Market & Legal Update
July 2026

Stay on top of the latest market developments and legal and regulatory updates that may affect your business.

MARKET UPDATE | Record Highs in the Rearview, Turbulence Ahead

U.S. equity markets pushed to new all-time highs early in July, but leadership beneath the surface continued to shift as investors rotated away from semiconductor and AI-linked stocks and toward more diversified areas of the market. Weak labor market data, moderating economic growth, persistent inflation pressures, a contentious Federal Reserve meeting and renewed Middle East tensions created volatility throughout the month. The Dow Jones Industrial Average returned 0.4% for the month, with the S&P 500 and the technology-heavy NASDAQ down 0.1% and 3.2% respectively. All three indexes remain strongly positive on the year, with respective returns of 10.2%, 10.1%, and 9.2%. International developed markets, as measured by the MSCI EAFE Index, returned 2.0%, while the MSCI Emerging Markets Index was down 3.1%. On the fixed income side, the Bloomberg U.S. Aggregate Bond Index fell 1.3% as Treasury yields moved higher, with the 10-year Treasury yield ending the month at 4.75%, up from 4.44% at the end of June.

Market Return Indexes	July 2026	YTD 2026	2025
Dow Jones Industrial Average	0.4%	10.2%	14.9%
S&P 500	-0.1%	10.1%	17.9%
NASDAQ (price change)	-3.2%	9.2%	20.4%
MSCI Eur. Australasia Far East	2.0%	11.6%	31.2%
MSCI Emerging Markets	-3.1%	20.0%	33.6%
Bloomberg High Yield	-0.3%	1.7%	8.6%
Bloomberg U.S. Aggregate Bond	-1.3%	-0.7%	7.3%
Yield Data (Month End)	**July 2026**	**June 2026**	**May 2026**
U.S. 10-Year Treasury Yield	4.75%	4.44%	4.45%

The month began with a jolt from the labor market when the Bureau of Labor Statistics released the June employment report on July 2, showing nonfarm payrolls grew by just 57,000, roughly half of consensus expectations and the softest reading in several months. The unemployment rate edged down to 4.2%, but that improvement was partly attributable to a meaningful decline in labor force participation rather than broad-based job growth. The report reinforced a broader narrative that has been built throughout 2026 of positive economic growth that is gradually losing momentum.

Positive economic growth is **gradually losing** momentum.

On the inflation front, the June Consumer Price Index (CPI) report released in July offered welcome, but cautious, relief. Headline CPI fell a seasonally adjusted 0.4% for the month, its steepest monthly decline since April 2020, bringing the annual inflation rate down to 3.5% from 4.2% in May. Core CPI, which excludes volatile food and energy prices, was flat on a monthly basis and decelerated to 2.6% year-over-year. More importantly, the Federal Reserve's preferred inflation gauge, the Personal Consumption Expenditures (PCE) Price Index, declined 0.1% in June and rose 3.7% from a year earlier, while Core PCE increased just 0.1% during the month and 3.3% year-over-year. Although inflation has moderated from recent highs, both PCE measures remain above the Federal Reserve's 2% target, reinforcing the Fed's continued cautious approach to monetary policy.

The Federal Reserve held its benchmark interest rate steady at 3.50% to 3.75% at its July meeting, marking the fifth consecutive meeting without a policy change. The decision featured an unusual 9-3 vote, with three members dissenting in favor of a rate increase. Chair

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Kevin Warsh reiterated that inflation remains above target and offered little guidance on the future path of policy, contributing to a rise in long-term Treasury yields as investors reassessed the likelihood and timing of future Fed actions.

Earnings season highlighted a growing divide between mixed technology fundamentals and investor expectations. Markets increasingly demanded evidence that significant AI-related capital expenditures would generate meaningful returns. As a result, semiconductor and AI-linked stocks that had led much of the market's advance faced increased scrutiny, while investors showed greater interest in companies demonstrating earnings durability, free cash flow generation and disciplined capital allocation. Apple's ascent to become the world's most valuable public company reflected this shift in late July, as investors rewarded a more measured approach to AI spending relative to several of its peers. The changing market backdrop was also evident in broader market participation. Through July 20, there had been 52 trading days during 2026 where the S&P 500 moved in one direction while a majority of its constituents moved in the other, highlighting a growing divergence between index performance and underlying market breadth.

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Geopolitical risks also reasserted themselves during the month, most notably in the Middle East. After signs of easing tensions contributed to the decline in energy prices during June, renewed hostilities involving Iran and U.S. interests reintroduced uncertainty into global energy markets. Oil prices rebounded sharply during portions of July, with Brent crude climbing back above $100 per barrel mid-month, raising concerns that the inflation relief provided by lower energy costs could prove temporary. The unpredictable nature of the conflict remains an important risk for both inflation and economic growth moving forward.

The advance estimate of second-quarter GDP showed the U.S. economy expanded at an annualized rate of 1.5%, down from 2.1% in the first quarter. While the headline figure pointed to moderating growth, the details beneath the surface were more encouraging. Consumer spending accelerated to a 3.2% pace, business investment remained strong and a measure of underlying private-sector demand reached its fastest growth rate since early 2023. Much of the drag on headline GDP came from a surge in imports, particularly technology equipment and semiconductors tied to the ongoing AI buildout, which subtract from GDP calculations despite supporting business investment and economic activity.

July served as a reminder that record highs do not eliminate risk. Although the economy remains resilient, the backdrop facing investors has become increasingly complex. Economic growth is moderating, inflation remains above the Federal Reserve's target and investors are increasingly demanding evidence that elevated valuations and substantial AI-related investments can be supported by future earnings growth. Ongoing uncertainty in the Middle East continues to carry implications for energy prices and inflation, while a Federal Reserve that has provided limited clarity regarding its policy path leaves markets particularly sensitive to incoming economic data. As investors gradually begin turning their attention toward the 2026 midterm election cycle, the remainder of the year may prove more dependent on earnings growth, economic fundamentals and policy developments than the relatively narrow group of companies that has driven much of the market's advance. Together, these factors may create a more challenging backdrop than the one investors have enjoyed for much of the year.

LEGAL UPDATE | Retirement Plan Issues in Mergers and Acquisitions: Practical Guidance for Plan Sponsors

Corporate mergers and acquisitions (M&As) are continuing at a substantial pace and can impact sponsors of retirement plans regardless of business type or size. Retirement plan considerations remain an important but frequently overlooked component of deal planning and due diligence.

In a previous update, we reviewed legal and technical retirement plan issues that arise in mergers and acquisitions including plan terminations, mergers, spinoffs, due diligence considerations and post-transaction compliance issues. Building on that discussion, this update focuses on the practical application of those concepts and provides actionable guidance for plan sponsors navigating a transaction.

Too often, employee benefit and retirement plan issues are addressed late in a transaction process after key terms have been negotiated and timelines established. Organizations that include retirement plan considerations early in the transaction process are better positioned to identify liabilities, negotiate contractual protections and develop a plan that minimizes disruption for both the business and retirement plan participants.

An Ounce of Planning is Worth a Pound of Correction

Retirement plans often fall into the "fix it later" category during a transaction. While the IRS and Department of Labor offer correction programs for operational and compliance failures, corrections frequently require considerable time, administrative effort and professional fees. Many of these issues can be identified and addressed during deal negotiations and due diligence before they become post-closing problems. Early coordination among legal, HR, payroll, finance and retirement plan professionals can significantly reduce transaction risk and integration challenges.

Practical Considerations for Plan Sponsors

1. **Address retirement plan issues early—before deal terms and timelines are set.**
2. **Coordinate among legal, HR, payroll, finance and retirement plan professionals to reduce risk and integration challenges.**
3. **Key decisions before closing:**
   - What happens to seller's plans (maintain, merge, freeze, spin-off, terminate)?
   - How will eligibility and service be credited? Are plan amendments needed to harmonize provisions?
   - Will payroll and service providers be consolidated?
   - Who is responsible for pre-closing operational failures?
   - Are special pension, nonqualified or collectively bargained plans involved?
   - How will warranties and post-closing correction responsibilities be handled?
   - Review underlying investments for appropriateness, performance and potential risks.

One Transaction, Two Perspectives

One transaction creates different retirement plan priorities depending on which side of the deal you sit on. Sellers generally focus on demonstrating compliance, limiting future liabilities and facilitating a smooth transition for its current employees. Buyers are typically focused on identifying risks, understanding future liability and developing an integration strategy for acquired employees. Recognizing these differing objectives early can help both parties negotiate responsibilities more effectively and avoid post-closing disputes.

Seller Considerations	Buyer Considerations
▪ Review plan documents and fiduciary records for completeness. ▪ Identify and resolve compliance or operational issues before buyer review. ▪ Evaluate executive and deferred compensation impacts, including change-in-control liabilities. ▪ Develop strategies for plans to be frozen, terminated, spun-off or transferred. ▪ Clearly define responsibility for ongoing liabilities and participant communications.	▪ Conduct thorough due diligence on plan documents, operations and historical claims. ▪ Identify operational errors and assign responsibility for correction. ▪ Assess pension, deferred compensation and other arrangements for future liabilities. ▪ Determine necessary amendments and plan for implementation. ▪ Coordinate payroll, recordkeeping, participant communications and service provider transitions. ▪ Evaluate and review the investments held in the acquired plans for risk and performance.

Key Takeaways

- Plan early and involve the right advisors to identify risks and evaluate options.
- Focus on high-impact operational, fiduciary and financial issues.
- Assign clear ownership of action items and communicate with participants.
- Verify accurate implementation after closing and monitor for operational issues.
- Include review of underlying investments as part of due diligence and integration planning.

Mergers and acquisitions can significantly affect retirement plans. Early consideration and integration of retirement plan issues help organizations minimize risk, negotiate protections and ensure smooth transitions for employees.

How USI Can Help

USI's experienced M&A professionals are available to guide your organization through the acquisition process, including retirement plan due diligence, helping you mitigate risk and potential financial impacts. Beyond retirement plan support, USI offers access to a broad range of consulting expertise, including employee benefits and property & casualty services, to help organizations address their evolving needs.

Retirement Resources for You

USI's team of experts is happy to assist employers with all retirement plan compliance matters and changes in the market, including those discussed here, to help you mitigate risk and financial impact to your organization.

To learn more, please contact your USI retirement representative, visit our Contact Us page or reach out to us at information@usicg.com.

Find the address and telephone number of your local USI office here.

For previous market and legal commentaries please click here.

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An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You cannot invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10-Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this time-frame, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment.

The higher the yield, the better the economic outlook.

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