

Doll's Deliberations®

Weekly Investment Commentary



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Stocks were mixed last week (S&P 500 +0.35% NASDAQ -0.16% and Russell 2000 -0.54%). The S&P 500 ticked above the 7,000 level mid-week before pulling back. Magnificent 7 earnings were mixed. Best sectors were communication services (+4.15%) and energy (+3.89%); worst sectors were healthcare (-1.73%) and consumer discretionary (-1.42%).

Key takeaways

- Former Fed Governor Kevin Warsh will be nominated as the next Fed chair. Warsh previously favored higher interest rates but recently has become an outspoken advocate for lower rates and a harsh critic of the Fed.
- Above-potential economic growth and sticky inflation will likely prevent the Fed from easing the policy rate anytime soon. (The Fed may cut rates once or twice in the second half of the year after the new Fed chair takes charge, even if the macro backdrop doesn't warrant it.)
- Incomes have been flat since the summer, and consumer confidence has deteriorated, particularly around labor-market conditions. While spending has held up, it has increasingly relied on a declining savings rate. Unless income growth resumes, this support will not be sustainable and consumption growth will eventually slow.
- Policy risk unease is showing up in the gold rally, dollar selloff, and potentially sales of U.S. government bonds, reflecting foreign concerns of erratic and unorthodox economic policy.
- Foreign ownership of U.S. Treasuries has declined to 25% of the total outstanding, down from 33% a decade ago. (China has been the biggest decline.)
- A backdrop of wide valuation spreads, accelerating economic growth, and friendly monetary policy bodes well for continued value style strength in coming months.
- Technology sector multiples have actually compressed over the past year, indicating that returns have been driven largely by earnings growth rather than multiple expansion.
- Since 1950, when January records an up month, February-June has averaged +5.5% and February-December as averaged +12.2%.
- Over the last three months, materials (+15%), energy (+13%), consumer staples (+8%), healthcare (+8%) and industrials (+6%) are all up more than +5%. Only two of the 11 top-level sectors are down over that period: utilities (-4%) and information technology (-5%). (The S&P 500 is "only" +1.3% over the past three months.)
- Earnings revisions in emerging markets and developed international markets have accelerated while U.S. revisions have turned flattish.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-0.42	1.80
S&P 500	0.35	1.45
NASDAQ	-0.16	0.97
Russell 1000	0.60	1.88
Russell 1000 Growth	-0.48	-1.51
Russell 1000 Value	0.62	4.56
Russell 2000	-0.54	7.00

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	4.15	5.80
Consumer discretionary	-1.42	1.71
Consumer staples	0.85	7.71
Energy	3.89	14.43
Financials	0.72	-2.41
Healthcare	-1.73	-0.02
Industrials	0.74	6.67
Information technology	-0.35	-1.66
Materials	-1.21	8.71
Real estate	0.72	2.85
Utilities	1.68	1.37

Good Earnings and a Benign Fed Continue Despite Valuation Obstacles

Record after record new highs in equities, historically very tight credit spreads, and benign inflation readings signal solid corporate fundamentals, a sustainable economic expansion, and low inflation. However, the record-breaking rise in gold prices suggests that investors are increasingly concerned about a range of issues that do not bode well for the global outlook. In addition, the very long end of developed-market yield curves suggests a growing unease with inflation and fiscal policies.

Buoyant liquidity and overall monetary conditions are the key drivers of the boom in almost all asset prices, underscoring that policy is accommodative and there is more than sufficient liquidity to support economic activity, as witnessed by the resilience of the global economy in the face of last year's huge tariff war and increased economic and geopolitical uncertainties. For 2026, economic activity is improving further in many countries. Central banks have pursued accommodative policy settings at a time when their fiscal policies have, in aggregate, become more stimulative. Not surprisingly, the corporate sector has continued to benefit from rising profits. We anticipate de-risking at some point this year, although it is difficult to handicap whether this will be in preparation of a full-blown bear phase or merely a temporary setback.

Given the starting point of already elevated geopolitical uncertainty, it is possible that some policy/political "mistake" could trigger a risk-off period. That said, we are still anticipating the traditional catalyst to spark the next setback, namely government bond yields rising sufficiently to compress risk-asset market valuations, which are near historic highs. We remain vigilant, yet still optimistic that the Goldilocks backdrop will persist for a while yet. Meanwhile, the rotation out of the U.S. continues with the U.S. dollar down and non-U.S. equities outperforming.

Arguments abound over the valuation of global equities, with bulls pointing to ever-higher global corporate earnings as a reason to keep buying. The arguments are more one-sided when it comes to credit. Global credit measures are at extremes, which means there is little cushion against economic/profit disappointments. Investors are not being rewarded for taking credit risk, but history has shown that spreads usually grind tighter until a shock develops. The allure of a bit more yield is hard to pass up until the danger is seen as imminent. In addition to investor's complacency, many central banks are also complacent and stubborn in expecting a painless return to low and stable inflation. The Fed is definitely in this camp.

There has been a puzzlingly large gap between poor economic expectations (e.g., consumer sentiment) and elevated risk-asset valuations and bullish investor sentiment. We have assumed, given ongoing solid economic growth, that most consumer surveys no longer offer insight into the true state of affairs for individual consumers. Rather, they merely reflect bearish media narratives and/or negative political sentiment.

Conclusion

Stocks remain expensive and credit spreads remain remarkably tight. One needs to closely monitor potential catalysts that could spur the next risk-off phase. A riot in developed-market government bond markets is the most likely candidate to spark risk-off. To this end, the very long end of yield curves already show signs of stress.

Source: Bloomberg as of Jan. 30, 2026

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International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	1.22	3.54
MSCI ACWI EX U.S.	2.05	6.72
MSCI EAFE	1.40	5.05
MSCI EM	3.58	10.75

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.10	0.17
Bloomberg U.S. Corp. High Yield	-0.16	0.51
Bloomberg U.S. Gov/Credit	0.03	0.06
Bloomberg U.S. T-Bill 1-3 Month	0.04	0.27

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	0.38	2.76
Commodities (DJ)	1.00	10.36
Global listed private equity (Red Rocks)	-1.09	1.45
Currencies (DB Currency Future Harvest)	-0.05	0.19