

Doll's Deliberations®

Weekly Investment Commentary



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Summary

The S&P 500 (+0.92%) and NASDAQ both recorded their fifth-straight weekly gains, again ending at fresh closing highs. The week reinforced a resilient economy and earnings backdrop, despite no real progress in the Middle East stalemate. Best sectors were communication services (+4.54%) and energy (+3.25%); materials was the only declining sector (-1.95%).

Key takeaways

1. FOMC participants are coalescing around the idea that the funds rate will stay on hold for some time, an outcome that is now well-priced in the bond markets and that will not materially change under a new Fed chair.
2. Central banks can do little against a supply-side inflation shock and are likely to hike only if long-term inflation expectations become unanchored. Long-term expectations remain anchored for now, but repeated supply shocks have made them more fragile.
3. The average price per gallon for gasoline in the U.S. has crossed \$4 (up from \$2.72 earlier this year). That compares to a \$5 peak at the start of the Russia/Ukraine war.
4. Higher pump prices will absorb roughly half of the \$150 billion tax windfall households will enjoy in 2026.
5. Most companies have acknowledged the Middle East conflict as a source of significant macro uncertainty, yet most reported that as of Q1, they have not seen material negative effects flowing through to demand, credit quality, or consumer behavior.
6. After many quarters where Mag 7 earnings growth has significantly surpassed the remaining 493 (e.g., 1Q 41% versus 12%), forward guidance is 27% versus 26% for Q2, 25% versus 28% for Q3, and 19% versus 26% for Q4. Stay tuned!
7. The stability of private credit markets has been a significant concern in recent months. Transcript analysis for companies that have reported so far suggests that the message from banks, asset managers, and insurers was one of reassurance rather than alarm.
8. Strong earnings have pushed stocks to new highs despite geopolitical uncertainty, with the profit cycle remaining robust.
9. Stocks advanced in April (+10.5%) by more than any month since the COVID rebound in 2020. Since the bottom on March 30, 10 of the largest tech companies have accounted for 70% of the S&P 500 advance.
10. "Terminal value," or a company's worth beyond the next 10 years based on earnings estimates, accounts for 75% of the S&P 500's value, near a 25-year high.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	0.55	3.49
S&P 500	0.92	6.02
NASDAQ	1.12	8.25
Russell 1000	0.52	5.50
Russell 1000 Growth	0.25	1.66
Russell 1000 Value	1.44	10.30
Russell 2000	0.47	13.21

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	4.54	10.30
Consumer discretionary	0.39	1.98
Consumer staples	1.18	10.93
Energy	3.25	31.71
Financials	0.93	-4.66
Healthcare	0.66	-5.80
Industrials	0.25	11.86
Information technology	0.11	8.25
Materials	-1.95	12.33
Real estate	1.04	11.49
Utilities	0.76	9.80

Fingers Crossed / Cautiously Optimistic

Market sentiment continues to wax and wane in response to changes in oil prices, but investors generally remain sanguine. A month ago, global equities were reeling, bond yields were rising, and balanced portfolios were being hit by a double whammy. Despite the turbulence last week, equities have recovered most of their initial war-driven losses and credit spreads are back near cyclical lows, even as bond yields and oil prices are at the upper end of their recent range.

There is an ostensible ceasefire, and the U.S. and Iran are engaged in fitful negotiations, but the Strait of Hormuz remains largely closed and the U.S. is trying to impose a blockade on Iran-related ships leaving the Strait. Oil, gas, and other commodity flows out of the Persian Gulf remain severely restricted, and the economic bite of related commodity shortages in Asia and Europe is intensifying. The timetable and results of the negotiations between the U.S. and Iran are uncertain, but both have an incentive to wind down the war reasonably soon, which we assume will include a full opening of the Strait of Hormuz and a significant decline in oil prices. Moreover, generally sturdy recent data amidst the war appears to have buttressed investor confidence in the resilience of the global economy, consistent with the view that we have repeatedly expressed. The global economy will not be fully back to the pre-war trend even by the end of the year, but the upward growth trajectory should be clear and both monetary and fiscal policies are pro-growth, and financial conditions remain easy.

While our base-case scenario is that the war will soon wind down, the threat to the global economy will intensify if it does not. That is, oil and other crucial commodity prices will rise if the Strait is not soon opened, as strategic petroleum reserves and inventories of vital commodities get exhausted. If things don't soon get better, they will get considerably worse even if the global economy is more resilient than many investors initially believed. The problem for capital markets is that the supportive macro backdrop is already significantly discounted. G7 government bonds, especially U.S. Treasuries, are still overly optimistic about the inflation outlook if the global economic expansion continues over the next six to 12 months. Investor risk appetite remains healthy, but there is considerable scope for disappointment and periodically heightened volatility, especially as the November U.S. mid-term elections approach.

U.S. payrolls increased significantly in March, same-store retail sales remain sturdy, and initial unemployment claims remarkably low. Major U.S. banks and credit card issuers recently have expressed confidence about their exposures to U.S. borrowers. The monetary policy and fiscal backdrop remain positive for global growth and risk assets, although investors are expecting modest central bank rate hikes in the next year across most developed-market economies. As mentioned above, a lot of good news is already discounted in capital market pricing. The 12-month forward earnings yield on global stocks is historically low relative to G7 10-year government bond yields, the U.S. equity forward P/E ratio is still high despite its recent dip, corporate earnings and growth expectations are elevated, and corporate credit spreads are tight. These factors argue for moderate rather than robust returns for risk assets in the year ahead, with increasing scope for disappointments.

Conclusion

We remain mildly constructive about the equity market outlook, given the supportive macro and earnings outlook but stress that a lot of good news is already discounted and stocks are historically expensive. Continue to favor equities over bonds in a multi-asset portfolio, given our forecast of an ongoing global economic expansion and supportive monetary and fiscal policies. However, returns on portfolios are likely to be moderate rather than robust over the next six to 12 months, accompanied by above-average volatility.

Source: Bloomberg as of 05/01/26

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International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	0.48	6.65
MSCI ACWI EX U.S.	0.27	8.88
MSCI EAFE	0.64	6.12
MSCI EM	-0.60	14.52

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-0.50	0.07
Bloomberg U.S. Corp. High Yield	-0.09	1.19
Bloomberg U.S. Gov/Credit	-0.50	-0.08
Bloomberg U.S. T-Bill 1-3 Month	0.04	1.19

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	1.34	12.75
Commodities (DJ)	3.09	29.40
Global listed private equity (Red Rocks)	0.41	-9.32
Currencies (DB Currency Future Harvest)	-0.06	5.75