Weekly Commentary with Professor Jeremy J. Siegel

Markets Resilient Despite Tariff Turmoil

4/28/2025

The markets rebounded strongly last week, holding ground despite the lingering cloud of uncertainty surrounding tariffs and trade negotiations. Importantly, while tariffs and dollar weakness are stirring short-term concerns, long-term inflation expectations remain firmly anchored, setting a strong case for the Federal Reserve to begin cutting rates.

One of the Fed’s favorite indicators—the 5-year forward inflation rate—is sitting near multi-year lows at 2.3% for CPI, translating to approximately 2% for PCE, exactly at the Fed’s target. Despite political rhetoric around tariffs and inflation, the data tells a clear story: long-term inflation expectations are stable, providing the Fed room to ease without risking a resurgence in inflation. Combined with tepid money supply growth—averaging under 4% compared to a historical norm of 5.5%—there is robust analytical justification for cutting rates.

The recent earnings reports paint a mixed picture but overall suggest resilience. Many CEOs, from airlines to industrials, are managing through uncertainty by adjusting pricing and attempting to diversify their supply chains. The major drag on sentiment remains the uncertainty tariffs inject into forecasting and operations, but the hard data thus far shows no significant weakening yet. Jobless claims remain low, and consumer spending has yet to reflect any real stress.

Manufacturing, often cited in political narratives, continues its long secular decline. Importantly, historical data shows this trend predates globalization and trade deals like NAFTA or China’s WTO entry. Attempts to reverse this through tariffs are misguided; indeed, Europe’s experience shows a very similar trend.

Internationally, companies like Apple are shifting their supply chains to India. Meanwhile, the 10% decline in the dollar is a tailwind for multinational earnings, supporting the S&P 500 even as it acts as a mild headwind for consumers.

Looking ahead, the inverted yield curve persists, with the Fed Funds Rate higher than the 10-Year Treasury. Historically, a healthy yield curve slopes upward by about 100 basis points. To normalize, the Fed would need to bring rates down to roughly 3.3%. In my view, the current data environment justifies two to three 25-basis-point cuts by year-end.

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