

Doll's Deliberations®

Weekly Investment Commentary



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Summary

After three straight weeks of gains, stocks fell last week (S&P 500 -1.61%). Breadth concerns remain, although improvement occurred toward the end of the week. Big tech capital spending and a weakening job market impacted sentiment. Best sectors were energy (+1.58%) and healthcare (+1.33%); worst sectors were technology (-4.24%), communication services (-1.74%), and consumer discretionary (-1.54%).

Key takeaways

1. We see the odds of a U.S. soft patch in 4Q25 continuing to increase (e.g., jobs hard to get, flat home sales, the government shutdown, tepid growth in the Fed's Beige Book.)
2. With the labor market softening in some areas, the futures market is pricing in a nearly 70% chance of another Fed cut in December.
3. Third-quarter earnings growth is coming in at nearly +14%, making the fourth consecutive quarter of double-digit earnings growth.
4. The recently passed U.S. tax bill (OB3) should provide a boost to corporate capex, and general growth in 2026. Deregulation should also support activity.
5. The recent failures, including Tricolor Holdings and First Brands, do not appear to be early signs of mounting credit strains in the economy. (Credit quality metrics for most U.S. banks strengthened in 3Q25.)
6. The equal-weight version of the S&P 500 underperformed by $\approx 3\%$ between Monday and Wednesday, making the biggest three-day performance gap since 2020.
7. Since 1945, the 25 best January-October years have provided a November/December gain 84% of the time with an average gain of 4.8%.
8. Our base case for the Supreme Court tariff case is that the Supreme Court is deciding HOW Trump can enact tariffs, not WHETHER. (Trump has a full replacement plan that can be enacted immediately if the tariffs are struck down.)
9. Last Tuesday's election, while limited, was a convincing win for the Democrats, which likely portends a difficult mid-term election for the Republicans.
10. Off-year election results are likely to bring an end to the record U.S. government shutdown, as Democrats and Republicans both have incentives to compromise.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-1.21	11.97
S&P 500	-1.61	15.63
NASDAQ	-3.03	19.75
Russell 1000	-1.81	14.96
Russell 1000 Growth	-2.93	17.94
Russell 1000 Value	-0.03	12.11
Russell 2000	-2.43	9.65

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-1.74	24.61
Consumer discretionary	-1.54	6.14
Consumer staples	0.79	2.29
Energy	1.58	7.49
Financials	0.83	10.46
Healthcare	1.33	7.71
Industrials	-1.09	17.64
Information technology	-4.24	24.43
Materials	0.40	4.22
Real estate	0.98	4.42
Utilities	0.71	21.02

Good Earnings Reports Are Being Met With a Yawn at Best

The top-down economic and policy outlook is positive for risk assets relative to “risk-free” assets, although such outcomes are fully discounted. The ongoing global economic expansion is stronger than many expected, supported by accommodative monetary and fiscal policies that have been positive for corporate profits and investor sentiment.

Elevated asset valuations coincide with widespread investor exuberance and complacency. The AI theme is in full-blown extrapolation mode. Elevated equity valuations and tight credit spreads indicate that investors expect an optimistic future for the corporate sector. Until recently, gold, cryptocurrencies, and private credit have been up on buoyant global liquidity. Even bonds have produced solid returns this year, with investors confident that inflation will stay tame and the Fed will reduce interest rates substantially in the year ahead. Capital markets appear priced for perfection. Such conditions cannot last indefinitely.

The issue for investors is whether to position portfolios to take full advantage of the favorable macro backdrop and stick with what has been working or to focus on the increasing, but difficult to time, risks associated with rich asset valuation and late cycle economic conditions. We prefer some diversification at this juncture. We expect the Fed to cut less than markets expect in the year ahead in response to sticky above-target inflation, which could put upward pressure on bond yields.

The absence of U.S. government data complicates the current economic outlook, but recent data signal ongoing growth, albeit with a question mark over net hiring. The global composite PMI is in moderate expansion mode, with services growing solidly and manufacturing having moved into positive territory after three years of weakness. Global 12-month forward earnings are expanding at a solid pace. Expanding global trade is especially noteworthy as it typically coincides with broadening global growth, which, in turn, would add to economic resilience.

There remain concerns about the U.S. economic outlook following the slowdown in payroll growth in recent months and anecdotal signs of stress in U.S. credit markets. There has been a slight shift in investor risk perceptions recently, with U.S. Treasury volatility declining to a four-year low, while U.S. equity volatility has drifted slightly higher in recent months. Investors appear highly confident about the outlook for Fed interest rates and remain unnerved by the poor and deteriorating fiscal outlook and the implications for future Treasury issuance. With U.S. core inflation still meaningfully above the Fed target and an impending change in Fed leadership next May, current bond market complacency is likely to be disrupted.

Both bond and equity bulls are prone to disappointment if the Fed underdelivers, as we expect will be the case. Indeed, the re-rating of equities and credit that has occurred over the past three years has likely run its course, implying lower total return potential over the next six to 12 months.

Conclusion

Global earnings should continue to rise in response to the ongoing global economic expansion, providing support for equity prices. Less positively, the stock price boost from re-rating over the past few years is likely to fade and could even reverse. Both equity and bond returns will be below this year's performance and the risk-reward tradeoff is less appealing than the economic and policy outlooks imply.

Source: Bloomberg as of Nov. 7, 2025

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International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	-1.40	19.39
MSCI ACWI EX U.S.	-0.59	27.81
MSCI EAFE	-0.43	26.07
MSCI EM	-0.54	32.15

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	0.06	6.86
Bloomberg U.S. Corp High Yield	-0.24	7.13
Bloomberg U.S. Gov/Credit	0.03	6.54
Bloomberg U.S. T-Bill 1-3 Month	0.05	3.67

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-0.11	2.39
Commodities (DJ)	0.08	12.63
Global listed private equity (Red Rocks)	-2.14	2.27
Currencies (DB Currency Future Harvest)	0.13	2.20