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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Equities edged higher last week (S&P 500 +0.39%) in a quiet low-volume, low-volatility week. Key were reports that inflation is cooling, taking some pressure off the Fed to hike rates. Best sectors were energy (+7.33%) and utilities (+1.61%); worst sectors were consumer discretionary (-1.94%) and communication services (-0.96%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-0.53	12.83
S&P 500	0.39	14.54
NASDAQ	0.16	15.40
Russell 1000	0.60	14.72
Russell 1000 Growth	0.52	6.22
Russell 1000 Value	0.39	23.96
Russell 2000	0.62	23.83

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-0.96	1.70
Consumer discretionary	-1.94	0.89
Consumer staples	1.04	11.51
Energy	7.33	39.94
Financials	0.94	7.19
Health care	1.00	9.10
Industrials	0.72	20.93
Information technology	0.24	24.30
Materials	-0.78	15.39
Real estate	0.71	15.01
Utilities	1.61	5.23

Key takeaways

1. Headline CPI rose 0.1% m/m and 3.4% y/y (core CPI rose +0.2 and 2.5%), taking some pressure off the Fed to raise rates. (The Fed would like to see monthly readings of 0.2% or lower to avoid hiking rates.)
2. However, inflation remains sticky in part because banks are easing lending standards, loan growth has increased, and money supply is increasing.
3. The rise in Treasury yields is a function of strong economic growth, elevated inflationary pressures, and increased debt issuance.
4. The fact that sentiment is holding up despite the uncertainty created by the Iran war confirms that the U.S. economy remains more resilient than expected.
5. Despite stocks rising nearly 15% YTD, earnings are so strong that the P/E of the market has fallen from 22x to a more tolerable 20x.
6. While financials lagged early in the year, they have improved markedly in the last couple of months. Many banks are making all-time highs (it is rare that stocks decline when banks are on the new high list).
7. While IPOs have been few and far between, additional (secondary) offerings are setting records.
8. Single-stock volatility (dispersion) remains high, while index volatility remains low – an odd combination.
9. The valuation premium of the U.S. versus the rest of the world (now 22% premium) is the lowest in six years, thanks in large part to explosive U.S. earnings growth (2Q26 earnings growth for the S&P 500 is 28%, ROW 14%).
10. The election aside, both political parties are moving to the left on economic issues – a form of economic populism (e.g., price controls, lower drug prices, higher minimum wage, cap on credit card interest rates, increased taxes on corporations and billionaires).

An Inflation Respite, But Problem Unlikely Solved

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	0.75	15.39
MSCI ACWI EX U.S.	1.06	17.00
MSCI EAFE	0.39	14.55
MSCI EM	2.30	22.28

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.13	0.04
Bloomberg U.S. Corp. High Yield	0.19	2.64
Bloomberg U.S. Gov/Credit	0.10	-0.17
Bloomberg U.S. T-Bill 1-3 Month	0.04	2.26

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-0.09	16.24
Commodities (DJ)	2.85	26.26
Global listed private equity (Red Rocks)	2.56	-1.26
Currencies (DB Currency Future Harvest)	0.98	9.36

The war in the Middle East and its impact on global energy prices and supplies continues. While oil prices are well below this year's peak level, there is considerable uncertainty as to how and when events will play out. We continue to see the impact as somewhat negative for global growth, albeit at a time when activity had been firming, and mildly inflationary, against a backdrop where inflation was already sticky and generally higher than central bank targets. Fluctuations in oil prices are having progressively less impact on global financial markets. Bond yields used to trade in line with oil prices but have recently diverged: Yields have continued to grind to new highs despite oil prices holding well below their peak.

The war in the Middle East is no longer escalating and does not appear headed toward a full-blown land war, but it also is not yet being resolved in any lasting sense. We (and most investors) judge that the impact will not be sufficient to derail the global economic expansion. However, stay tuned and keep an eye on the exits for risk-asset markets. Political decisions could yet trigger an end to the investment and economic cycles. However, absent a sizable mistake, we anticipate that the traditional catalysts (an overshoot in bond yields and/or restrictive monetary conditions) will ultimately end the bull market in risk assets and meaningfully threaten the global economic expansion.

Private-sector borrowing has undergone a resurgence at a time when public-sector borrowing has stayed elevated and shows little sign of slowing in most economies. Thus, rising supply pressures will increasingly be problematic for bond markets, especially as liquidity conditions become less plentiful, as we anticipate will eventually be the case.

So far, the rise in bond yields has been orderly. This is not surprising given the entrenched belief by most bond investors (and central banks) that inflation will resolve itself on its own; i.e., return to 2% without the need to take undue economic risks. This bias continues to support equity and credit markets, where positive returns have continued this year. That said, we recommend a close monitoring of credit spreads, as a marked widening in corporate bond spreads has traditionally signaled that the cost of capital was becoming an economic headwind and/or earnings were starting to deteriorate.

Long-term government bonds continue to struggle in absolute terms and underperform the short end of the yield curve. This has been the pattern since the all-time low in yields was reached during the pandemic earlier this decade. Since then, the total return losses have been significant in real, or inflation-adjusted, terms.

In terms of equity performance, most equity markets have been participating with broad-based gains this year. The main source of volatility has been the ups/downs in the tech sector, especially AI-related plays. Critical to this positive outcome has been the ability of businesses to pass on higher input costs to end users, allowing them to protect profit margins. The downside of this outcome has been ongoing inflationary pressures.

Conclusion

The impact of changes in oil prices on financial markets has recently diminished. This mostly reflects mounting signs that the global economy has stayed resilient in the face of the energy shock. It also, however, partly reflects investors' increasing expectation that a bad outcome will not occur. The positive economic and asset-price inflation backdrop will likely continue until bond investors realize that a return to low and stable inflation is not in the cards.

Source: Bloomberg as of 08/14/26