

Doll's Deliberations®

Weekly Investment Commentary



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Summary

Equities advanced again (S&P 500 +1.58%) with the Dow, S&P 500, and Russell 2000 ending the week at all-time highs. Notable were outperformance of equal-weighted averages and cyclicals and underperformance of big tech. Notable outperformers were consumer discretionary (+5.78%) and materials (+4.84%); laggards were utilities (-1.58%), technology (+0.03%), and real estate (+0.36%).

Key takeaways

1. Forecasting the economy right now feels a bit like trying to carve a path through thick jungle undergrowth on a foggy day. There are multiple layers of confusion. – David Kelly, JPMorgan – Jan. 5, 2026
2. Nonfarm payrolls rose an adequate +50,000 m/m in December, but there were downward revisions of -76,000 to prior months. The unemployment rate fell -0.1% to 4.4%. U.S. average hourly earnings were up +0.3 m/m and 3.8% y/y in December. The lower-than-expected unemployment rate likely takes a January rate cut off the table.
3. The most stunning divergence of the past year has been how U.S. consumers say they feel (poor, based on the University of Michigan and Conference Board surveys) versus what they do (keep spending). This consumer resilience has registered in U.S. real GDP readings throughout the year (-0.6% q/q A.R. in 1Q, +3.8% in 2Q, +4.3% in 3Q).
4. U.S. economic growth is poised to improve modestly in 2026 amid supportive monetary and fiscal policy. However, the equity market outlook is more challenging as the launching pad for future returns starts with valuations that are historically rich on earnings growth assumptions that embed considerable optimism.
5. A choppy uptrend in lower-rated corporate credit spreads is a possible early warning sign that the year ahead may be more challenging for risk assets.
6. Only 21% of the S&P 500 companies are expected to grow 2026 revenues 10%+, of which 54% and 35% are in technology and communication services sectors, respectively.
7. The growth rate for the 493 stocks was initially expected to surpass the Mag 7 in the second quarter of this year, but that milestone has now been pushed out to the fourth quarter.
8. Given Venezuelan activities of a week ago, the big takeaway for investors is that President Trump is growing much more comfortable with and confident in the use of military force.
9. The congressional agenda is likely to be light this year and most of the big policy issues for investors will be ones where President Trump has (or will assert he has) the ability to act largely on his own (e.g., tariffs).
10. The persistent uncertainty created by our President, initially centered on trade, then shifting to attacks on the Federal Reserve and now international affairs, continues to put pressure on the dollar.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	2.34	3.03
S&P 500	1.58	1.80
NASDAQ	1.88	1.86
Russell 1000	1.01	1.30
Russell 1000 Growth	0.90	0.64
Russell 1000 Value	2.54	3.47
Russell 2000	3.82	4.92

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	2.38	1.99
Consumer discretionary	5.78	4.57
Consumer staples	2.13	1.99
Energy	2.13	4.26
Financials	1.43	1.76
Healthcare	1.15	1.61
Industrials	2.51	4.44
Information technology	0.03	0.09
Materials	4.84	6.47
Real estate	0.36	0.46
Utilities	-1.58	-0.41

Fundamentals Good, But Stock Prices Reflect That

Risk assets entered the year with significant tailwinds in the form of a good economy, accommodative monetary and fiscal policies, and robust corporate profits. On the surface, these tailwinds point to another year of positive returns for equities, credit and other risk assets. The caveat is that heady optimism is already embedded in asset prices, with equity valuations historically rich, corporate bond spreads tight, and investors assuming benign inflation, further interest rate cuts by the Federal Reserve, and a big and steady future economic payoff from AI.

Despite the comparatively bright economic outlook, it will be tough for capital markets to match the strong and broad-based returns investors have enjoyed over the past few years. Indeed, widespread optimism leaves investors increasingly vulnerable to disappointment in 2026. Investors should not expect smooth sailing over the course of the next year, with higher bond yields likely to eventually weigh on equity valuations. We expect inflation to be above target in 2026, forcing the Fed to cut by less than forecast. Bond yields will accordingly eventually move higher, reinforced by heavy government debt issuance and stepped-up borrowing by tech companies to finance the AI buildout.

The difficulty of handicapping the geopolitical outlook reinforces a moderate pro-risk asset allocation, with the actions in Venezuela the latest source of uncertainty. The U.S. administration will be disposed to take monetary (i.e., forcing the Fed to cut rates more than warranted), fiscal, and foreign policy risk in the run-up to the crucial mid-term elections in November, adding to potential capital market volatility. We do not expect the U.S. Supreme Court decision on tariffs to have a major impact on the U.S. or global economic outlook.

The positive economic and policy outlook warrants continuing to favor equities over bonds within a multi-asset portfolio on a six- to 12-month horizon. Nonetheless, returns on a 60/40 equity/bond portfolio will be lower than last year. Both equities and bonds contributed to overall portfolio returns in 2025 with a 60/40 global equity/bond portfolio rising roughly 20% over the past year. Consensus expectations are for earnings to expand 14% in 2026, markedly faster than underlying nominal GDP growth (likely on the order of 5-6%).

Financial conditions remain highly supportive of asset prices, which is reflected in the declining/low implied volatility of U.S. Treasuries and equities, despite Fed claims that monetary policy is now near neutral after having been restrictive. We expect equities to generate positive returns, but the hurdle for positive earnings surprises is high and we assign good odds of periodic setbacks during the year, especially if bond yields move higher. There are also some potential early warning signs from the credit markets, notably in the form of the widening of U.S. low-rated CCC corporate bond spreads.

Conclusion

The top-down outlook points to the outperformance of equities versus bonds in the year ahead. That said, we expect lower returns for both equities and bonds. Widespread investor optimism/complacency about equities and bonds leaves both asset classes increasingly vulnerable to disappointments.

Source: Bloomberg as of Jan. 9, 2026

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International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	0.97	1.47
MSCI ACWI EX U.S.	1.06	2.03
MSCI EAFE	0.86	1.47
MSCI EM	1.64	3.46

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.13	-0.07
Bloomberg U.S. Corp. High Yield	0.30	0.30
Bloomberg U.S. Gov/Credit	0.11	-0.08
Bloomberg U.S. T-Bill 1-3 Month	0.04	0.07

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	0.71	0.96
Commodities (DJ)	2.46	2.31
Global listed private equity (Red Rocks)	1.42	1.91
Currencies (DB Currency Future Harvest)	0.43	0.52