Weekly Commentary with Professor Jeremy J. Siegel

Google’s Dividend Debut Sparks Buzz

Monday, 4/29/2024

In a week that could only be characterized as a rollercoaster for the markets, Thursday brought a wave of concern with the lower-than-expected gross domestic product (GDP) report and higher inflation. The specter of stagflation loomed and pointed to less favorable conditions for equities. However, the details were better: personal domestic demand held strong and consumption and private demand were more robust.

These details promised a better second quarter and indeed most forecasters are looking for upward of 2.5% this quarter. Furthermore, the Personal Consumption Expenditure (PCE) Price Index for March remained steady, alleviating fears of an accelerating inflation trend from earlier in the quarter.

Looking at the broader economic canvas, corporate earnings have continued to show a good “beat rate” indicating corporate America's strength. With first-quarter GDP at only 1.6%, if we get higher GDP this bodes well for corporate earnings.

As we move towards the Federal Reserve (Fed) meeting May 1, the markets are only pricing in a slim chance of rate decreases by year-end. Powell’s story will be the same: we don’t have enough confidence to lower rates. I believe there will be a question from the press corps about whether the Fed is considering raising rates. I don’t think that is or should be on the table, but Powell’s answer to that may be illuminating. The Fed is totally data dependent. It is quite possible with two more inflation prints before the June meeting, that the Fed can get enough information to signal imminent cuts. I’m not ruling out a rate cut at the June meeting.

Attention-grabbing performances from the likes of Microsoft, Google, and Tesla swayed market sentiments back to growth. Interestingly, the anticipated value-growth reversal we witnessed the prior week did not persist, with growth stocks regaining their stride. We also now have five of the Magnificent Seven stocks paying dividends, as Google announced its first ever dividend. The pressure is now on Amazon to join the club of tech giants returning cash to shareholders in addition to investing in artificial intelligence (AI) capabilities.

I should mention that we did get the first significant rise in the M2 money supply print for March last week, a good sign from the economy. Commodity prices have stabilized. Next week we have more housing price data and, of course, the labor market report, which is looking for robust gains. We see no slowdown yet; jobless claims fell to the 310k range last week. But I don’t see signs of overheating now, which is good for equities.

Glossary

Artificial intelligence (AI): A field that combines computer science and robust datasets to enable problem-solving.

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

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

Growth: Style of investing characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

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.

Stagflation: A situation in which the inflation rate is high, the economic growth rate slows.

Value: Style of investing characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the value factor, which associates these stock characteristics with excess returns vs the market over time.