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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks were mixed last week (S&P 500 +1.26%) as breadth was fairly narrow. (Decliners outnumbered advancers.) Big tech volatility continues. Best sectors were technology (+3.43%), energy (+3.22%), and communication services (+2.36%); worst sectors were materials (-2.22%) and health care (-1.84%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-0.48	10.46
S&P 500	1.26	11.36
NASDAQ	1.74	13.44
Russell 1000	0.68	10.84
Russell 1000 Growth	2.20	5.08
Russell 1000 Value	-0.05	18.32
Russell 2000	-0.11	21.30

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	2.36	5.02
Consumer discretionary	0.40	-0.37
Consumer staples	-1.25	8.90
Energy	3.22	23.88
Financials	0.12	2.65
Health care	-1.84	4.87
Industrials	-1.09	17.96
Information technology	3.43	19.82
Materials	-2.22	12.17
Real estate	-0.36	12.77
Utilities	-0.80	7.82

Key takeaways

1. June non-farm payrolls came in below expectations (57k vs. 113k consensus). The unemployment rate fell to 2.4%. Overall, the report paints a somewhat more dovish picture than many expected and likely gives the Fed more room to remain patient.
2. Initial unemployment claims fell for two weeks in a row, likely signaling the labor market is getting healthier.
3. Upside risks to inflation continue to outweigh downside risks to employment and extend beyond oil prices. As a result, futures continue to signal one to two Fed hikes over the next 12 months. (Our view remains that the Warsh Fed will push rate increases out in time.)
4. If oil prices stay down, headline inflation readings are likely peaking. Prudent central bankers, even if they talk hawkishly, are unlikely to take much action with that backdrop.
5. The U.S.-Iran MOU created space for the Fed to watch the data, potentially reducing the need for a rate increase. To the extent the MOU has ended and oil prices rise, the Fed's freedom to wait is reduced.
6. Some economists estimate high memory prices have already added 30 basis points (bps) to core inflation, with additional upside possible.
7. Earnings expectations continue to rise, implying earnings growth of 24% this year and 18% next year. The question is whether this is as good as it gets.
8. The bar is high for the tech sector heading into 2Q26 earnings season, with the sector expected to deliver earnings growth of more than 65%.
9. 2Q26 was the twelfth-best quarter for stocks since 1950. Every observation with stronger returns produced positive results in the next 60 and 90 days.
10. Emerging markets have generally done well year-to-date, supported by strong global trade, firming relative earnings, and mostly easy monetary policies around the world.

Degrees of Freedom Continue to Be Reduced

Cracks in the global tech stock boom have widened slightly of late. So far, this has not dented investors' overall enthusiasm to own equities, reflecting the still-buoyant liquidity backdrop, fairly calm bond market, and ongoing uptrend in global corporate profits. However, the inability of bond yields to decline much even when oil prices fell offers a medium-term warning: Those assets with stretched valuations are at risk if higher yields materialize.

The global economic expansion was slowly firming earlier this year and appears to have survived the energy shock. This, plus the stickiness of inflation, warn that monetary conditions are still accommodative and policy rates will eventually need to reflect the economic/inflation backdrop, i.e., will rise. The global stock/bond ratio will likely have more upside on a six- to 12-month horizon. The uptrend in the ratio is likely to be more gradual than in recent years, but should persist until bond investors turn bearish and demand compensation for the risk of higher inflation.

The grinding uptrend in the spread of the lowest-rated corporate bonds is an early warning sign of trouble: CCC spreads have diverged from the overall high-yield bond spread. Credit spreads widen and warn of future economic/profit woes near important equity market peaks. The credit light is still green, but is starting to flicker.

Tensions in the Middle East flared again last week, which is not surprising given the repeated ebbs and flows throughout the conflict. Investors' knee-jerk reaction was to push up both oil prices and bond yields, although the moves were small, reflecting expectations that the tensions will soon calm. The bond market's reaction to the supply-induced surge in oil prices this year underscored the focus on central bank policy prospects rather than underlying fundamentals. That has been a feature of the bond market this decade. The sizable decline in oil prices this spring only produced a modest easing in bond yields because the global economic expansion has not only persisted but has slightly improved. Importantly, the pre-war inflationary backdrop is still very much intact, and likely has been slightly boosted as a consequence of the war and the knock-on effect this has had on various input costs and supply-chain decisions.

Forecasting the whims of the political leaders involved in the conflict is challenging. There is little appetite to re-escalate the conflict. While likely to be volatile, we anticipate oil prices settling at much lower prices than the peak hit earlier this year, but higher than existed pre-war. Putting it all together, the global economic expansion will roll on and inflation will creep higher. Central banks are still dovish, especially the Fed, but have now realized that monetary conditions were not restrictive in recent years and policy rates likely will have to rise.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	-0.14	11.44
MSCI ACWI EX U.S.	-1.78	12.86
MSCI EAFE	-1.59	9.53
MSCI EM	-2.61	20.62

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	-0.35	0.13
Bloomberg U.S. Corp. High Yield	0.05	2.10
Bloomberg U.S. Gov/Credit	-0.35	-0.02
Bloomberg U.S. T-Bill 1-3 Month	0.04	1.90

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	-0.96	14.89
Commodities (DJ)	3.15	17.88
Global listed private equity (Red Rocks)	-0.35	-12.79
Currencies (DB Currency Future Harvest)	0.99	7.51

Conclusion

Some cracks in AI/tech stocks have developed, and there are increasing odds that a problem will eventually develop given stretched valuations and earnings expectations. If high-flying stocks start to come back down to earth, then we would expect a continued rotation into select laggard equity sectors/markets in view of the supportive policy and corporate earnings backdrop, rather than a broad-based market rout. The main cyclical risk is that monetary conditions will ultimately need to become restrictive and/or bond yields will rise further. Inflation is unlikely to fall painlessly to low and stable levels.

Source: Bloomberg as of 07/10/26