Weekly Commentary with Professor Jeremy J. Siegel



Market Resilience Holds Despite Inflation and AI Turbulence

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I continue to be impressed by the resilience of this market. Between the midterm election results, concerns about the sustainability of the AI infrastructure buildout, the controversy surrounding Nvidia, and another disappointing inflation report, there have been plenty of reasons for stocks to sell off. Yet the broader market has held up remarkably well. That tells me investors remain confident in the underlying strength of the economy, and I share that optimism.

The latest CPI report was not encouraging, with inflation running hotter than expected and the 10-year Treasury yield jumping roughly 10 basis points in response. The subsequent PPI report was more in line with expectations, providing some relief, but the 10-year yield remains around 5.13%. I believe the Federal Reserve will raise rates by 25 basis points in December. A 50-basis-point hike is now not in the cards, although I expect some officials to favor a more aggressive move. The Fed must remain vigilant, but there are important developments that should help inflation over the coming months.

The most encouraging is the substantial decline in oil and gasoline prices. WTI crude has fallen to approximately $88 per barrel, while gasoline prices have dropped to around $3.82 per gallon from roughly $4.50. Wholesale gasoline prices suggest there could be another 20 cents of relief ahead. Even with geopolitical tensions surrounding Iran, I believe the U.S. economy can comfortably withstand oil at these levels. The inflation-adjusted price of oil has averaged roughly $81 to $82 over the past 50 years, and our economy is dramatically less oil-intensive than it was decades ago. Diesel prices remain stubbornly elevated, but the broader energy picture should contribute to better headline inflation readings ahead.

The economy itself continues to show strength with estimates ranging from 2-3% pointing to continued expansion, and that provides an important foundation for equities despite higher interest rates.

The biggest question in technology remains the sustainability of AI-related earnings. Nvidia faces potential regulatory and legal scrutiny surrounding restrictions on advanced chip sales to China, and additional investigations could create further uncertainty. But beyond these immediate concerns, investors must recognize that the extraordinary AI infrastructure buildout will eventually normalize. Some companies have seen earnings double or triple, and those increases cannot be extrapolated indefinitely. A stock trading at a low forward P/E is not necessarily cheap if current earnings reflect a temporary investment boom. Even if AI ultimately delivers everything we hope, the companies supplying the infrastructure will not experience today's extraordinary growth rates forever. I remain extremely optimistic about AI's long-term potential, but investors must distinguish between permanent earnings power and cyclical peaks.

This week's much anticipated Anthropic IPO will provide another important test of enthusiasm for AI investments. The experience with SpaceX demonstrated that even highly anticipated offerings can experience substantial volatility after their initial trading surge. I expect tremendous demand for Anthropic and believe investors receiving IPO allocations will benefit, experiencing a quick capital gain, although subsequent trading could be volatile.

Looking ahead, I remain constructive on equities and expect a favorable finish to the year. Inflation is still a challenge, and the Fed has more work to do, but falling energy prices, continued economic expansion, and the market's ability to absorb significant negative headlines are encouraging. The AI sector may experience further valuation adjustments, but that does not undermine the broader market outlook. The underlying economy remains strong, and I believe investors should maintain their long-term perspective rather than overreact to short-term volatility.

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