Weekly Commentary with Professor Jeremy J. Siegel

Growth Stocks Lead Selloff Amid Trade Fears

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Markets sold off sharply Friday and in the early Monday hours, and I do not believe inflation data was the culprit. The PCE inflation number was not bad enough to justify the equity drop on its own. The real market mover, in my view, is the fear surrounding tariffs—both their scale and the uncertainty around retaliation. That, coupled with a sharp fall in consumer confidence, has chilled market psychology.

Both the Conference Board and University of Michigan reported significant declines in consumer sentiment, which could foreshadow softness in consumption. Confidence numbers are forward-looking indicators, and while claims data remains stable with no signs of widespread layoffs yet, the psychological impact of Trump's tariffs—particularly as they are hyped in media—potentially will curb spending and investment.

We're in a transitional moment. Inflation data, which dominated the economic narrative for two years, will now be less important and discounted by markets. The Federal Reserve already indicated it will look through tariff-induced price increases. Tariffs create confusion: are rising prices a function of policy (tariffs) or demand? That uncertainty weakens the signal from inflation and shifts the market's attention toward broader macro issues like geopolitical risks and trade disruptions.

Equity weakness has been widespread. The rotation out of growth continues, and the AI-led rally that defined the market over the last three years has decisively broken trend. Growth stocks have taken a larger hit than value stocks. However, with the 10-year Treasury yield now back in the low 4% range, dividend-paying value stocks look increasingly attractive, and I expect the market rotation from growth to dividend stocks to continue.

Bitcoin, despite its proponents positioning it as a "diversifier," has proven itself once again to be a high-beta NASDAQ proxy. Its sharp drop alongside tech reinforces the notion that it's not yet a truly independent asset class.

On the policy front, Elon Musk's DOGE team commitment (and claims to be on track) of cutting $1 trillion from government spending are intriguing. While this may prove optimistic, it could meaningfully reshape the fiscal landscape and make room for further tax cuts. However, the political calculus remains tight. Trump's decision to keep Elise Stefanik in Congress rather than appoint her to a UN post underscores just how narrow the margin for passing tax legislation really is. Every vote counts with tax policy hanging in the balance.

Long term, I believe cuts to inefficient government spending are necessary. But I also acknowledge the near-term friction and economic headwinds they introduce. I think the public is more willing to endure that adjustment than face higher prices via tariffs, which bring near-term pain with very uncertain long-term benefit.

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