Weekly Commentary with Professor Jeremy J. Siegel

Economic Data Surprises, While China Tensions Resurface

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The economic narrative took a decisive turn last week. A stunning collapse in the trade deficit suggests we could be looking at near 4% GDP growth in the second quarter—a massive upward revision from the consensus of 2%. This figure is less an economic acceleration than a statistical correction, a payback for what I believe was an underestimation of GDP in the first quarter, likely due to inventory mismeasurement. Even so, the optics of a strong second-quarter GDP will give policymakers and political leaders new fodder for debates.

The inflation picture continues to improve. The PCE deflator came in at or slightly below expectations, adding to the case for easing. Powell knows these numbers well. I agree with President Trump's view that the Fed should be cutting rates, but his political pressure may be counterproductive. The Fed needs to set policy independent of political pressure. Nevertheless, with moderating inflation, the environment is increasingly ripe for rate cuts.

Geopolitical risks continue. New concerns emerged around China's potential failure to honor its recent Geneva commitments, stoking fresh Trump ire. The market pulled back modestly in response on Friday, but not drastically. The market can tolerate tariffs at their current assumed levels, but an escalation would be downside risk for the markets. The judicial and legislative branches will weigh in on tariffs, and the path forward remains murky, with the potential for Supreme Court involvement in determining executive tariff authority. But as always, markets respond more to earnings and growth than to posturing.

In equity markets, NVIDIA's earnings reaffirmed that the AI boom is real and lasting. NVIDIA's reiterated demand remains strong, even as the geopolitical tightrope with China complicates supply chains. AI is not a passing trend—I believe it will be a productivity revolution and is still in its infancy. This will further support margins and profits for smaller capitalization names and companies at large—not just the current AI technology stock winners. The prospect of low valuations with a better regulatory environment and AI boost to earnings presents an interesting longer-term set up.

The debt remains a concern for many, but the AI boost we see coming should also offset these pressures. I believe that long-term real growth offers a sustainable path forward for government debt. Growth of 3% or more would ease many of our fiscal pressures, but the models used in Washington—particularly the CBO's assumptions—fail to account for productivity gains driven by AI and other technological advances. That's a critical oversight.

I remain bullish on equities presuming tariffs remain in the 10% for all, 30% for China, range. Trump has doubled the tariffs on steel and aluminum. If he goes no further, the current upward trend can continue. The market's resilience, despite noise on tariffs, inflation, and politics, tells me that investors see the same economy I do: strong productivity, solid consumer spending, and stabilizing inflation.

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