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Doll's Deliberations®

Weekly Investment Commentary

Bob Doll, CFA
PM/CIO/CEO

Summary

Last week, stocks fell again (S&P 500 -0.60%). The week featured a tug of war between earnings enthusiasm and rising geopolitical tensions. Best sectors were energy (+3.76%) and utilities (+2.48%); worst sectors were communication services (-6.15%) and consumer discretionary (-6.09%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-0.35	9.05
S&P 500	-0.60	8.99
NASDAQ	-2.13	7.80
Russell 1000	-0.70	8.75
Russell 1000 Growth	-1.50	-0.27
Russell 1000 Value	0.10	18.98
Russell 2000	-0.74	19.20

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-6.15	-3.78
Consumer discretionary	-6.09	-7.63
Consumer staples	-1.25	9.05
Energy	3.76	34.95
Financials	0.14	3.79
Health care	0.90	5.96
Industrials	1.77	18.41
Information technology	0.43	15.79
Materials	1.24	12.05
Real estate	1.35	16.90
Utilities	2.48	9.91

Key takeaways

1. Several high-frequency indicators (in housing, manufacturing, consumer spending, and labor), along with the fade from World Cup and the One Big Beautiful Bill spending, suggest some slowing of the economy in Q3.
2. Six percent mortgage rates and $4+ gasoline are pressuring the U.S. consumer.
3. Bond yields have been rising on increasing odds that the next Fed rate hike will occur sooner rather than later as a result of the inflationary consequences of rising energy prices.
4. The resumption of the war following a short ceasefire has boosted oil prices again and revived inflation fears.
5. While we agree with the market's view that an off-ramp is the most likely outcome, we think investors may be underappreciating the risk that the Middle East conflict persists and oil prices gradually move higher over the summer.
6. Tariffs are back on the worry list. The administration plans 50% tariffs on various Canadian goods. (The risk is that another round of tariff increases will put more upward pressure on goods prices.)
7. The rate of upward EPS estimate revisions for the S&P 500 as a whole continues to show signs of slippage, consistent with the question, "How much better can earnings get?"
8. The average stock continues to hold up far better than the cap-weighted indexes. That is likely the single most important technical underpinning of this market.
9. Price and market breadth moving in opposite directions has happened more than 50 times this year [only 2024 (60) and 2025 (58) have seen more such days all year]. When correlations normalize, the question is, will everything catch down to AI names, or will AI names catch up to everything else?
10. As of the middle of last week, the 25 stocks in the S&P 500 that performed best in the first half of 2026 were down on average 21%. The 25 that did the worst were up 8%.

Risks Increase, But No Fatal Blow

Global equity and credit markets have so far weathered another escalation in tensions in both the Middle East and in U.S. tariff policy. Investors continue to bet that neither risk factor will worsen to the point of damaging the global economic expansion, although both create some economic drag. The timing of these escalations is risky for the U.S. administration because the mid-term elections are primed to heat up. The lack of evident fallout in the U.S. economy in 2025-26 as a consequence of these two "wars" may have made investors complacent about the risks and caused U.S. politicians to be over-confident in the economy's ability to withstand shocks.

Mistakes/misjudgments can occur, and we remain on guard to de-risk if it appears that "too much" economic risk has been taken. So far, high-yield (and most other credit) spreads are well-behaved. Thus, we are maintaining our slightly pro-growth investment stance, yet keeping a close eye on the exits.

The increase in tariff tensions is not likely to escalate into a full-blown war, as too many global and even U.S. constituents are against higher tariffs. Thus, this risk factor should be seen as an economic irritant, rather than a catalyst that could cause a business cycle downturn.

In terms of the Middle East, the outlook and consequences are potentially more worrisome than for tariffs. Oil prices have resumed their advance and supply fears are intensifying. The rise has also had a knock-on effect in the global bond market, with yields moving up in tandem with oil prices. The war in the Middle East is far from being over, and may yet trip up risk-asset markets and the global economy. While the most likely scenario is that a de-escalation will occur before the red lines are fully crossed, the probabilities of such dire outcomes have risen. Moreover, periodic hostilities will likely remain a fact of life for some time.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	-0.09	10.04
MSCI ACWI EX U.S.	1.05	12.60
MSCI EAFE	0.19	9.09
MSCI EM	3.18	20.42

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	-0.85	-0.68
Bloomberg U.S. Corp. High Yield	-0.55	1.54
Bloomberg U.S. Gov/Credit	-0.81	-0.79
Bloomberg U.S. T-Bill 1-3 Month	0.03	2.04

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	-1.14	17.19
Commodities (DJ)	2.78	25.57
Global listed private equity (Red Rocks)	-1.91	-12.29
Currencies (DB Currency Future Harvest)	0.94	9.53

Government bond yields are at, or close to, new cycle highs in many countries (such as Germany, France, and Japan), reflecting expectations that higher policy rates loom. One notable exception has been U.S. yields – the dovish Fed and looming downward adjustments to key U.S. inflation gauges have kept U.S. Treasury investors relatively more relaxed about the inflation risks. We expect a catch-up phase for Treasurys (i.e., higher yields) once investors realize that underlying U.S. inflation is firming. This realization might take some time to materialize because government agencies are set to change a number of inputs to the PCE deflator, which will lower its trend for a time.

Conclusion

Middle East and tariff tensions are heating up again. Investors are discounting a de-escalation before the global economic expansion is derailed. This view is rational, but one must be ready to de-risk if misjudgments are made. Bond yields at the long end of the curve continue to climb to new highs, reflecting risks of higher inflation and concerns about government finances. Central banks, however, remain cautious in terms of taking any economic risks. Credit spreads are still not signaling trouble ahead for equities. However, increasing geopolitical threats and rising bond yields imply that one should keep a close eye on the exits.

Source: Bloomberg as of 07/24/26