Weekly Commentary with Professor Jeremy J. Siegel



Strong Jobs Report Reinforces Outlook and Market Rotation

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The employment report was extraordinarily strong, with approximately 165,000 jobs created, well above expectations, and upward revisions of 84,000 for the previous two months. Almost all the gains were in the private sector, with manufacturing adding 19,000 jobs. The unemployment rate declined one-tenth of a percentage point, while labor force participation continued to rise. That is particularly encouraging after the long-term decline we have seen in participation. Average hourly earnings increased 0.4% for the month and 3.1% over the past year, although that remains below the 3.6% inflation rate. Real hourly wages are still declining slightly, which helps explain some of the political dissatisfaction despite an otherwise very strong economy.

The productivity numbers were also encouraging, coming in substantially above expectations and showing the strongest performance in a year. Ultimately, we want economic growth driven by productivity rather than simply adding more workers. That is where artificial intelligence has the potential to make an enormous difference. The strength of the labor market has increased the probability of another Federal Reserve rate hike in December. I do not see anything particularly inflationary in these employment numbers, but the Fed must consider the strength of the economy and money supply alongside inflation. We have another month of data before the decision, but my outlook for the economy over the next year remains very positive. I simply do not see significant cracks developing.

The Democratic sweep in the midterm elections was considerably larger than almost anyone anticipated. However, I think the market initially overreacted to the political implications. President Trump retains veto power, which will limit the Democrats' ability to make major changes to tax policy over the next two years without bipartisan support. Looking toward 2028, I expect potential changes involving capital gains taxes, the step-up in basis, and the Social Security wage cap if Democrats regain the presidency. But markets generally look six to twelve months ahead, and these longer-term political possibilities are not the dominant drivers of stock prices today.

The correction in technology and AI-related stocks is healthy, and I continue to believe the rotation toward value and other sectors will persist for a while. The biggest uncertainty surrounding AI is not whether the data centers will be built, but whether demand for compute will ultimately justify the enormous investment being made. New permitting restrictions in Texas and greater bargaining power for local communities may increase costs and slow some projects, but I do not believe they will materially derail the buildout. The more fundamental question is how much companies will be willing to pay for compute, particularly as open models become increasingly competitive with expensive proprietary models. Token costs, competition, and the actual monetization of AI will be central to technology valuations over the coming year.

Finally, the possibility of a negotiated settlement with Iran and lower oil prices could provide another important boost to equities. Bringing oil into the $70s would be positive for consumers and many value-oriented businesses. If oil returned to the $60s, which I consider unlikely in the near term, I believe the market could receive as much as a 10% boost. With the prospects for additional tariffs also diminishing, the combination of strong employment, improving productivity, and potential relief in energy costs supports my constructive outlook. The market may continue rotating away from the most expensive technology names, but the underlying economic fundamentals remain very strong.

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