

Doll's Deliberations®

Weekly Investment Commentary



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Summary

The S&P 500 was up (+2.36%). Stocks were higher for the sixth-consecutive week, ending again at all-time highs. (The S&P 500 is up 16% over that period, the third-best six-week run in the past 15 years.) Best sectors were technology (+7.02%), communication services (+1.86%), and consumer discretionary (+1.76%); worst sectors were energy (-5.30%) and utilities (-3.89%).

Key takeaways

- Press reports suggest that U.S. and Iran are close to a deal, which has sent oil and rates lower and stocks higher. Equities have largely priced out the war risk, and investors generally believe Trump will take almost any deal to end the war now.
- April headline jobs rose 115,000 (versus 65,000 consensus) with the breadth of hiring also encouraging. The unemployment rate was unchanged at 4.3% and wage growth was a disappointing 0.2% (y/y +3.6%).
- Weekly unemployment claims are the lowest they have ever been relative to the size of the labor force. (And the lowest level since 1969.)
- The global economy has so far held up reasonably well, supported by inventory drawdowns, fiscal stimulus, precautionary purchases, AI-driven momentum, and households drawing on savings rather than cutting spending.
- The breadth of CPI price pressures has increased, with most components now above central bank targets throughout the developed world. ("3% is the new 2%.")
- Higher oil prices are impacting the rest of the world far more severely than the U.S. For example, in parts of Europe, gasoline prices are reportedly over \$8 per gallon.
- Ten-year yields rose around 40 basis points (bps) since the war began. Estimates are that roughly half of that move is attributable to the Iran shock. The remainder reflects stronger-than-expected growth and a reversal of the February AI-driven rally.
- We are more than halfway through 1Q earnings season for the S&P 500. More than 80% of companies are beating earnings estimates, well above the long-term average of 72%. Earnings growth for 1Q26 for the S&P 500 is now at 26%, a level rarely seen outside of post-recession rebounds.
- We are witnessing the strongest earnings season since 2021. Nominal growth is strong, above trend, and in some places, accelerating, and this is driving earnings. Nearly every sector has had positive earnings revisions since April 1.
- Put/call ratios are hovering near multi-year lows as option players position for upside. Animal spirits are present, but there is some technical deterioration, e.g., the % of issues above their 20-day moving average has been in decline for several days and is now hovering around 50%.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	0.25	3.75
S&P 500	2.36	8.52
NASDAQ	4.52	13.14
Russell 1000	1.40	7.26
Russell 1000 Growth	2.94	4.62
Russell 1000 Value	1.35	11.72
Russell 2000	0.96	14.82

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	1.86	12.35
Consumer discretionary	1.76	3.77
Consumer staples	-0.19	10.72
Energy	-5.30	24.73
Financials	-1.29	-5.89
Healthcare	-1.11	-6.85
Industrials	0.19	12.07
Information technology	7.02	15.84
Materials	0.56	12.95
Real estate	0.06	11.56
Utilities	-3.89	5.52

Oil and War Crosscurrents Continue Even as Earnings Shine

Last week once again witnessed some sharp swings in sentiment about the war in the Middle East and in oil prices. Oil-price swings have been driving asset markets since the war started, with the exception of the (apparently unstoppable) boom in select AI/tech stocks, especially semiconductors. Investor sentiment is now once again hopeful of a deal to reopen the Strait of Hormuz before much economic damage occurs, which has spurred a solid risk-on phase.

Much higher energy prices (and much lower supplies) than pre-war levels, higher developed-market policy rate expectations and bond yields, and the increase in overall economic uncertainty could create an economic headwind. The good news is that this potential headwind has developed at a time when the global economy is gaining momentum, aided by historically very accommodative monetary and fiscal policies, and strong corporate earnings. We have been expecting the global expansion to withstand this headwind, which has so far been reflected in resilient hard economic data.

The challenge now for investors is whether to: (1) continue betting on the global economic expansion staying durable, which favors a pro-growth investment stance (i.e., stay positioned for a higher global stock/bond ratio over the next six to 12 months), or (2) tactically de-risk to protect against failed negotiations with Iran, which would cause much higher oil prices once fears of a rundown in global reserves escalate (estimated to occur by June), which presumably would trigger a further increase in bond yields and policy rate expectations. We think the first alternative is most likely. We expect the global economic expansion to persist and indeed gain fresh momentum after the Strait of Hormuz is fully reopened. If incorrect, the world could face stagflation (weak growth and sticky/rising inflation) or even an outright recession (and thus a less inflationary backdrop until the next economic recovery develops), depending on how events in the Middle East play out. That said, historically sizable global monetary and fiscal stimulus has provided a considerable offset to war-related economic headwinds.

Headline inflation is rebounding due to much higher energy prices. Bond investors (and central banks), however, should be able to look through this increase (even though it will likely have some contagion on other prices) because the source of the price rise is not increased oil demand, but rather dwindling supplies. While somewhat more worried about the rise in inflation in the near term because of higher energy prices, investors and central banks still expect last decade's low-inflation backdrop to eventually return. We remain skeptical.

Conclusion

The odds are that the Strait of Hormuz will soon be reopened, although we are wary of yet another temporary setback given the frequent flip-flops in the past six weeks. The global economy so far weathered the energy shock, which is consistent with still-upbeat corporate earnings results and prospects. The downside of this resilience is to further entrench inflation.

Source: Bloomberg as of 05/08/26

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International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	2.19	9.27
MSCI ACWI EX U.S.	3.47	12.91
MSCI EAFE	1.80	8.39
MSCI EM	7.69	23.42

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.05	0.23
Bloomberg U.S. Corp. High Yield	0.02	1.35
Bloomberg U.S. Gov/Credit	0.06	0.08
Bloomberg U.S. T-Bill 1-3 Month	0.04	1.26

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	0.14	12.70
Commodities (DJ)	-1.23	27.80
Global listed private equity (Red Rocks)	1.08	-7.79
Currencies (DB Currency Future Harvest)	0.08	5.90