Weekly Commentary with Professor Jeremy J. Siegel



Softer Jobs Data Gives Fed Room to Pause

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The latest employment report was softer on the headline numbers, but I thought the underlying details were quite constructive. Payroll growth came in below expectations and the prior two months were revised downward, yet labor-force participation increased and the workweek stabilized rather than declining as expected. Manufacturing employment has also improved, with roughly 70,000 to 75,000 jobs added since the beginning of the year. The unemployment rate edged higher by one-tenth, but the broader U6 underemployment rate actually fell by one-tenth. This is not a labor market falling apart. It is a labor market cooling enough to reduce some of the pressure on the Federal Reserve.

I believe the Fed has very good reason to pause in October. Wage pressures are not particularly strong, oil has stabilized, and the employment data are sufficiently ambiguous that there is little urgency for another immediate rate hike. If inflation subsequently forces the Fed's hand, it could always move more aggressively in December. But taking an October increase off the table removes one of the market's major near-term concerns.

Oil remains a risk, but the economy has so far handled higher energy prices remarkably well. WTI appears to be settling into roughly a $90 to $100 range, and while that is certainly above where investors would like it, it has not produced economic deterioration.

The bigger challenge for equities is the extraordinary rise in real interest rates. The 30-year TIPS yield recently reached nearly 3.4%, among the highest levels we have seen. Against a market trading near 20 times earnings, which implies roughly a 5% earnings yield, that leaves an equity risk premium of only about 1.6 percentage points. That is narrow and will increasingly matter for portfolio allocation.

Yet what impressed me most is how well stocks have absorbed this rise in rates. The S&P 500 and Nasdaq remain within reach of new highs despite the enormous increase in real yields. That tells me earnings optimism and growth expectations remain extraordinarily strong. The AI capital-spending cycle continues, fourth-quarter earnings should be very strong on a year-over-year basis, and we have yet to see a meaningful slowdown in that spending. As long as those fundamentals hold, I believe the market can continue to move higher.

The composition of that advance is also important. Higher rates are putting considerably more pressure on value companies than on the largest technology and growth firms. A hyperscaler earning operating margins of 40%, 50%, or even 60% can absorb an additional percentage point of financing cost far more easily than a company operating on an 8% or 10% margin. That helps explain why the earlier broadening toward value has reversed and why technology and growth have regained relative strength. I would expect that pattern to persist as long as real rates remain elevated.

So we have two powerful forces pulling in opposite directions. Historically high real interest rates are tightening valuation constraints, but exceptionally strong earnings expectations—particularly around technology and AI—continue to overwhelm that headwind. With the Fed able to pause, oil stabilizing and corporate spending remaining strong, I remain constructive on equities. The rise in real yields deserves close attention, but for now the message from the market itself is clear: earnings growth is winning the battle.

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