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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks were mixed last week (S&P 500 -0.06%). Equal-weight S&P lagged cap weight by more than 100 basis points (bps). Big news of the week was the Fed rate hike, oil crossing $100, and AI crosscurrents. Advancing sectors were health care (+1.85%), communication services (+1.15%), and technology (+1.06%); worst decliners were utilities (-3.02%), financials (-2.33%), and real estate (-1.97%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-1.65	8.82
S&P 500	-0.06	12.71
NASDAQ	0.73	14.61
Russell 1000	-0.23	12.29
Russell 1000 Growth	0.86	4.59
Russell 1000 Value	-1.13	21.14
Russell 2000	-0.98	16.80

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	1.15	3.63
Consumer discretionary	-1.48	-3.96
Consumer staples	-0.64	7.67
Energy	-1.24	45.61
Financials	-2.33	3.02
Health care	1.85	9.84
Industrials	-1.52	10.10
Information technology	1.06	24.96
Materials	-1.84	10.78
Real estate	-1.97	8.36
Utilities	-3.02	-2.38

Key takeaways

1. The Federal Reserve raised the funds rate by 25 basis points (bps) (to 3.75% - 4.00%), kicking off a new tightening cycle. The Fed is unanimous in expecting a mild total tightening cycle of 50-75 bps, but that outcome is contingent on a rapid drop in core inflation in 2027.
2. Fed Chair Warsh stated, "The plain fact is that inflation is too high and has been for too long." This points to a rate-hiking campaign.
3. After seven of the last eight first Fed rate increases, bonds were lower six months later.
4. The median FOMC participant sees core inflation coming in at 3.4% in 2026 but falling to 2.5% in 2027. We directionally agree with the Fed's inflation view but the amount of decline seems questionable.
5. Driving inflation are too-accommodative monetary and fiscal policies; M2 grew 7% over the past six months, with federal outlays accelerating to 5.2% y/y so far this fiscal year. And bank loans are growing 7% with upside, given they are easing lending standards.
6. Atlanta Fed's GDPNow tracking model revised its Q3 real GDP growth estimate up from 4.4% to 5.1%.
7. U.S. private employers added the most jobs since early July, suggesting that the economy continues to operate at full employment.
8. The resilience of global equities over the past two years has been remarkable. Stocks have risen despite a trade war in 2025, a lingering conflict between Russia and the West in Ukraine, another war in the Middle East that partially closed the Strait of Hormuz, the world's most important chokepoint, and, most recently, global yields hitting decades-high levels. This strength reflects robust earnings, powered by an exceptional boom in AI capex and tech investment more broadly.
9. The S&P 500 is trading at 19 times forward earnings, in line with its 10-year average. The catch is that earnings reflect very high profit margins.
10. While the S&P 500 is only down about 3% from its 52-week high, the average S&P 500 stock is down roughly 20%. The point is that the pain beneath the surface has been much greater than the headline index suggests.

Will Something Break? Bond Yields, Inflation, & Market Risk

Bond markets have weakened steadily in recent months despite central banks raising their policy rate and most sounding hawkish on inflation. Even the Fed finally joined the rate-hiking party last week. Reluctant rate hikes and hawkish talk have failed to calm bond markets for very long. Rather, firming global growth at a time when current monetary conditions have been accommodative (and not restrictive, as most central banks believed at the start of the year), plus ever-expanding budget deficits, a surge in AI-related corporate borrowing and sticky inflation, have all combined to crush bond bulls' hopes for lower yields. In addition, political attempts to cap/lower U.S. Treasury yields have backfired.

While yields have risen considerably since May, the rise has been orderly. A riot remains a possible eventual outcome for as long as policymakers are unwilling to accept that the world is more inflationary than last decade. U.S. inflation remains stuck well above 2%, and the Fed remains too optimistic on the inflation outlook after missing its target for five years. Projecting only one more hike for the balance of the cycle reinforces that the Fed is still fundamentally dovish and unwilling to take economic risks.

Oil markets are adding to upward pressure on bond yields. Higher energy prices and elevated concerns about supplies have not undermined economic activity since the spring. Most economies have firmed since the war in the Middle East erupted. The implication is that growth likely would have been even better if there had been no war. The risk is that higher energy costs will leak into other prices, especially since domestic demand growth remains solid in much of the DM world. Of course, there is still the danger that energy prices and supplies worsen to the point where they undermine the global economic expansion. This is not our base-case scenario, but the odds of such an outcome have increased with the war far from resolved.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	-0.48	13.21
MSCI ACWI EX U.S.	-0.93	15.07
MSCI EAFE	-0.51	11.94
MSCI EM	-1.89	21.97

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	0.36	-1.07
Bloomberg U.S. Corp. High Yield	-0.09	1.93
Bloomberg U.S. Gov/Credit	0.33	-1.16
Bloomberg U.S. T-Bill 1-3 Month	0.04	2.61

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	-1.06	10.91
Commodities (DJ)	0.22	36.11
Global listed private equity (Red Rocks)	-1.70	-9.58
Currencies (DB Currency Future Harvest)	0.79	11.65

The most probable threat to the global expansion is that the (so far) gradual rise in bond yields eventually turns disorderly: Yields rise rapidly and investors come to fear that the yield upside is "open-ended." This process has limits because at some point a severe risk-off phase would occur and the economic outlook would deteriorate. It may well be that there can be no soft economic landing ahead, such as occasionally occurred in the disinflationary era (1980s–2010s). In other words, a return to low and stable inflation rates may not develop until after there is a meaningful growth slowdown or recession, and economic slack builds.

For now, the stock/bond (S/B) total return ratio continues to grind higher, and we remain positioned accordingly. That said, recent gains have mostly been the result of bond losses, as the advance in global equities has turned choppy. Preferring stocks over bonds is prudent because of the still-upbeat corporate profit outlook, resilient economic growth, and ongoing stickiness in DM inflation. Companies still have pricing power to protect profits and global monetary conditions remain supportive. However, bond markets are now oversold and, thus, could soon consolidate, which would provide support to equities. However, the cyclical uptrend in bond yields is probably not over.

Conclusion

Many central banks are hiking rates, with the Fed the latest to join. However, none seem willing to take economic risks, and are still hoping that inflation will return to low and stable levels without a meaningful growth slowdown. The main cyclical investment and economic risk remains that the so far steady rise in yields turns disorderly.

Source: Bloomberg as of 09/18/26