Weekly Commentary with Professor Jeremy J. Siegel

Cooling AI Frenzy Reveals a Healthier Bull Market

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The market received encouraging inflation news last week as both the CPI and PPI came in below expectations, as inflation pressures moderate. A negative monthly CPI print effectively removed any concern about an immediate Federal Reserve rate hike. Yet, as often happens, one positive development was quickly met by another challenge. Renewed conflict in the Middle East pushed crude oil back over $80 per barrel, while gasoline crack spreads have reached historically elevated levels, raising the prospect that retail gasoline prices could rise significantly higher over the coming weeks. If sustained, that rebound in energy prices would reverse part of the recent progress on inflation, particularly in August.

The encouraging counterbalance is housing inflation. Owner-equivalent rent and market rents are finally slowing in a meaningful way after remaining stubbornly elevated for much longer than expected. That moderation remains one of the most important contributors to keeping core inflation on a downward path. Assuming energy prices stabilize, the broader disinflation trend remains intact.

Economic growth also continues to demonstrate resilience. Current estimates for second-quarter GDP cluster around 2% to 2.5%, an impressive outcome considering the headwinds created by higher energy prices. Housing starts surprised to the upside, adding evidence that the economy continues to expand at a healthy pace. If oil prices retreat later this summer, third-quarter growth could accelerate further.

The most visible development in financial markets has been the sharp rotation away from some of the highest-flying AI, memory and semiconductor stocks. This should not be viewed as a negative development. Quite the opposite. Healthy bull markets periodically correct excesses before they become dangerous bubbles. Investors are increasingly questioning whether extraordinary earnings growth alone justifies higher valuations. A doubling of earnings does not necessarily justify a doubling in a stock's price unless those earnings continue indefinitely. Clearly, the appearance of the new Chinese AI model from Moonshot has shaken the market, and we will be following up on this development in coming weeks.

Importantly, this rotation should not be interpreted as a rejection of artificial intelligence. AI remains one of the most transformational technologies of our generation. The debate has simply shifted toward valuation, competition and ultimately how much computing power customers will be willing to purchase over time. Open-source AI models, increasing global competition and questions surrounding hyperscaler capital spending are introducing more discipline into the marketplace. That discipline is healthy. Some AI applications may become commoditized while others, particularly those capable of producing major scientific breakthroughs or blockbuster pharmaceuticals, could prove extraordinarily valuable.

The broader market stands to benefit from this leadership transition. Technology has become such a large percentage of major indexes that any meaningful rotation inevitably pressures headline averages. Yet many sectors outside of technology appear positioned to benefit from AI adoption without carrying the same demanding valuations. This has long supported the WisdomTree philosophy of maintaining valuation-sensitive index exposures rather than simply concentrating in the largest winners.

Meanwhile, the monetary backdrop deserves continued attention. Weekly money supply measures continue expanding at a pace that appears inconsistent with the Federal Reserve’s long-run inflation objective. Bond yields have responded accordingly, particularly at the front end of the Treasury curve. Current two-year yields imply that markets may still be underpricing the possibility of additional policy tightening if oil prices remain elevated and money supply growth continues to accelerate.

The recent pullback in speculative AI leaders should be viewed less as the end of the bull market than as its maturation. Markets are becoming more discerning, valuations are becoming more rational, and leadership is broadening. That is precisely the type of rotation that extends—not ends—a long-term bull market.

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