

Doll's Deliberations®

Weekly Investment Commentary



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Summary

While the S&P 500 finished modestly higher last week, other averages and the average stock were down. All-time highs were recorded on Monday, Wednesday, and Thursday on narrow breadth, but Tuesday and Friday were down days. Best sectors were energy (+4.40%), technology (+2.86%), and health care (+2.11%); the only sectors that were down for the week were consumer discretionary (-1.24%) and real estate (-1.00%).

Key takeaways

- April headline CPI rose 0.6% month/month (3.8% year/year) and core 0.4% m/m (2.8% y/y). Not surprisingly, energy led the increase, but there were other factors.
- Labor markets show some improvement but inflation is problematic. We remain skeptical that the Fed will end up hiking, but they will likely soon take off their easing bias.
- The major parts of the world economy (the U.S., and to a somewhat lesser degree, the euro area and China) are reasonably solid and/or firming.
- Energy prices have surged but remain at levels that are headwinds rather than expansion-ending obstacles. The risk of a sharper move rises with each week the Strait of Hormuz stays closed.
- Relentless earnings growth continues to trump the deadlock with Iran.
- First-quarter earnings are up 28% - 60% for technology, 12% for cyclicals, 2% for non-cyclicals, and 25% for financials.
- Tech earnings are forecast to grow 45% this year and 31% in 2027, up from 26% last year. Because earnings have advanced so strongly, the P/E of the sector has actually fallen to 24x, not much above the overall markets' P/E.
- Equity markets are hitting all-time highs (the S&P 500 has surged 17% in just six weeks). However, beneath the surface, a fragile and contradictory macro environment exists. Leadership is concentrated in AI/tech. Crude oil hovering near \$100 per barrel is weighing on the consumer cyclical sector, which continues to fall.
- The Xi-Trump summit will generate plenty of headlines, but the practical outcomes are likely to be modest, including an extended trade truce, promises of increased purchase of Chinese goods, and possibly a commitment for renewed dialogue on AI.
- Senate models point to a narrow Republican majority in November, but Trump's weakened approval, Democratic polling gains, some softer state-level economic data, and the energy shock are eroding the GOP's advantage.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-0.17	3.63
S&P 500	0.13	8.70
NASDAQ	-0.08	13.07
Russell 1000	-0.01	8.10
Russell 1000 Growth	0.66	5.31
Russell 1000 Value	-0.76	10.87
Russell 2000	-2.37	12.99

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	0.14	12.51
Consumer discretionary	-1.24	2.49
Consumer staples	1.60	12.50
Energy	4.40	30.21
Financials	0.03	-5.87
Health care	2.11	-4.88
Industrials	0.70	12.85
Information technology	2.86	19.15
Materials	0.49	13.51
Real estate	-1.00	10.44
Utilities	0.42	5.96

Both Stocks and Oil Prices Remain Resilient

Investors are nervous as the Strait of Hormuz has not reopened and oil prices edged higher. Financial markets have so far mostly absorbed the energy shock. However, we are concerned that sentiment could quickly sour if the shock persists into June, particularly with regard to oil supplies since investors will be increasingly anxious that global reserves will be dangerously low by then. A key unknown is whether investors are accurately gauging the odds of a de-escalation as political pressures on the U.S. mount, or if they are merely being complacent.

The VIX index remains low and equity markets are elevated. Corporate high-yield bond spreads are back to near their lows for the cycle; they are historically narrow reflecting the still-upbeat corporate profit picture. The risk is clear – will dwindling supplies of energy and other key resources that use the Strait reach the point where prices go up significantly and current healthy activity in the most vulnerable regions start to struggle. Markets are not positioned for such an outcome. We recommend keeping a close eye on the exits, i.e., be prepared to de-risk if a de-escalation does not soon occur.

One possible outcome is that the Strait does not reopen until after some meaningful economic damage starts to happen and a risk-off period erupts, which finally forces an agreement. If such an agreement occurs quickly, we would not expect much lasting economic damage and, in fact, activity could quickly recover. It will take time before a resumption in traffic flows allows products to reach end-users in such an outcome. However, investors will look beyond such short-term issues if they still believe that the foundations under the global economic expansion, which were solid pre-war, will hold up. We expect such a positive outcome even under the scenario where some economic damage occurs in select global regions, because monetary and fiscal policies remain accommodative, even though global bond yields have been edging higher. Critically, global corporate profit trends remain quite supportive.

In the meantime, inflation is getting worse across the globe. In fact, inflation will now become even more entrenched in terms of long-term inflation expectations, wage demands, etc., should the global economic expansion persist, as we expect. Hard economic data has been mostly resilient since the war started, especially in the U.S. So far, wages and overall income have more than kept pace with rising consumer prices.

The Fed has had no reason to lower its policy rate in recent years based on its inflation mandate, and yet it did ease. And the Fed's other mandate, maximizing employment, has also been inconsistent with an accommodative policy setting.

Conclusion

Investors continue to bet on a reopening of the Strait of Hormuz before much economic damage occurs; time is running short with global oil reserves dwindling. Be prepared to de-risk if the Strait is not soon reopened. Despite the energy shock, most economic data shows resilience. The downside is that inflation is becoming even more entrenched.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	0.98	10.59
MSCI ACWI EX U.S.	0.13	12.32
MSCI EAFE	0.00	7.59
MSCI EM	0.34	22.93

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-0.52	-0.08
Bloomberg U.S. Corp. High Yield	-0.14	1.23
Bloomberg U.S. Gov/Credit	-0.50	-0.22
Bloomberg U.S. T-Bill 1-3 Month	0.04	1.33

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-0.98	11.99
Commodities (DJ)	1.89	30.21
Global listed private equity (Red Rocks)	-2.23	-9.69
Currencies (DB Currency Future Harvest)	0.45	6.75

Sources: Bloomberg, Morningstar, FactSet as of 05/15/26

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