Weekly Commentary with Professor Jeremy J. Siegel

Fed Bias Shifts and Earnings Reinforce Bullish Outlook

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The Federal Reserve held rates steady as expected last week, but the real story was the shift in tone inside the Committee. Three dissents in favor of moving to a neutral bias are highly unusual, and I do not recall seeing dissents on a bias in this way before. Powell acknowledged that the Fed is moving toward rate neutrality, and I do not see data that would justify a rate cut in June. In fact, looking across the economy, the next move in rates remains slightly more likely to be up than down.

The Fed Funds futures curve is remarkably flat. The July contract, covering the June meeting, is essentially where the current funds rate stands, and the January contract is only marginally lower. But investors continue to misunderstand what Fed Funds futures signal. They are not unbiased forecasts of future policy. They are negative beta contracts. If the economy weakens sharply, the Fed cuts, those contracts rise in price. That means they are downward-biased estimators of future Fed Funds rates. My estimate is that the bias is about 25 basis points over 12 months. Adjusting for that, the market pricing is effectively implying a rate increase is slightly more likely than a rate cut before year-end.

The economic data reinforce that view. Jobless claims fell to extraordinarily low levels, around 187,000, the lowest in more than 50 years. There may have been seasonal adjustment noise, particularly around New York, and claims may drift back toward 200,000 next week. But the broader message is unmistakable: there are no economy-wide layoffs. There is also no evidence that net AI-related layoffs are showing up in the claims data. Workers may be moving across firms or receiving packages, but they are not filing claims in a way that signals labor-market weakness.

First-quarter GDP came in at 2.0%, below some more optimistic forecasts but still a respectable number. The miss appears to have come largely from the Federal government spending. The private sector was strong. Retail sales were good. Durable goods were good. Housing starts were up, even if permits were a little soft. Across the real economy, I do not see weakness.

The risk is energy. Brent crude oil is around $110 and WTI is around $100, while wholesale gasoline prices point toward retail gasoline in the $4.60 range. That will create headlines, and it will not be politically helpful for the Trump administration. If gasoline moves above $5, there could be a psychological effect on consumers, especially with sentiment already weak. That is the key downside scenario: not a gradual drag, but a discontinuous shift where consumers suddenly decide they need to pull back.

Estimates show that if oil prices remain at these levels for the rest of the year, real consumption and GDP could be depressed by roughly eight-tenths of a percentage point. That is not trivial, but it is not recessionary either. It can be offset by continued strength in AI-related capital spending and by increased government spending tied to the Iran conflict. The U.S. economy is far less energy-intensive than it was during the oil shocks of the 1970s, and the private-sector investment cycle today remains powerful.

Earnings continue to be excellent. Meta sold off on its spending concerns, and the market is still penalizing some companies for aggressive AI-related capital expenditures. But the demand is real. Apple's results were ultimately received well after Tim Cook's call, and the broader tech complex continues to show that AI infrastructure spending is a central driver of this cycle. The questions are shifting from demand to bottlenecks: memory chips, processors, capacitors, and the supply chain around them. Those constraints can put upward pressure on prices, but they also confirm the strength of the investment cycle.

Importantly, this is no longer only a mega-cap tech story. Caterpillar had blowout numbers, and last week we saw a boost in value stocks. The Dow has turned around, and earnings strength is broadening. A bull market that broadens from AI leaders into industrials, value, and dividend-oriented stocks is a healthier market.

The long bond has been trading just below 4.40%, and I do not see it moving much below that level. If oil continues to rise, yields are more likely to move above 4.40% than below it. The Fed balance-sheet discussion and possible changes to Fed

communications may alter how policy is revealed, but they do not change the underlying rate decision. The June 17 meeting will be one of the most interesting of the year because the Committee will have to reconcile a strong real economy, firm earnings, rising oil prices, and a market still hoping for easier policy.

I remain bullish. Policy is not overly restrictive given inflation, the money supply has loosened somewhat, earnings are strong, and private-sector demand remains resilient. The biggest risk is a gasoline shock that hits consumer psychology, but there is no evidence yet that it has happened. Unless oil breaks materially higher and forces gasoline toward $5, the expansion remains intact, earnings remain supportive, and equities continue to deserve the benefit of the doubt.

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