CROSSMARK GLOBAL INVESTMENTS

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Doll's Deliberations®

Special Market Commentary

Bob Doll, CFA
PM/CIO/CEO

Victoria Fernandez, CFA
Chief Market Strategist

Comments On The Bond Market Riot

1. Yields across the Treasury curve have moved irregularly higher since COVID in 2020. The pace of upward action has accelerated in the last month.
2. Economic statistics have accelerated somewhat recently (e.g., PMIs surging last week).
3. Fed funds are still below nominal growth, which implies interest rates are still stimulative, and certainly not restrictive.
4. The Fed has more (maybe a lot more) work to do to get the inflation rate down toward 2%. The two-year Treasury yield is significantly higher than the current Fed funds rate – that alone suggests more Fed work is needed.
5. It is likely that bond yields will have to go higher to arrest the pace of economic growth and the rate of inflation.
6. The level of bond yields is less important than the pace of change (which has accelerated in the last month). (The level will become more important once the 10-year yield is higher than nominal GDP.)
7. The 10-year Treasury total return is now negative over the last 10 years.
8. We are starting to see some widening in credit spreads in low quality (e.g., CCC) paper, but most investment-grade spreads remain fairly tight. (Watch this space carefully.)
9. Bonds (e.g., a 10-year Treasury) are a lot more interesting than they were six months ago (5.20% vs. 4.20%).
10. The bond yield increase has impacted stocks, as the P/E ratio on the S&P 500 has moved down from 22x to 19x forward earnings (in other words, stocks are up, but much less than earnings).
11. While the S&P 500 is still 6% above its 200-day moving average, more than half the stocks have fallen below their 200 DMA.
12. We would be a bit more cautious in equities (a little cash is okay), and in balanced accounts, a few more bonds probably make sense.