Weekly Commentary with Professor Jeremy J. Siegel

Resilience or Recession? Markets on Edge

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Professor Siegel Live on Trump's Tariffs Impact

Professor Jeremy Siegel, WisdomTree's Senior Economist, Jeremy Schwartz, Global Chief Investment Officer, Kevin Flanagan, Head of Fixed Income Strategy, and Samuel Rines, Macro Strategist will examine how evolving tariff policies may influence the market, discuss implications for inflation, and offer perspectives on managing risk during periods of heightened volatility.

Thursday, April 17 | 4:15 PM ET | Register Here

As we write this, stocks have bounced back as Trump retreated from electronic tariffs from China. Nevertheless, this was a remarkable week for markets with Trump's tariff policy taking center stage for market stress across stocks, bonds and currencies.

Equities were buoyed on Friday in part by comments of potential support from a Fed official and hopes that tariff tensions will cool. Still, a sharp rise in bond yields and a notable drop in the dollar signal deeper concerns mounting—not about the functioning of markets, which remain orderly, but about U.S. economic policy and the sustainability of the U.S. exceptionalism narrative.

Bond yields have risen rather dramatically from their lows, with the 10-Year Treasury hitting an eye-popping 4.60% before closing the week around 4.5% (4.42% Monday morning). This hasn't been a "crash" in the traditional sense, but the rise in long rates has two primary causes. First, there are fears the U.S. is losing its grip on its reserve currency status. Foreigners, who hold a third of our $30+ trillion in debt, are understandably skittish. Just the possibility and discussion that China or its allies may offload Treasuries is enough to drive yields higher. Second, the House's approval of the Trump budget, with its aggressive deficit expansion, adds further supply-side pressure on bond markets—and the risk of expanded deficits is compounded if a recession hits.

This dynamic raises an important monetary policy implication. With the yield curve no longer inverted, the case for Fed rate cuts weakens. Still, the Fed may ignore these signals. Inflation data remains favorable, with the latest CPI and PPI readings showing a softening. A sharp 4.5% drop in airline fares was one notable contributor, likely reflecting weakening demand amid rising tariffs and travel constraints. While the Fed has cover to ease, the mixed signals from the bond market complicate the picture.

The dollar's retreat is another key story. Again, this is not a "collapse" given it strengthened following Trump's victory in November. But a weaker dollar is inflationary for American consumers, especially on top of tariffs, but it boosts the dollar-denominated earnings of multinationals. Approximately 40% of S&P 500 revenues come from abroad, and a 3–4% dollar drop materially boosts earnings and is positive for stocks.

The tech sector remains highly vulnerable to the ongoing tariff war. The Magnificent 7, with PEs in the 30s, have taken a hit—and for good reason. Disrupting U.S.-China tech integration jeopardizes both production chains and long-term innovation leadership. China could double down on AI development, threatening U.S. dominance in these key areas. That's why high-dividend, domestic-focused stocks—insulated from trade tensions—continue to show relative strength, and I expect that to persist.

Let me be clear: if tariffs persist at current levels or increase, a recession is likely, and with it, deeper equity declines. The average recession sees stocks fall 25%; we've corrected about 15% so far. But I do not believe these tariffs will hold. Political and market pressure is building. Trump has already blinked once, backing off reciprocal tariffs, and he may do so again under the guise of "negotiated success." The off-ramp exists—and markets are betting on it.

A reminder for the long-term orientation. Even if tariffs stay on for three more years, their net present impact on long-term earnings is relatively small. A 20x PE implies that only 10% of a stock's value comes from earnings over the next two years. Short-term damage—even significant—does not erase long-run returns.

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