Weekly Commentary by Professor Jeremy J. Siegel

Very Important Data Next Week; Irene will Complicate Future Data

7:00 p.m. EDT, 8/26/2011, Philadelphia PA

At the Jackson Hole Conference Bernanke did not hint of any immediate measures the Fed will take. The reason is simple; there has been no news in the two weeks since the last FOMC meeting that has changed the Fed's outlook. Like last week, this week's durable goods and claims data were not supportive of the recessionary forecast.

In contrast next week is critical for data and culminates in the payroll report on Friday. On Wednesday we will get the previews: the ADP payroll estimate (+100k) and the Chicago PMI report (53.5), on Thursday the national ISM (48.5) and claims (408k) before Friday's labor reports (Payroll +75k,+105k Private).

Another wildcard is hurricane Irene, which will undoubtedly throw a monkey wrench into all the data emanating from this weekend forward. Atlantic City has closed down and for the first time ever New York City has ordered mandatory evacuations from some areas. Even if the hurricane does not turn out as destructive as feared (and there was some weakening reported in the NHC 5 p.m. update), the disruptions are already mammoth.

Returning to the Fed, Bernanke did announce that the September 21 FOMC meeting will be extended to two days in order to discuss more policy options. (Given the 3 dissents at the last meeting, the Committee could have used another two-day two meeting then.) What is not clear is whether Bernanke will give a press conference after the September 21-22 meeting; when these press conferences were first announced they were framed to coincide quarterly updates in the Fed's economic projections which are not scheduled to be ready. In any case, the data between now and the meeting will dictate what action the Fed takes, if any.

Stocks have held the base established at the 1100 to 1110 area of the S&P 500 Index. It does seem to me that investors are discounting a recession since stocks seem to rally when even neutral data is announced. Dividend-paying stocks are holding up extremely well during the latest sell-off and are well ahead of the capitalization-weighted indexes this year. I can sense more and more advisors broaching the subject of substituting dividend-paying stocks for bonds with clients who can stomach stock volatility. I believe those recommendations will become even stronger in the months ahead.
