

Doll's Deliberations®

Weekly Investment Commentary



Bob Doll, CFA
PM/CIO/CEO

Summary

Equities rose last week (S&P 500 +1.11%). Gains were broad-based, with equal-weight S&P +1.44%. The government shutdown had little impact, as optimism continues that the labor slowdown is temporary and that the Fed will ease further. Best sectors were healthcare (+6.86%), utilities (+2.43%), and technology (+2.26%); worst sectors were energy (-3.35%) and communication services (-2.08%).

Key takeaways

1. In the absence of the usual monthly payroll report, the September ADP report contracted by 32K jobs, missing expectations and extending the trend of weakening employment.
2. The September Dallas Fed Manufacturing Survey missed expectations, confirming weak growth and employment momentum.
3. Consumer confidence fell again (from 97.8 to 94.2), reconfirming weakening labor signals.
4. It is hard to justify the resumption of a Fed rate-cutting cycle when the economic expansion is durable and growth is above potential, labor market remains tight, and while inflation remains above target.
5. The bank regulatory economy is trending in the most positive direction in nearly 20 years.
6. Q3 earnings will likely come in strong as tariffs have proved to be less of a factor, the U.S. economy remains resilient, and USD weakness has supported large multi-national firms.
7. High valuations and extreme market concentration have prompted comparisons to the dot.com bubble, but key differences exist. Unlike the late 1990s, today's growth stocks are delivering robust double-digit growth, strong margins, and good cash-flow generation.
8. With three quarters now complete, fewer than 30% of active large cap managers are outperforming, a sharp decline from earlier in the year when more than half were ahead of their benchmarks. A key driver of this shift has been the renewed dominance of the Mag 7.
9. The Russell 2000 small cap index is outperforming the S&P 600, another small cap index. (The S&P 600 requires companies to demonstrate positive earnings before being included, while nearly 40% of R2000 companies are producing losses.)
10. The average government shutdown length is eight days, but our guess is this one will last longer. Markets are generally mostly unaffected by shutdowns.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	1.11	11.34
S&P 500	1.11	15.32
NASDAQ	1.33	18.57
Russell 1000	1.05	15.10
Russell 1000 Growth	1.14	17.58
Russell 1000 Value	0.99	12.38
Russell 2000	1.05	11.39

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-2.08	23.06
Consumer discretionary	-0.81	4.45
Consumer staples	-0.31	3.15
Energy	-3.35	6.61
Financials	-0.23	12.45
Healthcare	6.86	6.72
Industrials	1.20	18.45
Information technology	2.26	23.40
Materials	1.13	9.44
Real estate	0.42	5.98
Utilities	2.43	19.94

Good economic outlook constrained by high valuations

The unique features of the current business cycle include prolonged accommodative monetary and fiscal policies and the associated excess liquidity, extraordinary corporate profitability, mega cap companies able to dominate global technology, and the AI theme that promises unlimited economic benefits. Buoyant liquidity is a necessary, if not sufficient, condition for a bull market in risk assets, and this cycle is no exception. The Fed cut rates last month and plans to ease monetary policy further even though the U.S. economy is still growing solidly, inflation is well above target, and financial conditions are already easy. Real interest rates in the euro area and Japan are also near zero and helping to support asset prices. We expect major central banks to cut less than investors are discounting, but the unwinding of those expectations will be a slow process.

Equity bulls dismiss concerns that U.S. stock prices trade at elevated multiples, arguing that “this time it’s different.” As is always the case, this time is indeed different for any number of reasons, but P/E multiples have a habit of reverting to or beyond their mean over time, which would eventually imply significant price declines. History also shows that risk assets will run until they hit a wall. Given a reasonably constructive economic outlook, that wall will most likely be a definitive and broad-based breakout in bond yields. While that rise may not be imminent, it could develop quickly, and prudence argues against getting caught up in current investor exuberance. The shutdown of the U.S. federal government is likely to be temporary and have little impact on Treasury yields in the short term, although it will eventually add to upward pressure on the Treasury term premium by further undermining confidence in U.S. fiscal management.

From a top-down level, the economic and policy backdrop is positive for risk assets in absolute terms and relative to bonds. We do favor equities over bonds within a multi-asset portfolio on a six- to 12-month horizon and credit within a fixed income portfolio. However, excessive concentration and valuation risks warrant only a neutral overall weighting in equities within a multi-asset portfolio. Within equities, we recommend a mild underweighting of the expensive U.S. and overweight exposures to emerging markets, the euro area, and Japan.

While the economic growth and monetary policy backdrop is favorable for risk assets, a lot of good news is already discounted. Global investment-grade and high-yield bond spreads are historically tight, global and U.S. equity valuations are elevated, and equity and bond volatility measures are low and/or have declined significantly in recent months. Investors appear complacent about risks, which is a typical sign of exuberance.

If our constructive economic growth forecast pans out, then higher U.S. inflation and long-term government bond yields would be the most likely threat to risk assets. Our forecast is that bond yields will have another leg up in the year ahead as inflation remains sticky and markets partially unwind discounted Fed rate cuts. In such a scenario, risk assets are vulnerable to corrections, albeit probably not imminently. U.S. long-term bond yields have been well-behaved in recent weeks, responding positively in anticipation of a significant rate-cutting cycle from the Fed. Both the U.S. 10- and 30-year Treasury yields have recently drifted lower, although they remain in the range that has prevailed over the past two years.

Conclusion

Valuations for stocks and risk assets already discount a highly optimistic scenario and this tempers our overall risk appetite.

Source: Bloomberg as of Oct. 3, 2025

Crossmark Global Investments Inc. (Crossmark) is an investment adviser registered with the Securities and Exchange Commission that provides discretionary investment management services to mutual funds, institutions, and individual clients. Investment advice can be provided only after the delivery of Crossmark’s firm Brochure and Brochure Supplement Form ADV (Parts 2A and 2B) and Form CRS, and once a properly executed investment advisory agreement has been entered into by the client.

All investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.

Information and recommendations contained in market commentaries and writings are of a general nature and are not intended to be construed as investment, tax, or legal advice. These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	1.47	19.16
MSCI ACWI EX U.S.	2.22	27.23
MSCI EAFE	1.87	26.10
MSCI EM	3.21	29.59

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.60	6.54
Bloomberg U.S. Corp High Yield	0.23	7.34
Bloomberg U.S. Gov/Credit	0.58	6.29
Bloomberg U.S. T-Bill 1-3 Month	0.04	3.27

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	0.30	4.39
Commodities (DJ)	0.31	10.17
Global listed private equity (Red Rocks)	-0.18	7.70
Currencies (DB Currency Future Harvest)	-0.24	0.69