Weekly Commentary with Professor Jeremy J. Siegel

Fed Policy Implications Amid Seasonal Trends

Monday, 6/24/2024

Recent economic data slightly underperformed expectations, though nothing dramatically concerning. Jobless claims dipped just below the 240K level, which is something to watch closely. Claims above this threshold have historically been indicative of labor market weakness, which could influence Federal Reserve (Fed) policies.

Interestingly, similar trends occurred last year during this period, suggesting a possible issue with seasonal adjustments rather than fundamental economic weaknesses. Additionally, changes in state policies regarding jobless claims might be artificially inflating these numbers, so the real situation could be less concerning than the raw report implies.

On a brighter note, recent manufacturing data and S&P Global's preliminary Purchasing Managers' Index (PMI) numbers were encouraging and indicative of underlying strength in the U.S. economy. This offset concerns raised by the weaker sectors, such as housing, where both starts and sentiment were soft. This of course is impacted by high mortgage rates, which continue to hover above 7%.

In the stock market, tech sectors, especially companies like Nvidia, have dominated the headlines and relative performance. There was a one-day reversal in Nvidia last week and we experienced a similar pattern in March before it catapulted to new highs. It would not surprise me to see a similar setup occur again—these one-day reversals are rarely the final top.

As we approach further economic reports and the next Fed meeting, all eyes will be on any new data that can guide interest rate expectations. My hope is that softer housing and rental market prices will be reflected in future inflation indices, potentially giving the Fed room to adjust rates downwards by year end.

The upcoming presidential debate this week could also play a crucial role in shaping market sentiment. A major gaffe by one of the candidates could alter the trajectory. A recent poll showed a close race between Biden and Trump.

From an economic perspective, one might argue that Trump's policies—characterized by lower business taxes and reduced regulation—could be more favorable for the stock market. However, his approach brings a degree of unpredictability, which can be a double-edged sword for investors. On the other hand, while Biden might imply a shift towards higher taxes and increased regulation, his policy approach promises more stability and predictability. I'll give my assessment of the debate in the next commentary.

Glossary

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States.

Inflation: Characterized by rising price levels. Core inflation excludes the impact of food and energy. Headline inflation is a measure of the total inflation in an economy, including the prices of food, energy, and other wholesale products that households use daily.

Purchasing Managers Index (PMI): Compiled by S&P Global for more than 40 economies worldwide, the dataset indicates the overall health of an economy, and sub-indices, which provide insights into other key economic drivers such as GDP, inflation, exports, capacity utilization, employment, and inventories.