



Earnings Strength Trumps Tariffs, Supports Rally

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Heading into this week, the markets viewed the trade negotiations with China heading in a very positive direction, confirming the uptrend is on track.

Last week markets welcomed the cooler inflation print, and they should. The detail shows what I've been saying for a long time: BLS shelter inflation numbers are finally catching down to real world data. Private rent gauges have been flat-to-negative year over year, and CPI official shelter—nearly 40% of core CPI—just delivered its slowest rise in five years. That's a fulcrum of disinflation, even if some non-shelter components ran a touch hotter. Translating this to the Fed's preferred PCE means we won't see a big downside surprise at month-end, but the trajectory remains favorable.

With that backdrop, I expect a 25-basis point cut at next week's FOMC and another 25 basis points in December. This meeting won't bring a dot plot, so Chair Powell's tone will do the signaling, but the policy direction is clear. I put the odds north of 90% that we get the December cut as well, and I see room for additional quarter-point reductions in early 2026 if the disinflation trend persists.

The real economy continues to look good—neither overheating nor cracking. Weekly claims reconstructions by the banks point to the mid-220,000s, consistent with stable labor demand, and the S&P Global private-sector readings show no deterioration. Regional surveys are mixed, but that's normal noise.

Importantly, housing isn't falling off a cliff. Builder sentiment ticked up, and while overall activity is subdued, I do not see a recessionary downdraft coming from housing. The main headwind remains regulatory and zoning friction that constrains supply and keeps costs elevated—NIMBYism is still doing its damage. On rates, I told a real-estate audience last week not to anchor on 5% 30-year fixed rate mortgages; I expect the 10-year to stay roughly where it is, within about a quarter-point band, while short rates do the heavy lifting for lower adjustable mortgage rates.

Energy and commodities are not flashing red. Oil ticked up from depressed levels amid new sanctions on certain Russian producers, but on a multi-month basis crude is still lower, and the broader Bloomberg-style commodity basket has been roughly flat over six to nine months. That backdrop limits near-term inflation flare-ups, though I do expect some tariff-related price noise through the holiday season. Historically, such cost pushes fade if money growth and demand are contained, and today's setup looks more like a temporary relative-price shuffle than the start of an inflation resurgence.

Earnings are the market's engine right now, and they're running very strong. Guidance is being maintained or raised, including out into 2026, even among firms that have explicitly tallied tariff costs. AI capex and deal activity remain robust, but the breadth story is improving beyond mega-cap tech. Autos just printed eye-catching results, and we're seeing early signs of value participation. I'm not ready to declare a new regime for value over growth, but the underpinnings are better than they were six months ago. The VIX has eased from last week's 20s but remains elevated enough to tell me positioning is still hedged and skeptical—this is not a blow-off environment. With earnings leadership intact and sentiment far from euphoric, I reiterate my view that the S&P 500 can press toward and over 7,000 as the policy pivot progresses and profits compound.

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