CROSSMARK GLOBAL INVESTMENTS

July 20, 2026 | Issue 6.29

Doll's Deliberations®

Weekly Investment Commentary

Bob Doll, CFA
PM/CIO/CEO

Summary

Equities were lower last week as the S&P 500 (-1.55%) and NASDAQ broke back-to-back weekly gains, while the Russell 2000 was down for a third straight week. Momentum was the notable drag with semis, memory, and AI infrastructure names the worst performers. Best sectors were energy (+4.99%) and real estate (+2.28%); worst performers were technology (-3.78%) and communication services (-2.38%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-0.93	9.43
S&P 500	-1.55	9.64
NASDAQ	-2.90	10.15
Russell 1000	-0.53	10.62
Russell 1000 Growth	-3.64	1.25
Russell 1000 Value	0.45	18.86
Russell 2000	-0.10	20.58

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-2.38	2.52
Consumer discretionary	-1.28	-1.64
Consumer staples	1.40	10.43
Energy	4.99	30.07
Financials	0.97	3.64
Health care	0.15	5.02
Industrials	-1.36	16.35
Information technology	-3.78	15.29
Materials	-1.34	10.67
Real estate	2.28	15.34
Utilities	-0.52	7.25

Key takeaways

1. June's flat core CPI reading (a positive surprise!) unlikely marks the beginning of a string of exceptionally soft inflation readings, but we do think the next several months will be soft enough to keep the Fed on hold. But the Fed still has an inflation problem.
2. The topic of inflation dominated Kevin Warsh's first congressional testimony as Fed chair. He stressed that the Fed remains committed to returning inflation to 2%.
3. The Atlanta Fed's GDPNow model estimates 2Q26 real GDP growth at only 1.4%. (Net exports dragged it down by 1.3 percentage points [ppts].) (Real final sales are tracking at 2.9%, up from 1.7% in 1Q26.)
4. One of the biggest tailwinds offsetting higher energy costs during the first half of the year was the boost to consumer spending from the enhanced tax refunds tied to the One Big Beautiful Bill. The challenge is that this was a one-time benefit, and that source of support for consumers has now largely run its course.
5. Revenue growth is expected to reach 11.7% this quarter before decelerating over the following four quarters. Our biggest challenge is identifying what drives a meaningful improvement from here.
6. There have only been two periods when next 12-month earnings growth exceeded today's pace – both following major economic shocks – the recovery from the global financial crisis and the post-COVID reopening.
7. Investors have punished the Mag 7 stocks due to the large capital expenditures of the hyperscalers on costly AI infrastructure, while rewarding (until recently) the beneficiaries of this spending, such as semiconductor and tech hardware stocks.
8. Through the first quarter of this year, Mag 7 earnings growth has far exceeded that of the remaining 493. Estimates are that this comparison will deteriorate in Q2 (being reported now) and Q3, and reverse in Q4 and in 2027.
9. The tech sector's weight is nearly triple that of 20 years ago and has risen by 10 ppts in just the last five years. Semiconductors account for all of the increase in tech's weight in the past five years.
10. Any peace deal with Iran's government has been vetoed by the Islamic Revolutionary Guard Corps simply by their threatening to attack ships sailing through the Strait of Hormuz. So the war has re-escalated with no obvious off-ramp.

Vicious Rotation Within the Stock Market Accelerates

A soft U.S. inflation print last week helped briefly cool expectations that the Fed might soon hike its policy rate. This easing in rate pressures was timely as it showed the firming in the U.S. Treasury yields driven by yet another bump in the Middle East. The renewed rise in oil prices has so far been modest in comparison with earlier this year, despite a resumption in bombing and escalating threats. These headwinds have not been economically critical except when they threaten to trigger a lasting energy shock. Rightly, or wrongly, investors have decided that the U.S. and Iran will ultimately back down before escalating into a full land war and lasting closure of the Strait of Hormuz. However, so far there has been no hint of de-escalating.

Geopolitical headwinds in recent years might have been sufficient to undermine the global economic expansion if growth momentum had been weak, but that was not the case. Rather, the global expansion would have been even more robust if there had not been a tariff war and two significant energy jolts (2022 and 2026). Ironically, these jolts have helped to prolong the cycle by briefly restraining growth and, thus, inflation. Importantly, global corporate profits have maintained a broad-based uptrend throughout the bouts of turbulence, which has been the key driver of the global economic expansion.

Valuations of many equity and credit markets have become stretched, but the conditions to trigger a sustained derisking phase have not developed. The catalyst for an end to the investment cycle will likely be an overshoot in bond yields and/or central banks shifting to restrictive policy settings due to sticky, above-target inflation. To this end, we would note that global bond yields did not decline much when oil prices recently tumbled. We view this as confirmation that the underlying uptrend in yields is intact, even if slow moving. Nevertheless, the risk-on game will likely continue for as long as bond yields do not overshoot and central banks remain in no rush to return inflation to low and stable levels. The entrenched belief is such an outcome will occur without the need to take undue economic risks.

Policymakers' dovish biases have fueled investment bubbles in recent years, with the AI theme in full bloom and the global semiconductor sector being at the forefront most recently. Investors punished the Mag 7 stocks due to large capital expenditures of the hyperscalers on costly AI infrastructure, while rewarding (until recently) the beneficiaries of this spending, such as semiconductor and tech hardware stocks. Given their growing external funding needs, it is risky to assume that hyperscalers will continue to double-down on capex if AI monetization does not soon pick up. Continuing concerns about overspending on AI will only increase speculation about a moderation in the pace of capex by the hyperscalers and trigger continued volatility in crowded semiconductor and tech hardware stocks. This tension has benefited the non-tech parts of the equity market, especially financials and health care.

Conclusion

Heightened geopolitical tensions, specifically related to flows via the Strait of Hormuz and energy prices/supplies, remain a drag on the global economy. However, this drag has not been sufficient to undermine the economic expansion, which has proven resilient in recent months. Accommodative global monetary conditions and the solid uptrend in corporate earnings herald further upside in the stock/bond ratio. It will take higher bond yields before the investment cycle ends, even though many recent equity high-flyers are showing signs of cracking.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	-0.42	11.42
MSCI ACWI EX U.S.	-0.27	13.08
MSCI EAFE	0.22	10.01
MSCI EM	-1.54	19.82

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.08	0.11
Bloomberg U.S. Corp. High Yield	0.08	2.15
Bloomberg U.S. Gov/Credit	0.07	-0.03
Bloomberg U.S. T-Bill 1-3 Month	0.04	1.97

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	2.73	18.52
Commodities (DJ)	3.65	22.18
Global listed private equity (Red Rocks)	2.01	-10.31
Currencies (DB Currency Future Harvest)	0.94	8.52

Source: Bloomberg as of 07/17/26