

INVESTMENT COMMENTARY & OUTLOOK

July 2026

The second quarter was the best performing quarter for both the NASDAQ Composite and the S&P 500 in the past six years, so expectations remain very high since economic growth is clearly accelerating. Our favorite economist, Ed Yardeni, pointed out that we are in the midst of a FOMO (Fear of Missing Out) market and industry analysts are estimating that the S&P 500 will post 26.1% annual earnings growth for 2026 and 17.8% for 2027.

Since our fundamentally superior stocks are not appreciating as fast as their underlying earnings, price-to-earnings (PE) ratios are being compressed. The stock market is expected to remain strong because we should have wave after wave of positive earnings announcements to look forward to in the upcoming weeks, as well as the rest of this year. Also, due to rising household wealth for the 50% of Americans who invest in the stock market, some of this “wealth effect” is expected to filter down and help boost prosperity for all Americans as the velocity of money increases.

Interestingly, the biggest inflation catalyst is now soaring memory prices, which is why Micron Technology’s revenues surged 345.8% to \$41.46 billion, compared to \$9.3 billion in the same quarter a year ago. During the same period, the company’s earnings soared 1,368.5% to \$28.24 billion or \$24.67 per share, compared to \$1.89 billion or \$1.68 per share! Excluding extraordinary items, Micron Technology’s operating earnings were \$25.11 per share. The analyst community was expecting revenue of \$35.25 billion and operating earnings of \$20.28 per share, so the company posted a 17.6% revenue surprise and a 23.8% earnings surprise. Micron Technology also raised its quarterly guidance to between \$49 billion and \$51 billion in revenue, which was substantially higher than analysts’ consensus estimate of \$43.2 billion. Due to higher memory prices, Apple announced it has raised the price of its computers and iPads due to the higher price of memory. Microsoft reduced the RAM in its surface laptops to avoid a price increase, but obviously, if you add the RAM back in, the price increases.

Despite this temporary inflation from the memory shortage, the Institute of Supply Management (ISM) announced its price component in its manufacturing index plunged to 73 in June, down from 82.1 in May. This was the largest monthly drop in the price component in almost four years (since July 2022) and signaled that commodity inflation is cooling off! Furthermore, the Labor Department announced the unemployment rate declined to 4.2% in June, down from 4.3% in May, due largely to 720,000 people leaving the labor force. In the June payroll, job creation was below economists’ consensus expectations. As

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a result of moderating commodity inflation which is being caused by a strong U.S. dollar, as well as a weaker than expected June payroll report, Treasury yields continue to meander lower and may eventually set the Fed up for another key interest rate cut later this year.

New Fed Chairman Kevin Warsh recently attended a European Central Bank (ECB) Forum in Portugal. At the ECB conference, Warsh followed new Fed policy and refused to provide forward guidance after repeated questions from moderator Sara Eisen. The more significant thing that Warsh said was that the Fed would let the financial markets dictate Fed policy, so essentially, if Treasury yields decline, the Fed would follow, and cut key interest rates. This was not an outrageous statement by Warsh but instead an acknowledgement that the bond vigilantes (large institutional investors) essentially remain in charge of influencing Treasury yields and central bank policy. It is well known in bond circles that the 2-year Treasury yield leads the fed funds rate, and that the Fed looks at it, even though it has never been officially acknowledged.

Warsh is in the midst of rethinking all the economic models the Fed utilizes to track inflation and wants his staff to dig to find the catalysts behind inflation, so the Fed can be more proactive instead of reacting too little too late, like it has in the past several years. The good news is Warsh knows that AI is not inflationary and should dramatically boost productivity, which in turn should substantially boost GDP growth. I am expecting that third quarter GDP growth will accelerate to at least a 5% annual pace due to relentless onshoring, booming U.S. energy exports, strong retail sales growth and AI productivity gains.

In the wake of America's 250th birthday party, we certainly hope investors "pinch themselves" and realize that we are in a truly wonderful time. While both Europe and the U.S. suffered from heat domes, at least in America our regulators are not opposing the installation of air conditioning, unlike the mayor of Paris. Furthermore, most of Europe's electricity is too expensive to encourage data centers, but Poland is an exception. So, while much of Europe flounders when it gets hot, at least in America, we are blessed with substantially cheaper electricity and continue to outpace the world in economic growth. In fact, many European World Cup fans have marveled at American prosperity and realized that the U.S. is truly a special, entrepreneurial oasis where literally anyone can succeed.

The fact that one American stock, Nvidia, is worth more than the French, German and Italian stock markets combined, says it all. We should add that Nvidia is also worth more than the entire British stock market. Technology in America is celebrated, while increasingly in Europe it is merely being taxed, as well as excessively regulated. About 30 years ago the EU and the U.S. had the same GDP per capita. Today, the EU GDP per capita is 65% that of the U.S. due to their slower economic growth riddled with too much regulation.

President Trump on Truth Social recently said, "Numerous European Countries have been discussing the imminent implementation of a Digital Services Tax on American Companies. Some of these Countries are close to actually doing this. Please let this statement serve to represent that any Country that imposes such a Tax will immediately be met with a 100% TARIFF on any and all Goods sent to the United States of America. This TARIFF will supersede Trade Deals made with the Country, whether implemented, signed, or not. Additionally, the 100% TARIFF will be immediately imposed, if they proceed."

Apparently, we are at war with the EU and the fight over taxing America technology companies persists! Much of the negative media emanates from the British and European press. We realize that Europe has been hot and miserable lately, however, that is no reason to trash America.

Finally, CNBC continues to try to throw cold water on the AI boom and, as an example, interviewed British investor Jeremy Grantham, who is a perma bear. On CNBC's Squawk Box, Grantham said, "Based on the value of the stock market compared to GDP, with modifications, this is the most expensive market in American history." Folks, first Jeremy Grantham is a bond investor who has never liked stocks to my knowledge. Second, clearly Jeremy Grantham does not look at earnings growth, order backlogs, analyst earnings revisions, earnings surprises and forecasted price-to-earnings ratios. We cannot fix stupid folks, so why CNBC would have such an un-American, negative naysayer on Squawk Box is shocking. We should also add that Joe Kernan gave Jeremy Grantham a hard time and pointed out that he has been bearish since 2010 and wrong with his market forecasts.

So, we have a choice in America. We can oppose air conditioning and data centers like they do throughout much of Europe, or we can instead be comfortable (via air conditioning) and prosper (from AI and data center investments). Furthermore, we can choose to complain about everything and blame technology companies, or we can follow many technology leaders and get rich with them. In the end, we have to decide whether we are "born to bitch" or instead, merely want to grow and prosper. At Navellier & Associates, we have chosen to grow and prosper. The current economic and market environment is the best since 1999 and it would be a shame if investors listened to naysayers like Jeremy Grantham and missed the best stock market environment in almost three decades. We hope you share our enthusiasm for America, accelerating GDP growth and the incredible earnings market we are in the midst of that should persist based on our forecasted sales and earnings for our portfolios:

<https://navellier.com/sales-and-earnings-projections/>

SUMMARY

Our fundamentally superior stocks are prospering from a stunning earnings environment as well as a booming domestic economy. America remains an economic engine for the world. A strong U.S. dollar naturally suppresses commodity inflation and benefits domestic companies that are thriving from onshoring, the data center boom, rising energy exports and strong retail sales. The truth of the matter is it is downright un-American to not be optimistic.

The third quarter is expected to be characterized by 5% annual GDP growth, which Louis predicted last December on Fox Business. Between the onshoring, increasing energy exports, strong retail sales growth and AI productivity gains, America cannot lose, so we expect 5% GDP growth to finally arrive. We expect earnings growth to continue to accelerate. As a result, we have high expectations for our fundamentally superior stocks and expect continued appreciation in the upcoming months.

Enjoy the ride!

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LOUIS G. NAVELLIER
CEO/Chief Investment Officer



MICHAEL GARAVENTA
Portfolio Manager

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