

# Doll's Deliberations<sup>®</sup>

## Weekly Investment Commentary



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### Summary

Stocks fell for the fourth week in a row (S&P 500 -1.87%). The Iran conflict and implications for oil prices dominated the headlines. The only rising sectors were energy (+2.75%) and financials (+0.42%); worst sectors were utilities (-4.98%), materials (-4.50%), and consumer staples (-4.38%).

### Key takeaways

- The Fed held rates unchanged as expected and signaled no urgency to move, with uncertainty limiting forward guidance. The governors raised both their growth and inflation forecasts.
- The PPI spiked to +0.7% m/m (0.3% expected), which is historically bearish for equities and bonds and bullish for the dollar. Higher oil prices have not yet registered.
- Inflation has exceeded the Fed's target for five years in a row. Core PCE inflation is back above 3%. Rate-cut expectations have been reduced and will probably be reduced further.
- Oil-price spikes are less inflationary in the U.S. than in the past due to efficiency gains and a shift away from manufacturing toward services.
- Consensus Q1 earnings growth has dropped from 14.7% on Jan. 1 to 13.0% currently. We expect further downward revisions.
- Higher gas prices are neutralizing whatever enthusiasm there might have been for tax refunds.
- High-yield spreads remain relatively tight but have widened recently, which bears watching.
- Private credit grew from \$1 trillion in 2020 to more than \$2 trillion in 2024. Our view is that the stresses in private credit are a manageable risk for U.S. banks, which are financially sound and have ample buffers in the form of capital, reserves, and operating profits.
- We think that the modest decline in stocks since the war started is a pricing in of a quick end to the war, a reopening of Hormuz, and a noticeable fall in oil prices.
- On Wednesday, the percentage of stocks trading above their 20-day moving average fell to 19.8%. Historically, readings below 20% suggest an oversold condition leading to some near-term relief.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-2.09	-4.79
S&P 500	-1.87	-4.68
NASDAQ	-2.06	-6.73
Russell 1000	-0.29	-3.15
Russell 1000 Growth	-2.38	-9.54
Russell 1000 Value	-1.28	0.85
Russell 2000	0.61	0.75

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-1.52	-4.35
Consumer discretionary	-2.74	-10.41
Consumer staples	-4.38	5.64
Energy	2.75	32.77
Financials	0.42	-10.37
Healthcare	-3.01	-6.11
Industrials	-1.83	4.23
Information technology	-1.86	-8.36
Materials	-4.50	3.03
Real estate	-3.82	1.46
Utilities	-4.98	4.56

## The War Continues to Hurt Risk Assets

There is considerable uncertainty about how the war in the Middle East will play out in both the near term and especially over the long haul. The key issues that matter for the global economy and asset markets are the prices and supplies of energy, both of which have taken a harsh bearish turn in the past few weeks.

Oil prices fluctuated wildly last week, but in the U.S., they are no higher than the levels that were reached soon after the war started. Despite the bearish headlines (and satellite pictures), energy supplies through the Strait of Hormuz have not come to a halt. Energy conditions (prices and supplies) may yet worsen since the war seems far from over. Energy prices are unlikely to return to their pre-war lower levels anytime soon, as the Middle East will remain a source of high uncertainty for some time. If oil prices peak soon (and even if they stay elevated) and angst about supplies also crests (or at least does not deteriorate further), then the global economic expansion is likely to roll on. The fly in the ointment is the natural gas market, which may yet develop into a headwind for some economies, including Europe.

While March has so far been painful for most investors, the decline in risk assets has been historically modest, especially relative to the huge gain in recent years. The sharp jump in oil prices also needs to be put in context: Prices were not only “cheap” before the war, but spiked even higher for several months in 2022, when the Russia/Ukraine war erupted. Critically, even at those levels, oil prices were insufficient to derail the global economic expansion. We are content to hold a neutral (at most) equity weighting, overweight in cash, and underweight in bonds within a multi-asset portfolio, which has held up fairly well despite the turmoil from the war. Further near-run risk-asset market weakness is probable, but the fundamental backdrop is still supportive, and a decent rebound should occur once some clarity develops.

Inflation is already sticky and holding above central bank targets in most regions of the world. Underlying inflation is already edging higher in the U.S. A dearth of slack and generally tight labor markets alone are a concern for the inflation outlook, absent a meaningful economic deceleration. And now headline inflation is set to get a lift courtesy of the surge in energy prices.

Large equity drawdowns and recession have been led by major and sustained increases in credit spreads, which is not the case today. The supportive corporate profit backdrop provides a solid foundation under capex and employment. The global economy already weathered a major trade war last year, and the tariff headwind is easing on a rate-of-change basis. Barring a pronounced escalation of the war, we do not foresee a U.S. credit default cycle taking hold despite problems in parts of the private credit space. Bank CDs’ spreads have widened from their recent lows, but have not flared out to levels that indicate worrisome stresses in the banking system.

Longer term, we remain optimistic that the rotation in favor of international markets (including EM) will resume in due course (as should renewed U.S. dollar weakness), and thus would augment holdings on further near-term weakness.

## Conclusion

Risk-off is likely to persist until it is clear that oil prices and supply worries have peaked. So far, risk assets have only corrected modestly, especially relative to the huge gains in recent years. We expect stocks to outperform bonds beyond the near term. Central banks remain (mostly) dovish, even though monetary conditions are not restrictive. Higher bond yields are likely down the road, given the worsening inflation outlook.

Source: Bloomberg as of 03/20/26

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International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	-0.38	-1.69
MSCI ACWI EX U.S.	-0.49	1.51
MSCI EAFE	-0.87	-0.26
MSCI EM	0.53	5.39

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.28	0.12
Bloomberg U.S. Corp. High Yield	0.08	-0.43
Bloomberg U.S. Gov/Credit	0.31	-0.02
Bloomberg U.S. T-Bill 1-3 Month	0.04	0.76

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-0.61	5.64
Commodities (DJ)	-0.55	23.23
Global listed private equity (Red Rocks)	0.46	-16.09
Currencies (DB Currency Future Harvest)	0.77	3.86