Market Commentary by Professor Jeremy J. Siegel

The Broader Implications of Amazon's Whole Foods Purchase

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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.

It was a busy week last week—with the Fed raising interest rates another 25 basis points and outlining its plans to start the process of a gradual wind down of its balance sheet—but the bombshell announcement on Friday of Amazon's purchase of Whole Foods also has broader macro implications. If Amazon can replicate its efficiency in the food market as it has in everything else, it could potentially impact the Consumer Price Index.

Janet Yellen mentioned in her press conference this week that the CPI was lagging behind Fed estimates. Jim Cramer made a comment that never in his lifetime has he seen a merger announcement have a greater impact on an industry than we saw on Friday's deal—with almost all retail companies facing severe pricing pressure.

Regarding the Fed announcement—there is no set date for when the Fed will begin to stop its reinvestment of proceeds. Some specifics were released in that the Fed will start at the short-end first. This is one reason the long-end of the bond market has not really reacted to the announcement the same way it did when Bernanke hinted at the Fed tapering its purchase program in 2013.

The economic data has been coming in a bit soft—housing starts were slow. This quarter looks like 2.8% GDP growth. The labor market moderated, but job creation remains in excess of what is supplied by normal demographic forces, so there still may be downward pressure on the unemployment report. These unemployment reports will thus continue to have significance as they come in to gauge how quickly the Fed will be normalizing its monetary policies.

The Fed lowered its estimate of the natural rate of unemployment yet again to 4.6% given that we have still not seen any inflation pressures with unemployment already as low as it is. Professor Siegel wishes they would lower their long-run estimate of the neutral Federal Funds rate—which they have at 3% and he believes is more like 2%.