

March Lows Should Hold; Stocks to End Year Higher
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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.

Since the market bottomed in late March, it has followed a fairly consistent trend higher without big downdrafts and high volatility. On Thursday, we saw broad market losses of 5%. What caused the fall? Professor Siegel sees momentum traders as a key factor in Thursday's sell-off. These trend followers ride the market trends—and when the trend was broken because of some headline such as fears over the coronavirus—the momentum players jumped off the train and losses cascaded.

Professor Siegel is not concerned that a second wave of the virus will shut down the economy again. He sees the economy opening up.

For the markets, all the liquidity that was created by relief measures is supporting the economy and markets. There was a slight drop off in M1 levels in last week's data—while broader money supply measures characterized in M2 money supply measures continued to grow, albeit at a slightly slower pace.

Treasury balances at the Federal Reserve have built up to all time highs of \$1.5 trillion. Steve Mnuchin, Secretary of the Treasury stated this \$1.5 trillion will be spent by the government—boosting the liquidity in the economy once again.

Last week we had the Federal Reserve monetary policy meeting—and in what will be remembered as one of the all time great quotes from a Fed chair—Jay Powell stated that 'we are not even thinking about thinking about raising rates.' Fair enough, and well stated for the time being.

However, in the scenario Professor Siegel has been outlining for weeks in these commentaries—of inflation pressures building next year with all the liquidity in the system—he sees the long bond rate rising and eventually forcing the hand of the Fed.

Professor Siegel does not believe the Fed forecast that it will be able to keep rates at zero well into 2021 or 2022 and sees the Fed raising rates sometime in latter half of next year. Yet this rate increase Professor Siegel sees will be modest and lagging inflation—a scenario that should not be threatening for the stock market. Only if the Fed lets inflation run too hot (5% or 6%), that would be even more worrisome as the Fed would have to then tighten aggressively to curtail inflation.

While Professor Siegel believes we can see further pressure in the markets in the very short-run and wouldn't be surprised to see a 10 or even 15% correction on the back of virus related anxiety, he sees the lows from the March sell-off holding and stocks ending the year higher.

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