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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Stocks advanced last week (S&P 500 +1.23%). (NASDAQ closed at a record high.) The backup in rates, stronger than expected economic data, and hawkish Fedspeak dominated the conversation. Advancing sectors were technology (+3.13%), communication services (+2.16%), and health care (+1.71%); worst decliners were utilities (-3.12%), energy (-2.99%), and financials (-1.58%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	0.28	9.13
S&P 500	1.23	14.09
NASDAQ	2.07	16.98
Russell 1000	0.67	13.15
Russell 1000 Growth	2.42	7.19
Russell 1000 Value	0.05	21.26
Russell 2000	-0.86	15.22

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	2.16	5.87
Consumer discretionary	-0.53	-4.48
Consumer staples	0.22	7.90
Energy	-2.99	41.26
Financials	-1.58	1.39
Health care	1.71	11.72
Industrials	0.67	10.84
Information technology	3.13	28.87
Materials	0.31	11.13
Real estate	-1.35	6.90
Utilities	-3.12	-5.43

Key takeaways

1. The main reason that bond yields rose sharply last week is that the U.S. economy is performing very well. (Services PMI jumped to 58.7 in September, its highest level in nearly five years, from 56.5 in August. Manufacturing soared to 57.0, a level not seen in more than four years.)
2. In three short months, FOMC members moved from a unanimous hold to a unanimous hike, raising the federal funds rate by 25 basis points (bps), suggesting more of the same to come.
3. At the start of 2026, the futures curve implied the Fed would cut rates toward 3% by early 2027. Today, markets are pricing rates approaching 4.7% next year, and still above 4.4% through the end of the decade.
4. Central bankers know that they cannot control oil prices. But what they can do is ensure that changes in relative prices don't broaden out. Policy can limit "second and third order effects in the economy."
5. The U.S. labor force has contracted over the past year, driven by the departure of unauthorized immigrants and a decline in the labor force participation rate. This could cause inflation to stay elevated even if tariff and energy shocks dissipate.
6. The 29% growth rate for Q326 would mark the third consecutive quarter of 25%+ earnings growth.
7. Equities have continued to be supported by rising earnings amidst an ongoing global economic expansion. That said, significant optimism is already priced in.
8. Investors have been watching analysts raising their earnings expectations faster than stock prices have been rising. As a result, stocks have gotten cheaper, assuming that analysts' exuberant earnings expectations are rational.
9. We believe downside risks in stocks are higher than they have been in some time. (Watch CCC credit spreads.)
10. Our 10th prediction at the beginning of the year was "Republicans retain control of the Senate but surrender the House, losing at least 20-25 seats." At the moment, we put the probability of the Democrats taking the House at 90%, and the probability of the Republicans retaining the Senate at 50-50 (and falling).

The Bond Market Riots

A modest easing in oil prices proved insufficient to calm government bond markets last week. Instead, signs of even stronger growth triggered a breakout in the U.S. Treasury benchmark 10-year yield above 5%, which caused some heartburn for equities. Last week's mid-month PMI surveys showed further solid gains in the euro area and U.S., with their manufacturing and service sector indexes now at moderately elevated levels. This performance is impressive, given mounting geopolitical, political, and energy headwinds, as well as the steady rise in bond yields.

This economic strength reflects the solid foundation under the global economic expansion that existed entering 2026. Growth has broadened and persistently surprised bond investors and central banks, as we have argued would be the case. Prior significant policy stimulus, both monetary and fiscal, and stellar corporate profitability, had primed the global economy for stronger growth. Higher bond yields represent a risk, but for now, we judge the increase in yields to be reflective of better growth, and not yet restrictive.

With bonds now oversold, a pause in the relentless rise in yields could soon develop; however, any easing in bond yields will likely prove temporary. The strength in global economic activity, persistent and mildly intensifying inflationary trends, the ongoing deterioration in government finances, and more recently a revival in corporate borrowing, are combining to push up bond yields. This is likely to continue if central banks don't try to catch up. Credit markets around the globe need to be watched carefully and generally remain relatively well bid, with spreads holding at low levels (excluding the lowest rung of U.S. corporate debt, CCC-rated paper). The total return on 10-year government bonds is now negative this decade, and especially poor when measured in real terms. Today's much higher bond yields than earlier this decade will be supportive of total returns going forward, but the catalyst for a sustained period of capital gains is still not evident.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	0.44	13.72
MSCI ACWI EX U.S.	-0.11	14.68
MSCI EAFE	-0.75	9.90
MSCI EM	1.28	25.20

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	-1.02	-2.47
Bloomberg U.S. Corp. High Yield	-0.75	0.97
Bloomberg U.S. Gov/Credit	-0.91	-2.41
Bloomberg U.S. T-Bill 1-3 Month	0.04	2.69

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	-1.02	8.78
Commodities (DJ)	-0.69	35.17
Global listed private equity (Red Rocks)	-2.83	-13.03
Currencies (DB Currency Future Harvest)	0.20	11.88

Decisive breakouts in the U.S. 10-year Treasury yield have been the catalyst for equity setbacks this decade. Yields are currently in the process of breaking out, thus our bias would be to de-risk if yields do not soon pause. One of the most long-term bond-bearish developments this decade has been the massive increase in government budget deficits (and debt levels). This development is notable because it has continued during a prolonged, above-potential economic expansion. Significant fiscal stimulus has boosted economic activity and added to inflationary pressures.

Conclusion

Despite various economic headwinds, further gains in U.S. and euro area PMI surveys confirm that the foundations under the global economic expansion are still solid. A rate hike or two will not dent economic activity. If bond yields do not soon calm, we expect to de-risk and reduce equity holdings.

Source: Bloomberg as of 09/25/26