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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Thanks to a strong Friday, equities advanced last week (S&P 500 1.54%). Stocks were higher for a second straight week with the S&P 500 finishing 20% above the April 8 low and is now just 3% away from February's record high. Best performers were communication services (3.19%), technology (3.01%) and energy (2.21%), the only decliners for the week were consumer staples (-1.48%), utilities (-0.95%) and consumer discretionary (-0.55%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	1.23	1.31
S&P 500	1.54	2.62
NASDAQ	2.20	1.44
Russell 1000	0.58	1.59
Russell 1000 Growth	2.01	1.74
Russell 1000 Value	1.09	3.62
Russell 2000	1.53	-5.42

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	3.19	6.90
Consumer discretionary	-0.55	-6.48
Consumer staples	-1.48	6.85
Energy	2.21	-1.76
Financials	0.69	6.59
Heathcare	1.27	-1.87
Industrials	1.42	10.38
Information technology	3.01	1.40
Materials	1.58	5.26
Real estate	0.29	3.65
Utilities	-0.95	8.03

Key takeaways

1. The May employment report was generally upbeat, but private payroll employment ground to a near halt, according to the latest data from ADP. (Non-farm private payrolls rose just 37,000.) We are getting close to some soft employment numbers. Job openings rose in April (modestly higher than March – a good sign), and the Quits rate moved down.
2. The May ISM Manufacturing and Services PMIs sent a stagflationary mix of weakening activity and sticky inflation, potentially eroding profit margins.
3. Recent signals suggest consumers are beginning to tighten their wallets at the margin due to higher prices for eating out, higher interest rates, higher utility bills, and higher insurance expenses. A partial offset is lower gas prices.
4. Despite somewhat slower job creation, the unemployment rate has remained historically low, as the significant drop in immigration is resulting in slower labor supply growth.
5. The consensus forecast for CPI this week is +0.3%. That increase would push the PCE to +2.75% y/y. This is not the kind of inflation reading the Fed wants to see, especially ahead of the of the full impact of tariffs, which could take three to six months.
6. With the Trump administration asking countries to list their best tariff proposals, it is likely the Trump tariff team wants to get this issue behind them or at least out of the headlines.
7. Investors are unlikely to get clarity on trade policy anytime soon as moving "frameworks" (of which we have only a few) to "deals" (of which we have none) is a long process.
8. P/E multiples have risen to new highs for the S&P 500 as the market has moved higher while earnings estimates have drifted lower.
9. Our sense is that investors are viewing tech again as defensive growth in a 1.5%-2% U.S. GDP environment. Performance within the group is mixed, as idiosyncrasies and tariff pressure weighs on some (AAPL, AMZN, TSLA), while the AI spending narrative continues to power the remainder (MSFT, NVDA, GOOGL, META) higher.
10. For the first five months of the year, the average large cap core active manager is outperforming the S&P 500. (The direction of the Magnificent 7 will be a key determinant as to whether or not this can continue.)

Stocks supported by a somewhat resilient economy, but could be challenged by tariff-driven earnings disappointments or rising interest rates

Equities have recovered most of their tariff-driven losses from earlier this year, when markets abruptly went from overbought to oversold (to now neutral). There is an unresolved tug of war between heightened U.S. policy uncertainty and a resilient U.S. and global economy. Our view has been that the U.S. economy has solid foundations and U.S. monetary policy has not been restrictive, but that President Trump's aggressive tariff policies threatened the U.S. economic outlook. The unresolved question is whether the tariffs have moved to just an irritant rather than remaining a major risk. It will be several months before the trade picture clears. The close correlation between trade and corporate profits indicates that the outlook for earnings is uncertain. Despite Trump's sometimes chaotic policy shifts, the U.S. and global monetary and fiscal policy backdrop is pro-growth. Global liquidity conditions are still easy, and growing fiscal deficits are bolstering demand. Inflation, especially in the U.S., remains problematic.

Economic conditions, particularly in the U.S., are late-cycle, so the run room for risk assets is inherently limited, although neither the endpoint nor date are yet clear. Consistent with late cycle conditions, equities are expensive. The deteriorating U.S. fiscal outlook, combined with inherent upside inflation risks and accommodative monetary policy, may push U.S. Treasury yields higher. Aside from earnings (where we think estimates are still too high), government bond and credit markets will dictate how equities fare over the next few months.

In the U.S., the job market is the critical variable, as healthy payroll gains and a low unemployment rate have bolstered household income and spending. Unemployment claims have risen modestly in recent weeks, but remain at levels consistent with healthy labor demand, and consumers continue to say that jobs are plentiful rather than hard to get, albeit to a diminishing extent.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	0.86	6.22
MSCI ACWI EX U.S.	1.40	15.62
MSCI EAFE	1.05	18.10
MSCI EM	2.25	11.17

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	0.12	2.57
Bloomberg U.S. Corp High Yield	0.32	3.01
Bloomberg U.S. Gov/Credit	0.13	2.58
Bloomberg U.S. T-Bill 1-3 Month	0.05	1.83

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	-0.20	1.63
Commodities (DJ)	3.41	6.56
Global listed private equity (Red Rocks)	0.80	0.92
Currencies (DB Currency Future Harvest)	1.08	-0.80

The outlook in less frothy equity markets elsewhere is more favorable, but any fallout in the U.S. would inevitably have adverse spillover effects. To be clear, there are appealing areas of the U.S. equity market, and a continuation of the global economic expansion should allow select non-U.S. equity markets such as the euro area, Japan and emerging markets to trend higher, but U.S. policy uncertainty/volatility implies a bumpy path.

In recent months, investors have rotated from U.S. to non-U.S. stocks, primarily because of perceived U.S. policy risks, rather than reflecting greater optimism about the outlook for earnings in the rest of the world. We expect conditions to gradually shift more favorably for the rest of the world, with economic and earnings growth slowing in the U.S. and firming elsewhere. That said, the latter will take time to develop, although an unexpected further weakening in the dollar will provide additional support for global ex-U.S. relative equity performance.

Conclusion

Ongoing economic expansion should keep forward earnings somewhat intact over the next 6-12 months. However, at current high valuations, stocks are vulnerable to either earnings downgrades or a further rise in interest rates.

Source: Bloomberg as of June 6, 2025