Weekly Commentary with Professor Jeremy J. Siegel

Trade War Concerns Amid Positive Virus Developme
Monday, 18/5/2020

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.

We had a 5% sell-off early last week after noted investors, Stan Druckenmiller and David Tepper, commented that the market was over-valued and gains overextended. Fed Chairman Jerome Powell did not help with a more pessimistic tone on the economy in his comments last week. Thursday's turnaround in the market was really strong however, showing there is still large interest in buying stocks after downdrafts.

One cautious piece of news. Last year we faced headline uncertainty and volatility in the market with the China trade spat. It appears clear that Trump is going to return to making China a key election issue and ramp up his rhetoric. With our economy so fragile, a trade war is not welcome news. This will likely create more volatility for the markets as the pressure tactics on China ramp higher.

We had retail sales news—it was somewhat worse than expected, but Professor Siegel puts much of this economic activity in the rearview mirror and does not worry about that. We are seeing signs of better activity, which is encouraging and supporting oil prices. Transactions on Mastercard and Visa are up, due to the selective re-opening in parts of the country.

On the money supply front, there was another huge jump in the M1 data released. This is unprecedented liquidity coming into the system. Professor Siegel continues to believe that once confidence returns next year, all this liquidity will come into the system, driving inflation pressures higher. It is hard to anticipate that with the shutdown and what appears like falling prices but it is something to start preparing for. All this liquidity in the system is bolstering the markets and is why the S&P 500 is where it is—Professor Siegel does not believe it is disconnected from fundamentals.

On the virus front, we are seeing a few good developments. There was anecdotal evidence that antibody plasma treatments were having positive impacts. We need to see more rigorous tests on that but it was a positive piece of news. Professor Siegel sees signs we can have effective therapeutics by the fall when worries of another wave of infections would be coming as we open the economy.

On a personal note, Professor Siegel and his wife were able to get a free coronavirus test at Rite Aid by signing up online. There were no requirements of symptoms or even pre-existing conditions and that is a sign that more testing is available. Testing will be one of the key facets for opening the economy—allowing us to catch infections early and is a positive sign more kits are becoming available.