
PROFESSOR JEREMY SIEGEL CALLS FOR BOLD ACTION AT THE US FEDERAL RESERVE

Christopher Gannatti – Global Head of Research, WisdomTree.
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On Monday 5 August 2024, Professor Jeremy Siegel called for the US Federal Reserve (Fed) to take bold action publicly on a CNBC segment:

- An intra-meeting 75 basis point cut to the US Federal Funds Rate, the policy rate under the purview of the Federal Open Market Committee (FOMC).
- Another 75 basis point cut to this rate at their September 2024 meeting.

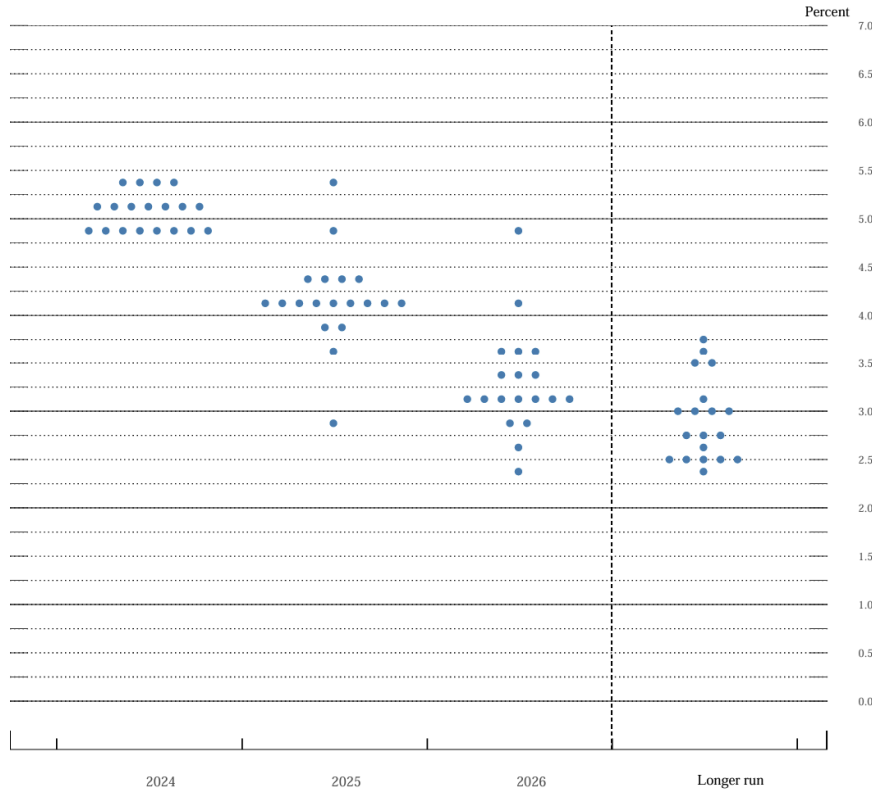
He believes that the Fed has held interest rates too high for too long, creating restrictive monetary policy. The faster we can get this policy rate back towards a more neutral level, the better, in his opinion.

Breaking down the logic of this call

Professor Siegel's call for immediate rate cuts is NOT an indication of a Fed 'panic'. Instead, it is consistent with the Fed's dot plot and narratives. Powell is being too deliberate and slow in not wanting to 'surprise' the market.

Figure 1 below shows the June dot plot. Their longer-run forecast shows a neutral rate of 2.8%, consistent with 2% inflation and a long-run 4.2% unemployment rate.

Figure 1: FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



Source: US Federal Reserve Summary of Economic Projections. Note: Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant’s judgement of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. Subject to change.

Remember the Dual Mandate

The US Federal Reserve has a dual mandate:

- 1) Employment
- 2) Inflation

Unemployment passed through their unemployment targets, and they’ve achieved 90% of their inflation reduction target, as shown in Figure 2.

Figure 2: Economic projections of Federal Reserve board members and Federal Reserve bank presidents, under their individual assumptions of projected appropriate monetary policy, June 2024

Percent												
Variable	Median ¹				Central Tendency ²				Range ³			
	2024	2025	2026	Longer run	2024	2025	2026	Longer run	2024	2025	2026	Longer run
Change in real GDP	2.1	2.0	2.0	1.8	1.9-2.3	1.8-2.2	1.8-2.1	1.7-2.0	1.4-2.7	1.5-2.5	1.7-2.5	1.6-2.5
March projection	2.1	2.0	2.0	1.8	2.0-2.4	1.9-2.3	1.8-2.1	1.7-2.0	1.3-2.7	1.7-2.5	1.7-2.5	1.6-2.5
Unemployment rate	4.0	4.2	4.1	4.2	4.0-4.1	3.9-4.2	3.9-4.3	3.9-4.3	3.8-4.4	3.8-4.3	3.8-4.3	3.5-4.5
March projection	4.0	4.1	4.0	4.1	3.9-4.1	3.9-4.2	3.9-4.3	3.8-4.3	3.8-4.5	3.7-4.3	3.7-4.3	3.5-4.3
PCE inflation	2.6	2.3	2.0	2.0	2.5-2.9	2.2-2.4	2.0-2.1	2.0	2.5-3.0	2.2-2.5	2.0-2.3	2.0
March projection	2.4	2.2	2.0	2.0	2.3-2.7	2.1-2.2	2.0-2.1	2.0	2.2-2.9	2.0-2.5	2.0-2.3	2.0
Core PCE inflation ⁴	2.8	2.3	2.0		2.8-3.0	2.3-2.4	2.0-2.1		2.7-3.2	2.2-2.6	2.0-2.3	
March projection	2.6	2.2	2.0		2.5-2.8	2.1-2.3	2.0-2.1		2.4-3.0	2.0-2.6	2.0-2.3	
Memo: Projected appropriate policy path												
Federal funds rate	5.1	4.1	3.1	2.8	4.9-5.4	3.9-4.4	2.9-3.6	2.5-3.5	4.9-5.4	2.9-5.4	2.4-4.9	2.4-3.8
March projection	4.6	3.9	3.1	2.6	4.6-5.1	3.4-4.1	2.6-3.4	2.5-3.1	4.4-5.4	2.6-5.4	2.4-4.9	2.4-3.8

Source: US Federal Reserve Summary of Economic Projections. **Subject to change.**

One can even argue that inflation is even lower than official statistics and continuing to trend well under control.

Professor Siegel wants the FOMC to explain how appropriate policy is now 250 basis points restrictive (too high) compared to their target when we are so close to their dual mandate goals. Instead of being overly slow and deliberate, Professor Siegel wants them to get to neutral without haste and not create an extra risk of a recession.

In recent years, the FOMC has been too slow to hike, as Professor Siegel pointed out in real time in 2020 and 2021, and now the Fed faces the risk of being too slow in reverse. Again, this is not a market panic call – he wants some explanation as to why the Fed is being inconsistent with its own projections.

Considering investment implications

In Professor Siegel’s estimation, the pronounced increase in volatility that we saw, catalysed by the unemployment data released on 2 August 2024, reflects the initial consequences of the US Federal Reserve’s perceived ‘slowness’ in lowering the policy rate. As we wait for the story to play out, it’s important to think about the types of strategies that may be poised to help investors maintain their overall portfolio allocations amidst the heightened risks.

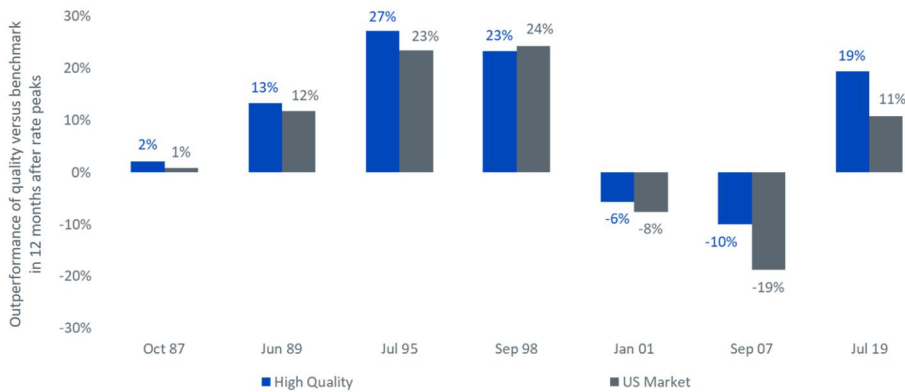
High-quality dividend payers

We have written many times about how [quality dividend growth](#) represents a strategy focused on companies that have the potential to weather the storms of market volatility whenever they arise.

We looked at a period of longer history and found that, in six of the last seven cycles, following the end of the FOMC raising rates, high-quality companies in the US outperformed.

Figure 3: Historical outperformance of high-quality companies after US Federal Reserve rate hike cycles

In 6 of the last 7 Federal Reserve’s rate hikes cycles, US high-quality companies outperformed the market in the immediately following 12 months



Source: Kenneth French data library. July 1963 to October 2023. Data is calculated at a monthly frequency. Stocks are selected to be above the median market cap, with 'Quality' representing the top 30% by operating profitability. The portfolios are rebalanced yearly at the end of June. The market represents the portfolio of all available publicly listed stocks in the United States. All returns are in USD. Operating profitability for year t is annual revenues minus cost of goods sold, interest expense, and selling, general, and administrative expenses divided by book equity for the last fiscal year-end in t-1. You cannot invest in an index. **Historical performance is not an indication of future performance and any investments may go down in value.**

We also looked at 2022 because this was a historically difficult year in equity markets and bond markets – which doesn’t happen often – and it marked the last time that, until July 2024, we did not repeatedly mention variations of the same seven extremely large companies as ‘leading the market.’

The [WisdomTree US Quality Dividend Growth UCITS ETF \(DGRA\)](#) was able to deliver significant outperformance during this tougher period while the Russell 1000 Index and S&P 500 Index dropped significantly:

- DGRA: -8.45%
- Russell 1000 Index: -19.14%; DGRA outperformed by 10.69%
- S&P 500 Index: -18.13%; DGRA outperformed by 9.68%

Figure 4: Change in value of \$1 during the 2022 calendar year



Source: Bloomberg. Past performance is not indicative of future results.

We saw a similar result in the global market with the [WisdomTree Global Quality Dividend Growth UCITS ETF \(GGRA\)](#), measured in this case against the MSCI World Index:

- GGRA: -13.88%
- MSCI World Index: -17.71%
- Difference: 3.82%

Figure 5: Change in value of \$1 during the 2022 calendar year



Source: Bloomberg. Past performance is not indicative of future results.

We cannot say that these results will always hold, but we can note that many are looking for options to diversify away from the so-called “Magnificent Seven” (Apple, Amazon, Alphabet, Microsoft, Meta Platforms, Tesla and Nvidia) after such a sustained period of market leadership. These strategies may include these firms, but only if they qualify by 1) paying dividends, 2) having strong earnings growth expectations, and 3) having strong return on assets and return on equity metrics. Weighting would not be market capitalisation-based but rather based on these companies’ cash dividends.

Gold

All other things being equal, if the FOMC is cutting interest rates, this should support an upward tendency in the price of gold.

Gold does not pay any stream of income, so a lower rate means a lower ‘opportunity cost’ for those allocating to the yellow metal and not to various other investments that do have associated income streams.

Another consideration regarding the FOMC cutting rates is that it usually happens due to concerns about an overall economic slowdown. During such slowdowns, assets that have proven a capability to hold onto their values in times of risk aversion have, historically, shown appreciation. We look at Figure 4 and can see that periods of cuts in the US Federal Funds Policy Rate have coincided with economic recessions in the US and have coincided with periods of gold appreciation. We know that looking at the past is never a guarantee of future results, but, interestingly, gold has tended toward appreciation in these periods.

Figure 6: Gold has exhibited historical appreciation during FOMC rate-cutting periods



Source: Bloomberg. Data is from 2 August 1994 to 5 August 2024. Past performance is not indicative of future results.

Conclusion: Volatility might be an opportunity

Many investors we speak to were becoming more and more sceptical watching substantially the same seven stocks leading global markets for almost two years. We may be seeing a transition from that trend into another, where different fundamentals begin to prevail again, and things like dividends, quality companies and even gold become more greatly appreciated.

For more detail, [watch our new webinar here](#) with Professor Siegel.

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- + [WisdomTree Global Quality Dividend Growth UCITS ETF - USD Acc \(GGRA/GGRG\)](#)
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