Market Commentary by Professor Jeremy J. Siegel

Market Responded Positively to Signs of Tax Deal

Monday, 9/18/2017

Over the coming months, while Professor Siegel receives treatment for health related matters, Jeremy Schwartz, WisdomTree's Director of Research, will interview Professor Siegel and write up a summary of their conversation, along with further commentary and context.

Last week the S&P 500 hit an all-time record of 2,500 points. The rise was not the result of newly strong earnings reports, which has been one of the big drivers of the markets this year. Rather, Professor Siegel believes the latest strength arises from signs that President Trump might being able to get a deal done on taxes. The market is responding positively to any signs of this—and last week there were developments on immigration that indicates there might be a deal with Democrats surrounding the DACA policy (dreamers).

On Friday there was some very mixed news on economic front. There were poor readings on industrial production and retail sales. It is hard to tease out how much of the weakness came from the two hurricanes. For retail sales, the government didn't even make an estimate on how the hurricanes impacted those data, whereas they attributed a large part of the fall in industrial production on the hurricanes. These declines may last well into the 4th quarter, but rebuilding should provide a big boost to GDP growth next year.

This Wednesday we have the quarterly meeting of the Fed—there is no rate hike expected, but the reversal of quantitative easing—what some have called "quantitative tightening"—is expected to be announced next week. The poor visibility on real data should make the Fed more cautious in their tightening programs until the economy confirms continued strength—which likely will not be next year. Right now the median target from the Fed this year is for one more hike in December, although the market is skeptical. It will be interesting to see what the Fed's "dot plot" is for December on Wednesday.

We also had a brief discussion with Professor Siegel on crypto-currencies and Bitcoin—which is increasingly being discussed. Professor Siegel suggested he was not a big fan of crypto-currency and that there are many signs of a 'bubble' in the enthusiasm surrounding initial coin offerings (ICOs). Bitcoin had a rough week with China clamping down on trading in digital currencies and Jamie Dimon also casting a negative shadow on the merits of Bitcoin. At one point Friday, the crypto-currency dropped under $3,000 from nearly $5,000 2 weeks ago—a 40% decline.