

Doll's Deliberations®

Weekly Investment Commentary



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Summary

Stocks recorded a mixed week (Dow and S&P 500 [+0.12] were up, while NASDAQ and Russell 2000 fell). The recent selloff was driven by AI concerns, stretched valuations, hawkish Fed commentary, and a data vacuum from the government shutdown. Best sectors were healthcare (+3.90%) and energy (+2.76%); worst sectors were consumer discretionary (-2.72%) and utilities (-1.03%).

Key takeaways

1. The futures market for December Fed rate cut was nearly 100% prior to the last Fed meeting. It is now about 50%. This decline is among the reasons for the recent downturn in equities. (For some time, we have thought just two cuts in the back part of the year, which would be consistent with no cut in December.)
2. The latest ISM Manufacturing PMI shows stabilizing yet still weak growth. The October NFIB Small Business Optimism Index missed estimates, reflecting softer expectations and earnings.
3. The White House announced the October jobs and CPI reports are unlikely to be released due to the government shutdown.
4. Recent signals from the U.S. labor market have been mixed but provide no conclusive evidence showing that the policy-induced labor-market slowdown is intensifying.
5. OBBB provisions should boost the economy in 2026, especially for the consumer.
6. Earnings have been a tailwind for stocks, but returns are constrained by high valuations. Tightening liquidity could be a risk for equities unless the Fed partially reverses direction in favor of more liquidity.
7. The chase to catch benchmarks drove high beta crowding at the fastest pace on record and has been largely funded by a steady unwind in low vol.
8. The tech sector sourced almost two-thirds of the market's return this year, and the majority of the increases in both earnings and capital spending. Tech's free-cash-flow margins have been running around 25%, nearly four times those seen elsewhere. There is clearly a limit to how far this can go!
9. Recent AI concerns have centered on the ability to bring new data centers online at the volume AI providers require.
10. The U.S. dollar has almost completely unwound its oversold condition, suggesting that the technical bounce will soon be over. Further USD strength will now depend on an unlikely improvement in relative growth and interest rate differentials. Meanwhile, the currency still faces longer-term structural challenges. The dollar will likely remain the world reserve currency for many more years and likely decades. No other country has the equal legal and monetary stability as the U.S., despite our problems.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	0.41	12.42
S&P 500	0.12	15.77
NASDAQ	-0.43	19.24
Russell 1000	0.07	15.29
Russell 1000 Growth	-0.09	17.83
Russell 1000 Value	0.13	12.26
Russell 2000	-2.03	8.06

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	-0.80	23.62
Consumer discretionary	-2.72	3.26
Consumer staples	0.64	2.95
Energy	2.76	10.46
Financials	-0.62	9.78
Healthcare	3.90	11.90
Industrials	-0.82	16.68
Information technology	0.54	25.09
Materials	1.03	5.30
Real estate	-0.82	3.56
Utilities	-1.03	19.77

Plentiful Liquidity Remains Despite Reduced Likelihood of December Fed Cut

The re-opening of the U.S. federal government reduces one small source of economic and policy uncertainty. U.S. equities held up during the shutdown (although have taken a noticeable hit once the government reopened), as the key issues of disagreement had little to do with reining in massive fiscal deficits or slowing the rapid rise in public sector debt.

It is unprecedented to witness a more accommodative fiscal policy at a time of easing monetary conditions even as the economic expansion has been chugging along just fine. The U.S. output gap is the most positive in decades, and inflation is both firming and well above the Fed's target. Not surprisingly, such a combination has spurred asset price inflation, which is likely to persist until an economic roadblock develops and/or bond vigilantes return en masse.

There are some early warning signs that this potent combination of policy and economic conditions will eventually end. There has been a steepening at the very long end of developed market yield curves, with 30-year yields rising relative to both 10-year yields and the short end of the curve. Despite being a high yielder within the developed markets and with growth outpacing most of the other major economies in the past year, the dollar has still struggled to rebound much from oversold conditions. U.S. fiscal excesses and the inflation backdrop are on a collision course with the Treasury market and the U.S. dollar, but the catalyst for a problem is still absent.

There have been some tremors in U.S. credit markets (primarily private credit), which have lifted high-yield corporate bond spreads relative to euro area spreads. However, the rise so far is merely a blip from a historical perspective, and both spread levels remain low. The boom in gold prices reflects an environment of excessively accommodative policies at a time when there have also been heightened geopolitical tensions in recent years. Gold recently (finally!) corrected, but the damage was small relative to prior gains and prices are rising again.

Most of the developed world has pro-growth policies. Globally, economic growth momentum is improving, which will sustain the corporate profit upcycle. This, in turn, will sustain a high level of risk-taking, despite a barrage of press headlines warning of sentiment and valuation extremes in a number of markets and sectors. A Goldilocks world is not only already discounted, but it also cannot last indefinitely. The repeated resilience of economies and asset markets to shocks this decade has been impressive but has seduced a growing number of investors into extrapolating good times and taking on an ever-greater amount of portfolio risk.

We remain focused on possible developments that could end the party, but so far, the threats have either been too small or reversed before turning critical.

Conclusion

Sticky inflation and an eventual demand for greater inflation compensation will likely be the macro forces that end the cycle, unless some significant non-monetary/non-fiscal policy "mistake" first occurs. Neither threat (inflation or a policy mistake) appears imminent.

Source: Bloomberg as of Nov. 14, 2025

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International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	0.91	20.41
MSCI ACWI EX U.S.	2.49	30.42
MSCI EAFE	2.83	29.20
MSCI EM	2.05	33.70

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-0.08	6.74
Bloomberg U.S. Corp High Yield	0.11	7.19
Bloomberg U.S. Gov/Credit	-0.06	6.42
Bloomberg U.S. T-Bill 1-3 Month	0.03	3.74

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-1.15	2.76
Commodities (DJ)	1.74	14.59
Global listed private equity (Red Rocks)	-0.10	2.32
Currencies (DB Currency Future Harvest)	-0.17	2.03