

Weekly Commentary with Professor Jeremy J. Siegel

Payment Protection Program Must Move Forward

Monday, 17/08/2020



Jeremy Schwartz, Executive Vice President, Global Head of Research for WisdomTree, hosts a weekly discussion with Professor Siegel, typically on the Wharton Business Radio podcast. The notes below summarize their conversation along with further commentary and context.

One of the news items of note last week was Joe Biden selecting Kamala Harris to be his Vice Presidential running mate. Professor Siegel sees this as a safe choice and Biden's odds in the betting markets ticked up a point or two after Harris was added to the ticket. Yet over the last few weeks, US President Trump's odds have improved. Trump's low in the betting markets was a contract (that pays off at \$1) at 35 cents, but this contract was trading at 42 cents on Friday. Biden is still over 60 cents to win, which is similar to the Democratic odds to take over the Senate. According to the polls, there are currently 4 seats at risk for Republicans: Arizona, North Carolina, Maine, and Colorado. If Republicans lost those 4 states, we would have a 50/50 tie in the Senate, with Kamala Harris casting the deciding vote in a Biden Presidency.

On the stimulus front, the Democrats think they hold all the cards and remain steadfast, keeping stimulus from moving forward, perhaps with a view that if they keep the economy weak, that would be bad for President Trump. They are debating unemployment benefits, but they largely agree on the Payment Protection Program (PPP) loan support that Professor Siegel thinks is the most important policy to move forward. The opening up of the economy is going much slower than hoped—so PPPs are important relief measures. Professor Siegel sees that whoever is elected in November will come in and provide retroactive payments to provide relief.

Interest rates moved up considerably over the last week. Professor Siegel has been saying we're at the end of the 39-year bull market in bonds and we will look back at 2020 as the lows in interest rates. He's been arguing for months that we would have a stronger economy in 2021 with more inflation pressures coming, and last week was a nod in that direction.

On the economic front, we had a big productivity surge last quarter, despite US Gross Domestic Product (GDP) falling due to low income workers coming off payrolls. This happened after the last recession as well and is something Professor Siegel anticipates will continue into 2021—helping to support corporate profits.

We have a new feature where you can write in questions to Professor Siegel—email AskSiegel@wisdomtree.com to get questions answered each week.

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Question 1: What would it take for Professor Siegel to have a negative outlook for stocks?

Two things would concern him. First, if the Fed begins to move rates up too prematurely because they are worried about inflation and over-hike rates to slow down the economy—that would be bearish. A second factor would be a full out trade war with China that involved more countries, becoming a global trade war. This could be a bigger factor under Trump than under Biden and would be negative for the markets.

Question 2: If inflation rises, should we see a term structure change and steeper yield curve?

The Fed controls the short-rate but not the long-rate. There has been talk about the Fed deploying yield curve control policies—but for a \$22 trillion market, Professor Siegel thinks the Fed does not control the long-end of the bond market. Professor Siegel sees unemployment staying elevated which means the Fed would keep short-term rates low. While inflation will likely push longer-rates higher, Professor Siegel thinks the Fed holds pat on short-term rates until the long-end gets to 3% or higher—and that is a long way away from now.

Question 3: Is it too late to get into gold?

Professor Siegel had not been a big fan of gold during his first 5 editions of the Stocks for the Long Run, but with his views on inflation coming, he does see it as an asset one wants to hold today. While treasuries are viewed as a defensive asset, rates are too low to make them valuable and gold should provide inflation protection. Similar to the case that would make him less optimistic on stocks, if the Fed was getting overly aggressive in hiking rates, it would make Professor Siegel more bearish on gold.

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