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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Equities were higher last week with the DJIA and Russell 2000 hitting record highs, while the S&P 500 (+1.47%) was up for the eleventh week of the past 12. The biggest upside driver was the U.S. and Iran peace agreement that reopens the Strait of Hormuz. Best sectors were technology (+3.45%) and industrials (+3.26%); worst sectors were energy (-5.85%) and health care (-3.01%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	1.45	8.16
S&P 500	1.47	10.20
NASDAQ	2.76	14.43
Russell 1000	0.27	8.79
Russell 1000 Growth	1.57	4.60
Russell 1000 Value	1.31	16.13
Russell 2000	-0.07	18.19

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	1.44	4.22
Consumer discretionary	0.82	-0.74
Consumer staples	-2.07	8.38
Energy	-5.85	20.29
Financials	1.78	-1.65
Health care	-3.01	-3.03
Industrials	3.26	16.99
Information technology	3.45	21.37
Materials	1.47	13.58
Real estate	-2.17	10.33
Utilities	1.65	5.64

Key takeaways

1. The Fed held its policy rate in a 3.5-3.75% range as the easing bias was dropped. The meeting marked a new era for Fed communication, with a much shorter statement and little, if any, forward guidance.
2. Fed Chair Warsh has shifted in a distinctly hawkish direction and made it clear that returning inflation to 2.0% is his overriding objective.
3. Headline and core CPI inflation rates have both exceeded the Fed's 2% target for five consecutive years.
4. The June University of Michigan Consumer Expectations survey beat estimates (48.9 versus 44.8), and lower inflation expectations (long-term expectations moving from 3.9% to 3.4%) give the Fed more room to stay on hold.
5. May retail sales surprised to the upside, with headline sales rising 0.9% m/m (versus 0.6% consensus).
6. The three-month moving average of payroll employment gains is 188K, the highest since December 2024, confirming that hiring is improving.
7. The U.S.-Iran deal is positive for risk-taking in the near term. That said, we caution that a lot of good news is already discounted.
8. The U.S. and Iran are presenting substantially different versions of what they have agreed to, so it's difficult to tell whether the differences between the two sides have been bridged significantly already or whether they will be in the next 60 days. (We doubt they will.)
9. We believe that after the midterm election, the Trump administration will likely renew military pressure to try to get better terms.
10. Earnings estimates for 2026 have increased 17.3% since Jan. 1. Stocks have advanced on that despite some P/E decline.

War MOU Needs Work; Fed Sends Yellow Light

A deal to extend the ceasefire in the Middle East has finally been agreed, allowing energy prices to decline further and for risk-asset markets to resume their pre-war bull run. The history of the Middle East points to inevitable bumps ahead. A lasting peace has not been achieved and some of the players are not agreeing to stop at this juncture. It will not be surprising if there are setbacks ahead.

Investors have demonstrated considerable optimism throughout the past few months, looking through short-term turbulence toward a return to lower energy prices, which has occurred and, eventually, a return of more normal flows through the Strait of Hormuz (which presumably will now follow). To a significant degree, investor concerns were never about the war itself or broader Middle East tensions, only about whether restrictions on the supply of energy and other crucial commodities would derail the global economic expansion. Critically, the global economy and, especially, the uptrend in corporate profits have shown remarkable resilience this year. For investors focused on the next year or so, the main implication is that although energy prices will likely settle above pre-war levels, they will not be so high as to choke off growth.

Turning to the Fed: As recently as March, most Fed members were forecasting a rate cut later this year. Last week's FOMC meeting cemented the Fed's capitulation, via a hawkish shift in the new DOT plot that indicated that the Fed's next move would be a rate hike, potentially this year.

U.S. economic activity including employment growth has surprised on the upside in recent months, amid inflation accelerating from an already elevated pace. The Fed has been behind the curve, facing mounting pressure to hike rates from the forward markets. We see little respite in sight for the Fed. U.S. growth is trending well above potential, indicating an acceleration in Q2 even with the energy price shock. Goods inflation is likely to remain elevated, with firms reporting passing on higher input costs to customers.

The forward market has extrapolated the Fed's hawkishness, and is now betting on between one and two hikes this year, beginning in September. Even with its latest hawkish U-turn, the Fed may still be too complacent on inflation! The inflation problem is much more entrenched than the Fed is willing to acknowledge despite inflation running above the Fed's target throughout the current decade.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	1.98	11.27
MSCI ACWI EX U.S.	4.85	15.97
MSCI EAFE	4.06	10.84
MSCI EM	7.15	28.03

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-0.21	0.26
Bloomberg U.S. Corp. High Yield	0.19	1.77
Bloomberg U.S. Gov/Credit	-0.18	0.14
Bloomberg U.S. T-Bill 1-3 Month	0.06	1.67

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-2.05	12.40
Commodities (DJ)	-2.15	17.69
Global listed private equity (Red Rocks)	1.77	-11.78
Currencies (DB Currency Future Harvest)	-0.15	6.63

Conclusion

1. The deal to extend the ceasefire and reopen the Strait of Hormuz should ensure that the global economic expansion rolls on, to the benefit of risk-asset markets.
2. The Fed has been behind the curve, but has finally shown an intention to act on its inflation problem. With the Fed under pressure from the bond market, the odds of a rate hike this year have increased, though some respite from lower oil prices and therefore lower headline inflation may allow Warsh to kick the can into next year.
3. Our view that we are in a "high-risk bull market" depended on continued earnings exceeding expectations and a Fed that was neutral or accommodative. With the latter getting challenged, we are forced to become more cautious and argue that building on the generous gains in stocks in the first half of the year has become more difficult.

Source: Bloomberg as of 06/18/26