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Doll's Deliberations®

Weekly Investment Commentary

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Stocks fell last week (S&P 500 -0.34%) for the second week in a row. The dollar fell 1.9%, its biggest weekly decline since May. Gold increased 8.4% to yet another new all-time high. Biggest focus last week was on geopolitics and Greenland. Best sectors were energy (+3.12%) and materials (+2.57%); worst sectors were financials (-2.51%) and real estate (-2.36%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-0.50	2.23
S&P 500	-0.34	1.10
NASDAQ	-0.06	1.13
Russell 1000	-0.33	1.29
Russell 1000 Growth	-0.48	-1.04
Russell 1000 Value	-0.21	3.92
Russell 2000	1.53	9.57

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	1.06	1.58
Consumer discretionary	0.67	3.18
Consumer staples	0.99	6.80
Energy	3.12	10.14
Financials	-2.51	-3.10
Healthcare	1.12	1.74
Industrials	-1.60	5.88
Information technology	-0.77	-1.31
Materials	2.57	10.03
Real estate	-2.36	2.11
Utilities	-1.95	-0.31

Key takeaways

1. Some background-looking data are still reflecting a soft patch. But there are now notable green shoots in U.S. cyclical sectors.
2. Defaults among private loans (private credit) are expected to rise this year, especially as signs of stress among less creditworthy borrowers emerge.
3. Stagnant real income reflects a labor market that decelerated in 2025. A sluggish labor market alongside a declining saving rate points to consumption weakness ahead, particularly as lower-income households show increasing signs of stress.
4. The challenge for the next Fed chair is that inflation will likely still be running closer to 3% than 2%.
5. Investors appear to be adjusting their expectations toward fewer rate cuts rather than more. (Expectations have shifted from nearly three cuts to closer to two – our guess remains one at most.)
6. The rate of upward EPS estimate revisions has continued to deteriorate from the peak put in place last fall. Upward revisions have fallen to 51%, suggesting that upward and downward revisions are fairly balanced (far weaker than the 65.5% upward revision rate we saw in early September).
7. One of the hallmarks of a regime change is that leadership presents itself not just on up days, but on down days. We saw that early last week as value beat growth and small beat big both on the big "up" day and the big "down" day.
8. The risk to the credit card industry is elevated following social media posts by President Trump, but the likelihood of action remains well below 50%.
9. The crisis over Greenland, though now defused, has many European leaders worrying about long-term damage. Trump's approach has prompted leaders in Europe and Canada to focus on reducing their countries' economic, technological, and military dependence on the U.S. This is not healthy for attracting investment in U.S. markets.
10. A Wall Street Journal story a few days ago reported "some administrative officials privately came up with a new moniker for the emboldened commander in chief: 'President of the World.'" In the face of dropping poll numbers, Trump is not backing down, he is doubling down, and until last week, financial markets are brushing off growing policy risks.

De-escalation Came in Time Yet Again

The roller-coaster ride in global financial markets, driven by the ebbs and flows of a volatile U.S. administration, had a distinct risk-off tone until the pivot in Davos. Despite the turbulence, existing market trends are still intact, namely uptrends in both equities and bond yields.

The rise in global bond yields was briefly turbo-charged by last week's sharp election call in Japan and the incumbent's proposal for even more unfunded fiscal stimulus. Japan has finally escaped its multi-decade stagnation, and there will be (both positive and negative) consequences for global asset markets. The main positive is that Japan will no longer be a source of deflation and economic drag for the world. The main negative is that U.S. and global bond yields have lost an important anchor that helped to hold down yields in recent decades.

One source of support for risk assets has been the continued tightness in credit spreads, including a slight narrowing in the spread for the lowest-rated U.S. CCC bonds. Investors are still upbeat on corporate profits and do not expect the political and geopolitical environment to derail the global economic expansion. Ongoing global economic data mostly support such a view. We have become more concerned about the potential for correction in risk asset markets. Our caution relates to two risk factors: 1) the potential for DM government bond yields to rise to the point where they put meaningful downward pressure on risk-asset market valuations and possibly become an economic headwind, and 2) the potential for a significant policy mistake(s).

While President Trump clearly has been willing to inject uncertainty on both economic and geopolitical issues, he has not yet gone "too far"; i.e., he has de-escalated before causing lasting economic damage. Perhaps our assumption that the administration will not take the risk of undermining the economy is too optimistic, as sometimes big policy mistakes can occur. On occasion, investors panic and generate a self-fulfilling outcome, which could risk undermining economic sentiment. Moreover, the U.S.' poor current fiscal position (massive deficits) would make it difficult to inject major new stimulus. And sticky inflation will make it difficult for the Fed to become even more accommodative than it is at present, absent a politically negative economic downturn.

The Fed eased last year despite inflation holding well above its target, underscoring that inflation will not be an impediment to lowering rates. The Fed is getting a very short-term reprieve because of the problem measuring the underlying inflation rate as a consequence of the government shutdown and low estimates used in some key CPI components in recent reports. In the end, we doubt that the Fed will be able to ease further, perhaps one more cut. Importantly, the upward pressure on Treasury yields from both domestic and, now, global influences is expected to build, barring some policy miscue that threatens the economic expansion.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	-0.22	2.14
MSCI ACWI EX U.S.	0.12	4.18
MSCI EAFE	-0.17	3.28
MSCI EM	0.69	6.50

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	-0.01	0.00
Bloomberg U.S. Corp. High Yield	0.15	0.71
Bloomberg U.S. Gov/Credit	0.03	-0.04
Bloomberg U.S. T-Bill 1-3 Month	0.03	0.20

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	-2.62	2.08
Commodities (DJ)	5.35	9.27
Global listed private equity (Red Rocks)	-1.24	3.19
Currencies (DB Currency Future Harvest)	-0.13	0.71

Conclusion

The U.S. has again pulled back from escalating the global tariff war. The political need to sustain solid growth until the November mid-term elections suggests low odds of the administration taking much economic risk this year. Prior global bond market anchors, Germany and especially Japan, are now putting upward pressure on Treasury yields. The potential for higher yields remains the main cyclical risk factor for global equity and credit markets. Meanwhile, the "rotation out of the U.S." theme in equities and currencies has further to run.

Source: Bloomberg as of Jan. 23, 2026