Weekly Commentary with Professor Jeremy J. Siegel

Continue to Make the Trend Your Friend

Monday, 4/1/2024

The first quarter for the equity markets finished very strongly and our big picture view remains the same—continue to make the trend your friend.

The Personal Consumption Expenditure (PCE) inflation numbers came out on expectations with no real surprises. There was much hype about the report, but once the Consumer Price Index (CPI) and the Producer Price Index (PPI) data come out, there's usually not more than a 1/10 of a percent surprise on the PCE, and last week was even closer. The equity and bond markets were closed on Friday, so we didn't see an immediate reaction. But I did notice that the U.S. dollar dipped a bit, which is consistent with a good reaction from the report.

What was a little surprising was the strong number for real personal spending, up 0.8% versus the 0.5% expectation despite personal income coming in slightly weaker. I think this combo gave the first quarter gross domestic product (GDP) a slight boost, which makes it between 2% and 2.5%.

Other data that caught my eye this week included an actual decline in the monthly FHFA Housing Price Index—the first decline in more than a year. This does not indicate that the housing market is falling apart, rather it indicates that home sale prices are responding to the 30-year mortgage rate being over 7%; it should eventually put a lid on shelter prices.

The University of Michigan's one-year inflation expectation numbers dropped from 3.1% to 2.9%, and the five-year dropped to 2.8%. Inflation expectations are still very much under control.

We've seen some weak manufacturing data from the regional surveys. Chicago, which always comes out on the last business day of the month, came in at 41 (expected was 46) and we had a very weak Philly report. But those reports have been very volatile recently and weak reports do not change the picture of the economy trucking along at a rate of 2 - 2.5%.

What has not been volatile has been the amazingly stable jobless claims. We've had four weeks of little change from 210k—as you know, we like the sweet spot of 200-240k. I don't remember the last time claims have been this stable. Claims are usually so volatile that economists used three-week moving averages instead of the jumpy weekly data; but no need for that recently.

Commodity prices have broken out of the downturn that we experienced the past year, but have not soared, except for cocoa.

For stocks, it was another record week and we saw a nice broadening of the market into the value sectors. This week, we're going to see if that shift was end-of-quarter positioning or not. I see nothing breaking the upward trend in equities and I hope it broadens out. Tech's momentum has withered a bit, but I don't believe this sector has seen its highs.

One of the interesting things we are researching is the behavior of the M2 money supply. Money supply came in last week mostly flat but all the components I follow are up strongly. We're trying to understand why the overall M2, for which the Fed is reporting much less information than they used to, is so flat when so many components, like money market mutual funds, deposits, and other factors are rising. It may have to do with the reverse repurchase agreement (repo) market and we're looking into perhaps constructing our own version of an M2 that is more valid to current spending. Stayed tuned. Next week we'll analyze the all-important March employment report.

Glossary

Commodity: A raw material or primary agricultural product that can be bought and sold.

Consumer Price Index (CPI): A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living. Core CPI excludes food and energy costs.

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

FHFA Housing Price Index: The nation's only collection of public, freely available house price indexes that measure the movement of single-family house prices.

Gross domestic product (GDP): The sum total of all goods and services produced across an economy.

M2 money supply: Contains all funds deposited in checking accounts as well as funds deposited in savings accounts and certificates of deposit. There are various ways to measure the money supply of an economy. This one is meant to broadly account for the majority of savings and checking accounts held by individuals and businesses across the economic landscape.

Personal Consumption Expenditure (PCE) Price Index: A measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The core PCE Price Index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.

Producer Price Index (PPI): A weighted index of prices measured at the wholesale, or producer level.

Repurchase agreement (repo): A form of short-term borrowing for dealers in government securities.

Past performance is not indicative of future results. You cannot invest in an index.
Professor Jeremy Siegel is Senior Economist to WisdomTree. This material contains the current research and opinions of Professor Siegel, which are subject to change, and should not be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. The user of this information assumes the entire risk of any use made of the information provided herein. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.