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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks declined last week (S&P 500 -1.39%) after three straight weeks of gains. Stocks were pressured by rising bond yields, higher oil, and some weakness in AI/momentum trades. Best sectors were health care (+4.33%), energy (+2.94%) and materials (+2.34%); worst sectors were utilities (-3.49%), industrials (-3.37%) and technology (-3.18%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-0.78	11.96
S&P 500	-1.39	12.95
NASDAQ	-2.02	13.07
Russell 1000	-1.84	12.44
Russell 1000 Growth	-2.31	3.77
Russell 1000 Value	-0.50	23.34
Russell 2000	-2.44	21.44

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-1.45	0.23
Consumer discretionary	-0.23	0.66
Consumer staples	-0.94	10.46
Energy	2.94	44.05
Financials	-1.17	5.93
Health care	4.33	13.83
Industrials	-3.37	16.86
Information technology	-3.18	20.35
Materials	2.34	18.10
Real estate	-0.44	14.51
Utilities	-3.49	1.55

Key takeaways

1. The August Philly Fed survey report was good in that it showed strong manufacturing momentum without a renewed pick up in price pressures.
2. July retail sales were weaker than estimates, reinforcing that the U.S. economy is not overheating.
3. The U.S. Treasury announced at least a doubling in its purchase of Treasury bonds in an effort to arrest the upward move in bond yields.
4. The upward pressure in interest rates will likely only reverse once economic activity weakens and/or inflation pressures recede.
5. Why might inflation stay sticky? Lots of liquidity, M2 growth, bank loans, and federal outlays, with Fed funds below nominal GDP growth – all helps to drive inflation.
6. According to most models, long-maturity Treasury yields are close to fundamental fair value. However, higher Treasury yields from here could threaten equity markets.
7. Credit fundamentals remain firm, but the margin for error is narrowing.
8. Real (inflation-adjusted) income has slowed in the U.S., so it makes sense that consumer spending is following. But corporate profits and capex still look solid.
9. Productivity growth is slowly improving and AI may be helping at the margin, but broad labor market problems have not surfaced. However, early career hiring is struggling somewhat.
10. 2027 earnings growth is now estimated at 13%, down from 17% at the beginning of July.

Will Higher Interest Rates Threaten Equities?

The U.S. Treasury market attempted to lower long-term yields last week with the Treasury Department announcing an increase in its buying of longer-dated bonds. This move will not reverse the forces pushing up bond yields. Good-to-improving economic growth, sticky and elevated inflation, and the deterioration in government finances are still problematic for rates.

The U.S. government could halt issuing long-dated Treasurys and only issue short-term debt. However, investors will likely not lend their savings at low short rates if it appears that the purchasing power of those savings will steadily erode because policymakers are unwilling/unable to curb growth to tackle inflation. In addition, attempts to manipulate the yield curve, rather than deal with the source of upward pressure on yields, risks undermining sentiment towards the U.S. dollar. In fact, the long end of yield curves are at multi-decade highs, decisively reversing the secular downtrend in yields that had existed starting in the early-1980s. Ultimately, the upward pressure on rates and yields will only reverse if economic activity weakens and/or inflation pressures recede.

Financial markets are still benefitting from a positive macro backdrop of rising corporate profits and accommodative monetary and fiscal policies. Oil prices remain a concern, but are not currently an economic constraint, just no longer a tailwind as was the case prior to the war in the Middle East. At this time, sufficient oil is being shipped out of the region to prevent a real crisis, and thus investors are largely ignoring this potential threat.

While household complaints loudly abound about the rising cost of living, income levels have also improved this decade. Importantly, decent-to-solid real consumption growth has persisted in most of the developed world despite the persistent rise in consumer prices. The stickiness of inflation will ultimately undermine policymakers' attempts to prevent higher borrowing costs. Savers have been progressively less willing to accept low bond yields this decade, but have not yet demanded meaningful compensation for the risk of higher future inflation. However, the longer above-target inflation persists, the greater the odds that bond investors will eventually fade from the scene and the vigilantes will return. This shift may accelerate if the authorities continue to pursue unorthodox policies in an attempt to cap rising Treasury yields while downplaying the inflation and public sector debt risks.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	-1.42	13.71
MSCI ACWI EX U.S.	-0.62	16.57
MSCI EAFE	-0.93	13.69
MSCI EM	-0.05	22.64

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.07	-0.17
Bloomberg U.S. Corp. High Yield	-0.18	2.41
Bloomberg U.S. Gov/Credit	0.06	-0.37
Bloomberg U.S. T-Bill 1-3 Month	0.04	2.34

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-0.24	16.27
Commodities (DJ)	3.84	31.11
Global listed private equity (Red Rocks)	-2.11	-3.82
Currencies (DB Currency Future Harvest)	0.19	9.83

Conclusion

Attempts to limit or even reverse the rise in U.S. Treasury yields will ultimately fail and could expedite the next down leg in the U.S. dollar. The upward pressure on interest rates and bond yields will only reverse once global economic activity weakens and/or inflation pressures recede, neither of which is likely in the near term.

Source: Bloomberg as of 08/21/26