

# Doll's Deliberations<sup>®</sup>

## Weekly Investment Commentary



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### Summary

Stocks declined for the second straight week (S&P 500 -1.99%; its worst performance since October). The war in Iran hit equities and other risk markets hard last week. The ratcheting up of geopolitical tensions added to pre-existing investor nervousness about excesses in AI-related equities, mounting strains in private credit, and high valuations. This triggered widespread selling pressure as investors rotated to cash. Best sectors were energy (+1.00%) and technology (-0.35%), worst sectors were materials (-7.06%), consumer staples (-4.82%), healthcare (-4.63%), and industrials (-4.07%).

### Key takeaways

1. It was an ugly payrolls report (-92,000 vs +55,000 consensus), although several key factors make it look less negative than the headline miss. (The unemployment rate rose to 4.4% (versus 4.3% consensus), while average hourly earnings increased 0.4% month-over-month.)
2. The ISM Manufacturing Index ticked down (52.6 to 52.4), but beat estimates after contracting for 10 months before January - but the report had an inflationary tilt.
3. A \$20 increase in oil prices would imply roughly a 10-basis-point (bp) hit to the level of U.S. GDP and about a 40-bp boost to headline inflation, according to the Fed's FRB/U.S. model.
4. U.S. productivity rose at a +2.8% quarter-over-quarter annual rate in 4Q25. (Over the past three quarters, productivity growth has averaged a strong +4.1%.) If AI lifts productivity and expands capital spending, it could help offset the drag from slower labor-force growth.
5. Technology companies account for about 60% of 4Q25 profit growth.
6. The VIX (equity volatility), which spent most of the last nine months between 15 and 20, spiked to 28 early last week, the highest level since last April's tariff rout. We expect volatility to remain above average (likely in both directions).
7. Until the war started on Feb. 28, the S&P 500 had been flat for nearly five months. Causes included AI fears, concerns about private markets (and credit especially), a slowdown in positive earnings surprises and estimate increases, extended valuation, and a list of geopolitical concerns.
8. The global economy had considerable momentum before the war, which combined with accommodative monetary and fiscal policy, should enable the expansion to continue.
9. Iran has been the central pillar of a regional order that Beijing assembled, and Operation Epic Fury is now cracking that pillar. Collapse Iran and you remove the single greatest drain on American strategic bandwidth and free the U.S. to concentrate on the Pacific with a credibility that 20 years of pivot talk never produced.
10. Investor worries were already elevated before the attack on Iran. How the war will play out remains to be seen, but what ultimately matters is oil prices, whether the considerable supply overhang in oil markets will disappear as a result of the current tensions and, thus, threaten global economic growth.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-2.92	-0.86
S&P 500	-1.99	-1.32
NASDAQ	-1.22	-3.58
Russell 1000	-0.74	0.08
Russell 1000 Growth	-0.70	-5.49
Russell 1000 Value	-3.44	3.59
Russell 2000	-1.75	4.34

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-2.07	-1.71
Consumer discretionary	-1.39	-5.10
Consumer staples	-4.82	10.66
Energy	1.00	26.47
Financials	-1.69	-7.62
Healthcare	-4.63	-1.27
Industrials	-4.07	9.61
Information technology	-0.35	-5.84
Materials	-7.06	9.50
Real estate	-2.29	6.88
Utilities	-2.09	9.51

## Will the War Upset Global Economic Momentum?

How the war in Iran will ultimately play out is inherently uncertain, but at this point, it is likely premature to overhaul investment strategy. History indicates that wars or other geopolitical factors only have a sustained impact on capital markets if they materially alter the economic outlook. Separating the noise from the fundamentals will be key in the near term.

While the evolution of the war is uncertain, several factors suggest that the global economic expansion is unlikely to be derailed unless the war escalates dramatically in terms of duration and restrictions on energy supplies. As evident from last week's PMI/ISM surveys, the global economic expansion was on solid footing and gaining momentum before the war began. Monetary and fiscal policies are pro-growth, and financial conditions are still easy. Oil is not yet historically expensive (although the abrupt increase is troublesome), and there is considerable supply potential to cushion the war's impact on flows through the Strait of Hormuz. Inexpensive oil is pro-growth for the world's major economies. Yet the war is occurring against the backdrop of already-increasing investor concerns about future profitability of datacenters and software companies, private credit risks, and already-elevated corporate earnings expectations and valuations for most risk assets. There is limited room for disappointments.

We have consistently and for some time warned that while the top-down macro backdrop was favorable for risk-taking, rich capital market pricing and widespread investor complacency warranted a more tempered investment strategy and asset allocation. We continue with discomfort with the rich valuations and earnings expectations of U.S. stocks. Our geographic rotation theme remains intact, and while they are subject to near-term selling pressure after outperforming in recent months, we continue to favor international markets, including emerging markets.

Bonds may yet get near-term support from geopolitical tensions and any fallout for equities, but we remain cautious on a 6–12-month horizon. Investors are overly complacent about medium-to-longer-term inflation risks and underestimating the Fed's long-run equilibrium policy rate. Commodity prices will be highly sensitive to the war in the short run but should ultimately be driven by underlying economic and policy conditions, which favor industrial metals over oil and precious metals, with the latter constrained by still-elevated valuations. If the global economic expansion persists as we expect, then this week's U.S. dollar bounce will give way to renewed weakness.

## Conclusion

How the war in Iran will ultimately play out is inherently uncertain, but at this point it is premature to overhaul investment strategy based on a 6–12-month horizon. Indeed, history indicates that wars or other geopolitical factors only have a sustained impact on capital markets if they materially alter the economic outlook. Separating the noise from the fundamentals will be key in the near term. (Yes, we deliberately repeated the first paragraph.)

Global equities will remain under pressure until signs of a de-escalation of the war in the Middle East emerge. However, and assuming the latter occurs, a continuation of the earnings uptrend should enable stocks to rise on a 6–12-month horizon, although likely in choppy fashion, given already-elevated earnings growth expectations and high valuations.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	-2.69	1.48
MSCI ACWI EX U.S.	-5.94	4.70
MSCI EAFE	-6.12	3.35
MSCI EM	-6.64	7.21

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-0.86	0.87
Bloomberg U.S. Corp. High Yield	-0.09	0.60
Bloomberg U.S. Gov/Credit	-0.83	0.80
Bloomberg U.S. T-Bill 1-3 Month	0.04	0.62

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-1.08	8.94
Commodities (DJ)	8.13	20.65
Global listed private equity (Red Rocks)	-2.07	-11.46
Currencies (DB Currency Future Harvest)	0.93	2.16

Source: Bloomberg as of 03/06/26

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