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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks (S&P 500 +1.44%) closed yet again (for the ninth-straight week) at a record high. Oil and bond yields fell due to optimism for an Iran solution. Best sectors were technology (+4.56%), consumer discretionary (+1.51%) and materials (+1.27%); worst sectors were energy (-5.43%), consumer staples (-3.23%), and utilities (-2.04%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	0.91	6.86
S&P 500	1.44	11.27
NASDAQ	2.39	16.33
Russell 1000	1.24	10.61
Russell 1000 Growth	2.28	8.23
Russell 1000 Value	0.73	13.68
Russell 2000	2.36	18.83

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-0.01	9.31
Consumer discretionary	1.51	4.11
Consumer staples	-3.23	7.49
Energy	-5.43	26.04
Financials	-0.69	-5.32
Health care	-0.22	-2.96
Industrials	0.82	11.99
Information technology	4.56	23.81
Materials	1.27	11.94
Real estate	-1.34	10.59
Utilities	-2.04	4.84

Key takeaways

1. It's April Core PCE inflation came in at +3.3% y/y. The big surprise was the drop in the savings rate from 3.2% to 2.6%.
2. Q1 real GDP was revised down by 0.4 percentage points to 1.6%, mainly on weaker consumer spending. Households are still spending, but increasingly without the income growth to support it.
3. The FOMC is likely to drop its easing bias and perhaps adopt a tightening bias at its June meeting. An unexpected rate hike at the July meeting could unsettle the stock market.
4. On Polymarket, the odds of a recession in 2026 fell to 19%, the lowest reading of the year.
5. The fundamental backdrop for the equity market remains quite strong, with earnings growth projected at 22.5% for 2026 and 15.5% for 2027.
6. Year-to-date, the S&P 500 is up 10%, and forward EPS estimates have risen 15%, meaning the P/E multiple has declined 5%. (So, relative to earnings, stocks are cheaper today than they were at the start of the year.)
7. The S&P 500 experienced its ninth-biggest eight-week gain in history (+18%). In the prior eight experiences, stocks were always higher three and six months later (with the average six-month gain of 11%).
8. According to Strategas, the S&P's earnings growth in the last five years (+79%) is roughly equivalent to its total return (+85%) over the same time period. This is in stark contrast to the dot.com bubble when earnings growth for the index from 1995-99 (+67%) trailed its total return (220%) by a wide margin.
9. ExxonMobil issued a warning that oil inventories will fall to record lows in the coming weeks, possibly pushing oil prices as high as $150 per barrel.
10. SpaceX is expected to price the largest IPO in history around June 12, with the company valued at more than $1.75 trillion. (The deal's 4.29% float is deliberately small.)

Markets Continue to Focus on the Positives (of Which Earnings Is the Biggest)

The tight correlation between oil prices and global financial asset markets continues on a daily basis, subject to the ever-changing odds of a deal to reopen the Strait of Hormuz. The overwhelming investor bias has been to bet on a reopening before any meaningful economic damage occurs, but time is running short.

Rational analysis points to a deal as high oil prices and, especially, dwindling supplies, have the potential to derail the global economic expansion, or at least undermine some significant parts of the global economy. Still, it may take a bout of risk-off to finally conclude an agreement to at least reopen the Strait (with an all-encompassing deal a long way down the line). It seems that whenever the U.S. equity market and economic data show resilience, the U.S.' urgency to reach an agreement diminishes.

The stalemate in the Strait has pushed global energy markets toward a potential tipping point that could increase anxieties over depleted global stockpiles. A scenario in which physical shortages of oil and other commodities necessitate rationing would likely trigger an economic growth scare and a risk-off phase in equity markets.

So far, bond markets have reacted to the ups/downs in oil prices via their link to headline inflation, rather than factoring in the demand destruction risk related to the current supply-induced shock. Headline inflation is indeed firming as higher energy prices show up in the data, and some central banks are mumbling about tightening policy in response to higher headline rates. The trend in inflation is firming, especially in the U.S., Japan, and parts of Europe. A continued global economic expansion will spur higher inflation over time, first to the detriment of bond markets, and then to risk-asset markets further down the road.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	1.11	11.54
MSCI ACWI EX U.S.	0.93	13.14
MSCI EAFE	0.28	8.52
MSCI EM	2.32	23.64

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	0.73	0.27
Bloomberg U.S. Corp. High Yield	0.43	1.56
Bloomberg U.S. Gov/Credit	0.73	0.13
Bloomberg U.S. T-Bill 1-3 Month	0.03	1.47

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	-0.02	13.60
Commodities (DJ)	-2.49	25.03
Global listed private equity (Red Rocks)	0.30	-9.39
Currencies (DB Currency Future Harvest)	-0.07	6.64

We believe the underlying uptrend in yields will persist, as bond bulls and central banks belatedly realize that they are offside on their inflation forecast. Inflation expectations will become more entrenched the longer consumers and businesses live in a world where higher input costs can be mostly passed on. This does not herald a return to 1970s-type runway inflation. Rather, a slow-moving inflation uptrend, perhaps more akin to the second half of the 1960s and early 1970s, would better describe the backdrop.

Companies have not only been able to pass on higher input costs this decade, they have even managed to significantly boost their profit margins to record highs. This, in turn, has allowed the business sector to pay higher wages, yet still report stellar earnings gains quarter after quarter.

Conclusion

Time is running short and a brief risk-off phase may be needed to spur an agreement to reopen the Strait of Hormuz. Nevertheless, we remain positioned for a higher stock/bond ratio in the next six to 12 months. The fundamental backdrop, excluding the energy shock, is solid: Monetary and fiscal policies are accommodative, and corporate profit margins have soared to record highs despite the increase in input costs this decade. The downside of being able to pass on higher input costs is higher consumer price inflation.

Sources: Bloomberg as of 05/29/26