

Doll's Deliberations®

Weekly Investment Commentary



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Summary

U.S. equities were mixed last week with the S&P 500 -1.94%. Only the DJIA closed higher. NASDAQ posted its worst weekly performance since June due to the AI selloff. Best sectors were consumer staples (+5.05%) and energy (+5.02%); technology was the worst sector (-6.37%).

Key takeaways

- Core CPI climbed 0.33% in September after a 0.29% increase in August. This has pushed the three-month annualized rate on core CPI to 3.41%, the fastest since September 2025. The upside surprise in core inflation was driven by a broad range of categories rather than one-off factors that are easy to dismiss.
- Inflation remains elevated relative to the Fed's target while employment remains in line. The tightening bias is not going away.
- Despite inflation data, rising concerns around AI-related credit risks and tighter financial conditions have taken center stage, leaving the market reaction relatively muted. We continue to think the Fed will ultimately skip in October and wait until December.
- U.S. retail sales growth was mediocre in September (headline sales rose 0.8%), but stronger than confidence measures implied.
- The AI trade is getting sloppy amid intensifying competition and doubts about returns on massive AI investments. We are nowhere ready to write off the AI investment boom. Demand for compute continues to outpace supply, while rising adoption should fuel further investment. The five hyperscalers are expected to spend a combined \$892 billion this year and \$1.1 trillion next year. Their strong balance sheets and cash flow generation make their spending plans relatively insensitive to higher borrowing costs.
- The median duration of Fed tightening cycles since 1970 (11 cycles) has been 16 months. On average, stocks have fallen 13.7% from peak to trough during the cycle.
- S&P 500 EPS growth in 2026 is estimated at 31.6%. This compares to the 25-year average of 7.6% EPS growth.
- Energy and technology have seen the largest upward revisions to 3Q earnings estimates.
- Friday, Oct. 9, was the lowest volume full trading day for the S&P 500 ETF (SPY) since 2005.
- A big win by the Democrats in two weeks would signal that U.S. corporate income and capital gains taxes have secularly bottomed. Further, the regulatory pendulum has swung toward an anti-corporate tail risk.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	0.67	9.53
S&P 500	-1.94	12.91
NASDAQ	-4.48	12.98
Russell 1000	-0.88	13.80
Russell 1000 Growth	-4.98	3.19
Russell 1000 Value	0.86	23.06
Russell 2000	-1.41	12.54

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-1.61	3.34
Consumer discretionary	-1.92	-3.57
Consumer staples	5.05	15.73
Energy	5.02	55.90
Financials	1.42	2.67
Health care	3.44	15.63
Industrials	-0.87	9.09
Information technology	-6.37	22.10
Materials	2.47	13.77
Real estate	1.17	8.23
Utilities	1.99	1.04

Finally, A Bond Bear Market Pause

Perhaps the greatest threat to the bull market risk assets and the global economic expansion has been, and remains, that bond markets will eventually riot and yields overshoot. This threat has been front and center in recent months, as yields have increased considerably because economic activity has not only been resilient in the face of another war and related energy shock, but has actually improved. This, in turn, has darkened the already worrisome outlook for inflation.

The silver lining in the near term is that bond markets had become oversold and buying interest has perked up with yields at multi-decade highs. Bond yields finally eased last week on the back of cracks in the AI theme, and could decline or at least consolidate for a time. However, barring an economic downturn that we do not anticipate, the cyclical uptrend in yields is not over and, thus, any reprieve should prove temporary. Lower yields will be self-undermining as they increase the odds of continued solid economic growth and, thus, sow the seeds for the next yield upleg. Global growth is robust. There is little economic slack. Monetary conditions are not restrictive, and central banks are not willing to take much economic risk to quell inflation.

The global stock/bond ratio has maintained a solid uptrend, which is not surprising given the stellar corporate profit backdrop. Stocks, especially in select regions such as the euro area, have struggled of late in the face of the relentless rise in bond yields. Credit spreads have edged up, but from very low levels and are not yet signaling broad-based trouble. As has occurred several times this year, the environment is again at the point where further increases in bond yields might be destabilizing for equity markets. Conversely, a calming in bond markets would quickly provide support to equity markets and the real economy.

From a bigger picture perspective, the era of ever-falling bond yields ended this decade, and investors and borrowers are still adapting to the new reality. The good news is that sales growth/nominal GDP are also much higher this decade, allowing most debtors to successfully endure higher borrowing costs.

The wars in Ukraine and the Middle East are not on track to being resolved, nor even settling into a deadlock. Energy prices and supplies remain an economic headwind, although our bias has been that they will not derail the global expansion. Oil prices are not much below their peak for the year. More worrisome is that forward oil prices are at a decisive new high, and many petroleum product prices are far above the heights reached earlier this year.

Last week's U.S. CPI report showed ongoing stickiness, with inflation holding well above the Fed's 2% target. As we have noted for some time, U.S. inflation is not going to return to 2% absent a much weaker economy. Most market participants describe the Fed as being hawkish, whereas we have labeled it as "less dovish." This is because the starting point of Fed policy this year was that it had been accommodative for years, rather than restrictive as it, and bond bulls, had believed.

Conclusion

Oversold bond markets are finally starting to stabilize, mostly because of cracks in AI plays. Bond yields could consolidate for a period of time. However, any bond market reprieve should prove temporary, partly because a cap on yields reduces downside economic risks. Global growth has been firming, and inflation remains elevated and sticky.

Source: Bloomberg as of 10/16/26

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International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	-1.21	12.92
MSCI ACWI EX U.S.	-1.72	11.46
MSCI EAFE	0.16	8.86
MSCI EM	-5.91	16.40

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.85	-1.65
Bloomberg U.S. Corp. High Yield	-0.07	0.27
Bloomberg U.S. Gov/Credit	0.83	-1.67
Bloomberg U.S. T-Bill 1-3 Month	0.03	2.92

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	0.69	8.75
Commodities (DJ)	0.42	35.57
Global listed private equity (Red Rocks)	-0.52	-13.83
Currencies (DB Currency Future Harvest)	-0.11	11.93