

Doll's Deliberations®

Weekly Investment Commentary



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Summary

Stock indexes fell last week (S&P 500 -0.42%), although market breadth was positive and equal-weighted S&P was up on the week. Big tech was mostly lower. Bellwether NVIDIA fell 6.7% despite better-than-expected results and a positive forward outlook. Best sectors were utilities (+3.03%), consumer staples (+2.72%), healthcare (+2.20%), and energy (+2.03%); worst sectors were technology (-2.17%) and financials (-1.95%).

Key takeaways

- President Trump announced a new 15% tariff under Section 122 following the Supreme Court's strike down of tariffs. He may threaten tariffs under different statutes, but overall tariff rates have likely peaked.
- January PPI was +0.5% (up from +0.3% consensus). Core PPI rose 0.8% topping the 0.3% consensus. As we suggested before, inflation is sticky/problematic. This likely postpones any consideration of first-half Fed easing.
- Bank lending is tracking better than expected so far in Q1 (+6.6% y/y). Capital markets activities are tracking well also.
- The fourth quarter is on track to mark the fifth-consecutive quarter of double-digit earnings growth. As comparisons become more downward, sustaining further acceleration in revenue growth may prove increasingly challenging.
- The share of companies surpassing estimates has edged lower (77% in Q4 vs. 83% in Q3 and 80% in Q2). This suggests that expectations have risen and are becoming more challenging to exceed.
- Improved earnings revisions for equities generally are starting to level off. One notable outlier continues to be emerging markets, where revisions remain stronger.
- 1Q25 Mag 7 EPS estimates are +38% (increasing from 31% in Q4). Remaining 493 consensus is +14%.
- Since October, technology shares are down 5-10% while old economy stocks (energy and materials) are up 30-50%.
- Over the last six months, software stocks have underperformed semiconductors by a staggering 70 percentage points. The AI-fear narrative last week was largely attributed to a Citrini research memo, "The 2028 Global Intelligence Crisis," which outlined a hypothetical scenario in which AI adoption drives the unemployment rate into double-digits by mid-2028.
- Uncertainty levels seem higher than usual: tariffs, Iran, new Fed chair, and AI capex.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-1.28	2.12
S&P 500	-0.42	0.68
NASDAQ	-0.94	-2.39
Russell 1000	0.04	1.27
Russell 1000 Growth	-0.79	-4.82
Russell 1000 Value	0.14	7.28
Russell 2000	0.52	8.00

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	0.50	0.37
Consumer discretionary	-0.48	-3.76
Consumer staples	2.72	16.26
Energy	2.03	25.23
Financials	-1.95	-6.03
Healthcare	2.20	3.52
Industrials	-0.04	14.25
Information technology	-2.17	-5.51
Materials	1.32	17.82
Real estate	0.81	9.38
Utilities	3.03	11.85

Some Lower Bond Yields Prevent Further Equity Damage

The recent calming in government bond markets, after a period of increased tension when non-U.S. yields pushed steadily higher, has provided support to equity markets. The AI-driven hits to select (primarily in the U.S.) equity niches have somewhat dented investor sentiment, but overall, risk appetites have held up and most equity markets are still near record highs. The turbulence in AI plays has spurred greater interest in previously lagging equity sectors and select non-U.S. markets, with the latter continuing to outperform the U.S. U.S. tariff tensions had little impact, as investors now realize that the global trade cycle has solid momentum. The U.S. administration is unlikely to take undue economic risks with the mid-term elections looming.

The supportive macro backdrop has been critical in sustaining risk-on. Periods of flat-to-lower bond yields reinforce the already positive economic outlook and act as a relief valve whenever risk-asset markets wobble. We still anticipate an endpoint where sticky/higher inflation will force an unwinding of overly accommodative monetary policies. However, until bond yields head higher, especially in the U.S., risk-on will likely continue.

Credit markets have stayed remarkably relaxed recently, despite bouts of equity market turbulence and headlines warning of increasing supply, via either bond markets or private credit. The impact on bond yields from increased economic activity and inflation is still intact. In the end, bond yields will rise over time because of increased investment spending and private sector credit demand, especially in view of massive ongoing government debt issuance.

The hit to a growing list of (mostly U.S.) equities that are expected to be negatively impacted by AI has failed to dent the relative uptrend in select non-U.S. markets. After choppy outperformance in 2025, there have been large relative gains in international equity markets this year due to both the stall in U.S. equity prices and ongoing strong absolute gains in many non-U.S. markets. Improved economic growth in EM, Europe, and Japan after a sluggish past two years will sustain solid corporate profit uptrends. The latter has been aided by the view that the U.S. dollar will stay sluggish.

One near-run threat to the outlook is the potential for a surge in oil prices because of possible military action in the Middle East. Determining whether the ramp up in the U.S. military presence in the region is a negotiating ploy or presages an attack on Iran is unclear. What ultimately matters is whether the considerable supply overhang in oil markets will disappear as a result of the current tensions and, thus, threaten global economic growth.

Conclusion

The longer U.S. Treasury yields are flat-to-lower, the longer the risk-on backdrop will persist. Tariff uncertainty remains elevated and there is angst about the possibility of an oil price spike due to events in the Middle East. We doubt that the U.S. administration will take undue economic risks heading into the mid-term elections.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	0.61	4.53
MSCI ACWI EX U.S.	1.63	11.18
MSCI EAFE	0.74	9.54
MSCI EM	3.36	15.44

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.31	1.52
Bloomberg U.S. Corp. High Yield	-0.09	0.83
Bloomberg U.S. Gov/Credit	0.30	1.42
Bloomberg U.S. T-Bill 1-3 Month	0.04	0.55

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	0.76	9.86
Commodities (DJ)	1.74	11.58
Global listed private equity (Red Rocks)	-0.70	-7.79
Currencies (DB Currency Future Harvest)	-0.06	1.23

Source: Bloomberg as of 02/27/26

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