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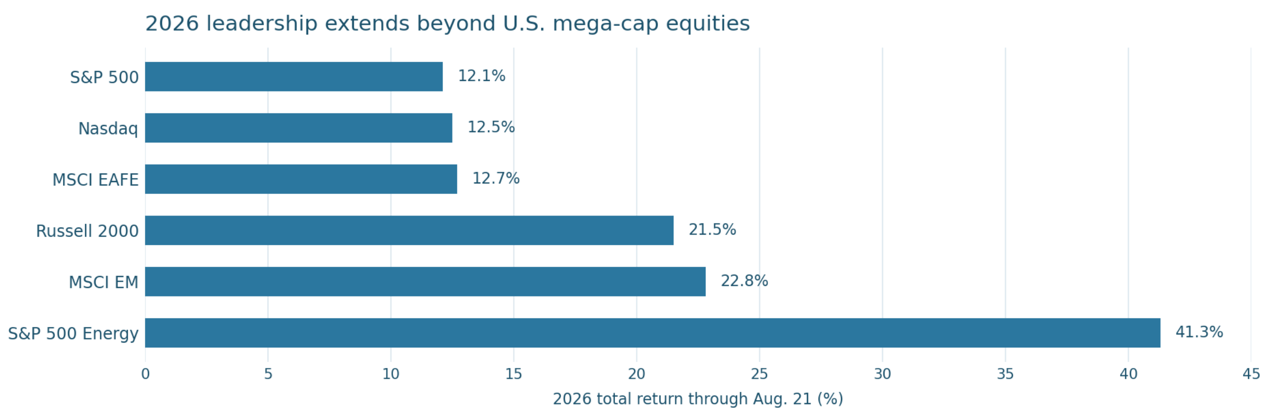
When Markets Stop Moving Together

What August's widening leadership reveals about how we use active management

For much of the last several years, market leadership has often looked like a referendum on the same handful of large technology companies. August is offering a more complicated picture. U.S. equities remain positive for the month, but small caps, emerging markets, energy and selected international markets have become increasingly important sources of return. At the same time, late-August weakness in technology has reminded investors that the same forces supporting artificial intelligence spending can also create valuation and interest-rate risk.

The result is a market with several competing currents rather than one dominant trade. Through August 20, the S&P 500 was up 2.1% for the month, the Nasdaq 2.8%, the Russell 2000 2.2% and MSCI EAFE 1.9%. On a year-to-date basis through August 21, the contrast is more striking: the Russell 2000 had gained 21.5% and emerging markets 22.8%, compared with 12.1% for the S&P 500. Energy, meanwhile, was up more than 41% for the year.[1, 2]



Selected index and sector returns. Source: LPL Research, Aug. 21, 2026.

1. The market is broadening—but not uniformly

The change in leadership matters because it creates more ways to be right. For example, one of our small-cap managers does not need to forecast the next macro regime; its process is designed to exploit investor overreaction and underreaction within a part of the market that has historically been less efficiently priced. Separately, a concentrated U.S. mid-cap manager brings a different source of active risk, and our developed- and emerging-markets managers provide exposure to regions where sector composition, currencies and valuation cycles differ meaningfully from the S&P 500.

This is not an argument that small caps or international equities must continue to outperform. It is an argument that a portfolio becomes more resilient when its active managers are not all dependent on the same source of market leadership. August's broader participation is beginning to reward that distinction.

2. Artificial intelligence is becoming a dispersion trade

AI remains the most powerful investment theme in the market, but our manager research suggests the opportunity is no longer one-dimensional. Several managers are leaning directly into the infrastructure buildout. One Asia-focused portfolio ended the second quarter with roughly 41% in Information Technology and five semiconductor or semiconductor-equipment companies among its ten largest positions. A separate developed-international manager carried approximately 29% in technology versus roughly 12% for its benchmark, with semiconductor capital equipment among its highest-conviction exposures. A U.S. mid-cap strategy has recently added businesses tied to semiconductor equipment, data-center electrical systems and reshoring.

Other managers are deliberately taking the other side. One U.S. large-cap manager remains roughly 15 percentage points underweight technology versus the S&P 500 and is finding opportunities in software, managed care and market-infrastructure companies whose valuations have been pressured by fears that AI could disrupt their business models. Another emerging-markets manager has maintained a significant technology underweight, arguing that portions of memory and software may be earning above sustainable levels. A separate developed-markets manager has refused to chase expensive AI infrastructure, semiconductor, financial and defense-related benchmark leaders when the valuation case does not meet its discipline.

How the same themes are producing different portfolio decisions

Theme	Leaning into it	Playing away / balancing it
AI infrastructure	Asian semiconductors; international semi-cap equipment; U.S. data-center electrical and equipment suppliers	Technology underweights; software and market-infrastructure businesses discounted by AI disruption fears
Energy / inflation	EM energy and utilities exposure; strategies able to express macro views	Growth managers with little commodity exposure; hedged strategies that can reduce net beta
Market breadth	Behavioral small cap; concentrated mid cap; international and emerging markets	Low-cost passive large-cap exposure used as an efficient core rather than forcing active managers to mimic the index
Dispersion	High-active-share stock selection; event-driven and relative-value opportunities	Long/short and multi-strategy portfolios that can profit from winners and losers rather than a single direction

The important point is not which view wins next month. It is that our portfolios contain managers whose conclusions are genuinely different because their research, valuation frameworks and opportunity sets are different. If AI infrastructure continues to dominate, we have managers positioned to participate. If the market begins to reward application-layer businesses, software survivors or companies previously labeled as AI losers, other managers have been building exposure there. That disagreement is a form of diversification.

3. Rates and energy are becoming a second axis of risk

The economic backdrop makes those differences more important. July payrolls declined by 23,000 and the unemployment rate was 4.1%, signaling a cooler labor market. Yet headline inflation was still 3.4% year over year, while energy prices were 14.7% higher than a year earlier. [3, 4] Long-term Treasury yields have also moved sharply higher: the 10-year yield recently approached 4.70% and the 30-year moved above 5% as investors weighed fiscal concerns, oil prices and government debt supply.[5]

That combination—slower employment growth, persistent inflation pressure and higher long-term yields—is difficult for a single-direction portfolio. It raises financing costs, challenges high-duration equity valuations and makes energy and inflation-sensitive exposures more relevant. One emerging-markets manager has moved deliberately in that direction, increasing Energy from roughly 10% to nearly 19% over the past year and Utilities from roughly 8% to 13%, while remaining underweight the technology sectors that drove much of the benchmark rally.

Our diversifying strategies provide another response. One global long/short strategy ended June with approximately 85% long exposure and 51% short exposure, leaving net equity exposure near 34%. Other multi-strategy and long/short allocations can pursue relative-value, macro and event-driven opportunities. They do not require the S&P 500, oil prices or interest rates to move in one specific direction to create an opportunity set.

Portfolio construction, not theme chasing

The most useful lesson from this environment is not that every differentiated manager should be rewarded with more capital. Differentiation has to be paired with a process that remains intact. Recent due diligence on two lagging active managers produced deliberately different decisions. We retained one developed-international strategy because the team, philosophy, valuation discipline and portfolio differentiation remained consistent, even though its holdings had been out of favor. We reduced another active U.S. equity strategy because personnel changes, weakened process discipline and greater benchmark overlap altered the original underwriting case.

That distinction is central to how we are evolving the portfolio. In highly efficient areas of the market, passive exposure can provide a low-cost core. Active managers should earn their place by offering something materially different: specialized research, a distinct opportunity set, disciplined risk controls or a portfolio that can add value when market leadership changes. Diversifiers should provide yet another source of return rather than simply adding more equity beta in a different wrapper.

The portfolio takeaway

> We are not trying to identify one market narrative and build every allocation around it. We are trying to combine independent sources of return, understand why each manager should behave differently, and change exposures when the evidence shows that the original investment case has changed.

August is a useful illustration. The market can reward AI infrastructure, small caps, emerging markets and energy at the same time—and can quickly punish the most crowded part of the technology trade when rates rise. A portfolio built around one consensus view is vulnerable to those shifts. A portfolio built around genuinely different investment processes has more than one way to participate.

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Sources

1. Washington Trust, “Week in Review,” Aug. 21, 2026; index returns shown through Aug. 20.

2. LPL Research, “Weekly Market Performance,” Aug. 21, 2026; YTD index, sector and commodity returns.

3. U.S. Bureau of Labor Statistics, Employment Situation — July 2026, released Aug. 7, 2026.

4. U.S. Bureau of Labor Statistics, Consumer Price Index — July 2026, released Aug. 12, 2026.

5. Associated Press market coverage, Aug. 20 and Aug. 24, 2026, regarding long-term Treasury yields, oil and AI-related equity pressure.

6. Manager positioning and portfolio statistics are drawn from the Piedmont Research Intelligence database and approved reusable manager materials current through Aug. 21, 2026. Manager and strategy names have been removed for confidentiality purposes.