Doll's Deliberations

Special Market Commentary

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This is intended to be a brief current market update. (We will comment in more detail and more broadly in an upcoming white paper.)

As you know, from an all-time high scarcely a month ago, the stock market commenced a quick and meaningful decline with the low (so far) recorded last Thursday. At the low, the S&P 500 Index was down more than 10% and the NASDAQ more than 15%. The former leaders, the Magnificent 7, were down nearly 20% with NVIDIA down more than 25% and Tesla more than 40%.

Causes of the decline

1. Uncertainty. Risk assets despise uncertainty. There was (and remains) plenty of uncertainty—tariffs, taxes, inflation, consumer spending, jobs, DOGE, etc. Some of this can be relieved by the administration, but most will take the passing of time.

2. Tariffs. Perhaps the main cause of the uncertainty is the tariffs—Who? What? When? How much? These questions need answers for businesses to properly plan and for markets to settle. (Inherently, we believe that in the short run, tariffs are not market-friendly as they are viewed as a tax and are inflationary. Longer term, there could be positives.)

3. Overvaluation. If you regularly read our weekly Doll's Deliberations or digested our 10 Predictions, you know we have been waving a red flag on valuations for some time. We also acknowledged that valuation is a very poor short-term timing tool and that markets need a catalyst for valuations to matter. Numbers 1 and 2 above were the catalysts.

What's next?

Last Friday's market action was impressive—not just the magnitude, but also the technical internals (advances versus declines, upside versus downside volume, etc.). We said in our weekly market commentary that "A vicious rally (3-5%) is likely given the oversold conditions, but equally likely is a re-test of the lows." That is still our view. It will take time for the market to "heal" and time to reduce the uncertainty levels. We will likely witness rallies and subsequent pull-backs. Most likely, earnings estimates will have to be cut to reflect the slowing economy. Of note, lately economists have been lowering their growth forecasts while simultaneously raising their inflation estimates—not a good combination. In fact, we would say that resolving some of the uncertainty is critical to avoid further economic slowdown and a recession. In sum, after two years of approximately 25% gains in the stock market, 2025 is already proving to be a much tougher year.