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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks were up again last week (S&P 500 1.47%). The S&P 500 and NASDAQ both ended at new record highs. Earnings were a major focus, with Q2 reports largely exceeding expectations. Trade headlines were an important secondary factor. Best sectors were healthcare (3.48%), materials (2.35%), and industrials (2.30%); worst sectors were consumer staples (0.01%), technology (0.69%), and utilities (0.89%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	1.28	6.55
S&P 500	1.47	9.42
NASDAQ	1.02	9.71
Russell 1000	0.97	8.87
Russell 1000 Growth	1.25	9.89
Russell 1000 Value	1.60	8.64
Russell 2000	0.54	1.74

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	2.21	11.94
Consumer discretionary	1.24	-0.35
Consumer staples	0.01	5.62
Energy	1.41	3.50
Financials	1.68	11.42
Heathcare	3.48	0.09
Industrials	2.30	18.37
Information technology	0.69	12.88
Materials	2.35	10.74
Real estate	2.24	6.86
Utilities	0.89	13.21

Key takeaways

1. July flash PMIs point to improving growth momentum led by services, but manufacturing remains weak.
2. The Japan-U.S. trade deal removes short-term uncertainty but leaves in place high tariffs. Markets have responded positively to marginally "better-than-feared" outcomes, even as tariff levels remain elevated compared to the pre-Trump era.
3. Trump will probably continue to lose trade deal arguments in the lower courts and may lose at the Supreme Court, which could label all the trade deals illegal.
4. Housing activity continues to deteriorate. As inventories have risen, home prices have been deflating across the country and mortgage rates remain punitive.
5. It is possible (maybe likely) that the payroll number on Friday shows less than 100,000 jobs added in July (the first under 100,000 in almost a year).
6. Recession odds (using Polymarket) have dropped from 60% in late April and early May to just 18% currently. (There is an inverse correlation between recession odds and the S&P 500's price-to-earnings ratio.)
7. A politically driven dovish Fed nomination would lower front-end yields, but if seen as undermining Fed independence, it would raise long-end yields by weakening inflation-fighting credibility, resulting in a bear-steepening.
8. Q2 consensus forecasts have been cut substantially. The implied y/y growth rate now stands at +3.5% y/y, down from +11% y/y at the start of the year. Earnings are expected to climb more steeply in 2H, delivering 11% growth rate in Q4 vs. Q2. That is quite optimistic, as the historical median growth rate over those timeframes was only 2.7%.
9. Equity composition of household assets has risen to 44%, well ahead of the dot-com peak of 39%.
10. Over the past month, low-quality and other speculative themes have ripped higher, including most shorted stocks, unprofitable IPOs, and momentum/trading factors. This has spread in recent days to retail investor FOMO with a few "meme" stocks spiking higher.

Easing tariff angst and fading recession risks embolden investors

After months of shifting dates and changing tariff rates, the U.S. administration has been able to nearly conclude a few trade deals. There are a lot more to go, including deals with our most important trading partners, namely China, Canada, and Mexico. Nevertheless, investors have embraced the fact that there has been some progress, with tariff rates well below extremes that had been threatened. Hopes for a successful conclusion to the trade war are running high.

The magnitude of the celebration in equity markets is puzzling from a long-run perspective, and likely reflects the short-term nature of most investors' attention, the still-plentiful liquidity backdrop, and increasing speculative behavior. Almost all risk asset markets have elevated prices and valuations.

The exact landing spot for the U.S.' overall tariff policy is uncertain in terms of the final rates and their timing. The next big deadline looms on Aug. 1, but may yet be delayed. Regardless, it is certain that the end point will be U.S. tariff rates far above levels that have existed in the post-Depression period. This policy is stagflationary and will impact the U.S. more than other major economies. And we strongly doubt that it will accomplish two of the President's key stated goals: eliminating the trade deficit and reviving U.S. manufacturing employment.

While there is still uncertainty related to trade policy, it is likely that a U.S. (and global) recession will not occur. The U.S. economy had solid momentum entering 2025 and will soon receive meaningful fiscal stimulus. The growth outlook outside the U.S. is also modestly upbeat, courtesy of the prior bout of weakness, which has manifested in pent-up demand and meaningful developed-market monetary easing.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	1.45	12.93
MSCI ACWI EX U.S.	2.25	21.11
MSCI EAFE	2.82	22.18
MSCI EM	1.45	19.74

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	0.18	3.40
Bloomberg U.S. Corp High Yield	0.36	5.08
Bloomberg U.S. Gov/Credit	0.21	3.35
Bloomberg U.S. T-Bill 1-3 Month	0.05	2.42

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	1.67	4.47
Commodities (DJ)	-1.48	7.35
Global listed private equity (Red Rocks)	0.43	11.47
Currencies (DB Currency Future Harvest)	-0.53	-1.66

Some Fed easing in the U.S. is possible before year-end, but we do not foresee the Fed cutting its policy rate by as much as the forward markets are discounting and by a lot less than President Trump desires. The Fed is data-dependent and upcoming inflation reports are likely to show a sequential firming as the impact from higher tariffs will finally show up in higher prices for traded goods. Even if the Fed were to meaningfully lower the policy rate, perhaps under intense political pressure, this may not result in lower longer-term yields. Keep in mind, Treasury yields rose after the Fed started to ease last year, with its aggressive 50 basis-point rate cut in September.

Regardless whether the Fed even ends up easing, we expect the U.S. economy to muddle through the next 3-6 months. Equity markets have charged ahead to new highs and credit spreads are near historical lows in anticipation of both a positive economic outcome and a much lower Fed funds rate. A choppy risk-on phase should persist until the Fed disappoints and/or long rates move higher. The calm in government bond markets is in marked contrast to the inflation data and ongoing worrisome trends in government finances.

Conclusion

Tariff angst continues to ease, underscoring that the tail risk of a U.S. and global recession is diminishing. Nevertheless, U.S. tariffs will end up at the highest levels since the Depression and are stagflationary for the U.S. economy. A choppy risk-on phase should persist.

Source: Bloomberg as of July 25, 2025