

Weekly Commentary by Professor Jeremy J. Siegel

More Euro Trouble, U.S. Economy Steady, Reflections on 9-11

12pm CET, 9/11/2011, Aix-en-Provence, France



Because of travel to southern France, this commentary is being sent 2 days later than customary and, as it happens, on the tenth anniversary of the 9-11 attacks.

On the economic front, moderately firm economic data are still being offset by increased anxiety about the European financial situation and have kept equity markets down. The euro suffered one of its biggest declines in months Friday when the surprise resignation of the Jurgen Stark, chief economist of the German Central and a known hardliner on the Greek loan packages, suggested the ECB may take a softer tone in future policy actions. Even at \$1.37, Europe still seems extremely overpriced to an American who has just landed on the continent. Europeans coming to the U.S. must think they are going to some 3rd world country as far as prices are concerned. I think that the euro could go down substantially more as the ECB contends with continuing economic weakness not only in the periphery, but also in the core. What the ECB needs to do to calm financial markets is to pledge to support the European banks and keep short-term funding markets working smoothly.

As noted above, data last week, particularly the trade report and even the claims data do not picture an economy going into a recession. In fact claims at 400k to 425k are consistent with a 2% GDP growth, actually faster than the first half of the year. Obama's agenda, laid out in a speech last Thursday, addresses the fiscal contraction that would take place if the payroll tax cut expires on December 31, as scheduled. I think the Republicans will be persuaded to pass most of the proposed tax cuts, although spending increases will be put on hold. In the meantime, we saw another low for the U.S. ten year, at 1.92% and continued negative yields in TIPs bonds. This makes stocks even more attractive relative to fixed income.

On reflection of the ten year's anniversary of the terrorist attacks, I believe we have done much better at warding off further attacks than I had feared at that time. And although these past ten years have been disappointing economically, security is a pre-requisite to a successful economy based on consumer choice and not based on security and defense spending by governments. If we can maintain security, it presages well for the coming decades.

Professor Jeremy Siegel is a Senior Investment Strategy Advisor to WisdomTree Investments, Inc., and WisdomTree Asset Management, Inc. He is also a registered representative of ALPS Distributors, Inc. This article speaks of his research and expresses his opinions and is not to be considered a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product, and it should not be relied on as such. The user of this information assumes the entire risk of any use made of the information provided herein. Neither Professor Siegel nor WisdomTree nor any other party involved in making or compiling any information makes an express or implied warranty or representation with respect to information in this article. Past performance is no guarantee of future results.