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# Doll's Deliberations®

## Weekly Investment Commentary

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### Summary

Stocks were mixed for the week (S&P 500 -0.09%), although equal-weighted S&P outperformed cap-weighted by more than 200 basis points (bps). Earnings were generally strong but mixed for Mag 7. Best sectors were consumer staples (+6.04%), industrials (+4.69%), and energy (+4.42%); worst sectors were consumer discretionary (-4.57%) and communication services (-4.36%).

| **Equity markets** (Index total return %) | Last week | Year-to-date |
|---|---|---|
| DJIA | 2.50 | 4.35 |
| S&P 500 | -0.09 | 1.36 |
| NASDAQ | -1.83 | -0.89 |
| Russell 1000 | -1.96 | -0.61 |
| Russell 1000 Growth | -1.95 | -3.44 |
| Russell 1000 Value | 2.19 | 6.85 |
| Russell 2000 | -1.37 | 3.91 |

| **S&P equity sectors** (Index total return %) | Last week | Year-to-date |
|---|---|---|
| Communication services | -4.36 | 1.18 |
| Consumer discretionary | -4.57 | -2.93 |
| Consumer staples | 6.04 | 14.21 |
| Energy | 4.42 | 19.48 |
| Financials | 1.54 | -0.90 |
| Healthcare | 1.91 | 1.89 |
| Industrials | 4.69 | 11.67 |
| Information technology | -1.36 | -3.00 |
| Materials | 3.50 | 12.51 |
| Real estate | 1.54 | 4.44 |
| Utilities | 0.21 | 1.58 |

### Key takeaways

1. The January ISM Manufacturing Index beat expectations and moved into positive territory after 10 months of contraction. The rebound was driven by new orders and production.
2. The first Friday of the month employment report was pushed back a week to Feb. 11. While job growth remains slow, employment is not contracting.
3. January CPI (to be reported February 13) is likely to come in at +0.3%, which will push trailing 12-month inflation to nearly 3%. (Both goods and services remain problematic.)
4. The savings rate has fallen to an unusually low 3.5%. Absent a pickup in hiring and income, it is unclear how households will continue to spend at a rate sufficient to sustain the expansion.
5. Fed Chair nominee Warsh is seen as dovish on rates but hawkish on the balance sheet. He is more likely to advocate a smaller balance sheet than a significant shift in rate policy.
6. While neither side wants to (or can afford to) curtail trade between them, the U.S. and China economic/trade rift is growing.
7. While stock market averages are beginning to struggle, the stock market continues to broaden (i.e., the average stock is still rising). Value stocks are handily beating growth stocks.
8. Investors are worrying that AI infrastructure spending is depleting cash flow and slowing profit growth. This has led to significant pullbacks in AI stocks to include semiconductors and software.
9. We continue to think that dividends and dividend growth will be important stock-selection tools in 2026.
10. Last week's special election in Texas witnessed a Democratic victory for a seat held for nearly 50 years by Republicans, swinging the election by 34 points from the last contest. This is one of many warning signs for Republicans in November.

## Accommodative Policies Continue to Fuel Asset Prices

The abundant liquidity that has helped float both risk assets and momentum trades will continue to be supported for some time by accommodative monetary and fiscal policies. This backdrop has pushed equities to all-time highs, credit spreads to near historic lows, and until last week, sent precious metal prices soaring. However, the steep selloff in gold and silver, the continued meltdown in cryptocurrencies, and even the sharp recent declines in several U.S. AI equity plays are reminders that investment strategy is best built on fundamentals rather than liquidity.

The top-down macro outlook remains supportive for risk assets. The global economy continues to expand at a solid pace and is broadening out. Meanwhile, monetary and fiscal policies are accommodative and pro-growth, albeit at the risk of higher inflation down the road. There is no imminent catalyst to end the liquidity-driven risk-on climate, but widespread investor complacency and rich valuations caution against full-out pro-risk portfolio positioning. Where and when trouble might develop may be uncertain, but prudence argues for greater caution than the generally positive price action over the past year would suggest.

Potential threats to the rampant optimism include a pronounced rise in global bond yields, worse-than-expected U.S. and G7 inflation, a significant hiccup in the AI theme, an adverse credit event, or a material increase in geopolitical risk premia. The ongoing and broadening economic expansion should enable equities to outperform bonds. Nonetheless, the risks of a correction are material, especially if bond yields move higher. Recent data are consistent with an upbeat economic outlook. The global manufacturing PMI rose solidly in January, with key economies/regions posting expansion readings. Global services continue to exhibit strength, and global trade continues to firm, with U.S. imports recently rebounding smartly. Initial unemployment claims are very low (even with last week's higher-than-expected outcome) and have trended lower in recent months.

| **International equity markets** (Index total return %) | Last week | Year-to-date |
|---|---|---|
| MSCI ACWI | -1.62 | 1.29 |
| MSCI ACWI EX U.S. | -0.74 | 5.19 |
| MSCI EAFE | -0.45 | 4.75 |
| MSCI EM | -1.33 | 7.40 |

| **Fixed income markets** (Index total return %) | Last week | Year-to-date |
|---|---|---|
| Bloomberg U.S. Aggregate Bond | 0.29 | 0.40 |
| Bloomberg U.S. Corp. High Yield | -0.05 | 0.46 |
| Bloomberg U.S. Gov/Credit | 0.34 | 0.34 |
| Bloomberg U.S. T-Bill 1-3 Month | 0.04 | 0.34 |

| **Alternatives** (Index total return %) | Last week | Year-to-date |
|---|---|---|
| Real estate (FTSE NAREIT) | 0.76 | 3.58 |
| Commodities (DJ) | -2.20 | 7.93 |
| Global listed private equity (Red Rocks) | -7.02 | -6.38 |
| Currencies (DB Currency Future Harvest) | 0.88 | 1.07 |

Financial conditions remain highly accommodative and beneficial for risk assets. U.S. financial conditions are typically only this easy during or shortly after periods of very weak or weakening global earnings growth momentum. That said, there is little risk that G7 monetary authorities will take economic risks over the next six to 12 months by deliberately and meaningfully tightening financial conditions. The gap between U.S. equity and 10-year Treasury yields is near zero, implying that there may be limited room for any further re-rating of U.S. stocks.

## Conclusion

The top-down macro climate favors the further outperformance of equities versus bonds, but equity outperformance will be more muted than last year, and the odds of a correction are significant.

Source: Bloomberg as of Feb. 6, 2026