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Doll's Deliberations®

Weekly Investment Commentary

Bob Doll, CFA
PM/CIO/CEO

Summary

Despite a strong rally on Friday, a very volatile week ended with all averages lower (S&P 500 -1.91%). Key for the week was a momentum sell-off, AI scrutiny/skepticism, as well as some credit spread-widening. Advancing sectors included communication services (+3.04%) and consumer staples (+0.84%); biggest decliners were technology (-4.69%), consumer discretionary (-3.25%), and energy (-2.77%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	-1.85	10.35
S&P 500	-1.91	13.56
NASDAQ	-2.71	16.01
Russell 1000	-2.91	11.86
Russell 1000 Growth	-2.85	14.47
Russell 1000 Value	-0.81	11.35
Russell 2000	-3.46	4.57

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	3.04	27.38
Consumer discretionary	-3.25	-0.10
Consumer staples	0.84	3.81
Energy	-2.77	7.40
Financials	-1.49	8.14
Healthcare	1.85	13.97
Industrials	-1.61	14.80
Information technology	-4.69	19.22
Materials	-0.64	4.62
Real estate	-0.04	3.52
Utilities	-0.72	18.90

Key takeaways

1. Two bellwethers – NVIDIA and Walmart – reported better-than-expected earnings, and the jobs report was stronger than expected – BUT stocks sagged.
2. The idea that Fed cuts are coming has been one of the important pillars of the bull thesis on stocks, and so it's not surprising that the stock market has stumbled as Fed-cut optimism has been dialed down.
3. In the short run, the stock market is correcting because of uncertainty over whether the Fed will cut rates in December, how much it will cut next year, and whether labor demand is decelerating faster than expected, as well as overbuying in tech, crypto, gold, and other assets.
4. Also weighing on the stock market is widespread uncertainty about the magnitude and impact of AI-infrastructure spending.
5. Fed fund futures probability for a December 25-basis-point (bp) cut was nearly 100% prior to the last Fed meeting, fell to about 60% after Fed Chair Powell's presser, fell further to the mid-30s mid-week last week, and was 70% on Friday, underscoring that no one knows.
6. At its low last week, the S&P 500 was down nearly 7% and NASDAQ nearly 10% from their all-time highs in late October.
7. As of last Thursday, the median decline for stocks was 19%. A normal decline in a correction is 25-30%.
8. Best sector for 3Q earnings was technology +28%, followed closely by financials at +25%.
9. While earnings revisions remain positive, there is a noticeable deceleration in the rate of upward EPS estimate revisions since the summer.
10. Affordability has emerged as a key political challenge for the Trump administration. The core problem is the price level itself (the elevated cost of necessities continues to squeeze households).

Fed-Cut Uncertainty Weighs on Risk Assets (Especially High-Flyers)

The Q325 U.S. earnings season is almost complete, and the results were much better than was anticipated by analysts. In fact, the results were even better than was envisioned at the start of the year before the tariff war erupted and considerable economic uncertainty took hold. This good news is consistent with durable U.S. and global economic expansion, rather than a world sliding toward recession. BUT, equity and credit markets have already delivered stellar returns, aided by an expansion in valuations, and have discounted the good news.

November has not been so kind to bulls, with many high-flyers correcting and a notable increase in volatility. The catalyst for the setback has been the decline in the probability that the Fed lowers rates again in December. An optimist will claim that such a shakeout is natural, even healthy, given that sentiment had become too frothy and technical conditions were overbought. A bear will say that this is only the opening act in the next bear market. We find ourselves partly in both camps, but do not expect significant gains in the year ahead. In fact, we anticipate a progressively more difficult investment environment even if the macro backdrop is upbeat.

The global economic expansion should roll on, which will solidify above-target inflation. In addition, while monetary and fiscal policies are likely to remain accommodative, at some point, bond markets and P/E multiples will not be so enamored when worries about inflation return at a time of deteriorating government finances. The Goldilocks backdrop of positive profit growth and easy policies will not last indefinitely. There will be occasional setbacks in equities, but not yet a lasting bear market. The profit backdrop is expected to remain supportive, and policymakers seem keen to respond to any economic and/or financial threats. However, the risks will continue to gradually increase over time since pro-growth policies at this juncture are also pro-inflation.

International equity markets (Index total return %)	**Last week**	**Year-to-date**
MSCI ACWI	-2.68	16.64
MSCI ACWI EX U.S.	-2.24	25.96
MSCI EAFE	-2.96	23.95
MSCI EM	-1.00	30.10

Fixed income markets (Index total return %)	**Last week**	**Year-to-date**
Bloomberg U.S. Aggregate Bond	0.26	6.85
Bloomberg U.S. Corp High Yield	-0.03	7.10
Bloomberg U.S. Gov/Credit	0.30	6.57
Bloomberg U.S. T-Bill 1-3 Month	0.04	3.82

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	-1.39	1.61
Commodities (DJ)	-1.37	13.02
Global listed private equity (Red Rocks)	-3.05	-1.24
Currencies (DB Currency Future Harvest)	0.73	2.77

Credit market trends often lead equities, which is why it is prudent to monitor whether credit spreads are consistent with a resilient/strong equity market or are warning of trouble ahead. High-yield corporate bond spreads are, so far, remarkably calm in the euro area and only up modestly in the U.S. The U.S. has been the source of high-profile problems of late (e.g., private credit) as well as mounting worries about the insatiable credit demand for AI infrastructure. Bond bears argue that the divergence between the long end of the yield curve and policy rates is forecasting higher yields across the curve. The inability of government bond yields to decline noticeably whenever equities drop at a time of dovish central banks is both unusual and a warning.

The recent solid relative performance of non-U.S. markets has occurred even as the U.S. dollar has bounced, underscoring that the rise has not been FX-driven. Relative economic growth and corporate earnings prospects are improving and have favored non-U.S. markets, including EM.

Conclusion

The extrapolation of ever-higher U.S. profit margins is unsustainable, as are growth expectations in many high-flyers. Thus, we expect the “everything rallies” backdrop to evolve into a more discriminating environment, which may have started last week. Bond markets and equity valuations will eventually demand greater inflation compensation.

Source: Bloomberg as of Nov. 21, 2025