Weekly Commentary with Professor Jeremy J. Siegel

Strait Risk and Yields Pressure Markets

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Given the rise in the 10-year Treasury yield and oil prices, the case for near-term Fed cuts has weakened materially. That is the key message from this market. We are not looking at the kind of inflationary burst that defined the post-pandemic surge, because neither monetary growth nor fiscal expansion is anywhere close to those extremes. But that does not mean the Fed can move to ease. With the 10-year pushing toward 4.50% and potentially 4.60%, the bond market is effectively doing the tightening for them, and that sharply reduces the urgency for any immediate rate cuts.

What has changed is not the core domestic structure of the economy, which still looks reasonably sound, but the external shock coming through energy and geopolitics. The Strait of Hormuz has become the central variable. As long as that remains materially impaired, the market has to price in higher oil, firmer commodity pressure, and a much more cautious Fed. Housing and rent data may still be relatively well behaved, but markets cannot ignore rising energy-related costs, fertilizer pressures, and the broader inflation impulse that can follow from a prolonged supply disruption. That is not a setup for a Fed hike, but it is clearly a setup where cuts become less likely in the short run.

The economy itself is not yet signaling recession. Jobless claims have remained constructive, weekly labor data still look decent, and there is no sign of broad-based layoffs. That matters. It means this is not a classic demand collapse story. It is a risk-premium story, driven by energy, long rates, and uncertainty. Consumer sentiment could soften if gasoline prices rise meaningfully into the driving season, but the recent cycle has shown that weak sentiment does not automatically translate into weak spending. We should watch it, but we should not overstate it.

For equities, caution is warranted over the short-term. As long as the Strait of Hormuz situation remains unresolved, I do not see the basis for a sustained rally. In fact, I think the path of least resistance is still lower. We have already been in correction territory in parts of the market, and further downside is entirely plausible if the energy shock persists for months rather than weeks. That said, I still do not view this as the start of a full-scale U.S. bear market even if the Strait of Hormuz was to stay closed for 2-3 months. The United States remains far more energy resilient than most of the rest of the world, and that distinction matters enormously. A prolonged closure could push the S&P 500 into the mid-teens drawdown zone from its highs, but I would still stop short of assuming a 20% decline in the U.S. absent a broader global escalation.

The rest of the world is more exposed. Foreign markets, especially in Asia and other energy-importing regions, face a much tougher backdrop. Asia is more directly vulnerable to energy dislocation, and in dollar terms those markets can look even weaker if the dollar strengthens alongside risk aversion. If the Strait remains constrained for several months, overseas equity markets could much more easily slip into classic bear-market territory than the United States.

My conclusion: all of these dynamics represent a recalibration of expectations. The rise in the 10-year yield has moved the market away from an easy-cut narrative, and the geopolitical energy shock adds another layer of restraint. The Fed is not about to hike, but it also has much less room to cut than we expected just a short time ago. Until energy markets stabilize and the geopolitical risk premium fades, investors should remain defensive, expect more volatility, and resist the temptation to call for an all-clear too early.

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