

Weekly Commentary with Professor Jeremy J. Siegel

What Could End the Upward Trend in Equity Markets **Monday, 24/8/2020**



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.

Despite all the things happening in politics and around the world, not much has changed for the equity markets—the trend remains upward, with Nasdaq and the S&P 500 continuing to inch toward all-time highs. What may change this trend?

Certainly political developments. Biden gave a speech Thursday night that beat very low expectations. But the betting markets did not change. The senate race tightened a bit. One of the polls asked people if they were better off since President Trump became president and most said yes—with not that much of a change from February before the coronavirus hit. While people generally blame Trump for not handling the virus well, they still are giving Trump and Republicans a better grade on the handling of the economy.

We've been hoping there would be another round of stimulus but the Democrats and Republicans are remaining steadfast in their positions. The lack of a deal surprisingly has not impacted the markets. Professor Siegel points out unemployment insurance is still there, and although the \$600 bonus payments were cut, people still receive a large amount of support. What is most needed is renewed payment protection programs (PPPs) that provide loans to the businesses most impacted. This fiscal deal standoff hurts small business versus large business—but that is not terrible for the stock market since these small businesses are generally not listed companies.

Professor Siegel continues to think there will be a productivity surge as companies clean up payrolls and get the same or more production with fewer employees and other expenses—which is fueling expectations for higher profit margins in 2021.

How much of the current shutdown trends are permanent? Professor Siegel thinks leisure travel will come back before business travel. A Bloomberg news story this week talked about \$1 trillion worth of savings that backs up spending since people have not been travelling or engaging in other expenditures and this spending power will be coming out in 2021.

We have a new feature each week where readers can ask Professor Siegel their specific questions—email us at AskSiegel@wisdomtree.com and we will try to address them.

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Question 1: Professor Siegel said rising inflation makes gold more attractive. Yet he also says rates will rise—this makes gold less attractive. How does he reconcile the two as far as gold is concerned?

Professor Siegel makes a distinction between short rates and long rates here. The Federal Reserve (Fed) is likely to keep short rates low for a long period—until unemployment rates start to go way down, and that could take quite a while. Long rates are going to start moving up in his view—with inflation going up, but inflation will exceed the increase in long rates so real rates will still be negative. If inflation starts running at 4%, a 2% treasury rate still would still be unattractive. If there is inflation, the Fed should start raising rates but there will be political pressures to keep rates low until unemployment falls.

Question 2: How does the Fed printing of money to fund the deficit impact the inflation views?

The Federal Reserve is printing money to buy bonds that are funding the deficit. Some of the Fed purchases are sitting as excess reserves at banks but many of them are going into deposits due to the large relief programs the government has enacted. It is this money that is going directly into checking accounts that Professor Siegel believes feeds the most inflation. He looks at growth rates of M1 and M2 money supply measures as the indicators to watch here—and there is unprecedented growth in those money supply levels that support his view of coming inflation.

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