

Doll's Deliberations®

Weekly Investment Commentary



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Summary

Stocks fell again (S&P 500 -2.10%) (and to the lowest level since September) for the fifth week in a row with the NASDAQ down ten of the last eleven weeks. Best sectors were energy (+6.22%), materials (+4.18%), and utilities (+2.94%); worst sectors were communication services (-7.17%) and information technology (-3.44%).

Key takeaways

1. President Trump extended his deadline for a deal with Iran for ten more days. This will likely prolong uncertainty and volatility in the financial markets.
2. Mortgage application volumes fell 10.5% in the week ending March 20, extending the prior week's 10.9% decline as the 30-year fixed rate climbed to 6.43%, a five-month high driven by the surge in long-dated Treasury yields.
3. The war is currently only four weeks old, but it appears that the significant increase in commodity prices could be more lasting as damage to the region's infrastructure may take years to repair.
4. A 2% inflation target is what most developed market central banks aim for, but history keeps delivering shocks that pull inflation higher. Some are "outside" events – wars, commodity disruptions, pandemics. Others are "inside" – bigger monetary and fiscal responses to downturns.
5. Investors are largely focused on the shipping status of the Strait of Hormuz (appropriately) but less attention has been paid to the Treasury market. (The U.S. is now facing slower growth, more fiscal spending, and a change in the outlook for Fed policy. The net effect is the Treasury market is pricing in more issuance.)
6. Front-end rates have whipsawed as markets struggle to price the energy shock. Short-term rates across developed markets moved sharply over the past few days. Led by the UK, markets priced out remaining cuts for this year and moved to price hikes.
7. Recent high-profile private credit strains do not signal broad systemic risk. Private credit's share is modest, banks are easing lending standards amid likely to be lessened capital constraints, bank loan growth is accelerating, bond issuance is strong, and junk bond spreads remain tight.
8. The negative oil pillar may be front-of-mind right now, but positive pillars include: fiscal (capex expensing, deregulation, tax refunds, lower tariffs), monetary (lagged effects of -175bp cuts, expanding Fed balance sheet), and productivity.
9. Stocks are down about 9% from the highs but importantly the P/E multiple on forward earnings is down by 16%.
10. The bull case for stocks is the war in Iran ends, Europe has easy money, Japan has easy money, Kevin Warsh cuts U.S. rates by 200 bps, and it is away to the races.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-0.90	-5.65
S&P 500	-2.10	-6.68
NASDAQ	-3.22	-9.73
Russell 1000	-0.29	-4.94
Russell 1000 Growth	-3.45	-12.66
Russell 1000 Value	-0.51	0.32
Russell 2000	2.26	0.71

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-7.17	-11.21
Consumer discretionary	-1.90	-12.12
Consumer staples	1.31	7.02
Energy	6.22	41.03
Financials	-2.06	-12.22
Healthcare	-0.99	-7.03
Industrials	-1.21	2.97
Information technology	-3.44	-11.51
Materials	4.18	7.34
Real estate	-0.73	0.72
Utilities	2.94	7.64

New Hope in the Continued Bumpy Ride of War

Last week was driven by a choppy relief rally, fueled by hopes for ceasefire negotiations in the Middle East to help end the upward spiral in energy prices. It is likely that the pattern observed during the tariff war in 2025 will repeat and investors need to be prepared for inevitable setbacks and reversals. The combatants have diverging war aims and incentives for a ceasefire, and the U.S. administration has frequently reversed course while executing its policies. Having said that, there are growing odds that a peaking in energy prices and related supply fears will soon develop. Too many major global players do not want a lasting energy crisis as well as the reduced flow of other products that pass through the Strait of Hormuz.

Even if the war soon winds down, there will be lingering impacts on growth, especially inflation, as a consequence of the war. Investors probably have not fully discounted these impacts, probably due to the speed of events. Critically, there remains an entrenched bias to expect that all roads eventually lead to a stable and low inflation outcome. Instead, the net effect of the war is stagflationary. In growth terms, we expect only a marginal drag on activity this year, reflecting the solid momentum behind the global economic expansion heading into the war and the historically accommodative policy backdrop. The uptrend in global corporate profits should endure. For inflation, the effect will be to further reinforce what was already a more problematic inflation outlook than central banks and bond investors were discounting. The recent increase in bond yields should partially reverse if the war peters out, but only partially because pricing measures continue to warn that inflation is headed higher in much of the developed world and the increases are far broader than just energy prices. In other words, we expect higher yields down the road. Even after the dust settles, energy prices are not likely to return to their prior low levels. Nor are those central banks that were biased to ease further likely to be able to cut their policy rate.

It has been positive that some oil flows have continued through the Strait of Hormuz. The list of countries reaching side deals with Iran to ensure safe passage through the Strait is increasing, as is shipping traffic. Moreover, the attacks on regional energy infrastructure seem to have eased for now. The panic that hit financial markets and the spike in selling earlier this month has calmed, with only a moderate decline in the global stock/bond ratio. Part of the reason that the decline has so far been moderate is due to the fact that, in a more inflationary world, government bonds are not always a safe haven (in fact, yields have risen). Only in a recession-inducing shock will government bonds offer a meaningful haven.

One silver lining in the current crisis, which was also evident in the last energy shock, has been the massive decline in global oil usage relative to GDP since the 1970s. Europe did suffer great economic pain in 2022 due to relatively higher energy prices and greater supply problems than the rest of the world, due to its reliance on imported Russian energy. However, an event that easily could have pushed the world into recession during prior decades, had much less bite in 2022. We expect a similar non-recessionary outcome this time, with the caveat that the current energy shock does not meaningfully escalate and persist for a long time.

Conclusion

The near-term outlook in the Middle East is still uncertain and risky, especially as we expect a similar pattern to the policy flip-flopping that occurred during last year's tariff war. So far, we judge the economic impact from the war to be modest and unlikely to meaningfully slow growth. The impact on inflation will be more important, as it is further cementing a rising floor under inflation.

Source: Bloomberg as of 03/27/26

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International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	-0.15	-3.20
MSCI ACWI EX U.S.	0.29	0.65
MSCI EAFE	0.88	-0.59
MSCI EM	-0.98	3.45

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-0.08	-0.76
Bloomberg U.S. Corp. High Yield	0.01	-0.81
Bloomberg U.S. Gov/Credit	-0.06	-0.84
Bloomberg U.S. T-Bill 1-3 Month	0.04	0.83

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	0.00	2.18
Commodities (DJ)	0.12	23.37
Global listed private equity (Red Rocks)	0.59	-16.90
Currencies (DB Currency Future Harvest)	-0.28	3.32