

# Doll's Deliberations®

## Weekly Investment Commentary



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### Key takeaways

U.S. equities were mostly lower last week (S&P 500 -0.36%), though breadth was positive with equal-weighted S&P 500 outperforming the cap-weighted index by over 100 basis points (bps). Small stocks had another strong week (Russell 2000 +1.93%). Stocks ended the week with no clear directional catalyst. Best sectors were real estate (+4.10%), consumer staples (+3.69%), and industrials (+3.03%); worst sectors were financials (-2.33%), consumer discretionary (-1.99%), and communication services (-1.44%).

### Key takeaways

1. While Core CPI came in below expectations, the details point to a more hawkish Core PCE. (Core CPI rose 0.24%).
2. We expect material tailwinds to tax refunds in the 2026 filing season. Nearly all the calendar-year 2025 stimulus benefits should be received in 2026 tax refunds. This will primarily benefit households with incomes below \$200,000.
3. The DOJ probe of Powell and Trump's push to reshape the Fed are dominating headlines, but GOP pushback, legal uncertainty, and global central bank support have kept financial conditions relatively stable.
4. The recent sharp rise in U.S. margin debt is a sign of excessive financial speculation, whose unwinding could accelerate the downside risks for stock prices if a negative catalyst develops.
5. The rise in the price of copper and other industrial metals may be signaling a stronger U.S. and global economy in 2026.
6. Technology is projected to deliver the strongest Q4 earnings growth (+27%) and provide three quarters of total earnings growth.
7. Despite the outperformance of value over growth of late, value valuation levels remain meaningfully cheaper than growth.
8. The U.S. budget deficit fell 1.3% of GDP in 2025 due to higher tax/tariff revenue, stronger economic growth, and federal spending growing slower than nominal GDP. (The deficit is now below 6% of GDP for the first time in three years.)
9. The proposed 10% cap on credit card rates would have two impacts: lower interest costs and tighter credit. Some economists estimate the net effect to be a 50-basis-point (bp) drag on GDP.
10. In the first half of January, President Trump proposed capping credit-card rates at 10%, subpoenaed the Federal Reserve chair for giving false testimony, arrested the leader of Venezuela, banned institutional ownership of single-family homes, and prepared Mexico, Greenland, Iran, and Cuba for potential military action.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-0.28	2.74
S&P 500	-0.36	1.44
NASDAQ	-0.66	1.19
Russell 1000	-0.24	1.69
Russell 1000 Growth	-1.19	-0.56
Russell 1000 Value	0.65	4.14
Russell 2000	1.93	7.79

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-1.44	0.52
Consumer discretionary	-1.99	2.49
Consumer staples	3.69	5.76
Energy	2.45	6.81
Financials	-2.33	-0.61
Healthcare	-0.98	0.61
Industrials	3.03	7.60
Information technology	-0.64	-0.55
Materials	0.76	7.27
Real estate	4.10	4.58
Utilities	2.10	1.67

## The High-Risk Bull Market Continues

Equity markets have continued to grind higher, with further outperformance by international markets. The benchmark 10-year Treasury yield has remained within its recent flat trend, which is supportive of risk assets. However, many non-U.S. government bond yields have continued to edge higher. Steepening yield curves are a warning that fiscal excesses and/or rising inflation risks are unnerving some bond investors. Ultimately, we expect rising bond yields to trigger the next risk-off phase. So far, accommodative monetary conditions and generally improving economic activity and solid corporate profit growth will help to prolong the Goldilocks backdrop until a negative catalyst develops.

We continue to think the inflation backdrop will disappoint the “return to 2%” narrative that is still the consensus among central banks and most investors. Warning signs include the firming trend in the lowest-rated corporate bond spreads (CCC), in contrast with the still benign and thus supportive trend and level of overall high-yield corporate bond spreads. In addition, last week’s report on U.S. margin debt concluded that conditions are frothy and the equity market is becoming increasingly vulnerable, even though the timing of the next market drawdown is still not clear.

Not surprisingly, gold and silver (and copper) prices have accelerated to the upside because of the overly accommodative monetary backdrop and escalating political/geopolitical tensions. The upside of the central bank dovish bias has been rapid asset price inflation. The financial market (and gold) advance will persist until rates rise or a policy mistake is made. Weak oil prices and lower headline inflation have contributed to holding down long-term inflation expectations. The stimulative impact of low oil prices will ultimately prove inflationary by spurring better growth than would otherwise have occurred at a time when much of the world has little or no economic slack.

The global economic expansion survived last year’s tariff war; in fact, global trade managed to expand against this formidable headwind and heightened overall economic uncertainty. This resilience underscores that the economic foundations are better than central banks perceive and/or policy stimulus worked. The implication is that the global economic expansion will persist. The U.S. economy has solid momentum heading into 2026 and also managed to perform better than many anticipated in 2025 despite the huge increase in tariffs, although the manufacturing sector continues to struggle. Overall U.S. economic prospects remain favorable since the Fed may yet squeeze out another rate cut and fiscal stimulus is set to kick in.

## Conclusion

The Goldilocks backdrop of abundant policy stimulus and ongoing growth will sustain the risk-on phase. Some early warning signs for equity markets have emerged: widening spreads in the lowest-rated corporate bonds; soaring U.S. margin debt; and steepening global yield curves. The “high-risk bull market” continues.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	0.35	2.36
MSCI ACWI EX U.S.	1.53	3.97
MSCI EAFE	1.47	3.53
MSCI EM	1.79	5.29

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.09	0.24
Bloomberg U.S. Corp. High Yield	0.15	0.55
Bloomberg U.S. Gov/Credit	0.13	0.17
Bloomberg U.S. T-Bill 1-3 Month	0.04	0.13

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	2.29	3.56
Commodities (DJ)	1.38	3.72
Global listed private equity (Red Rocks)	1.67	4.38
Currencies (DB Currency Future Harvest)	0.32	0.84

Source: Bloomberg as of Jan. 16, 2026

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