

Doll's Deliberations®

Weekly Investment Commentary



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Summary

Stocks were higher last week (S&P 500 +0.35%), posting modest gains as odds for a Dec. 10 FOMC rate cut moved up to approximately 90%. Best sectors were energy (+1.44%) and technology (+1.38%); worst sectors were utilities (-4.48%) and healthcare (-2.72%).

Key takeaways

1. The Beige Book indicates that the risk of rising unemployment is greater than that of higher inflation, raising the likelihood of a Fed December cut.
2. The Fed's balance sheet stood at a mere \$900 billion in 2009 and now stands at \$6 trillion. Decisions over the Fed's balance sheet may be as or more important than whether or not the Fed cuts by 25 basis points (bps) on Dec. 10.
3. Reports indicate that current White House National Economic Council Director Kevin Hassett is the frontrunner to succeed Chair Powell. Commentary has been negative, given concerns that appointing a close Trump ally could undermine Fed independence.
4. Consumer confidence deteriorated sharply in November, as the government shutdown weighed heavily on sentiment. The share of consumers expecting their incomes to rise over the next six months fell to its lowest level since February 2023.
5. With layoff announcements creeping higher and consumers grappling with affordability, it comes as no surprise to see depressed consumer confidence readings.
6. Although delayed, the September PPI report and the core PCE came in well-contained, reinforcing limited inflation pressures.
7. There was a legitimate soft patch in 4Q (government shutdown, credit "cockroaches," labor uncertainties). Now there's a package of data looking up ("One Big Beautiful Bill Act," raised odds of a Fed cut, weekly initial jobless claims remaining low).
8. Tariff revenues (and tariff rates) are settling in at levels noticeably below President Trump's original intentions.
9. After the pullback in technology stocks in November, the sector has actually seen no multiple expansion this year.
10. In 1992, the highest-income 10% of families earned 38% of all pre-tax income and accounted for 52% of the net worth of all families. Thirty years later in 2022, these numbers have grown to 51% and 61%.

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	0.62	14.58
S&P 500	0.35	18.22
NASDAQ	0.93	22.84
Russell 1000	0.17	17.56
Russell 1000 Growth	0.45	19.84
Russell 1000 Value	0.26	15.43
Russell 2000	1.26	14.89

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	0.81	35.96
Consumer discretionary	0.88	6.14
Consumer staples	-1.25	4.25
Energy	1.44	10.02
Financials	0.70	12.37
Healthcare	-2.72	13.02
Industrials	0.60	18.63
Information technology	1.38	26.08
Materials	-1.37	6.65
Real estate	-1.48	3.88
Utilities	-4.48	16.81

Generally Favorable Fundamentals, But Prices Reflect That

While our macro outlook is constructive for risk assets, rich valuations and late-cycle economic conditions skew the risk-reward trade-off less favorably than would otherwise be the case. The most likely scenario is that risk assets and equities in aggregate will deliver moderate total returns in 2026, but we do not rule out the threat of a broad-based major correction. Regardless, we expect higher-than-average capital market volatility to result in a challenging year ahead for investors.

Investors are also likely to be disappointed by the Fed in 2026, which will be unable to validate investor expectations of aggressive interest rate cuts next year, with inflation poised to remain above target in response to sturdy U.S. economic growth. An unwinding of Fed rate-cut expectations will put upward pressure on bond yields, which should have adverse spillover effects on risk-asset pricing.

There is a good chance that financial conditions will tighten over the course of 2026, despite a Fed with an inherently dovish bias. Investors are expecting about 80 bps in Fed rate cuts in the year ahead, which is overly aggressive against a backdrop of well-above-target inflation, a positive output gap, and real GDP growth that we expect will be above potential. The ECB has likely completed its easing cycle, while the BoJ will continue to gradually hike rates.

Valuations are not a driver of capital market performance in the short run, but they argue against an aggressive pro-risk investment stance in the year ahead. Stocks are expensive by any conventional measure, corporate credit spreads are tight, and a “buy the dips” mentality is pervasive. A lot of good news is already in the price.

Among the many potential geopolitical risks, the November 2026 U.S. mid-term elections could both influence U.S. policy in the near term and alter the longer-term policy outlook, depending on the outcome. “Go for growth” will remain the current administration’s bias, constrained primarily by sticky inflation. U.S. politics will increasingly matter as the year progresses.

AI will remain a dominant investment theme in the year ahead, despite the inherent uncertainty about its evolution and impact. AI-driven companies have delivered stellar results so far, but asset pricing increasingly reflects extrapolation as much as rational economics. Whatever its long-term merits, AI could easily disappoint highly optimistic investor expectations next year.

Conclusion

The top-down economic growth and policy outlooks are favorable for risk assets but are already mostly discounted. Underlying economic fundamentals are consistent with late-cycle conditions. Prudence dictates keeping a shorter-than-normal leash on risk exposures and a cushion against negative surprises. A shift to defensive posture seems probable over the course of 2026.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	0.51	21.69
MSCI ACWI EX U.S.	1.05	29.89
MSCI EAFE	1.27	29.02
MSCI EM	0.78	30.70

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-0.33	7.11
Bloomberg U.S. Corp High Yield	0.11	8.13
Bloomberg U.S. Gov/Credit	-0.38	6.76
Bloomberg U.S. T-Bill 1-3 Month	0.06	3.99

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	-1.53	3.31
Commodities (DJ)	1.52	17.91
Global listed private equity (Red Rocks)	0.85	4.57
Currencies (DB Currency Future Harvest)	0.11	3.17

Source: Bloomberg as of Dec. 5, 2025

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