billion in quarterly earnings, a 39% increase from a year ago. The results reflect a broader environment in which corporate dealmaking, IPOs, and trading have all been resilient. For investors, this points to an important nuance in the current market. The AI concentration that has been widely discussed is real, but pockets of the market outside of technology, particularly financials and other beneficiaries of strong deal activity, are experiencing their own strong cycle. The question going forward is whether this deal-driven strength can sustain itself if AI-related listings pause and interest rates stay elevated.

Bottom line for investors

Last week captured a lot of mixed movements. A cooler inflation reading and a strong start to earnings season would ordinarily be a positive backdrop for equities. Instead, markets were pulled lower by concerns about AI valuations, elevated oil prices, and questions about the pace of AI infrastructure spending. Underneath it all, U.S. banks reported one of their strongest quarters ever, driven in part by the same AI-related capital markets activity that is now being reassessed.

The message for portfolios remains consistent. Diversification across sectors, regions, and asset classes helps absorb volatility when several themes are moving at once, and the current environment is a useful reminder that market leadership can rotate quickly.

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