

Doll's Deliberations®

Weekly Investment Commentary



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Summary

S&P 500 (+0.56%) and NASDAQ recorded the fourth straight weekly gains ending all-time closing highs. Robust Q1 earnings and noisy war headlines were paramount. Best sectors were energy (+3.22%) and technology (+3.09%); worst sectors were healthcare (-3.07%) and financials (-1.88%).

Key takeaways

- At the FOMC meeting next week, we expect minimal changes to the FOMC statement and no shift in its forward guidance, but every word will be examined as usual. A three-point-something inflation rate is likely to keep the Fed on hold for the foreseeable future.
- Brent crude oil is back up to \$100 a barrel. However, the futures market is still signaling a sharp decline over the next 12 months. Apparently, the U.S. stock market can live with \$100 oil for now, believing a significant fall in price is coming.
- There is little sign of demand destruction from higher energy prices, as tax refunds likely supported spending alongside better weather. Overall, the consumer appears to be in good shape. Retail sales in March came in stronger than expected.
- Not only is the U.S. economy weathering the Iran War shock, it is being propelled by capex, which is boosting productivity and profit growth.
- The April flash PMIs show the U.S. absorbing the energy shock better than the rest of the world, especially Europe. The U.S. economy now requires roughly half as many petroleum inputs to generate the same unit of output as it did in the early 1990s.
- 1Q earnings growth expectations are highest for technology (+46%) and financials (+22%).
- Powell and Trump are on a collision course about whether Trump can fire a Fed chair. A court case could be coming.
- The growing U.S. fiscal deficit and rising corporate borrowing add to upward risks for U.S. Treasury yields especially if the economic expansion continues.
- There is little debate a Democratic House is highly likely after the November election and the odds are increasing the Senate could tip to the Democrats, too. Modestly higher federal discretionary spending seems like the path of least resistance in a divided government scenario as Democrats will want more for domestic spending and Republicans will want more for defense.
- There remains a proposal to move from quarterly to semi-annual earnings reporting. If implemented, this would likely increase market volatility due to reduced transparency and less frequent updates.

| Equity markets (Index total return %) | Last week | Year-to-date |
|--|-----------|--------------|
| DJIA | -0.41 | 2.93 |
| S&P 500 | 0.56 | 5.05 |
| NASDAQ | 1.51 | 7.04 |
| Russell 1000 | -0.29 | 4.19 |
| Russell 1000 Growth | 0.60 | 1.40 |
| Russell 1000 Value | 0.21 | 8.73 |
| Russell 2000 | -0.06 | 12.19 |

| S&P equity sectors (Index total return %) | Last week | Year-to-date |
|--|-----------|--------------|
| Communication services | -0.77 | 5.50 |
| Consumer discretionary | -0.28 | 1.58 |
| Consumer staples | 1.28 | 9.64 |
| Energy | 3.22 | 27.56 |
| Financials | -1.88 | -5.54 |
| Healthcare | -3.07 | -6.42 |
| Industrials | -0.55 | 11.58 |
| Information technology | 3.09 | 8.13 |
| Materials | 0.05 | 14.57 |
| Real estate | -1.47 | 10.34 |
| Utilities | 0.07 | 8.97 |

Markets Continue to Assume War Will End and Oil Will Fall

There is a race on between the re-opening of the Strait of Hormuz, and certain economies/industries getting hit hard as a consequence of both soaring prices and a dwindling supply of the critical materials that are transported through the Strait. The risks are magnified because investors have front-run the first outcome and, thus, will be blindsided if the second worsens first. The cliché about the fog of war is certainly true today. The U.S. wants an off-ramp and a return to more normal flows through the Strait, i.e., lower energy prices and improved supplies. Iran seems in no hurry to end the conflict.

Last week saw a last-minute unconditional extension of the ceasefire by the U.S. It remains unclear whether this ceasefire has a time limit, whether the U.S. Navy is in fact enforcing its blockade of Iranian ports, and under what conditions ships are making passage through the Strait of Hormuz. The continuing confusion and uncertainty warrant a risk premium on oil prices. We remain risk-on invested, but with an eye on the exit if the war-related uncertainty and supply problems persist for too long. It is encouraging that oil prices are holding below their peak levels, albeit this just reflects the consensus sentiment that a deal will soon develop.

Equity markets have catapulted to new highs and caused credit spreads to return to historically narrow levels. While the corporate profit backdrop has indeed held up so far, despite the bearish geopolitical and sentiment headlines, the danger is that profits will come under pressure should war-related uncertainty persist for much longer. The ability of companies to protect and enhance profit margins this decade in the face of rising input costs is a defining feature of this bull market. This resilience also means that inflation is sticky and elevated versus recent decades. The silver lining for risk asset markets is that government bond markets do not yet reflect the changed inflation backdrop. This is because central banks are sticking to the belief that the more inflationary backdrop only reflects a series of one-off shocks, with a return to low and stable inflation inevitable. The acceleration in AI developments in the past year or so is encouraging the view that surging productivity will save the day by allowing solid economic growth to coincide with low inflation.

The war in the Middle East has the potential to trigger an equity bear market, but only if the war re-escalates and persists for long enough to undermine demand and corporate profitability. This is not our base-case scenario, but it is a significant tail risk.

Where little or no economic slack exists, inflation will remain sticky and prone to drift higher assuming the economic expansion persists, as we anticipate. In time, central banks and bond markets will have to acknowledge the more inflationary backdrop, rather than complacently discount a pre-2020 low inflation environment.

Conclusion

A re-opening of the Strait of Hormuz is increasingly being discounted in asset prices. An agreement on this issue has proven elusive, but the pressure to re-open is steadily intensifying for economic and political reasons. While sentiment surveys have weakened because of the war in the Middle East, hard economic data have generally held up. The global economic expansion was on solid foundations and we are still positioned for it to remain on track. But, the impact on prices and the supply of the materials that are transported through the Strait is reinforcing the mildly inflationary backdrop.

Source: Bloomberg as of 04/24/26

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| International equity markets (Index total return %) | Last week | Year-to-date |
|--|-----------|--------------|
| MSCI ACWI | -0.66 | 5.65 |
| MSCI ACWI EX U.S. | -1.44 | 8.63 |
| MSCI EAFE | -2.33 | 5.89 |
| MSCI EM | 0.18 | 14.44 |

| Fixed income markets (Index total return %) | Last week | Year-to-date |
|--|-----------|--------------|
| Bloomberg U.S. Aggregate Bond | -0.40 | 0.43 |
| Bloomberg U.S. Corp. High Yield | -0.23 | 1.24 |
| Bloomberg U.S. Gov/Credit | -0.36 | 0.30 |
| Bloomberg U.S. T-Bill 1-3 Month | 0.04 | 1.12 |

| Alternatives (Index total return %) | Last week | Year-to-date |
|--|-----------|--------------|
| Real estate (FTSE NAREIT) | -1.10 | 11.48 |
| Commodities (DJ) | 3.60 | 25.52 |
| Global listed private equity (Red Rocks) | -2.95 | -8.65 |
| Currencies (DB Currency Future Harvest) | 0.89 | 5.82 |