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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks had their best week in six (S&P 500 2.44%). Positives included raised expectations of a Fed cut, more clarity around tariffs, and continued AI secular growth narrative. However, stagflation concerns continue. Best sectors for the week were technology (4.28%), consumer discretionary (3.82%), and communication services (3.30%); sectors declining included energy (-0.96%), healthcare (-0.78%) and real estate (-0.14%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	1.37	4.85
S&P 500	2.44	9.47
NASDAQ	3.88	11.50
Russell 1000	1.66	8.48
Russell 1000 Growth	3.23	11.46
Russell 1000 Value	1.41	6.73
Russell 2000	2.23	0.08

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	3.30	15.65
Consumer discretionary	3.82	-1.24
Consumer staples	3.11	7.70
Energy	-0.96	0.94
Financials	0.78	8.10
Heathcare	-0.78	-4.53
Industrials	0.63	15.14
Information technology	4.28	16.07
Materials	2.38	7.26
Real estate	-0.14	3.03
Utilities	0.42	15.46

Key takeaways

1. In the wake of the disappointing payroll report earlier this month (and the significant downward revisions for the prior two months), the probability of Fed cuts has increased. We lean toward a 25-basis-point (bp) cut in September and another 25-bp cut in December.
2. In response to trade uncertainty, global growth is cooling but not collapsing. Equity investors are betting on the resilience of the economy, since it is continuing to deliver solid earnings.
3. Since the beginning of the year, consensus real GDP forecasts have been revised down from 2.3% to 1.5% for 2025 and 2.0% to 1.7% for 2026.
4. The primary reason the impact of the tariffs has been more modest than feared is that companies are still exhausting pre-tariff inventory, and there is a long lag as the impact makes its way through the supply chain.
5. It seems to us that exporters, importers, retailers, and consumers will all share in the higher costs incurred by tariffs, and that the inflation rate will be lifted to some degree, even if just on a one-time basis.
6. We expect tariffs to result in an increase in inflation, mostly in Q3.
7. The S&P 500 recently achieved new highs, but narrow leadership and a slowing labor market reinforced caution on risk assets. (The equal-weighted S&P 500 has yet to reach a new high, suggesting risk sentiment is not that ebullient.)
8. The median multiple of the largest five stocks is 34x. This is well ahead of the 19.5x for the median stock. The largest five stocks have experienced a nearly three-point P/E increase this year, more than double the amount of the median S&P 500 stock.
9. The largest 100 stocks now represent two-thirds of the capitalization of the S&P 500. (This last occurred at the end of 1999 and during the mid-1960s.)
10. The Bank Credit Analyst argues that a U.S. fiscal crisis should be treated as a base case over the next decade, not a tail risk.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	1.99	12.27
MSCI ACWI EX U.S.	2.52	19.68
MSCI EAFE	2.29	20.02
MSCI EM	2.84	19.20

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.03	4.63
Bloomberg U.S. Corp High Yield	0.41	5.33
Bloomberg U.S. Gov/Credit	0.01	4.54
Bloomberg U.S. T-Bill 1-3 Month	0.05	2.59

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	0.87	1.65
Commodities (DJ)	0.25	4.74
Global listed private equity (Red Rocks)	2.38	8.54
Currencies (DB Currency Future Harvest)	0.32	-0.99

Is the bull run in extra innings?

The investment backdrop in recent years has benefited from the seemingly endless amount of liquidity, resulting in almost all risk assets recording significant price inflation, leaving fewer appealing opportunities. The liquidity backdrop is, on the margin, set to become even more plentiful as the weak U.S. payroll report opened the door for Fed rate cuts. The key to sustaining this backdrop is to avoid the economic extremes of activity being too strong (inflationary) or too weak (contracting corporate profits). For now, these extremes seem unlikely, despite anti-growth U.S. trade policies. Accommodative global monetary conditions and looming fiscal stimulus in the U.S. and euro area will provide offsets to the drag from higher tariffs. The key will be for corporate profits to hold up and sustain labor demand. We increasingly think this is a big assumption.

The tariff-induced slowdown in the U.S. economy and ongoing trade uncertainty will prolong the plentiful liquidity backdrop. For risk assets to respond positively to this, investors will need confidence that U.S. tariff policies will not derail the global economic expansion. The bulls argue that U.S. economic growth should return to an above-potential pace next year on the back of a positive fiscal policy impulse, looser monetary policy, and a sequentially smaller hit from trade policy. The bears are concerned that growth is slowing enough to influence corporate profits, that inflation may tick higher, and that valuations are discounting a nearly perfect world. At the moment, it is reasonable to expect that investors are looking across the valley of near-run economic and earnings softness toward a better 2026. Critical to the U.S. economic outlook will be whether the deceleration in corporate profits morphs into a contraction, and thus layoffs, or stabilizes with some recovery in hiring after the tariff clouds clear. U.S. corporate profitability and cash-flow generation is historically high, which provides a buffer against layoffs.

While the asset-price inflation era may not be over, it is into extra innings. Investing in such an environment will become progressively more challenging, as the risks of a setback are already moderately high and likely to climb further until the end finally arrives, which historically has occurred abruptly.

Additional long-term dollar weakness is likely after a further period of consolidation. Both interest rate differentials and relative growth trends will work against the U.S. dollar in the coming six to 12 months.

Equity markets are at elevated valuations, albeit this issue is most notable in the U.S. and less of a concern elsewhere. However, the same is true for credit markets throughout the DM and EM worlds, where spreads over government debt are historically tight.

Conclusion

The re-rating in equity markets since April will ultimately prove unsustainable, and even maintaining current valuations relies on flat-to-lower bond yields. The latter is unlikely in an environment of better economic growth and sticky inflation, which underscores that the equity (and credit) market will eventually be under de-rating pressures.

Source: Bloomberg as of Aug. 8, 2025