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Weekly Market Tides

Weekly Market Tides: Trends to Watch

August 4, 2026

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A strong start to August, a lesson in concentration risk, and a mixed economic picture

1. Markets kicked off August with a broad rally

U.S. equities opened August with one of their strongest sessions of the summer. On Monday, the Dow Jones Industrial Average closed at a record high, gaining nearly 700 points, while the S&P 500 rose approximately 1.5% and the Nasdaq Composite gained 2.1%. Two developments drove the rally. First, mega cap technology stocks led the day's advance, with Meta, Microsoft, Alphabet, and Amazon each gaining around 5%, and Amazon crossing the \$3 trillion market capitalization mark for the first time. Second, oil prices fell sharply after the U.S. paused planned strikes on Iran, easing inflation concerns and lowering Treasury yields. Asian markets also rebounded, with SK Hynix rising roughly 5% and Korea's Kospi gaining 1.5%. Monday's rally followed a mixed end to July. The Federal Reserve held its policy rate steady at 3.5% to 3.75% last Wednesday, though the decision was not fully unanimous. In the days that followed, longer-dated Treasury yields moved higher on renewed concerns about inflation and fiscal risks. Last week's Big Tech earnings from Microsoft, Amazon, Meta, and Apple delivered mixed results. Microsoft rallied strongly on a 43% year-over-year jump in Azure cloud revenue, and Amazon posted a similarly clean beat with continued AWS growth. Meta, by contrast, fell nearly 10% after an earnings miss on legal and severance charges compounded concerns about the pace of its AI capital investment. Apple declined on softer-than-expected services growth despite topping both revenue and profit estimates. On the Canadian front, GDP expanded 0.3% in May, the second consecutive monthly

gain and slightly above expectations. This week's calendar includes corporate earnings from AMD and SpaceX after the close today, and Friday's U.S. jobs report.

2. A hedge fund unwind offers a lesson in concentration and leverage

A separate development last week offered a real-time reminder of the risks of concentration and leverage. Situational Awareness, an AI-focused hedge fund founded in 2024 by 25-year-old former OpenAI researcher Leopold Aschenbrenner, saw its portfolio collapse from a peak of roughly \$45 billion, to approximately \$10 billion by the end of July. The fund held concentrated positions in AI infrastructure names, including semiconductor and data centre stocks. It had also used significant leverage, which means it had borrowed money to amplify its bets. For every dollar of its own capital, lending banks had extended roughly three additional dollars in credit, giving the fund four times the market exposure it would have had with cash alone. When AI infrastructure stocks corrected sharply in July, that arrangement worked against the fund. As the value of its holdings fell, its lenders issued margin calls, which are demands for additional collateral to secure the loans. Situational Awareness was ultimately forced to sell its public equity portfolio to Citadel at a discount. Multi-strategy fund Millennium Management is reported to have reviewed the distressed portfolio and declined to bid. Situational Awareness had reportedly gained more than 1,500% since its 2024 launch, including a 439% return through the first half of 2026, before losing 67% in July alone. The episode is a reminder of two well-established principles. First, concentration in a single theme, however compelling the underlying story, can produce rapid drawdowns when sentiment shifts. Second, leverage magnifies moves in both directions. Neither point argues against exposure to AI or technology broadly, but both underscore the importance of position sizing and structural discipline.

3. U.S. economic data continues to send mixed signals

The economic backdrop for markets has been sending mixed signals in recent weeks. On the positive side, U.S. manufacturing data was stronger than expected on Monday, with the ISM Manufacturing PMI rising to 55.6, up from 53.3 in June and above the 54.0 forecast. That reading marked the strongest manufacturing activity in more than four years. On the softer side, the labour market has been showing signs of cooling. The June jobs report, released in early July, showed nonfarm payrolls rising by 57,000, well below expectations of around 115,000. Payroll figures for April and May were revised lower, and the labour force participation rate fell to its lowest level since early 2021. Combined with inflation still running above the Federal Reserve's 2% target, this creates a policy dilemma. If the labour market continues to cool, pressure to reduce interest rates will grow, but with inflation elevated, policymakers have kept the door open to a possible rate hike

rather than a cut. Friday's release of the July jobs report will be an important data point. A meaningfully weak reading could shift market expectations toward eventual easing, while a stronger reading would reinforce the Fed's current stance.

Bottom line for investors

The past week captured a shift in tone. Concerns that had weighed on markets in July, particularly around AI-related spending and Middle East tensions, have somewhat eased, and Monday's rally reflected a market willing to buy into the improved narrative. But the story is more nuanced beneath the surface: not all Big Tech reports were equally rewarded, a prominent AI-focused hedge fund unwound a large concentrated position under margin pressure, and Friday's jobs report will be an important next signal on the health of the U.S. economy.

The message for portfolios remains consistent. Diversification across sectors, regions, and asset classes helps to maintain resiliency when narratives shift quickly, as they have this year. The current environment is also a useful reminder that concentration in any single theme carries real drawdown risk when sentiment shifts, and that leverage magnifies both gains and losses.

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