

Doll's Deliberations®

Weekly Investment Commentary



Bob Doll, CFA
PM/CIO/CEO

Summary

Stocks advanced (S&P 500 +3.58%) for the second week in a row as the ceasefire and the price of oil remain front and center in the dialogue. Best sectors were communication services (+5.89%), consumer discretionary (+5.81%), and technology (+4.82%); worst performers were energy (-4.07%), healthcare (+0.36%), and consumer staples (+0.48%).

Key takeaways

- President U.S. Real GDP for Q4 was revised down to +0.5%, showing an economy losing momentum.
- March payrolls significantly beat expectations, coming in at +178,000 versus the 65,000 consensus. The unemployment rate ticked lower to 4.3%. Average hourly earnings were up a moderate 0.2% m/m and +3.5% y/y.
- U.S. PCE inflation rose 0.4% m/m in February with core inflation up roughly 3% y/y. All of this came before the energy price increases. (CPI inflation increased 0.9% m/m and 3.3% y/y – core was up 0.2% m/m and 2.6% y/y.)
- The March ISM manufacturing report stayed in expansion, but rising price pressures remain the more important signal. The price pressure index jumped to its highest level since 2022, driven by higher input prices and slower delivery times.
- The fog of war has been replaced by the fog of ceasefire. The U.S./Iran ceasefire is extremely fragile as there is a wide divergence in Iran's nuclear program, sanction relief, potential reparations, and the control of the Strait of Hormuz.
- The ideal thrust coming out of an oversold condition is 90+% (at least 80%) up volume (was only 72% last Wednesday) and 8:1 up/down volume (was only 2.7:1) – this is disappointing.
- Earnings estimates moved higher for 2026 during January and February significantly, but not exclusively, in the technology sector. In March, estimate revisions paused noticeably, except energy company estimates moving higher. A common refrain from Wall Street analysts is, "I'm waiting for my company to release Q1 earnings and forward guidance, and then I will reassess my estimate." My supposition is that estimates will generally be reduced in that process.
- Stocks declined 9.1% from the all-time high to the March 30 low. Since then, stocks appreciated 7.5% and are now just 2% below the all-time high. Investors are clearly betting that the hot war will continue to cool.
- The forward P/E of the S&P 500 peaked last year at 23.0 on Oct. 27. It fell 17.8% to 18.9x at the March 30 low. Over that same period, S&P 500 forward earnings rose 12.7%.
- With the war pushing up defense spending, Republicans against raising taxes, and the President's tariff powers limited, the deficit will surge and investors will not see any means of keeping it contained in the short run. If the economy avoids recession, bond markets could struggle.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	3.07	0.15
S&P 500	3.58	-0.07
NASDAQ	4.68	-1.29
Russell 1000	3.56	0.07
Russell 1000 Growth	3.79	-5.55
Russell 1000 Value	2.94	5.95
Russell 2000	4.21	6.56

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	5.89	0.04
Consumer discretionary	5.81	-4.47
Consumer staples	0.48	8.30
Energy	-4.07	28.06
Financials	2.50	-6.78
Healthcare	0.36	-4.40
Industrials	4.69	10.91
Information technology	4.82	-2.95
Materials	3.51	14.93
Real estate	2.93	7.74
Utilities	1.28	10.77

A Ceasefire – But Will It Hold?

After moving to the brink of a major escalation in the Middle East war, a tentative and temporary ceasefire has allowed market stresses to recede somewhat. Whether the war will soon conclude, or even reach an uneasy stalemate, is unknowable. However, in view of the heightened political and economic risks associated with the war, it is a good bet that the period of maximum stress may well be over.

The solid U.S. and improving global economic backdrop in early 2026, supported by very accommodative monetary and fiscal policies, can return if the price of oil recedes. We remain positioned for a higher global stock/bond ratio based on solid corporate profit prospects and the likelihood of higher bond yields down the road. The critical assumption underlying this position is that the global economic expansion persists, even though some diminishing in the growth outlook has occurred due to the war and its impact on economic sentiment, as well as the likelihood that energy prices will hold well above their pre-war low levels. We remain concerned that a return to solid economic growth and higher underlying inflation could cause bond market problems and challenge stock market valuation.

There will likely be some war-related disruptions ahead, after all the ceasefire is only for two weeks and so far has not started smoothly. Worryingly, divergent motivations among the war's combatants remain significant. Moreover, as demonstrated during last year's tariff war, the U.S. administration indulges in periodic and abrupt U-turns.

The outperformance trend for international markets took a hit in the past month, with money retreating as typically occurs during market setbacks. Still, the rotation theme should get back on track once it is clear that the tensions in the Middle East have truly peaked.

We would note that credit spreads have not flashed undue risks of late, with spreads held down by the still-supportive corporate profit outlook. Spreads are well below levels that have historically signaled a meaningful rise in corporate defaults. Nevertheless, angst over private credit continues to attract a lot of attention.

To be clear, the war is likely not over and we may yet need to de-risk our portfolio and prepare for a recession and disinflation. If war risks recede in the coming months, then we expect to be back to where we were earlier this year; namely, expecting a gradual inflation-driven tightening in financial markets conditions and, eventually, a shift to a hawkish bias at central banks.

Conclusion

A tentative ceasefire in the Middle East has eased market tensions, but investors need to be prepared for further bumps. That said, the economic and political backdrop points to rising odds of at least a new status quo that would cap energy prices and cause energy supply concerns to gradually recede. We remain positioned for a higher stock/bond ratio, driven by a continuation of the global economic expansion. The downside of such an outcome is that the focus may soon switch to worrying about higher inflation.

Source: Bloomberg as of 04/10/26

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International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	3.89	2.15
MSCI ACWI EX U.S.	4.38	6.57
MSCI EAFE	3.81	5.47
MSCI EM	6.12	9.30

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.46	0.41
Bloomberg U.S. Corp. High Yield	1.02	0.93
Bloomberg U.S. Gov/Credit	0.45	0.24
Bloomberg U.S. T-Bill 1-3 Month	0.04	0.98

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	2.94	8.45
Commodities (DJ)	-3.63	21.68
Global listed private equity (Red Rocks)	1.89	-14.13
Currencies (DB Currency Future Harvest)	1.32	4.64