



Mideast Escalation, Strong Jobs and Resilient Economy Delay Cuts

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As we go to press, fighting in the Mideast has escalated, sending crude higher, but stocks, in early Monday trade, have shown remarkable stability following Friday's deep selloff.

The economy itself continues to display remarkable resilience. This week's employment report came in far stronger than expected, with substantial upside surprises in both the headline payroll figure and revisions to prior months. For months, many economists argued that job growth had settled into a new steady-state pace near 20,000 to 30,000 per month. The latest data challenge that view directly. Payroll gains remain well above those levels, confirming that the labor market is far stronger than consensus anticipated.

The apparent contradiction is that unemployment has not declined despite the strength in payroll growth. The answer is that employment and unemployment come from different surveys. The establishment survey continues to show robust hiring, while the household survey has been less dramatic. Nevertheless, the overall message is clear: the economy is not slowing in any meaningful way. Bond yields responded accordingly, and the prospect of an imminent rate cut became even more remote.

Immediate attention is focused on the SpaceX IPO on Thursday, and next week's June Federal Reserve meeting, which I believe will be one of the most important policy meetings in years. Markets have largely settled the question of whether rates will change—they will not. The real issue is the framework policymakers adopt going forward. Investors will be focused on guidance, policy bias, and any changes in the Fed's communication strategy. The path of policy over the second half of the year may matter far more than the decision itself.

At the same time, the market's behavior continues to highlight the extraordinary dominance of the AI theme. Geopolitical tensions remain elevated, oil markets remain uncertain, and negotiations involving Iran appear to be stuck without progress. Yet equities have largely looked through those developments. Oil has not yet delivered an economic shock, and investors remain focused on innovation, capital spending, and the next phase of the AI buildout. In fact, market conversations today are centered far more on technology and growth opportunities than on geopolitical risks.

One of the most interesting developments is the growing disconnect between Wall Street and Main Street. A relatively small number of technology companies now account for an enormous share of total market capitalization while employing only a tiny fraction of the workforce. The largest digital platforms generate extraordinary profits because digital products can be replicated at almost no incremental cost. This scalability helps explain why profit margins have continued to expand and why equity valuations remain above historical averages. A market trading around 21–22 times forward earnings is not cheap, but it is not unreasonable when viewed against the profitability and growth characteristics of today's dominant technology franchises.

International diversification is also beginning to re-enter the conversation. For years, investors questioned why they should own anything outside the United States. Yet leadership is broadening, with countries such as Japan, Taiwan, South Korea, and parts of emerging Asia showing renewed strength. I continue to believe that international exposure remains important, even after a long period in which U.S. technology leadership and American exceptionalism dominated global equity returns.

The most important question for the long-term AI investment thesis remains productivity. Despite extraordinary adoption rates, recent productivity data have been surprisingly weak, rising only 0.8% in the fourth quarter of 2025 and 0.4% in the first quarter of 2026. This raises an interesting possibility: are we witnessing a modern version of Robert Solow's famous observation that we see technological progress everywhere except in the productivity statistics? I remain convinced that AI will ultimately generate substantial productivity gains, but the last two quarters have been very disappointing. Productivity is one of the most important indicators that investors should watch.

My broader outlook remains constructive. Employment growth remains strong, earnings continue to surprise on the upside, and the AI-driven investment cycle shows little sign of slowing. While higher bond yields, geopolitical risks and policy uncertainty can generate volatility, I continue to view those risks as recalibrations rather than reasons to abandon equities. Until we see meaningful deterioration in the labor market or a clear breakdown in earnings growth, the primary trend remains higher.

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