

Doll's Deliberations®

Weekly Investment Commentary



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Summary

Large cap indexes advanced yet again (S&P 500 +0.72%), but small cap stocks lagged. The two significant items for the week were 1) generally positive big tech earnings, and 2) the Fed meeting featuring an expected 25-basis-point (bp) cut, the end of quantitative tightening (Dec. 1), and a warning that another cut in December may not happen. Best sectors were technology (+2.99%) and consumer discretionary (+2.77%); biggest laggards were real estate (-3.89%), materials (-3.72%), and consumer staples (-3.63%).

Key takeaways

- As expected, the Federal Reserve cut rates by 25 basis points (bps). Also, as forecast, it announced its QT program would end on Dec. 1. Fed Chair Powell commented that another rate cut in December is not a foregone conclusion. Markets are now pricing in a little more than 50% chance of a December cut, down from nearly 100%.
- Both U.S. core and headline CPI inflation remain around 3%, well above the Fed's target. Further Fed rate cuts will ultimately be challenged by the higher-than-expected inflation environment.
- Reporting season is off to a strong start. 80+% of S&P 500 companies are beating consensus on EPS, while 85% are beating on sales. (Both stats are up slightly relative to final levels for 2Q25.)
- The U.S. and China appear to be moving toward a trade deal, though it remains unclear whether the goal is simply damage control or a genuine expansion of market access.
- We believe the Supreme Court is deciding on HOW to impose tariffs, not WHETHER.
- The percentage of S&P 500 components that are making new 52-week lows climbed to the highest level since April despite the market being down less than a percent from the highs. This divergence highlights the deteriorating breadth and mounting internal weakness.
- Parts of the market have gone parabolic, pushing many metrics to historical extremes. The rubber band appears to be stretched to such an extent that a downside reversion is more likely than usual.
- The cheapest quintile of stocks (price/sales) have appreciated 28% since April's so-called Liberation Day. The most expensive quintile has increased 97%!
- The quality common factor has jumped by nearly 5% in the last week or so. However, that rebound comes on the heels of a 17% drawdown since July, the factor's sharpest decline in recent years.
- The \$65 trillion market cap of the U.S. stock market is \$25 trillion higher than it was at the end of 2022. That growth in market cap is higher than the total of Japan, all of Europe, and the UK – combined!!

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	0.75	13.34
S&P 500	0.72	17.52
NASDAQ	2.25	23.50
Russell 1000	0.23	16.66
Russell 1000 Growth	1.79	21.50
Russell 1000 Value	-0.85	12.15
Russell 2000	-1.89	11.77

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	0.57	26.82
Consumer discretionary	2.77	7.80
Consumer staples	-3.63	1.48
Energy	0.01	5.83
Financials	-1.46	9.55
Healthcare	-1.23	6.29
Industrials	0.09	18.94
Information technology	2.99	29.93
Materials	-3.72	3.80
Real estate	-3.89	3.40
Utilities	-2.53	20.17

The Stimulus Party Continues

Developed market central banks continue to provide additional monetary stimulus, whether or not it is warranted, with both the Fed and BoC cutting rates last week. (The ECB made no change and is likely finished cutting rates as euro area monetary conditions are already quite accommodative.)

Although new hiring in the U.S. has slowed considerably this year, this has not been due to weak final demand or profit downturn; rather, companies have put new hiring on hold due to the abrupt collapse in immigration and considerable uncertainty on several fronts (trade, the government shutdown, and overall heightened non-monetary policy uncertainty). While we expect inflation to return as a thorn in the side of the Fed in the year ahead, for now the asset-price inflation party will roll on. The Fed has been cutting rates against the backdrop of very accommodative financial conditions and rising earnings expectations, which is favorable for equity and credit markets. While signs of exuberance and complacency abound, risk-on will persist in the near run. Absent some exogenous shock, it will take a sustained rise in bond yields and/or a policy mistake to trigger the next meaningful risk-off phase.

The Fed still believes that the U.S. economy's nominal potential growth rate is just under 4%, which we also view as too low. Nominal growth has consistently outpaced 4% since the economy reopened earlier this decade and is on track to do so again next year, both because real growth has been above potential and because inflation has been well above 2%. The aggressive frontrunning of Fed rate cuts is ultimately self-undermining, as it provides additional economic stimulus. The bond market will eventually capitulate if inflation (and nominal growth) does not return to the low levels that are currently discounted. Therefore, we believe rate-cut expectations for 2026 will eventually unwind somewhat, which will coincide with a firming in Treasury yields.

EM equities have recently had a good run despite all the stock market headlines touting the allure and performance of the U.S. Mag 7 stocks. EM stocks are up nicely in absolute terms, and the relative performance versus global peers also shows a solid gain so far in 2025. (The same outperformance is underway for a basket of EM currencies.)

Conclusion

The asset-price inflation party will roll on, given that monetary conditions have become even more accommodative, and corporate earnings prospects remain positive. Risk indicators remain calm, underscoring that recent credit woes seem idiosyncratic rather than systemic. Speculative activities need to be monitored.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	0.39	20.96
MSCI ACWI EX U.S.	0.34	29.01
MSCI EAFE	-0.25	26.87
MSCI EM	1.61	33.82

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-0.49	6.88
Bloomberg U.S. Corp High Yield	-0.02	7.45
Bloomberg U.S. Gov/Credit	-0.50	6.61
Bloomberg U.S. T-Bill 1-3 Month	0.05	3.59

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-3.43	2.27
Commodities (DJ)	0.00	12.54
Global listed private equity (Red Rocks)	-1.81	5.00
Currencies (DB Currency Future Harvest)	0.37	2.07

Source: Bloomberg as of Oct. 31, 2025

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