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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks were mixed last week (S&P 500 -0.12%). Dominating headlines were crosscurrents in the Iran-Israeli war. President Trump said he would decide within two weeks whether to bomb Iran. The Fed met and had a largely uneventful meeting. Best sectors were energy (1.11%), technology (0.91%), and financials (0.81%); worst sectors were healthcare (-2.58%), communication services (-1.71%), and materials (-1.19%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	0.07	0.06
S&P 500	-0.12	2.12
NASDAQ	0.22	1.05
Russell 1000	0.15	2.28
Russell 1000 Growth	-0.35	0.87
Russell 1000 Value	0.26	3.39
Russell 2000	0.61	-4.65

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-1.71	4.27
Consumer discretionary	-0.74	-7.09
Consumer staples	-0.19	5.50
Energy	1.11	5.07
Financials	0.81	4.68
Heathcare	-2.58	-3.17
Industrials	-0.16	8.47
Information technology	0.91	2.24
Materials	-1.19	3.52
Real estate	-0.15	3.52
Utilities	-0.78	7.49

Key takeaways

1. The Fed unanimously left rates unchanged as they lowered the 2025 GDP estimate to 1.4% from 1.7% and increased the inflation estimate to 3.0% from 2.7%; a 4.5% unemployment rate is expected at the end of 2025.
2. We do not think the outlook for inflation nor for the unemployment rate supports two rate cuts this year. (Maybe one, maybe none.) The forward market is pricing in two rate cuts this year.
3. After weeks of divergence, hard data seems to be converging toward weaker soft data readings. Labor market momentum is slowing but not collapsing, and now consumer spending is also losing steam.
4. May headline retail sales were disappointing (below expectations, -0.9% with downward revisions). Consumption is slowing.
5. Worsening manufacturing data (June Empire State Manufacturing Survey fell to -16.0 from -9.2) reinforces our defensive stance, as expectations rebound but observed activity continues to deteriorate.
6. Most indicators point to a labor market near equilibrium. For example, the jobs gap, which captures the balance between labor demand and supply, is roughly neutral at levels consistent with historical cycle peaks.
7. There is no shortage of headlines about the complexities of both getting the reconciliation bill out of the Senate and then back through the House, which looks increasingly unlikely by the July 4 deadline.
8. President Trump will likely be making the most consequential decision of his presidency – whether to take out the remaining Iranian nuclear sites with U.S. bombers. The U.S. economy is slowing, and the tax bill needs to offset the tariffs.
9. Markets are pricing a 76% probability of U.S. military action against Iran by August. For markets, the key is the price of oil and the ease of transport in the Straits of Hormuz.
10. According to Strategas, the P/E gap between the U.S. and ROW has narrowed from its November peak of 8.1x to 6.4x, still about double the long-term average.

Are we approaching an inflection point?

Just when it seemed that the macro backdrop was brightening and the global economic expansion might gain traction, the Middle East erupted and triggered a spike in oil prices. Oil prices were low and, if anything, were a stimulant for economic growth. So far, current oil prices are not an economic headwind, just less cheap. That said, prices may yet climb if one of the potential extreme developments were to occur in the Middle East. Aside from hedging this threat via a long oil position, it is premature to disrupt one's overall investment portfolio.

The sudden increase in tensions due to the Israel/Iran conflict might have previously sparked a rush into the U.S. dollar, but this has not occurred so far, as global investors are in the process of unwinding the prior massive overshoot in positioning that favored U.S. equities, Treasurys, and the dollar. So far, the damage to global equity markets has been minor. At most, the jump in oil prices has halted the advance in stocks. Heightened geopolitical tensions have also helped to calm government bond markets.

The steadiness of credit markets remains a feature of the investment landscape. High-yield corporate bonds have weathered several scares in recent years, yet spreads have failed to widen meaningfully and are currently near historic lows. This resilience reflects the generally positive trends in corporate profitability and creditworthiness, and is both equity-positive and pro-growth. Corporate bond yields are holding well below their cycle highs hit in 2022-23. This is notable as it reinforces our view that monetary conditions never became restrictive and that the backdrop is supportive of growth.

The tariff and/or Middle East wars could yet trip up the global economy. However, absent extreme shocks, the uptrend in corporate profits should persist, providing support to the global stock/bond ratio. We expect inflation to return as a pressing issue for the Fed, but a further period of calm on this front is probable until global growth gains more momentum and/or tariffs push prices higher.

Last week's meeting confirmed the FOMC's dovish bias, with the Fed forecasting somewhat higher inflation next year than it had previously. The forecast envisions inflation holding above the Fed's 2% target in 2026. While the Fed may yet ease before year-end, rate cuts are not economically warranted and we anticipate yet another unwinding of rate cut expectations in 2026.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	-0.41	6.17
MSCI ACWI EX U.S.	-1.39	14.02
MSCI EAFE	-1.58	15.66
MSCI EM	-1.08	10.83

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	0.20	2.90
Bloomberg U.S. Corp High Yield	0.14	3.31
Bloomberg U.S. Gov/Credit	0.20	2.85
Bloomberg U.S. T-Bill 1-3 Month	0.04	1.99

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	0.13	2.11
Commodities (DJ)	1.45	10.28
Global listed private equity (Red Rocks)	-0.71	-0.58
Currencies (DB Currency Future Harvest)	-0.03	-1.12

Conclusion

Developments in the Middle East and the risk of much higher oil prices are the main near-term threats. The starting point was cheap oil, and thus, prices are not yet an economic headwind. Hiring intentions for Q3 have dipped, but the positive corporate profit backdrop remains supportive of economic growth and risk asset markets.

Source: Bloomberg as of June 20, 2025

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