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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks were higher last week (S&P 500 +1.11%). Big tech, high-beta stocks, and retail favorites led the way. 4Q25 earnings continue to be largely favorable. Best sectors were communication services (+2.31%), industrials (+1.74%), and consumer discretionary (+1.73%); worst sectors were consumer staples (-2.29%) and healthcare (-0.58%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	0.29	3.44
S&P 500	1.11	1.11
NASDAQ	1.53	-1.47
Russell 1000	0.45	0.57
Russell 1000 Growth	1.47	-4.06
Russell 1000 Value	0.66	7.13
Russell 2000	0.71	7.49

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	2.31	-0.13
Consumer discretionary	1.73	-3.29
Consumer staples	-2.29	13.18
Energy	0.78	22.73
Financials	1.57	-4.16
Healthcare	-0.58	1.29
Industrials	1.74	14.30
Information technology	1.56	-3.42
Materials	-0.31	16.28
Real estate	0.01	8.50
Utilities	-0.39	8.56

Key takeaways

1. 4Q25 U.S. Real GDP was a disappointing +1.4% on government drag of -0.9%, largely due to shutdown.
2. December core PCE inflation (the Fed's favorite inflation measure) increased 0.4% (ahead of consensus of 0.3%.) This brings the yearly run rate to 3.0%. (Conclusion: Inflation remains sticky.)
3. Some backward-looking data are still reflecting a soft patch. The U.S. labor market is not firm, but there are notable green shoots in U.S. cyclical sectors, even if the progress is not a straight line. Provisions in the recently passed OB3 tax bill should also help consumer spending broaden in 2026 (e.g., tax refunds starting very soon).
4. The U.S. economy has been driven by upper-income consumers, boosted by positive wealth effects. Therefore, the economy is somewhat dependent on the stock market.
5. The U.S. dollar peaked in late 2022 and has been on a choppy downward trajectory ever since. The cyclical and secular risks are still skewed to the downside.
6. Earnings surprise has fallen to 4.9%, the second lowest quarter in three years.
7. To some degree, the market has separated from fundamentals as factor unwinds have forced selling by short-term trend following strategies. We believe volatility is likely to continue over the near-term, especially given the heightened sensitivity of stocks to AI disruption and other headline risk.
8. The Magnificent-7's forward P/E is 25.8, far below its September 2020 peak of 38 and it's not far above the S&P 500's forward P/E of 21.8. (The Mag 7's forward P/E is arguably justified given the indexes forward earnings growth rate of 22.8%. That is better than the S&P 500's forward earnings growth rate of 15.2%.)
9. With technology underperforming and staples outperforming, the P/E on both sectors has converged at 24x. (At parity P/E's, we prefer technology.)
10. The major building blocks of employment, financial conditions and profits still all point to a continuation of the current bull market. At the same time, the market is expensive by any measure. (High-risk bull market.)

Some Similarities to 1999/2000

Despite steep losses in internet high-flyers and others, equity investors did not retreat from the overall equity market but rather rotated into lagging areas. Investors are belatedly realizing that they have overpaid for a future that may not be as rosy as the consensus was expecting. The future may very well favor some of today's expensive companies, but their stock prices had overshot, similar to what occurred during/after the bubble 26 years ago. Some star companies of that era survived and went on to generate massive growth in earnings, and their stock prices, eventually, fully recovered (although it took 15 years for the Nasdaq to surpass its 2000 peak, and many companies went bust).

Short-term volatility aside, global equities will likely continue to outperform bonds until it is highly likely that a meaningful economic roadblock will emerge. That is not yet visible on the horizon. The entrenched dovish bias toward inflation implies that this realization may not develop until after inflation has surprised on the high side. The U.S. dollar should remain soft, with further downside against the major currencies over the long haul.

In the meantime, yields have eased on hopes for additional Fed rate cuts and expectations that inflation will recede toward the hoped-for 2% target. We have noted for some time that if bond yields do not rise to economically restrictive levels, then the global economic expansion will roll on, as indeed recent data have generally confirmed. A key signal of trouble ahead for stocks is still missing: High-yield corporate bond spreads remain historically very tight. This indicates continued positive prospects for corporate profits and default rates. While there has been a flattish trend in government bond yields in recent years, corporate yields have trended lower, which is supportive of economic growth and risk-taking. These spreads bear watching as they likely will be the leading edge of when credit markets finally run into trouble.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	0.46	3.32
MSCI ACWI EX U.S.	0.50	8.94
MSCI EAFE	0.39	8.23
MSCI EM	0.54	11.40

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	-0.08	1.20
Bloomberg U.S. Corp. High Yield	0.16	0.89
Bloomberg U.S. Gov/Credit	-0.04	1.14
Bloomberg U.S. T-Bill 1-3 Month	0.03	0.48

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	-0.85	8.21
Commodities (DJ)	2.07	9.67
Global listed private equity (Red Rocks)	-1.80	-7.11
Currencies (DB Currency Future Harvest)	0.96	1.28

Non-U.S. equity markets have materially outpaced the U.S. over the past year. Nevertheless, U.S. indexes are still close to record highs, underscoring that equity investors are not outright bearish on the U.S., nor stocks in general. In common-currency terms, U.S. equities have massively underperformed non-U.S. stocks since the end of 2024 because of both lagging U.S. equity performance and the downtrend in the U.S. dollar.

The key to avoiding a broad-based bear market will be whether the corporate profit backdrop stays positive. For now, the skies are still clear, even though AI-related capital spending will eventually slow. The global profit uptrend is both broadly based and has solid momentum. Adding it up, it is unknowable whether recent (primarily U.S.) equity market turbulence is heralding broader stock market and economic problems. Investor should stay open-minded, but it is premature to make a bearish bet given the positive forces supporting the macro environment, as discussed above.

The equity environment is starting to look somewhat like 1999/2000: Previously frothy stocks have hit a wall, while overall risk appetite has held up because the macro environment is still good. Inflation remains sticky and elevated compared with the prior two decades. Global growth is improving modestly, which will cement the floor under inflation. Monetary conditions will eventually need to be less accommodative, an outcome that bond markets will also ultimately reflect, i.e., bond yields will head higher. Such an outcome still does not appear imminent.

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 02/20/26