

Doll's Deliberations®

Weekly Investment Commentary



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Summary

Stocks rebounded in a volatile week (S&P 500 +1.71%) following the rout two Fridays ago. 3Q25 earnings started strong, led by big banks. Volatility resulted largely from U.S.-China trade rhetoric. Best sectors were communication services (+3.64%) and real estate (+3.46%); biggest laggard was financials (+0.03%).

The High-Risk Bull Market Continues

1. The October Fed Beige Book points to slowing growth as uncertainty continues to weigh on activity.
2. The September ISM Services Index fell to 50.0, missing estimates and signaling broad-based weakness consistent with slowing U.S. growth.
3. The U.S. labor market has cooled significantly since May, with a spike in policy uncertainty and immigration-related activities clearly taking a toll on job creation.
4. The additional uncertainty in the labor market caused by the government shutdown and the absence of labor reports increases the likelihood of an October Fed cut.
5. In last week's speech, Fed Chair Powell observed that the Fed is navigating the "tension between our employment and inflation goals, with 'no risk-free path' forward."
6. The minutes from the September FOMC meeting strengthen our conviction that the market's forward rate expectations are overly dovish.
7. The September bankruptcies of auto parts supplier First Brands and car dealership Tricolor remain isolated events for now, but if additional more widespread credit problems emerge, banks are likely to tighten lending standards, hurting economic growth.
8. We continue to overweight high-quality bonds (e.g., Treasuries) and believe credit spreads have been too tight to warrant holding significant positions in corporate and high yield bonds.
9. It is possible (maybe likely) that bulls have too much faith in healthy households' ability to carry the overall economy.
10. The CPI experienced by low-income households is likely higher than overall CPI, which is likely pressuring their spending lower to maintain liquidity.
11. Many studies show that the private sector is healthy, and the government sector is radically unhealthy.
12. It has been 16 years since the last true U.S. recession ended in 2009 (not counting the self-imposed pause due to the COVID pandemic).
13. The consensus earnings growth rate for Q3 has increased from 8.0% to 8.8% since July 1, marking the fifth time since 2003 that growth estimates have been revised higher heading into earnings season.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	1.56	10.03
S&P 500	1.71	14.47
NASDAQ	2.14	18.05
Russell 1000	1.19	13.63
Russell 1000 Growth	1.70	16.91
Russell 1000 Value	1.70	11.21
Russell 2000	3.03	11.80

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	3.64	24.84
Consumer discretionary	1.89	2.89
Consumer staples	1.98	5.84
Energy	0.97	3.36
Financials	0.03	9.22
Healthcare	0.81	5.58
Industrials	1.19	16.39
Information technology	2.09	22.79
Materials	1.05	7.19
Real estate	3.46	6.05
Utilities	1.53	23.52

14. Earnings sentiment has faded since the last reporting season, driven by weakness outside of the biggest market cap names. If the strong sentiment around earnings can't be maintained, it will be difficult for the major indexes to avoid a period of continued digestion.
15. Analysts raised their Q325 earnings estimates during the quarter. These upgrades, together with a large rally in stocks since the April lows, have set a high bar for positive surprises.
16. Among the important items to watch in Q3 earnings releases are the pace of deregulation (especially for financials), AI capital expenditures, the health of the consumer, and rising electricity costs and power generation. (Source: Strategas)
17. "Last Tuesday was quite the day of trading as the market gapped down to open then proceeded to climb back well into positive territory intraday before puking into the close and finishing the day lower. Things are certainly starting to get interesting as the market is no longer peacefully melting up." – Wolfe Research
18. Last Thursday was the fourth consecutive day with the S&P 500 trading within the prior Friday's range. But, most shorted stocks are up 12.4%, high-volatility names +11.6%, gold +6.2%, biotech +4.8%, regional bank stocks lower, and insurance -4.5%. This shows massive churning below the surface. (Source: BTIG)
19. Technology's overweight in the S&P 500 is at a new all-time high (35%). Defensive sector weights are at an all-time low (19%).
20. Over the last six months, one out of every four new ETFs has involved leverage.
21. The rally in gold has been stunning. Gold has surpassed \$4,000, marking a gain of 65% this year alongside gains of over 70% in silver and over 80% in platinum.
22. The Federal Government shutdown continues with no immediate end in sight. Central to a deal is extension of the enhanced ACA-premium tax credits, which otherwise expire at year-end.
23. If tariffs are ruled illegal by the Supreme Court, the White House has a legal backup plan to immediately reimpose the tariffs.
24. The U.S. and China have been operating in a relatively de-escalated environment post-May. Recently, China expanded rare-earth restrictions and imposed port fees in retaliation for additional fees the U.S. imposed on large Chinese vessels.
25. Phase 1 of the White House's Gaza peace plan was agreed to by Hamas and Israel. Negotiations will now begin over the later phases of the administration's 20-point plan.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	1.26	18.43
MSCI ACWI EX U.S.	1.44	28.03
MSCI EAFE	1.65	26.83
MSCI EM	0.98	30.69

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.56	7.34
Bloomberg U.S. Corp High Yield	0.56	7.15
Bloomberg U.S. Gov/Credit	0.55	7.10
Bloomberg U.S. T-Bill 1-3 Month	0.03	3.42

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	2.65	4.09
Commodities (DJ)	1.54	10.61
Global listed private equity (Red Rocks)	1.08	5.35
Currencies (DB Currency Future Harvest)	-0.36	1.22

Conclusion

The U.S./China trade war has again flared up, underlining the still considerable economic uncertainty that is unrelated to monetary and fiscal policies. Easing global monetary conditions are a powerful offsetting force to the increase in economic risks and uncertainty, although this positive influence is already well-recognized and discounted in risk-asset prices. Timing the ultimate price break during a period of high optimism and increasingly frothy conditions in some global asset markets has always been a challenge, and will undoubtedly be so this cycle.

Source: Bloomberg as of Oct. 17, 2025

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