Yardeni Research

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Morning Briefing

Update On The Roaring 2020s

Check out the accompanying chart collection.

Executive Summary: Halfway through the decade, our Roaring 2020s investment theme remains on track. The US economy continues to prove remarkably resilient, supported by the robust spending of businesses and consumers, especially Baby Boomers. So far this year, it has been acing the stress tests of Trump's trade policies. If the final years of the decade pan out as expected, Dr Ed reckons that the S&P 500 price index may be around 10,000 as the 2030s begin. And there's no reason to expect the roaring to stop then.

YRI Weekly Webcast. Join Dr Ed's live webcast with Q&A on Mondays at 11 a.m., EST. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

The Roaring 2020s I: So Far, So Good. For years, we've been calling this decade "the Roaring 2020s" and pointing out the similarities to the Roaring 1920s. We first discussed this concept in our August 11, 2020 *Morning Briefing* titled "*Another Roaring Twenties May Still Be Ahead*."

The US economy was driven by lots of productivity-enhancing innovations during the 1920s including automobiles, electricity, indoor lighting and plumbing, household appliances, frozen foods, and penicillin. These all increased the standard of living of Americans. The stock market soared. To a large extent, the 1920s was driven by a Consumer Revolution, which continued during the 1930s. It was interrupted by World War II and resumed during the 1950s and 1960s.

The US economy continues to be led by consumer spending. However, since the mid-1960s, there has also been a Digital Revolution focused on processing more and more data as fast as possible and as cheaply as possible. Information technology has come a long way from the IBM mainframes of the 1960s. During the current decade, it has evolved into the AI race to harness the productivity-enhancing power of all the data that we are creating.

Once again, the stock market is soaring as investors discount the prospects of more productivity-led economic growth.

Our 2020 *Morning Briefing* (cited above) noted: “Jackie and I have been writing about disruptive technologies for some time, usually in our Thursday commentaries. (See our archive of *Disruptive Technologies Briefings*.) The awesome range of futuristic ‘BRAIN’ technological innovations includes biotechnology, robotics and automation, artificial intelligence, and nanotechnology. There are also significant innovations underway in 3-D manufacturing, electric vehicles, battery storage, blockchain, and quantum computing. As I wrote in my 2018 book *Predicting the Markets*:

‘Economics is about using technology to increase everyone’s standard of living. Technological innovations are driven by the profits that can be earned by solving the problems posed by scarce resources. Free markets provide the profit incentives to motivate innovators to solve this problem. As they do so, consumer prices tend to fall, driven by their innovations. The market distributes the resulting benefits to all consumers. From my perspective, economics is about creating and spreading abundance, not about distributing scarcity.’”

Our January 28, 2025 *Morning Briefing*, titled “*Gray Swan*,” noted: “Previously, we observed that the Agricultural Revolution of the 1700s and 1800s was followed by the Industrial Revolution of the 1800s and 1900s. The Digital Revolution started in the 1950s with IBM’s mainframes. During the 1980s, Digital Equipment sold lots of minicomputers. The 1990s and 2000s saw the proliferation of PCs and laptops. During the 2010s, cloud computing caught on, allowing companies to rent software programs that are automatically updated by their vendors. Now, AI is proliferating.

“The Digital Revolution is all about data processing, i.e., processing more and more data faster and faster at lower and lower cost. From this perspective, AI is an evolutionary development in the Digital Revolution. AI allows more data to be processed faster than ever before and at a lower cost, as DeepSeek has demonstrated. So much data can be processed that we need LLMs to make some sense of it all and use it to increase productivity.”

There have been other strong decades besides the 1920s and the current one. We can see this by tracking the increases in the S&P 500 during each of the past several decades. The 1950s, 1960s, 1980s, 1990s, 2010s, and now the 2020s all saw solid gains in real GDP and in the S&P 500 (*Fig. 1* and *Fig. 2*). The clunkers were the 1970s and the 2000s. Even during those two periods, the economy expanded despite some significant recessions. The S&P 500, however, remained relatively flat over both decades (*Fig. 3*).

In the following sections, we review developments confirming that the current decade is roaring. If the remainder of the decade continues to play out as the Roaring 2020s, we predict that the S&P 500 will start the next decade at 10,000 (*Fig. 4*).

The Roaring 2020s II: Business Capital Spending. In 2020, we anticipated that AI might be one of many technologies that would flourish and proliferate during the decade ahead. It first took off when OpenAI released its large language model, ChatGPT, on November 30, 2022 (*Fig. 5*). That stimulated a huge demand for semiconductors, especially the GPU chips produced by Nividia. Capital spending on AI infrastructure, especially data centers and energy systems to power them, soared.

Consider the following:

(1) US industrial production of semiconductors in the US soared to a record high during June (*Fig. 6*). It is up 26% since November 2022, when ChatGPT was released. Keep in mind that Nvidia's GPU chips are mostly manufactured in Taiwan.

(2) High-tech capital spending jumped to a record $2.1 trillion (saar) during Q1-2025 (*Fig. 7*). It is up 44% since Q4-2019. It includes information processing equipment and software, which soared to record highs during Q1-2025 (*Fig. 8*). Spending on research and development is also included in high-tech capital spending, and it has stalled at a record high in recent months.

(3) High tech's share of capital spending in nominal GDP currently exceeds 50% (*Fig. 9*). That's up from less than 20% during the 1960s, when the Digital Revolution began. Interestingly, this share is countercyclical. It tends to rise during recessions and early in recoveries. That's partly because it is less interest-rate sensitive than low-tech capital spending. This partly explains why the economy has become less interest-rate sensitive as high tech's share of capital spending has increased!

(4) The Dow Jones Industrial Average surged from 63 in August 1921 to a peak of 381 on September 3, 1929, a 500% increase over eight years.

The hottest stocks of the 1920s bull market were those tied to the era's technological and consumer revolutions, particularly RCA, General Motors, General Electric, AT&T, US Steel, Coca-Cola, Sears, and DuPont. These companies benefited from real economic growth but were also swept up in speculative mania, with RCA being the most emblematic of the era's excesses.

Today's hot stocks are the Magnificent-7. Their market capitalization is up nearly 300% since the end of the previous decade (*Fig. 10*). Collectively, they currently account for just 11.7% of the forward revenues of the S&P 500 but 22.5% of its forward earnings and 31.1% of its market capitalization (*Fig. 11*).

The Roaring 2020s III: Consumer Spending. Consumer spending has also proven to be resilient during the 2020s so far, notwithstanding the jump in interest rates during the first half of the decade. That's because personal interest income well exceeds personal outlays on nonmortgage interest payments (*Fig. 12*).

As we've discussed many times before, the retiring Baby Boom generation has a record $82.4 trillion in net worth (*Fig. 13*). They own $9.0 trillion, or about half of the deposits and money market funds held by all households (*Fig. 14*). They also have a relatively small share of consumer credit compared to GenX and Millennials (*Fig. 15*). We conclude that older consumers are benefiting from higher interest rates more than younger ones who are weighed down by higher rates.

These income disparities are evident in areas of consumer spending that are benefiting from the expenditure of Baby Boomers. They include health care services, recreation, entertainment, lodging, food services, and travel services. This development and the rising net worth of households explain why the share of services in consumption has been growing, while the share of goods has been falling. The former is less interest-rate sensitive than the latter.

The good news for most working consumers is that their inflation-adjusted wages are rising to record highs, especially lower-wage workers (*Fig. 16*). We attribute this development to improving productivity growth (*Fig. 17*). The 20-quarter annualized growth rate in productivity has increased from just 0.6% at the end of 2015 to 2.0% currently. We still expect this growth rate to rise to at least 3.0% over the rest of the decade.

Rising real disposable income per household is driving real consumption per household to record highs (*Fig. 18*). The former was $134,200 (saar) during Q1, while the latter was $123,400 at the same time. We view real consumption per household as one of the best measures of the standard of living.

There is no reason why productivity couldn't fuel the Roaring 2030s. Yes, we know: The Roaring 1920s was followed by the depression of the 1930s, which was partly caused by the Smoot-Hawley Tariff enacted in June 1930. But the US economy currently is passing a similar stress test, resulting from Trump's tariffs, with flying colors. That's yet another testament to the remarkable resilience of the US economy.

Calendars

US: Mon: Dallas Fed Manufacturing Index. **Tues:** Consumer Confidence 95.9; JOLTS 7.49m; Goods Trade Balance -$98.3b; Wholesale Inventories -0.1%; Atlanta GDPNow 2.4%; S&P/CS Composite House Price Index 2.9%y/y. (Source: FX Street)

Global: Mon: UK Distributive Trade Survey -26. **Tues:** Spain GDP 0.6%q/q; Spain Retail Sales; Australia CPI 2.1%y/y. (Source: FX Street)

Strategy Indicators

Global Stock Markets (US$ Performance) (*link*): The US MSCI index rose 1.4% during the July 25 week and closed the week at a record high. That was a hair behind the 1.4% gain for the AC World ex-US index, which is just 0.8% below its Thursday record high. The AC World ex-US has been hitting new record highs since May 14; it hasn't had a streak that long since June 15, 2021. Despite its recent strength, the US MSCI has underperformed the AC World ex-US in 17 of the past 26 weeks. EAFE was the best performing region last week, with a gain of 1.9%, and was the only one to outperform the AC World ex-US. EMEA was the worst regional performer, albeit with a gain of 0.4%, followed by EM (0.7), EM Asia (0.7), and EM Latin America (0.7). The Japan MSCI index performed the best among country indexes last week, with a gain of 5.1%, ahead of Sweden (3.2), China (2.8), Spain (2.7), and Mexico (2.4). The India MSCI index was the worst performer w/w, with a decline of 1.3%, followed by Taiwan (-0.8), Australia (-0.8), South Africa (-0.5), and Brazil (-0.1). In terms of ytd performance rankings, the US MSCI index is up 8.7% ytd, but ranks as the second worst country performer and trails the 18.2% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EMU leads with a gain of 27.0%, followed by Europe (22.4), EM Latin America (22.3), EAFE (19.0), and the AC World ex-US. EM Asia is the worst ytd performer, albeit with a gain of 16.5%, followed by EMEA

(16.8) and EM (17.0). Looking at the major selected country markets that we follow, Spain is the best ytd performer, with a gain of 43.8%, followed by Korea (41.0), Germany (33.3), South Africa (30.3), and Mexico (29.5). The worst performing countries ytd: India (2.0), the US (8.7), Australia (11.1), Japan (11.6), and Taiwan (14.8).

US Stock Indexes (*link*): All of the 48 major US stock indexes that we follow rose during the week ended July 25, up from 24 indexes rising in the prior week. The Dow Jones 20 Transports index was the best performer for the week, rising 3.2%, ahead of S&P 400 MidCap Pure Growth (2.9%), S&P 600 SmallCap Pure Value (2.7), and S&P 400 MidCap Pure Value (2.3). The S&P 600 SmallCap Growth index was the worst performer, albeit with a gain of 0.3%, followed by Russell 2000 Growth (0.5), Nasdaq Industrials (0.5), and S&P 600 SmallCap Pure Growth (0.6). Forty-three of the 48 indexes are now higher so far in 2025, but that's still down from 47 in mid-February. With a gain of 14.9%, the S&P 500 LargeCap Pure Growth index is in the top spot as the best performer so far in 2025, ahead of S&P 500 LargeCap Growth (12.1), Russell MidCap Growth (11.6), Nasdaq 100 (10.8), and Dow Jones 15 Utilities (10.2). The worst performing major US stock indexes ytd: S&P 600 SmallCap Value (-4.2), S&P 600 SmallCap Equal Weighted (-2.5), S&P 600 SmallCap (-2.2), and S&P 600 SmallCap Pure Value (-1.0).

S&P 500 Sectors Performance (*link*): Ten of the 11 S&P 500 sectors rose during the week ending July 25, and six were ahead of the S&P 500's 1.5% gain to a new record high. That compares to seven S&P 500 sectors rising a week earlier, when five were ahead of the S&P 500's 0.6% gain. The outperformers last week: Health Care (3.4%), Materials (2.3), Industrials (2.3), Real Estate (2.2), Communication Services (2.2), and Financials (1.7). The underperformers last week: Consumer Staples (0.0), Information Technology (0.7), Utilities (0.9), Consumer Discretionary (1.2), and Energy (1.4). The S&P 500 is now up 8.6% ytd, with nine of the 11 sectors positive ytd and six ahead of the index. During the June 20 week, Consumer Discretionary and Health Care were trailing so far behind ytd that they were the only sectors *trailing* the index. Industrials still wears the crown as the best ytd performer, with a gain of 17.5%, ahead of Information Technology (12.5), Utilities (11.5), Communication Services (11.3), Financials (10.5), and Materials (9.6). These five sectors are lagging the S&P 500 so far in 2025: Health Care (-1.0), Consumer Discretionary (-0.7), Energy (1.7), Consumer Staples (4.2), and Real Estate (4.9).

US Economic Indicators

New Home Sales (*link*): New home sales (counted at the signing of a contract) were weaker than expected in June, amid high mortgage rates, sending inventory to levels last seen in late 2007. New home sales ticked up only 0.6% last month to 627,000 units (saar), considerably below the consensus estimate of 650,000 units, remaining in a volatile flat trend. *Compared to a year ago*, sales were down 6.6%. The estimate of new homes for sale was 511,000 units at the end of June, representing a 9.8 months' supply at the current sales pace, up from 9.7 months in May. Regionally, sales in the Midwest (+6.3% to 85,000 units, saar) and South (+5.1 to 390,000) rose in June, while sales in the Northeast (-27.6 to 21,000) and West (-8.4 to 131,000) dropped sharply. Of the 627,000 *homes sold* during June, 343,000 were completed, 216,000 were under construction, and 68,000 weren't started. Of the 511,000 *homes for sale* during June, 119,000 had been completed, 271,000 were under construction, and 121,000 hadn't yet broken ground. The *inventory of unsold homes* climbed to 511,000 units in June, the highest since October 2007.

Durable Goods Orders & Shipments (*link*): Durable goods orders tumbled in June, after a pre-tariff surge, led by a double-digit decline in transportation orders. Orders for durable goods sank 9.3% last month, reversing a good portion of May's 16.5% jump, with transportation orders sinking 22.4%, mostly nondefense aircraft and parts (-51.8%), and capital goods orders dropping 22.2%—reflecting a steep decline in nondefense. Excluding transportation, durable goods orders barely budged, inching up 0.2%. *Nondefense capital goods orders* plunged 24.0%, while the comparable shipments measure slipped 0.9%. Meanwhile, *nondefense capital goods orders excluding aircraft* (a proxy for future business investment) dropped 0.7% in June, following an upwardly revised 2.0% rebound in May, below the consensus estimate of a 0.2% uptick. *Shipments of core capital goods*, used in the calculation of the GDP component of business equipment spending, rose 0.4% in June following May's 0.5% increase.

Global Economic Indicators

Germany Ifo Business Climate Index (*link*): Business sentiment improved in July, though remains sluggish. The *Ifo business climate index* climbed for the sixth time in seven months, from 84.9 in December to 88.6 in July. The *expectations* component climbed from 84.7 to 90.7 over the comparable period to its highest reading since April 2023, while the *current conditions* component has been in a relative flat trend in recent months, hovering around 86.0; it was at 86.5 this month. *By sector, manufacturing* sentiment improved in July, with companies noting their current situation was noticeably better, while their expectations "brightened further." The report cautioned, however, that "incoming orders still lack momentum." *Construction* also saw an improvement in current conditions and expectations, though also noted that "a lack of orders remain a major problem." *Trade* weakened this month due to a deterioration in expectations, while the current situation improved slightly—though remained unsatisfactory, according to the report. The *service sector* saw its business climate deteriorate in July, with both current conditions and expectations drifting lower. IT service providers suffered a setback. However, the transport and logistics sector improved, with the business climate recording a noticeable improvement.

US PMI Flash Estimates (*link*): "Growth accelerates in July as rising demand for services offsets manufacturing dip" was the headline of this month's report. July's *C-PMI* (to 54.6 from 52.9) climbed to a seven-month high, along with the *NM-PMI* (55.2 from 52.9), while the M-PMI (49.5 from 52.9) sank to a seven-month low. The *M-PMI* Output (51.2 from 53.1) measure remained above 50.0, though weakened during the month. Meanwhile, the report cautioned that business confidence deteriorated in both sectors, noting "ongoing concerns over the impact of government policies, especially in relation to federal spending cuts and tariffs." *Turning to prices*, price pressures accelerated across both the manufacturing and service sectors, mainly reflecting higher goods prices due to tariffs, but also labor costs in some cases. *Service* price inflation posted its second steepest increase since April 2023, while *manufacturing* selling price inflation eased, though the rise was the second largest since November 2022.

Eurozone PMI Flash Estimates (*link*): Activity in the Eurozone accelerated in July. The *Eurozone C-PMI* (to 51.0 from 50.6) reached an 11-month high, with the NM-PMI (51.2 from 50.5) at a six-month high, moving further into expansion territory, while the M-PMI (49.8 from 49.5) reached a 36-month high, moving closer to the breakeven point of 50.0. Meanwhile, the M-PMI Output (50.7 from 50.8) measure stabilized just above 50.0. Turning to the Eurozone's two largest economies, *Germany's* private sector saw its C-PMI (to 50.3 from 50.4) holding relatively steady in July, with the NM-PMI (50.1 from 49.7) moving out of contraction territory, while the M-PMI (49.2 from 49.0) reached a 36-month high—just shy of the breakeven point of 50.0. Economic activity in *France* remained weak, though its C-PMI (to 49.6 from 49.2), NM-PMI (49.7 from 49.6), and M-PMI (48.4 from 48.1) all moved closer to 50.0—with the C-PMI and NM-PMI at 11-month highs and the M-PMI at a two-month high. The report noted that the *rest of the Eurozone* continued to outperform the largest two economies, posting its strongest growth since February.

Japan PMI Flash Estimates (*link*): "Japan's strong service sector growth offset the fresh decline in manufacturing output," according to the report. The C-PMI held at 51.5 this month, with the NM-PMI (53.5 from 51.7) climbing further into expansion territory, while both the M-PMI (48.8 from 50.1) and M-PMI Output (47.6 from 51.2) measures showed manufacturing contracting again. According to the report, "Uncertainty over future trade policy weighed on expectations regarding the year-ahead, with both service providers and manufacturers less upbeat about future output. Furthermore, the level of optimism across the private sector as a whole was the second-lowest recorded since the initial wave of the COVID-19 pandemic."

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