

Doll's Deliberations®

Weekly Investment Commentary



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Summary

Stocks advanced again last week (S&P 500 +1.93%), as all four major averages made new all-time highs. The path of least resistance is still to the upside on Fed easing expectations, favorable inflation data, double-digit earnings growth, additional speculation, and some less negative U.S.-China trade commentary. Best sectors were technology (+2.75%), energy (+2.38%), and industrials (+2.10%); negative performance came from consumer staples (-0.50%) and utilities (-0.19%).

The High-Risk Bull Market Continues

1. Headline CPI came in below consensus estimates, rising 0.3% in September following a 0.4% increase in August. Housing rental inflation continues to cool. Weakness in services inflation is important because service-sector inflation tends to be sticky.
2. The credit problems of a couple weeks ago and Jamie Dimon's "cockroach warnings," appear idiosyncratic so far, consistent with the message from bank earnings that consumer spending remains solid, and delinquencies are stable at worst.
3. The absence of U.S. public economic data releases due to the government shutdown will keep Fed policy on the dovish side. (Recent private macro surveys indicate that economic momentum remains solid, but the signals on the labor market have been mixed.)
4. U.S. companies should continue to deliver good earnings growth supported by a robust AI investment cycle, ongoing deficit spending, and a still-resilient consumer.
5. For 3Q25 earnings season, more sectors are expected to beat their quarterly estimates on the sales front than on the earnings front. This suggests that costs may be starting to rise, so profit margins need to be watched carefully.
6. Some speculation is creeping in. Retail investors are becoming a larger percentage of overall equity trading volume, while call option volumes have hit new records.
7. One possible solution to end the government shutdown is to agree to extend the enhanced Obamacare until after the midterms. (Democrats would get their subsidies, while Republicans would not hike healthcare insurance premiums on voters before the midterms.)
8. The immigration reversal is meaningful because in the last 10 years, immigrants have accounted for well over half of the U.S. population and labor force growth.
9. Democrats are the favorites to win the House, and Republicans are the favorites to retain control of the Senate in next year's mid-term elections.
10. China's economy is struggling with excessive debt, deflation, excess capacity, and a rapidly aging population.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	2.24	12.49
S&P 500	1.93	16.68
NASDAQ	2.31	20.78
Russell 1000	1.16	15.52
Russell 1000 Growth	2.10	19.36
Russell 1000 Value	1.70	13.11
Russell 2000	1.25	12.52

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	1.01	26.10
Consumer discretionary	1.95	4.89
Consumer staples	-0.50	5.31
Energy	2.38	5.82
Financials	1.79	11.18
Healthcare	1.93	7.61
Industrials	2.10	18.83
Information technology	2.75	26.17
Materials	0.58	7.81
Real estate	1.44	7.58
Utilities	-0.19	23.29

The environment remains supportive despite occasional air pockets

Global financial markets have recently been buffeted by political and geopolitical forces that have generated some volatility, but with little influence on underlying trends. The general macro backdrop remains positive in terms of good-to-improving global economic activity and ongoing accommodative monetary conditions. The challenge is that risk-asset prices have already discounted a lot of good news and conditions are overbought in most markets, making it more difficult for prices to sustain further upside. In addition, there is considerable vulnerability to any negative news in asset markets that have large air pockets under prices.

Equally important over the medium term, developed-market government bond markets have not discounted ongoing sticky inflation and rising odds of firmer inflation in 2026 in the U.S., Japan, and sizable parts of Europe. The implication is that DM bond markets may again riot at some point down the road. However, for now, bond markets have been calm, which implies that the risk-on environment should survive the current bout of turbulence. The ongoing U.S. government shutdown has meant there has been a dearth of fresh U.S. economic data to help guide the Fed. The shutdown is, on the margin, an economic headwind, even if only minor and temporary. Thus, the Fed is likely to maintain its dovish mindset and downplay inflation risks for at least the next several months.

Additional economic insurance will arrive next week with the Fed set to cut its policy rate and likely signal further cuts ahead. The Treasury market has been trading off Fed policy, rather than focusing on economic and inflation trends, which has kept the benchmark 10-year Treasury well-bid. The implication is that unless some fresh anti-growth policy/political action is taken, the global economic expansion will continue and support equity and credit markets. We remain mildly pro-growth in terms of positioning, albeit conservative in terms of avoiding the most inflated asset markets/sectors.

Asset markets with large air pockets are always at great risk of sudden and sharp setbacks, especially those that cannot be easily valued or have huge growth expectations discounted in prices (e.g., gold and other precious metals). The drop in gold and bitcoin prices has had little contagion on other markets. Credit markets in particular have held up well despite some worrying headlines regarding private debt and related investments. There have been a few high-profile U.S. bankruptcies, which have created fears that another round of banking problems looms. Those concerns have eased a bit in the past few days as the evidence has pointed to isolated/idiosyncratic causes, rather than broad-based credit problems. The U.S. banking sector is still in healthy shape, although credit conditions in non-bank financials is more difficult to gauge and likely where future problems could develop (e.g., private credit). So far, high-yield corporate bond spreads (and investment grade spreads) have barely risen and are still historically tight, which is consistent with low defaults.

Conclusion

Despite recent turbulence, the overall macro backdrop remains supportive of equity and credit markets. Remain mildly pro-growth in terms of positioning. Nevertheless, as has recently become evident in markets with huge air pockets (gold and bitcoin), investors should be cautious toward those asset markets with unsustainably elevated growth expectations. The inflation backdrop remains a concern. Regardless, the Fed et al. are keen to maintain, or even further boost, accommodative monetary conditions.

Source: Bloomberg as of Oct. 24, 2025

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International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	1.14	19.73
MSCI ACWI EX U.S.	1.12	28.09
MSCI EAFE	0.98	26.85
MSCI EM	1.46	30.93

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.08	7.31
Bloomberg U.S. Corp High Yield	0.20	7.27
Bloomberg U.S. Gov/Credit	0.10	7.07
Bloomberg U.S. T-Bill 1-3 Month	0.05	3.50

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	0.71	5.55
Commodities (DJ)	1.74	12.54
Global listed private equity (Red Rocks)	1.75	5.93
Currencies (DB Currency Future Harvest)	0.46	1.69