CROSSMARK GLOBAL INVESTMENTS

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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks fell last week (S&P 500 -1.35%) for the second week in a row. However, the equal-weighted S&P 500 was up. The week continued to feature a move into cyclicals and away from mega cap tech. Best sectors were utilities (+7.29%), real estate (+3.88%), and materials (+3.67%); worst sectors were financials (-4.79%), communication services (-3.53%), and consumer discretionary (-2.07%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-1.15	3.14
S&P 500	-1.35	0.00
NASDAQ	-2.08	-2.95
Russell 1000	-1.43	-0.01
Russell 1000 Growth	-2.08	-5.45
Russell 1000 Value	-0.40	6.42
Russell 2000	-2.03	5.46

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-3.53	-2.39
Consumer discretionary	-2.07	-4.94
Consumer staples	1.42	15.83
Energy	1.92	21.78
Financials	-4.79	-5.65
Healthcare	-0.01	1.88
Industrials	0.60	12.35
Information technology	-1.96	-4.90
Materials	3.67	16.64
Real estate	3.88	8.49
Utilities	7.29	8.99

Key takeaways

1. December retail sales were soft, but the payroll report was better than expected.
2. January CPI was largely as expected, certainly better than feared.
3. While the Fed leaned toward an early-in-the-year rate cut, recent economic releases probably put cuts on hold for the foreseeable future.
4. The policy mix is likely to continue to steepen the Treasury yield curve.
5. According to Strategas, sales growth is exceeding cost growth by 2%, obviously enhancing profit margins.
6. The rate of upward EPS estimate revisions for the S&P 500 is 54%, well below the peak rate seen in September (65%).
7. Year-to-date earnings revisions are positive for only three sectors: technology, financials, and communication services.
8. Fears that new companies using AI will replace existing operations hurt stocks (many by a double-digit percentage) in a variety of industries (software, REITs, and various financial companies).
9. Factor divergences have become more extensive, leading to fast rotations within a largely flat overall equity market.
10. When denominated in euros, U.S. stocks have barely risen over the past year due to a 10% decline in the dollar. (The dollar decline is one of the reasons international stocks have handily outpaced U.S. stocks.)

Sector and Geographic Rotation Continues

Financial markets have recently been volatile as confidence in accommodative monetary conditions has been questioned and some former hot sectors/stocks have hit a wall. Entrenched hopes for a return to a low and stable inflation world will take a long time to unwind, but the data is proving sticky in many countries, and a growing number of central banks are signaling that further policy easing is unlikely.

Monetary and fiscal policies are extremely accommodative. That said, improving economic activity will eventually trigger problems for risk-asset markets by forcing bond markets to become less complacent. That is becoming evident at the very long end of many yield curves. As mentioned already, some former high-flyers that benefited from the long liquidity boom and increasingly frothy investor sentiment have stumbled this year. This includes Bitcoin and many AI and related plays. The losses in previous favorites have so far been modest relative to the prior gains. Investors are rotating into laggards, rather than outright retreating from equity markets. Investors have become less keen to follow their prior strategy of buying the hottest sectors (no matter the valuation) on weakness.

We fear that at some point investors may move to de-risking, but not while the economic backdrop remains supportive, with most central banks still dovish and the benchmark 10-year Treasury yield trending sideways. Either some policy mistake or riot in bond markets will cause an end to the broad, but maturing, equity rally since 2022. The downside to improving global economic activity at this point in the cycle is that it will further solidify inflation at levels above central bank targets. This, in turn, will begin to dislodge benign inflation measures and spur higher bond yields. That many major developed-market economies are also running massive fiscal deficits at a time of record-breaking government debt levels only adds to the risk in bonds.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	0.24	3.08
MSCI ACWI EX U.S.	3.09	9.20
MSCI EAFE	2.86	8.78
MSCI EM	4.26	11.89

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	0.65	1.04
Bloomberg U.S. Corp. High Yield	0.14	0.76
Bloomberg U.S. Gov/Credit	0.65	0.96
Bloomberg U.S. T-Bill 1-3 Month	0.04	0.41

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	2.50	7.70
Commodities (DJ)	-0.45	7.45
Global listed private equity (Red Rocks)	-0.41	-5.26
Currencies (DB Currency Future Harvest)	-0.73	0.32

The rotation from U.S. to international stocks continues with the biggest winners being Japan and emerging markets. Despite the meaningful scare last year as the tariff war heated up rapidly and economic uncertainty surged, the global economy survived the shock and managed to firm.

In terms of the U.S. economy, the economic and inflation data have been mixed of late, with many key gauges impacted by the government shutdown via both the hit to activity as well as measurement challenges due to missing inputs. That said, so far, the data is supportive of our view that the economy, and perhaps, inflation will gradually firm over the course of 2026.

Conclusion

Globally, the divergence between long-term bond yields and policy rates has widened. This is a sign of accommodative monetary and fiscal conditions. The rotation out of U.S. equities has gained momentum.

Source: Bloomberg as of 02/13/26