Weekly Commentary with Professor Jeremy J. Siegel

Inflation Tames, Economy Gains: A Resilient Start to 2025

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This past week brought promising news for the markets and the broader economy. Inflation data came in at or below expectations, while economic indicators, including housing starts and retail sales, demonstrated surprising resilience. The outlook for Q4 GDP growth is strong, with estimates ranging between 2.5% and 3%, a testament to the underlying strength of the economy as we transition into 2025.

The inflationary data are softening on official measures, while energy prices are showing firmness due to geopolitical factors and weather conditions but there are few upward pressures on other commodities. The upcoming personal consumption expenditures (PCE) report should reflect this relatively benign inflation backdrop, which has the Fed positioned to pause its cuts at the January meeting. The Fed's next moves, as always, depend on incoming data. If the economy maintains its current trajectory, I expect the Fed will remain on hold through March, with potential rate cuts later in the year contingent on sustained disinflation.

In the bond market, the 10-year bond yields retrenched from 4.80% to 4.60% following the inflation data. I still believe the 10-year yield could surpass 5% in the coming months. The resilience of the equity market, driven by the celebration of lower inflation and the lower yields, has been notable. Growth stocks, particularly the mega-cap technology names, continue to dominate, with no signs yet of a sustained rotation into value sectors. Despite occasional narratives of portfolio shifts, the dominance and trendlines of tech and growth indexes remains intact, bolstered by optimism surrounding artificial intelligence.

President Trump's return to office introduces new uncertainties, particularly around trade policy and fiscal initiatives. His stated intent to continue the 2017 tax cuts and introduce sweeping policy reforms could impact market sentiment, though any major tariff changes or legislative overhauls are likely months away. As we start to see the impact of executive orders from the first few days on Trump’s term, we should prepare for some volatility as these proposals evolve.

The S&P 500 thus far remains resilient, but I maintain my call for a correction this year as bond yields rise further, which could pressure valuations. While elevated forward P/E multiples suggest lower returns in the years ahead, the bifurcation within the market remains clear—strip out the top-performing mega-cap names, and valuations are more reasonable in the broader index. This presents opportunities for less richly priced stocks, sectors, and strategies.

Please see the [WisdomTree Glossary] for definitions of terms and indexes.