Weekly Commentary with Professor Jeremy J. Siegel

September Rate Cut Looms as Fed Doves Gain Sway

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The first full week of August offered a concise lesson in how quickly the policy calculus can shift when both politics and data align. Equity markets wobbled after reports that Governor Christopher Waller, not Kevin Warsh, is now the front runner for the next Fed chair.

Yet those headlines pale next to the more durable news: the President's nomination of the current CEA head to fill Adriana Kugler's vacant Board seat adds a third unambiguous dove to the FOMC alongside Waller and Bowman. With the labor report undershooting even the tempered expectations we have seen all summer, the die is effectively cast for a September rate cut. The question is no longer "if," but "by how much"—25 basis points (bps) is the base case, 50 bps entirely plausible if the next two CPI prints cooperate.

Inflation dynamics are finally bending the way textbook monetarists expected once the 2022–23 money supply contraction began to bite. Strip out the tariff effects now working their way through imported goods and year over year core CPI is already brushing 2%. Even including tariffs, breadth has narrowed to the 2½–3% zone, and critically, housing is no longer propping up the index. With both market and private measures showing rents rolling over, I expect services inflation to undershoot goods inflation by December—an inversion the U.S. has rarely witnessed. That turn, plus the political optics of easing into an election year, argues for sequential 25 bps cuts at every meeting through March, taking fed funds to roughly 3%.

The term premium chatter you may have heard is a sideshow. Long bonds trade off growth expectations, and productivity remains the spoiler for recession forecasters. Second quarter output per hour rose at a 2¾% annual clip; marry that to subdued wage growth and you have the foundation for margin resilience. Little wonder the 10-year Treasury has refused to break above 4½% for more than a few sessions. I see that yield settling near 3¾% as the easing cycle unfolds, a path that preserves the equity risk premium even if earnings merely tread water.

Sector positioning remains straightforward. The AI beneficiaries—semis, hyperscale cloud, and the software arms merchants—retain the strongest earnings momentum in the market; the multiple will compress a bit as rates fall, but the growth premium is deserved. Income oriented investors should continue to favor utilities and high-quality REITs: falling real yields are a powerful tail wind once the shelter component turns from foe to friend. Small caps lagged again this week, yet a steeper curve post cut should relieve funding stress and unlock long overdue relative performance there.

Internationally, China's latest targeted stimulus—this time aimed at provincial infrastructure—buys time rather than solves the structural property bust, but it does put a floor under commodity demand into year end. Japan's incremental step away from rigid yield curve control merits watching; it nudged global real yields higher for a day, nothing more. The bottom line for U.S. investors is unchanged: the United States still offers the cleanest institutional story and the biggest productivity surprise.

A quick word on policy mechanics. The trillion dollar line item most taxpayers have never heard of—interest on reserve balances—has finally surfaced in Washington. Senator Cruz's bill to bar interest on excess reserves payments speaks to a frustration I have highlighted for years: the Fed funds "market" ceased being a market once the Board began setting the price administratively. I outline a phased plan to restore genuine trading in my latest piece and will follow with a deeper dive into the Cruz proposal shortly. Eliminate the subsidy, drain excess reserves gradually, and the Fed regains a natural policy lever instead of the current contrivance.

Where does that leave the macro narrative? Money supply growth remains slow, inflation is gliding toward target, and political pressure for looser financial conditions is mounting. Markets sense it, Chair Powell knows it, and—as always—he will avoid surprising traders at Jackson Hole. Expect him to “confirm by omission” that a cut is coming.

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