Weekly Commentary with Professor Jeremy J. Siegel

Prevailing Skepticism Means Rally Has More Room

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Markets notched fresh all-time highs on Friday with a positive tone and geopolitical outlook. Swift retreat in oil back to pre-strike levels, combined with friendlier NATO negotiations and de-escalated fighting in Iran restored risk appetite.

The 10-year Treasury yield slipped to the 4.25%-4.30% range, which again reflects an inverted yield curve with the Fed Funds over 4.3%. This sends another signal that policy is too tight. The downward drift in long rates coincides with signs of slowing growth. Personal-income data cooled, initial jobless claims dipped under 240k, yet continuing claims pushed higher—a sign that firms are holding on to existing workers but hesitating to hire replacements. The increased duration of unemployment suggests AI-driven cost cutting initiatives: companies are hunting facilitators to teach staff how to use the new tech tools rather than expanding payrolls outright.

Housing is feeling the pinch of too-high interest rates. For three straight months both the Case-Shiller and FHFA home-price gauges have undershot expectations. A softer housing component is a durable brake on core inflation and reinforces my view that the Fed should be easing. Yet given Chair Powell's wait-and-see bias, and despite a few likely dissents, I do not expect a move at the July 30 meeting. My base case remains a 25-basis point cut at each of the three meetings that follow, pulling the Fed Funds Rate to roughly 3.50% by early 2026.

Second-quarter GDP could print near 4% thanks to a durable-goods pop but remember Q1 was revised to –0.5%. Averaged together the first half barely clears 2% and that is before the next tranche of tariffs hits consumer goods.

Corporations are coping Nike announced an expected $1 billion tariff hit but still beat estimates in Q2. Skepticism, however, remains on trading desks. The VIX, while off its spike during the Iranian flare-up, remains elevated, and hedgers have yet to capitulate. FOMO could add another 5%-10% to major indexes before earning a reckoning with any tariff earnings hit.

I emphasize again that pockets of the market like small-cap value can be a segment in which AI adoption can drive outsized efficiency gains, even if not directly plays on AI. Internationally, calmer energy markets lighten the load on Europe and Japan, while a modest pickup in Chinese stimulus could support global cyclicals.

Bottom line: declining bond yields, cooling housing, and a slacking labor market give the Fed ample cover to pivot. Until it does, equity momentum can grind higher on squeezed shorts, AI productivity and margin improvements.

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