

Doll's Deliberations®

Weekly Investment Commentary



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Summary

Stocks advanced again this past week, with the S&P 500 up (+0.91%) for the eighth consecutive week – the longest streak in years. While the war in Iran remains the wild card, AI excitement and consumer resilience carried the week. Best sectors were utilities (+3.41%), health care (+3.32%), and real estate (+3.10%); sectors that declined were communication services (-1.86%), consumer staples (-0.96%), and energy (-0.17%).

Key takeaways

1. It's hard to imagine that just 60 trading days ago the 10-year yield was 3.94% (now over 4.60%), multiple Fed rate cuts were priced in for 2026, and 60% of stocks in the S&P 500 were above their 50-day moving average. (Now well under 50%.)
2. Psychological yield levels have been pierced to the upside: The two-year yield is above 4%, the 10-year yield is above 4.50%, and the 30-year yield is above 5.00%.
3. The bond vigilantes are sending a clear message to the Fed. Drop the easing bias, don't replace it with a neutral stance, but go straight for a tightening bias. We'll see.
4. The recent spike in interest rates is driven by inflation fears, not federal finances, although the federal fiscal position is arguably in the worst shape since the founding of our country.
5. The breakout in interest rates hasn't disturbed credit to any significant degree (quality spreads continue to hover near recent tights).
6. The global economy has absorbed the oil shock better than feared, helped by elevated inventories, reduced Asian commodity imports, rationing measures, and inventory drawdowns. Those buffers are temporary and the oil market should become more exposed to a tighter supply/demand balance by mid-year.
7. The ongoing failure to come up with a political or military resolution to the blockades of the Strait of Hormuz has steadily raised inflation pressure.
8. Earnings estimates are surging, and the growth of AI spending is a counterweight to the hit from Iran. But, the yield on the 10-year U.S. Treasury bond now exceeds the earnings yield on the S&P 500 to an extent not seen since the dot.com bust in 2002, which could be a warning signal for stocks.
9. On May 14, the S&P 500 was 8.5% above its 50-day moving average with only 47% of the constituents above their DMAs. This is the widest divergence on record.
10. Strong equity markets, upside inflation surprises, and resilient growth likely cannot co-exist indefinitely. Rates likely continue re-pricing higher until either growth weakens, equities crack more materially, or Trump reaches his pain threshold and takes a deal with Iran.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	2.18	5.89
S&P 500	0.91	9.69
NASDAQ	0.48	13.62
Russell 1000	0.63	8.78
Russell 1000 Growth	0.47	5.81
Russell 1000 Value	1.79	12.86
Russell 2000	1.82	15.05

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-1.86	9.33
Consumer discretionary	1.93	2.56
Consumer staples	-0.96	11.08
Energy	-0.17	33.27
Financials	1.59	-4.67
Health care	3.32	-2.74
Industrials	0.23	11.09
Information technology	1.00	18.41
Materials	0.07	10.53
Real estate	3.10	12.09
Utilities	3.41	7.02

Can High Bond Yields and High Stock Prices Coexist?

Investors have recently gotten a taste of what likely lies ahead in terms of rising bond yields. A more extreme outcome (on the upside for yields) is possible down the road, as the entrenched dovish bias clashes with the firming trend in underlying inflation. A reprieve phase may occur, with yields and policy rate expectations partially receding should the Strait of Hormuz soon reopen and energy prices retreat. However, this may be a short-lived reprieve, as global monetary conditions are not neutral/restrictive, as central banks believe, but rather accommodative and supportive of growth and, thus, inflationary.

Central bank estimates of equilibrium policy rates still reflect last decade's low-inflation era and are too low for this decade's economic and inflation backdrop. So far, investment liquidity has been plentiful and asset-price inflation has flourished. The recent rise in bond yields has not yet triggered a risk-off phase. Investors continue to bet that the Strait will soon be reopened, and before the global economic expansion is undermined. There is still no evidence that the combatants can agree on such an outcome. Energy supplies are being depleted, which only seems to encourage the view that an agreement must occur soon.

Critical to our multi-asset and absolute-return positioning has been our view that the global economic foundations were solid heading into the war, especially with regard to the corporate profit cycle. Underlying profitability remains solid, even though there is a growing vulnerability with high-flying stocks, where both valuations and earnings expectations are stretched. Solid corporate profits and accommodative monetary and fiscal conditions have so far outweighed the negative impact from much higher energy prices and increased economic uncertainty. We expect the global economic expansion to persist, even though a test looms if the Strait is not soon reopened.

So far, equities have held up well in the face of this year's energy shock, partly because the rise in bond yields has been much less severe than during 2022. We expect this year's trends in bond yields, equities, and the stocks/bonds ratio to persist. A brief risk-off phase is possible if the Strait is not reopened soon, and a brief reprieve for bond yields is probable once the Strait is reopened. Scares aside, we expect the global economic expansion to roll on. The narrowing in credit spreads has been a source of economic support as opposed to being an economic headwind, as was the case in 2022-23. This, in turn, has aided equity market performance.

Conclusion

Investors are positioned for an imminent reopening of the Strait of Hormuz, which increases the short-term risks for asset markets should energy supplies remain constrained. That said, solid economic foundations, especially in terms of corporate profitability, and supportive monetary and fiscal conditions warrant betting on a higher global stock/bond ratio in the next six to 12 months, with the caveat that, indeed, the Strait is soon reopened. If the global economic expansion persists, as we expect, then the risk of even higher bond yields will intensify due to sticky inflation, mounting fiscal excesses, and lagging central banks.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	0.76	9.75
MSCI ACWI EX U.S.	1.09	11.34
MSCI EAFE	1.33	7.33
MSCI EM	0.47	20.07

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.26	-0.45
Bloomberg U.S. Corp. High Yield	0.25	1.13
Bloomberg U.S. Gov/Credit	0.22	-0.59
Bloomberg U.S. T-Bill 1-3 Month	0.08	1.44

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	2.96	13.52
Commodities (DJ)	-1.53	28.23
Global listed private equity (Red Rocks)	0.92	-10.04
Currencies (DB Currency Future Harvest)	0.34	6.88

Sources: Bloomberg as of 05/22/26

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