



Politics, Economy, and Tech Impacting Sentiment

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This week's commentary reflects a mixture of political, economic, and technical challenges facing investors. Let's begin with the political landscape which continues to heavily influence sentiment.

Biden's exit from the race makes Vice President Harris a virtual certain nominee. Betting markets suggest she will make the race closer, but still not beat Trump. However, the probability that the House goes Democratic has increased, and the prospects of a split government is encouraging to stock investors. For instance, if Trump were to veto capital-unfriendly legislation, the House could prevent any extreme measures.

On the technical front, a recent major computer outage caused by CrowdStrike, while not a direct cyberattack, reminds us of the ever-present vulnerabilities from the increased reliance on software. Such incidents highlight the critical need for robust cybersecurity investments to guard against more malicious threats in the future. And, why I have argued that the potential black-swan event I worry about most is a cyberattack on our critical infrastructure.

Turning to the economic indicators, we've entered a critical phase as the Federal Reserve (Fed) prepares for its upcoming meeting on July 31. The market expects the Fed to signal a rate cut in September, provided economic trends continue as anticipated. I agree. This comes after a concerning rise in jobless claims post-July 4, although this was somewhat offset by stronger housing and retail sales data. Some also attribute the rise in jobless claims to Hurricane Beryl's impact on Texas which should be reversed in the coming weeks. Such mixed signals complicate forecasts but the big picture suggests a slowing consumer.

Moreover, the dramatic shifts within the equity markets, especially between small and large stocks, value and growth stocks, reveal deep undercurrents. The surging strength in small-cap stocks following favorable Consumer Price Index (CPI) data indicates a market highly responsive to even subtle shifts in monetary policy expectations. There remains strong fundamental support for large caps—their earnings expectations have increased much more than small caps. For the recent shifting tides to be longer lasting, we will also need to see small and value stocks further reverse the huge gains in growth stocks over the previous three months.

Glossary

Consumer Price Index (CPI): A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living. Core CPI excludes food and energy costs.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States.

Past performance is not indicative of future results. You cannot invest in an index.

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