

# Doll's Deliberations®

## Weekly Investment Commentary



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### Summary

Stocks advanced last week (S&P 500 +0.66%). Small stocks beat big stocks yet again. Trading was volatile due to a variety of factors. Best sectors were materials (+3.00%), consumer staples (+2.59%), and financials (+2.04%); losing sectors included communication services (-1.86%) and energy (-0.35%).

### Key takeaways

1. The CPI report (headline +0.5% m/m, 4.2% y/y; core +0.2% m/m, +2.9% y/y) is in the top decile of historic headline inflation readings, which historically has had a negative impact on forward equity returns.
2. Having said that (#1 above), there is little evidence of a passthrough from energy prices to core inflation. Unless that changes, this could keep the Fed on hold for the foreseeable future.
3. The May unemployment report reinforces improving labor market momentum and upside risks to Fed rates.
4. The Fed funds futures market is now pricing in one Fed increase over the next six months and two over the next 12 months. What a change from 1.5 cuts implied at the beginning of the year!
5. While the private credit industry is nowhere near the trouble experienced in 2008, defaults are rising and redemption gates are creating some angst.
6. The national average price of regular unleaded gasoline is down \$0.40 from its high of \$4.56.
7. From the all-time high (June 2) the stock market has delivered a momentum unwind through last Wednesday. Health care, consumer staples, REITs, and financials are each up more than 2% while technology is down more than 10%.
8. Despite several big down days for the averages, breadth was only modestly negative, with almost no expansion in the new low list.
9. Second-quarter earnings reports will begin in less than a month. Expectations are up 22% (up from 19% as of April 1). Energy sector earnings are expected to be up more than 100% and technology up 60%.
10. SpaceX debuted in Friday trading, by far the largest and one of the most-discussed IPOs in history. Its stock price progress will be watched carefully, especially by other large, anticipated IPOs in the next few months.

| Equity markets<br>(Index total return %) | Last week | Year-to-date |
|--|-----------|--------------|
| DJIA                                     | 0.68      | 7.36         |
| S&P 500                                  | 0.66      | 9.15         |
| NASDAQ                                   | 0.71      | 11.71        |
| Russell 1000                             | 0.27      | 8.49         |
| Russell 1000 Growth                      | -0.84     | 3.00         |
| Russell 1000 Value                       | 2.49      | 15.72        |
| Russell 2000                             | 3.11      | 18.28        |

| S&P equity sectors<br>(Index total return %) | Last week | Year-to-date |
|--|-----------|--------------|
| Communication services                       | -1.86     | 3.09         |
| Consumer discretionary                       | 0.73      | -1.54        |
| Consumer staples                             | 2.59      | 11.43        |
| Energy                                       | -0.35     | 28.73        |
| Financials                                   | 2.04      | -2.05        |
| Health care                                  | 0.54      | -0.18        |
| Industrials                                  | 1.14      | 13.97        |
| Information technology                       | 0.53      | 17.77        |
| Materials                                    | 3.00      | 13.99        |
| Real estate                                  | 1.45      | 13.93        |
| Utilities                                    | 0.42      | 5.09         |

## Tech Stock Oversupply? Strait to Reopen? Profit Growth to Stay Strong?

A huge increase of new U.S. equity supply, via massive new U.S. tech stock IPOs, is primed to hit the stock market, raising the issue of whether this could trigger a bout of indigestion. The timing is critical, given current valuation excesses and frothy sentiment, especially in tech and related sectors. Moreover, the hoped for reopening of the Strait of Hormuz still has not happened, even as oil prices remain relatively calm. While digestion concerns are valid, we doubt that such an event in isolation would be sufficient to trigger an end to the investment and economic cycles. The latter would need to see a reversal in the corporate earnings uptrend. And without such a profit reversal, we doubt that equity market losses would become self-reinforcing, even though a short-term sell-off could develop. The risk is magnified because of sticky and elevated inflation at a time when global growth is firming and monetary conditions have been too accommodative for too long.

While central bankers know that the equity market occasionally gives false recession signals, the current backdrop is one of considerable economic uncertainty on many fronts. This, combined with the entrenched dovish bias at central banks, would suggest that central banks would go slow if equities correct meaningfully. The combination of a bout of risk-off and a pause in rate hikes could cap bond yields for a time. Of course, it is always possible that a correction in tech stocks could cascade into the broader equity and credit markets and ultimately determine economic growth. The possibility of contagion into the credit markets from a tech stock selloff would need to be monitored if the latter occurs. However, wealth gains have been massive in recent years, and a partial unwinding of this boom should be manageable by the robust economy, which is being supported by easy policy conditions. In the end, we expect the ongoing corporate profit uptrend to prove resilient absent a significant economic roadblock. To this end, policymakers – both monetary and fiscal, do not want to take any risks that might cause a recession.

Our key assumptions are that the Strait of Hormuz will soon be reopened (before energy supply shortfalls really damage the global economy); and any equity fallout ahead will not undermine the global economic expansion. Overly accommodative monetary conditions, historically large fiscal stimulus this decade, and a solid corporate earnings backdrop paved the way for excessive asset-price inflation.

Equity corrections in recent years always quickly rewarded those who bought the dips, which has contributed to the excessive enthusiasm that currently exists. The next test of the buying-on-weakness strategy looms, first with upcoming supply pressures and then, should the market absorb the supply glut well, via an upside breakout in bond yields. So far, global credit spreads have stayed historically narrow. This indicates little investor concern about a default cycle ahead, which is supportive of the broad equity market. However, investor sentiment can sometimes change rapidly, so a close monitoring of credit trends and spreads is warranted.

While inflation is unlikely to surge, it will remain resilient and creep higher for as long as the global economic expansion rolls on. If bond markets were already discounting such an outcome, then the risk to investors would be much reduced. But they are not, and both central banks and bond bulls are primed to be disappointed once again.

## Conclusion

Tech-stock-related turbulence and ongoing concerns about energy supplies pose a short-term threat to risk-asset markets and could delay the trend to higher bond yields. These threats are unlikely to have a lasting effect, although a severe equity market shakeout could briefly trigger fears of an economic slowdown.

Source: Bloomberg as of 06/12/26

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| International equity markets<br>(Index total return %) | Last week | Year-to-date |
|--|-----------|--------------|
| MSCI ACWI  | -0.55     | 9.11         |
| MSCI ACWI EX U.S.                                      | -1.72     | 10.61        |
| MSCI EAFE  | -1.25     | 6.51         |
| MSCI EM  | -3.00     | 19.48        |

| Fixed income markets<br>(Index total return %) | Last week | Year-to-date |
|--|-----------|--------------|
| Bloomberg U.S. Aggregate Bond                  | 0.64      | 0.47         |
| Bloomberg U.S. Corp. High Yield                | 0.31      | 1.58         |
| Bloomberg U.S. Gov/Credit                      | 0.59      | 0.33         |
| Bloomberg U.S. T-Bill 1-3 Month                | 0.05      | 1.61         |

| Alternatives<br>(Index total return %)   | Last week | Year-to-date |
|--|-----------|--------------|
| Real estate (FTSE NAREIT)                | 0.87      | 14.75        |
| Commodities (DJ)                         | -2.34     | 19.94        |
| Global listed private equity (Red Rocks) | -0.53     | -13.32       |
| Currencies (DB Currency Future Harvest)  | 0.06      | 6.71         |