Will High Oil Prices Force The Fed's Hand

The FOMC meeting concludes today with the rate decision at 2:00 PM ET, followed by Warsh?s press conference at 2:30 PM. Heading into today?s announcement, the market is placing 62% odds the Fed holds rates at the current 3.50% to 3.75% range. However, as we share below, market expectations for a September rate hike are running at 82%. Will high oil prices and their impact on inflation force the Fed?s hand today and/or in September?

The FOMC dot plot from June showed the committee split evenly: nine of eighteen officials forecasted at least one hike before year-end, the other half favored holding or even cutting rates. Chair Warsh didn?t submit a projection. There are no new dot plots until September, assuming the Fed continues to release them. Thus, the FOMC statement language and the tone of Warsh?s press conference will be the best signals for investors trying to understand what the Fed?s next move is.

Policy timing is difficult for the Fed. June CPI cooled from 4.1% to 3.5%, giving the FOMC cover to hold. However, oil prices have gained over 20% in the last two weeks, and Houthi tanker attacks in the Red Sea may mean high oil prices become sticky. Thus, will the Fed hike rates primarily due to high oil prices? While inflation stability is their mandate, oil prices are high solely because of the Iranian conflict. Higher rates will slow the economy, but it will have negligible impact on oil prices. &#2013266080;

Assuming they don?t hike rates, the vote count in favor of a hike today and Warsh?s tone are key barometers of Fed policy. In particular, will Warsh treat high oil prices as noise, or will he use it to take a more hawkish case?

What To Watch Today

Earnings

Wednesday Jul 29							
Microsoft MSFT:US	- / 4.24	3.65	- / 87.61B	76.4B	$3.15T	Q4	PM
Meta FB:US	- / 7.18	7.14	- / 60.18B	44.80B	$1.69T	Q2	PM
Costco Wholesale COST:US	- / 4.89	5.87	- / 68.67B	86.16B	$444.49B	Q4	PM
P&G PG:US	- / 1.42	1.48	- / 21.46B	20.89B	$351.92B	Q4	AM
Lam Research LRCX:US	- / 1.68	1.33	- / 6.65B	5.17B	$344.18B	Q4	PM
Amphenol APH:US	- / 1.16	0.81	- / 8.18B	5.7B	$178.91B	Q2	AM
Equinix EQIX:US	- / 4.62	3.75	- / 2.58B	2.26B	$105.28B	Q2	PM
Johnson Controls JCI:US	- / 1.29	1.05	- / 6.46B	6.05B	$97.55B	Q3	AM
General Dynamics GD:US	- / 3.92	3.74	- / 13.44B	13.04B	$93.19B	Q2	AM
Boston Scientific BSX:US	- / 0.83	0.75	- / 5.37B	5.06B	$89.89B	Q2	
O'Reilly Automotive ORLY:US	- / 0.86	0.78	- / 4.87B	4.53B	$78.38B	Q2	PM
Robinhood HOOD:US	- / 0.41	0.42	- / 1.22B	989M	$72.41B	Q2	PM
Fortinet FTNT:US	- / 0.74	0.64	- / 1.89B	1.63B	$69.00B	Q2	PM
AutoZone AZO:US	- / 36.2	48.71	- / 4.86B	6.24B	$61.04B	Q4	AM
L3Harris Technologies LHX:US	- / 2.80	2.78	- / 5.78B	5.4B	$60.93B	Q2	AM
Public Storage PSA:US	- / 2.53	1.76	- / 1.23B	1.2B	$52.24B	Q2	PM
Entergy ETR:US	- / 1.13	1.05	- / 3.61B	3.02B	$49.17B	Q2	AM
CBRE Group CBRE:US	- / 1.50	1.19	- / 11.19B	9.8B	$45.69B	Q2	AM
Old Dominion Freight Line ODFL:US	- / 1.49	1.27	- / 1.51B	1.41B	$45.57B	Q2	AM
Chipotle Mexican Grill CMG:US	- / 0.32	0.33	- / 3.33B	3.1B	$44.95B	Q2	PM
WEC Energy WEC:US	- / 0.83	0.76	- / 2.11B	2.01B	$36.39B	Q2	AM
Ventas VTR:US	- / 0.14	0.15	- / 1.67B	1.42B	$35.42B	Q2	PM
Vici Properties VICI:US	- / 0.71	0.82	- / 1.04B	1B	$29.83B	Q2	PM
Humana HUM:US	- / 7.23	6.27	- / 40.56B	32.39B	$29.31B	Q2	AM
Biogen BIIB:US	- / 3.21	5.47	- / 2.43B	2.6B	$28.34B	Q2	AM
Cognizant Technology Solutions CTSH	- / 1.38	1.31	- / 5.49B	5.25B	$27.11B	Q2	AM
Verisk Analytics VRSK:US	- / 1.93	1.88	- / 804.07M	773M	$26.98B	Q2	AM

Economy

Wednesday July 29 2026			Actual	Previous	Consensus	Forecast
06:00 AM	US	MBA 30-Year Mortgage Rate JUL/24		6.69%		
09:30 AM	US	EIA Crude Oil Stocks Change JUL/24		2.011M	-2.50M	
09:30 AM	US	EIA Gasoline Stocks Change JUL/24		0.765M	-1.71M	
01:00 PM	US	Fed Interest Rate Decision		3.75%	3.75%	3.75%
01:30 PM	US	Fed Press Conference				

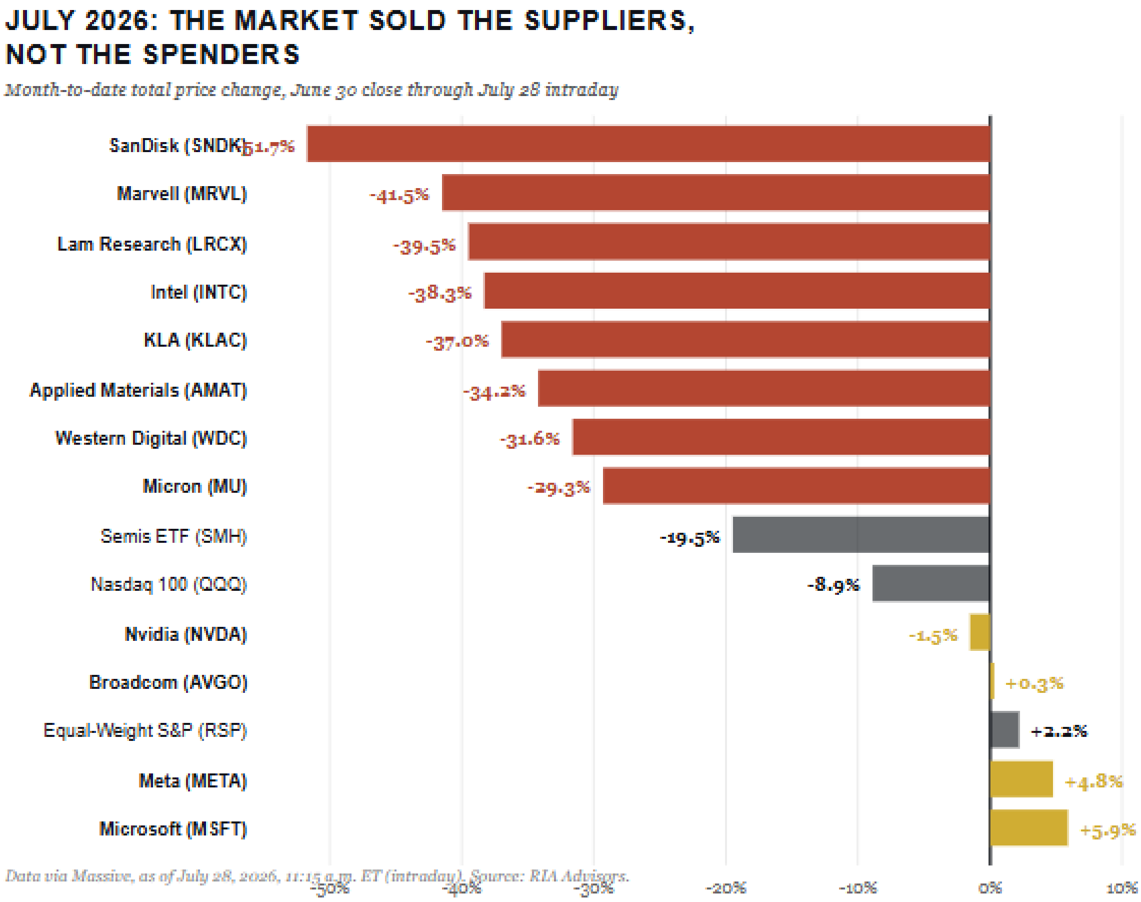
Market Trading Update

In yesterday?s report, we discussed&#2013266080;***how small caps have quietly won all year while the mega-caps wobbled***. Today, I want to answer the question filling my inbox: the leveraged AI trade is unwinding, so has anything actually broken inside these companies, and is this the entry point patient investors have waited for?

In short, the fundamentals have not changed, and that matters far less than you think. The opportunity is real, just not where everyone is digging.

Start with the businesses. Lam Research reports tonight, and the Street is looking for 29% revenue growth and 27% earnings growth. Arm just finished its third straight year of revenue growth above 20%. Memory remains tight enough that it capped Qualcomm?s handset revenue last quarter. Nothing in that is deteriorating.

Now look at what July did to them anyway.



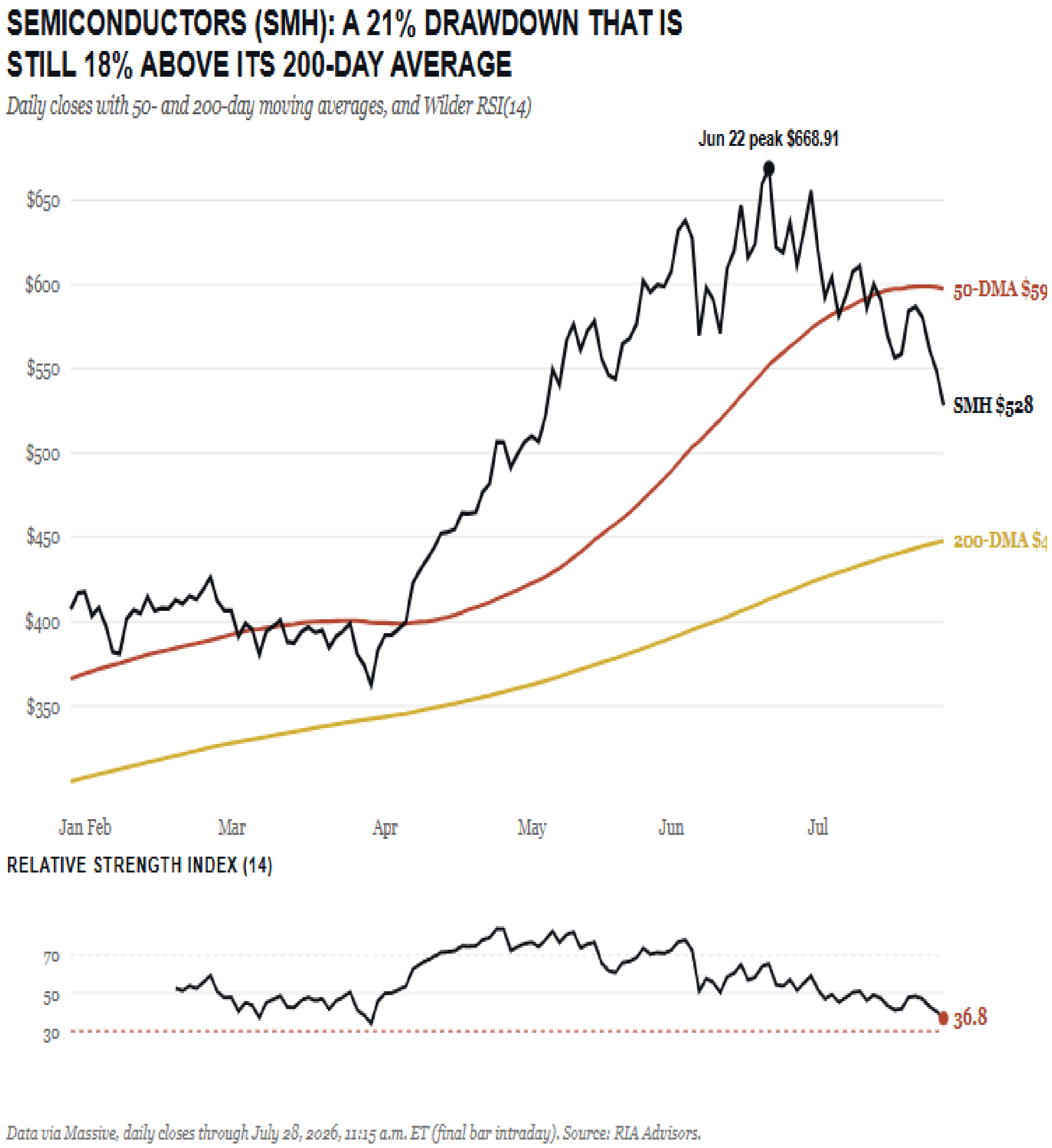
July has not been a semiconductor selloff so much as a repricing of the AI capital-spending supply chain. The companies doing the spending went up.

That is not a liquidation, as liquidations are indiscriminate. This one is very surgical, and investors who took on leverage to chase a trade are being liquidated. The market dumped everything, selling picks and shovels and moved to the hyperscalers. Microsoft is up 5.9% this month, and Meta is up 4.8%, both while their own supply chains have surrendered a third of their value. Nvidia is off just 1.5%.

What changed is the sign on capital spending. When Alphabet guided 2026 capex toward $205 billion last Thursday, the stock shed 7%, and roughly $300 billion of market value, and free cash flow turned negative for the first time ever. Two years ago, that identical sentence was a buy signal. As I warned***&#2013266080;last Frid***ay, the capex depreciation bill ultimately hits the income statement, but the market will eventually fully price it in. That process has started.

Follow the logic. If capex is cresting, spenders? free cash flow inflects upward, and suppliers? revenue inflects downward. Same thesis, opposite signs. That is why the equal-weight index closed at a record yesterday, while the Nasdaq 100 sits down 8.9% for July, and why energy, staples, financials, and healthcare all gained between 5.7% and 10.3% this month.

So focus where the cash flow is going,&#2013266080;**NOT**&#2013266080;where the drawdown is deepest. The names off 40% are commodity cyclicals rolling over at a capacity peak, and ?cheap? is not a level you can locate three weeks into a capex top.



A 21% drawdown that has not yet produced an oversold RSI reading, with the 200-day average still 15% below the current price.

Semis have already handed back 21% from the June high, yet RSI sits at 36.8, which is not oversold, and the 200-DMA waits another 15% lower. The VIX is 18.77. Nobody has been forced to sell yet.

Now, I can be wrong in one specific way. If Microsoft and Meta both guide 2027 capex sharply higher tonight, my framing inverts, the suppliers catch a bid, and the platforms take Alphabet?s punishment. We will see what happens and react accordingly.

Trade accordingly.

High Margins Draw Competition For Chipmakers

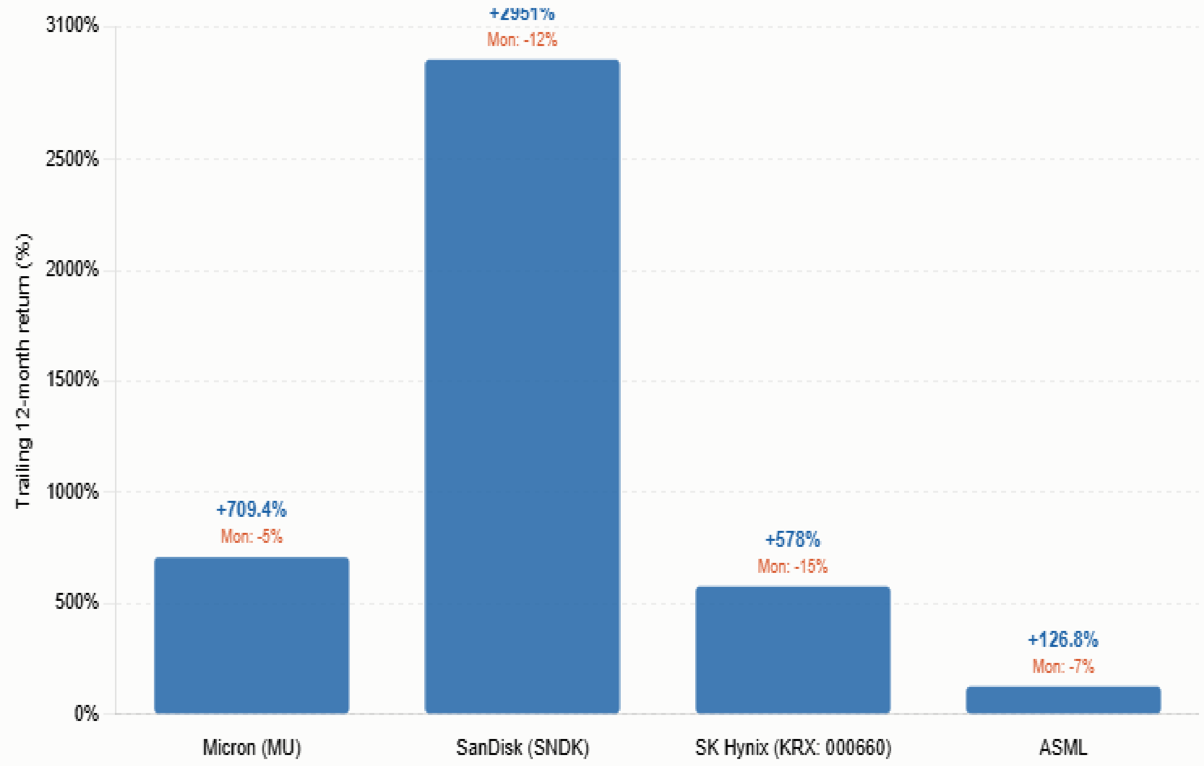
China?s ChangXin Memory Technologies (CXMT) surged 466% on its Shanghai IPO Monday. That price action briefly made CXMT China?s most valuable listed company, with a market cap of nearly $500 billion. In reaction, CXMT?s competitors Micron fell 5%, SanDisk dropped 12%, SK Hynix?s ADRs slid 9%, and ASML lost more than 7%.

The news is not as bad as the market reaction appears for the chip makers. CXMT earns almost all of its revenue from commodity DRAM (dynamic random access memory), with little HBM (high-bandwidth memory) production, a product heavily relied upon by AI hardware and with the highest margins. It?s worth adding that CXMT lacks access to ASML?s extreme ultraviolet lithography systems, the tool required to manufacture AI-grade HBM. Nomura projects CXMT?s global DRAM share will increase from roughly 10% today to about 18% by 2028. Micron has been demphasizing DRAM production as it?s a low-margin commodity.

Monday?s sell-off in chip companies on news of the CXMT IPO looks like continued profit-taking, coupled with momentum traders exiting the sector. The moat around AI-grade HBM remains intact. What changed is that DRAM has more competition.

The graph below shows that the one-year returns for the stocks mentioned in the opening paragraph remain incredibly high but, in most cases, are 20-40% of the peaks.

Memory and lithography stocks, trailing 12-month return through July 27-28, 2026 — Real Investment Advice



Sources: Massive Market Data (Polygon.io) for Micron, SanDisk, and ASML, comparing July 27-28, 2025 closing prices to July 27, 2026 closing prices. SK Hynix reflects its Korea-listed shares (KRX: 000660), trailing 1-year return per Investing.com, since its Nasdaq ADR only began trading July 10, 2026 and has no comparable 12-month history. SanDisk's extreme return partly reflects its February 2025 spinoff from Western Digital at a depressed starting valuation. All four stocks fell Monday, July 27, on fears tied to China's CXMT IPO, shown in orange text, those declines do not offset the trailing 12-month gains shown in the bars.

Tweet of the Day

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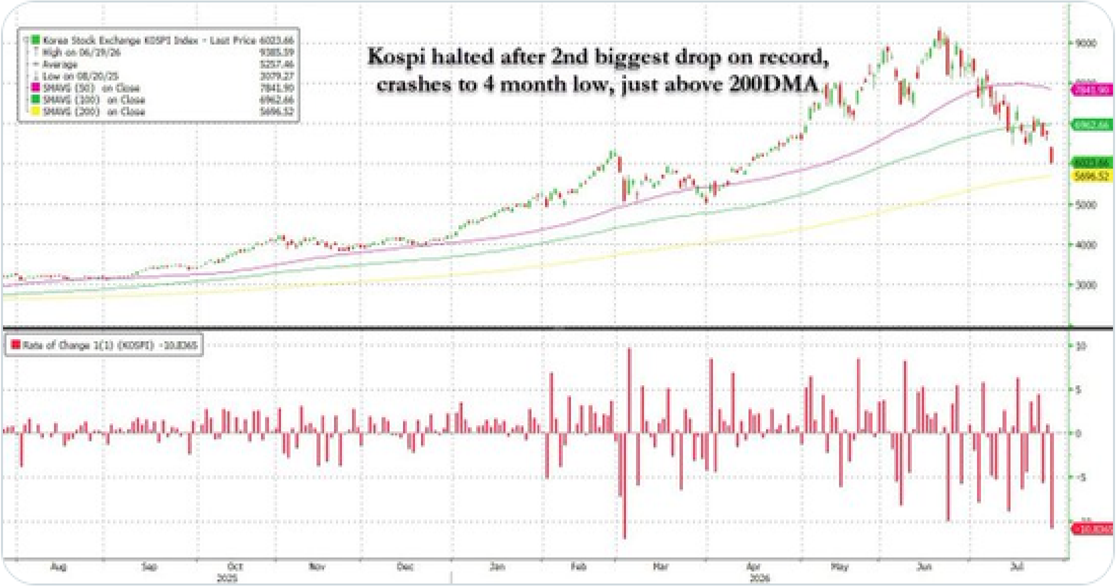
Korea just about ready for that IMF bailout: Kospi halted 20 mins after crashing 10.8%, 2nd biggest drop on record, 200DMA is the last support. Millions liquidated after relentless margin calls on levered ETF products.



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