CROSSMARK GLOBAL INVESTMENTS

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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks fell last week (S&P 500 -0.78%), snapping a two-week advance. $100 oil and a firm CPI print dominated headlines. The only two sectors that advanced last week were energy (+2.06%) and communication services (+1.06%); biggest decliners were health care (-3.54%) and materials (-2.70%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-1.56	10.64
S&P 500	-0.78	12.77
NASDAQ	-0.64	13.78
Russell 1000	-1.72	11.58
Russell 1000 Growth	-0.94	3.69
Russell 1000 Value	-0.79	22.52
Russell 2000	-2.83	17.42

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	1.06	2.45
Consumer discretionary	-1.21	-2.53
Consumer staples	-0.62	8.36
Energy	2.06	47.43
Financials	-1.50	5.48
Health care	-3.54	7.84
Industrials	-1.64	11.80
Information technology	-0.17	23.65
Materials	-2.70	12.86
Real estate	-1.03	10.53
Utilities	-1.60	0.66

Key takeaways

1. The August CPI rose 0.4% m/m and 3.4% y/y. This remains significantly higher than the Fed's 2.0% target and raises the probability of a Fed hike next week.
2. The August jobs report reinforces our view that the Fed has little reason to worry about the employment side of its dual mandate. It leaves Fed policymakers free to focus on inflation.
3. The largest upward earnings revisions have been concentrated in industries tied to AI capex spending and energy.
4. The earnings pre-announcement ratio is currently at 0.6 negative to positive revisions. When the ratio has been this low in the past, forward returns have tended to be underwhelming.
5. Earnings growth, while more than 50% in Q2, is expected to slow to 1.5% by 2Q27.
6. Gasoline futures are up 30% since early August, and one-year inflation swaps are back to their highest level since mid-June. This is beginning to negatively impact the consumer discretionary sector.
7. The level of yields matters less for equities than how quickly rates move.
8. Historically, stocks are most in danger when rising sharply while ignoring a sharp rise in long-term interest rates. The direction of long-term interest rates is important, but a big top in stocks likely requires a more violent rise in the 10-year than we have seen thus far.
9. Stock market bottoms are events, while tops are processes.
10. The Federal budget deficit is currently running at around 6% of GDP, a level more commonly associated with recessions than economic expansions. CBO projections suggest deficits will remain above 6% of GDP for many years to come.

Bond Yield Increases Are Finally Impacting Equities

Investors are grappling with an escalation of war on two fronts; namely, the military war between the U.S. and Iran, and the trade war between the U.S. and Canada. While the latter is more regional than global in impact, it highlights worsening U.S. policy uncertainty, especially with the mid-term elections less than two months away.

Global equities and credit are still priced for near perfection, even as Brent crude oil prices are near $100 per barrel, and 10- and 30-year government bond yields are at multi-year or multi-decade highs. Equities, credit, and bonds have become vulnerable to oil prices and higher inflation expectations.

The test of wills between the U.S. and Iran shows no sign of ending anytime soon. U.S. strategy appears predicated on the expectation that squeezing Iran's economy will eventually force its leadership to accept the reopening of the Strait of Hormuz. Iran's strategy appears to be that high oil prices and exhausting the U.S. weapons arsenal will force the U.S. back to the negotiating table. Investors' hopes that the Trump administration would seek to wind down the war ahead of the mid-term elections seem misplaced. High gasoline and diesel prices are weighing on U.S. consumer sentiment and Trump's approval rating, but the President does not appear unduly concerned about the consequences for Republican candidates for the House of Representatives or the Senate.

Despite the escalating tensions between the U.S. and Iran, markets remain sanguine that oil flows from the Middle East will gradually normalize, with the 12-month Brent futures price around $80 per barrel. Estimates of oil flows from the Middle East vary significantly but generally suggest they are about 5-7 million barrels per day below pre-war levels. Low oil prices before the war were positive for global economic growth, and current levels are not crippling, but continued supply shortages will eventually begin to bite.

While the underlying uptrend in bond yields will persist if the global economic expansion continues as we expect, some near-term relief may be in store. Absent a Fed rate hike before the election, any such relief would be minimal, if it occurs at all. Core PCE inflation has run at a 3.5% annualized rate over the past six months and meaningfully above the Fed's target for several years, coinciding with multiple years of above-potential economic growth and a now-large positive output gap.

The still supportive global economic outlook implies that the uptrend in earnings will persist, but the risks of a slowdown as 2027 develops are material. How well stock prices will cope with a slowdown in global earnings growth next year remains to be seen, but history suggests some indigestion is probable.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	**-1.29**	**13.30**
MSCI ACWI EX U.S.	**-0.69**	**16.62**
MSCI EAFE	**-1.43**	**12.45**
MSCI EM	**1.12**	**26.01**

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	**-0.92**	**-1.31**
Bloomberg U.S. Corp. High Yield	**-0.58**	**1.97**
Bloomberg U.S. Gov/Credit	**-0.83**	**-1.39**
Bloomberg U.S. T-Bill 1-3 Month	**0.02**	**2.55**

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	**-1.81**	**11.40**
Commodities (DJ)	**1.72**	**35.81**
Global listed private equity (Red Rocks)	**-3.98**	**-8.24**
Currencies (DB Currency Future Harvest)	**0.18**	**10.77**

Conclusion

The supportive top-down economic and policy outlook remains favorable for risk assets, including equities and credit, and favors stocks over bonds in a multi-asset portfolio. The corollary, however, is that asset prices already fully (if not overly) discount a highly optimistic base-case scenario, and there are plenty of threats that could jeopardize such an outcome.

Source: Bloomberg as of 09/11/26