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Doll's Deliberations®

Weekly Investment Commentary

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Summary

While stocks fell overall last week (S&P 500 -0.29%), both the S&P 500 and NASDAQ hit record highs. Macro news was relatively quiet. The focus is on this week's CPI report and the beginning of 2Q earnings reports. Tariff developments continue to confuse. Best sectors were energy (2.48%), utilities (0.77%), and industrials (0.59%); worst sectors were financials (-1.90%), consumer staples (-1.77%), and communication services (-1.07%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-1.01	5.25
S&P 500	-0.29	7.18
NASDAQ	-0.07	6.99
Russell 1000	0.02	7.48
Russell 1000 Growth	-0.16	6.87
Russell 1000 Value	-0.57	7.13
Russell 2000	0.65	2.23

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-1.07	9.41
Consumer discretionary	0.14	-2.10
Consumer staples	-1.77	5.52
Energy	2.48	6.14
Financials	-1.90	8.86
Heathcare	-0.27	-0.83
Industrials	0.59	14.78
Information technology	0.17	9.82
Materials	-0.27	9.63
Real estate	-0.57	3.85
Utilities	0.77	10.49

Key takeaways

1. June's employment report showed a tick down in the unemployment rate, which likely rules out a Fed rate cut until September.
2. Reports indicate the Trump Administration is considering nominating a Fed successor ahead of the end of Chairman Powell's term, a move aimed at undermining his authority. Such a nomination would inject policy uncertainty into markets and potentially further weaken the dollar.
3. The near shutdown of immigration and deportation efforts have caused a shortage of workers in some places, and will aid in keeping the unemployment rate from rising significantly.
4. President Trump orchestrated the passage of his significant legislation and has pivoted to trade deals and cease fires. We think much of the good news is already priced in.
5. We believe that President Trump knows that he needs to put an end to his trade wars before it does any serious economic damage.
6. The recently passed "Big Beautiful Bill" is massive in terms of the number of issues it addresses. Among all of the crosscurrents, including deficit and debt acceleration, the expensing of capital projects should not be ignored as a potential economic stimulant.
7. China now contributes 20% of global growth, down from nearly 50% in the 2010s.
8. Consensus earnings growth estimates for Q2 are 5.8% with communications (32%) and technology (18%) best and energy (-25%) worst.
9. The S&P 500 recently climbed to a new record high, but the median constituent remains about 10% below its 52-week high.
10. The percentage of active managers outperforming year-to-date has gradually declined (and fallen to 48%) as the market rebounded from its April low and climbed to a new all-time high.

The second half begins with new highs yet again

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	0.07	11.09
MSCI ACWI EX U.S.	0.23	18.55
MSCI EAFE	0.42	19.96
MSCI EM	0.01	16.26

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.04	3.60
Bloomberg U.S. Corp High Yield	-0.08	4.70
Bloomberg U.S. Gov/Credit	0.02	3.50
Bloomberg U.S. T-Bill 1-3 Month	0.05	2.25

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-0.51	2.50
Commodities (DJ)	0.52	7.54
Global listed private equity (Red Rocks)	2.15	9.55
Currencies (DB Currency Future Harvest)	0.41	-1.54

After a string of political wins and the rekindling of animal spirits in financial asset markets, it should not be surprising that Trump would return to the tariff war with some aggressive threats. Still, he is providing plenty of wiggle room for countries to negotiate a "deal." In contrast with earlier this year, investors are mostly ignoring the rhetoric. Whether this will backfire is difficult to handicap. Investors are assuming that, ultimately, the U.S. administration will not want to jeopardize the economic expansion or create a meaningful bout of tariff-induced inflation. While this is a reasonable assumption, it does not preclude some market bumps along the way.

Ongoing tariff uncertainty is a drag on economic growth, albeit primarily in the U.S. The silver lining is that the U.S. economy was in decent shape and thus able to withstand some headwinds entering the trade war. Critically, corporate profit expectations have held up so far. U.S. hiring has weakened this year, but so far layoffs have not noticeably increased. Normally, these trends move closely together: Companies respond to a deteriorating profit backdrop by halting new hiring and initiating layoffs, causing net employment to contract. We interpret the unusual pattern in hiring/firing as being consistent with positive underlying profits (and still historically elevated margins), but increased uncertainty about the future. Economic momentum outside the U.S. is slowly improving, no doubt held back by U.S policies, but still firming nonetheless after a weak 2024. Easing monetary policies will reinforce the global expansion.

Equity markets are advancing smartly again after stumbling earlier this year. We anticipate further gains in most equity markets for as long as developed market government bond yields do not break to the upside or economic slowdown becomes evident. Also, despite much higher geopolitical tensions in the Middle East, oil prices remain weak, which is also pro-growth. The U.S. dollar has stayed weak despite oversold conditions. The dollar was overvalued and overbought heading into 2025, and equity investor positioning was overloaded in the U.S., after a decade-plus of outperformance. Sentiment has since shifted, with many global investors no longer willing to add to U.S. holdings, even though buying into other geographies and currencies has been modest.

Another assumption underpinning global financial markets (aside from expecting a non-recessionary tariff outcome) is the view that the Fed will soon resume lowering rates in a meaningful fashion. Front-running rate cuts has been an unprecedented feature of the current U.S. monetary cycle and, ironically, has acted to support growth. While we anticipate that the Fed may yet cut rates once or twice this year, expectations of further rate cuts in 2026 are likely to unwind somewhat should inflation prove sticky, which is our base-case view.

One risk factor that is being ignored is the deterioration in government finances throughout the developed world, especially in the U.S. Historically, worrying about higher bond yields because of rising budget deficits was a losing trade. However, the current backdrop is unprecedented in that budget deficits are already historically large and rising, especially in the U.S.

Conclusion

If one were to tell you that, in the span of three months, there would be fears of an all-out global trade war; there would continue to be endless wrangling over a budget bill; the final credit agency to have a AAA rating on U.S. paper would downgrade; a hot war between Israel and Iran would start; and the U.S. would take out three of Iran's nuclear enrichment sites – who among us would guess that the U.S. stock market would reach new all-time highs?

Source: Bloomberg as of July 11, 2025