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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks fell for the third week in a row (S&P 500 -0.17%), with the Nasdaq now down eight of the last nine weeks. The Iran war (and the focus on $100 oil and the closure of the Strait of Hormuz) again dominated the discussion. Best sectors were energy (+2.21%), technology (+1.47%), and utilities (+1.07%); worst sectors were financials (-2.65%), industrials (-2.05%), and consumer discretionary (-1.75%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-0.98	-1.84
S&P 500	-0.17	-1.47
NASDAQ	0.53	-3.07
Russell 1000	-1.08	-2.31
Russell 1000 Growth	-0.37	-5.84
Russell 1000 Value	-0.53	3.04
Russell 2000	-1.41	0.48

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	0.14	-1.57
Consumer discretionary	-1.75	-6.76
Consumer staples	-0.02	10.64
Energy	2.21	29.27
Financials	-2.65	-10.06
Healthcare	-0.59	-1.86
Industrials	-2.05	7.36
Information technology	1.47	-4.46
Materials	-0.01	9.50
Real estate	-0.39	6.46
Utilities	1.07	10.68

Key takeaways

1. CPI was +2.5% in February (y/y). We see potential for near-term upside surprises to inflation driven by further tariff passthrough, rising vehicle prices, and oil shock. Year-over-year CPI inflation could now peak at 3.5% by mid-year.

2. Continued low unemployment claims and strong productivity growth clearly highlight that the U.S. economy was becoming stronger going into the Iran clash. Daily consumer confidence survey has been solid despite the Iran headlines. (Piper Sandler)

3. Low gasoline prices were one of the few pillars supporting the administration's affordability narrative. That now appears to be unraveling and could potentially offset a material portion of the consumer stimulus from the One Big Beautiful Bill.

4. The global economy had considerable momentum before the war, which, combined with accommodative monetary and fiscal policy, should enable the expansion to continue.

5. A record-breaking release of emergency oil reserves could cushion a lack of supply from the Middle East. This would prove temporary, with prices likely to rise back above $100 per barrel if the Strait of Hormuz were to remain effectively closed for a prolonged period.

6. The 10-year U.S. Treasury bond yield has been remarkably subdued, between 4.00% and 4.25%, over the past year. Soaring oil prices could disturb the calm, sending the yield higher.

7. Over the past two weeks, earnings estimates for both 2026 and 2027 have actually been revised higher, despite mounting concerns about the war with Iran and the uncertainty surrounding potential disruptions to commodity markets. Stay tuned!

8. Last Monday, the S&P 500 opened below the prior day's low and closed above the prior day's high. This is only the twenty-sixth occurrence since 1982. On average, the market was up 7.0% six months later and 14.5% 12 months later.

9. Thwarting Chinese ambition is likely a big part of the U.S. invasion of Iran. China buys 80% of Iran's oil at steep discounts. (China's energy consumption exceeds the U.S. and Europe combined.)

10. Poor election results in several elections in recent weeks portend poorly for President Trump and the Republicans in November.

War Unknowns Dominate the Dialogue

The shock waves of war in the Middle East have impacted energy markets, both via the surge in prices and fears that supplies will decline meaningfully. The net result is likely to be mildly stagflationary given the previously solid growth backdrop.

Headline inflation will rise. However, the supply-driven nature of the energy price increase (rather than being driven by a surge in demand) means that the shock will be negative for economic activity. If the shock were to worsen and persist for many months, then it likely would weaken final demand and undermine the uptrend in corporate profits relative to pre-war trends. The risks are tilted toward higher energy prices spilling over into other prices and wages. At this time, it is a judgment call as to whether higher inflation is the more likely outcome rather than a meaningful growth slowdown.

Supportive of our view that the risk of higher inflation is greater than the likelihood of a recession were signs that President Trump may have reached his pain threshold earlier this week. Soaring energy prices intensified financial market downside and risked becoming politically damaging heading into critical mid-term elections in November. Importantly, the U.S. (and global) economy had solid growth prospects entering 2026, courtesy of supportive monetary and fiscal policy settings, and the ongoing uptrend in corporate profits. Thus, it would take a prolonged period of higher energy prices to significantly dent the growth outlook. Moreover, the global economic expansion has been gradually strengthening, providing some comfort that a moderate and short-lived energy shock would not undermine the expansion.

Investors have faced an extremely volatile past two weeks, with the greatest damage done to equity markets outside the U.S. In addition, the U.S. dollar has moved up and there has been a modest rise in developed-market government bond yields. Even previously loved gold prices have dipped, and bitcoin prices have stayed weak. So far, in our opinion, none of the market moves have been sufficient to derail prior trends. That said, the war is not over. Solid corporate profitability has limited the recent rise in credit spreads, which have not yet been historically large. There are budding problems in the private credit area and the lowest-rated debt (CCC), but at this juncture we do not judge these "warnings" to be sufficient to trigger a rush for the exits by credit investors in general.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	-0.90	-0.47
MSCI ACWI EX U.S.	-0.75	3.32
MSCI EAFE	-0.94	1.72
MSCI EM	-0.46	6.44

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	-0.79	-0.03
Bloomberg U.S. Corp. High Yield	-0.39	-0.13
Bloomberg U.S. Gov/Credit	-0.83	-0.17
Bloomberg U.S. T-Bill 1-3 Month	0.04	0.69

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	-1.44	6.27
Commodities (DJ)	1.71	22.71
Global listed private equity (Red Rocks)	-4.58	-16.93
Currencies (DB Currency Future Harvest)	0.86	3.07

Conclusion

So far, the energy shock is insufficient to undermine the U.S. and global economic expansion. Although the war is not over, it appears that the U.S. administration wants to calm energy markets. Recent events will have some economic impact, but will also reinforce the inflation backdrop, which will return to the forefront once energy markets stabilize. The impact on financial markets trends also has not been sufficient to claim that reversals are underway. Thus, the global stock/bond ratio has more upside and the rotation theme in equity and FX markets out of the U.S. should resume, barring an escalation in the war.

Source: Bloomberg as of 03/13/26