



September 17, 2025

## Morning Briefing

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### On China's Troubles, Slippery Oil & The Magnificent-7

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Check out the accompanying [chart collection](#).

**Executive Summary:** It may not be as feasible as some think for China's government to achieve its 5% annual GDP growth goal, given formidable headwinds, including slow-moving economic reforms and the impact of US tariffs. William discusses the challenges that China faces and why Chinese equities investors who are counting on President Xi to save the day may be disappointed. ... Melissa looks at supply and demand dynamics in the global oil market, explaining that the oil price may languish until excess supply is sopped up by demand. ... The Magnificent-7 has staged an impressive comeback, Joe reports, with a record-high collective market capitalization and ytd performance that beats the S&P 500's.

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**China's Economy I: Growth Prospects in Uncharted Territory.** As China's [\\$18 trillion](#) economy wobbles en route to the government's "[around 5%](#)" GDP growth target for this year, there's a sense among many observers that we've seen this before and that the way past it is clear: As in the summer of 2024 when China's economy hit a speed bump, President Xi Jinping easily could course-correct with another tap on the stimulus accelerator is the thinking.

This view may lack situational awareness, however, given several obstacles preventing China from hastening growth as easily as in the past. Let's consider them:

(1) *Broad economic slowdown.* Granted, there's familiar energy to news on Monday that momentum in employment growth, retail sales, [industrial production](#), and investment slowed in August ([Fig. 1](#) and [Fig. 2](#)). Ditto for signs that the housing market is struggling anew. The 70-city sample of property prices continued to decline. New home prices [decreased by 0.3%](#) m/m, while used home prices declined by 0.6% m/m ([Fig. 3](#)).

The downshift can be seen, well, everywhere as deflationary pressures deepen and the vital export engine slows. In August, outbound shipments rose just [4.4% y/y](#) compared with 7.2% y/y in July.

(2) *'Xi Put' soon to be kaput?* All this means that the China bulls can no longer argue that Team Xi is on top of things as an increasing number of headwinds challenge Beijing's all's-well narrative.

One headwind: US tariffs are biting, no matter what Xi's lieutenants claim. Another: Pre-existing cracks in the economic foundation that Beijing had allowed to widen now are gaping simultaneously. These include a cratering property market and weak household spending.

These headwinds challenge investors' faith that traditional stimulus bursts will be effective this time—and they undermine the fabled “Xi Put” that's worked so well for a decade now.

But faith in the Xi Put dies hard: Investors remember past government interventions to buoy the stock market, which may be helping to fuel their exuberance.

In early July of 2015, Shanghai stocks lost nearly one-third of their value in just three weeks. That prompted China to set up a “national team” of state-backed investors who poured into the market to save the day, setting a precedent. They did it again amid the Covid-19 crisis and in April of this year following President Donald Trump's “Liberation Day” tariffs.

(3) *Questionable basis for stock rally.* This dynamic helps explain why Chinese stocks rallied Monday, even as weak data suggest that the market's giddiness this year is divorced from economic reality. The CSI 300 Index is up 46% over the last 12 months (Fig. 4).

Never mind that deflation is intensifying and the property crisis is deepening, the bulls argue, the Xi Put is sure to surface soon to give household consumption another jolt. And besides, the argument goes, local tech companies' artificial-intelligence efforts matter more than old-economy concerns.

Look no further than the bull run being enjoyed by the e-commerce behemoth that Jack Ma built. China's answer to MAGA spells “Make Alibaba Great Again” as NYSE-traded BABA's ytd return tops 86%.

**China's Economy II: Stocks Divorced from GDP Risks.** Elsewhere, though, cracks in the China growth story are spreading. Consider the \$45 billion stock selloff hitting electric vehicle phenomenon BYD following the 30% plunge in its April-June quarter profit. Just months after news that BYD outsold Elon Musk's Tesla in 2024, investors are questioning

whether the Shenzhen-based company can thrive amid Xi's policy priorities.

Warren Buffett-backed BYD had been a leading force in the race-to-the-bottom on prices that Xi's government is trying to tame. Now, Xi's so-called "[\*anti-involution\*](#)" campaign is shaking up the industry. Confusion surrounding the effort, though, appears to be doing more to damage the international reputation of Chinese manufacturing than the campaign is doing to reduce deflationary pressures. Consider the following:

(1) *Uninvestable China debate*. Such self-inflicted wounds have become a hallmark of the Xi era that began in 2013. At the height of Covid in late 2020, for example, Xi's Communist Party thought it wise to begin a giant [\*crackdown\*](#) on internet billionaires—starting with Ma's Alibaba. As the inquisition broadened to Baidu, Didi Global, JD.com, Meituan, Tencent, and others, Wall Street debated whether China was "[\*uninvestable\*](#)."

A more recent misstep: limiting the People's Bank of China's latitude to battle falling prices. Though the central bank has cut interest rates and reserve-requirement ratios here and there, it hasn't acted with the forcefulness that a genuine effort to avoid entrenched deflation warrants.

(2) *Glacial reform pace*. Xi's inner circle bristles at suggestions that China's economy might experience a Japan-like malaise. Yet its corrective initiatives are progressing at a glacial pace, and the economy is faltering much faster. These slow-moving reforms include reducing the role of inefficient state-owned enterprises, ending the [\*property crisis\*](#), addressing high youth unemployment, revitalizing debt-burdened local governments, strengthening capital markets, and building social safety nets to encourage households to spend more and save less.

As the problems that these goals represent continue to fester and the collateral damage from US tariffs takes its toll, China's chances of continuing to grow GDP at a 5% annual rate are receding into uncharted territory. This time, the Xi Put might very well come up short.

**Global Energy I: Oil's Well That Ends Well?** The slide in the price of West Texas Intermediate (WTI) crude oil from late 2023 highs near \$100 per barrel to the low \$60s reflects supply outpacing demand. Industry analysts are expecting sub-\$60 per-barrel prices unless global production is curtailed. That's below the sweet spot for healthy energy company profitability, i.e., \$65 per barrel and above.

For now, industry survey data and estimates indicate that production is plentiful and that

prices are range-bound with a downward bias, where they'll likely stay until the oversupply is reduced. The good news? If the WTI crude price drifts below \$60 a barrel, we'd expect faster discipline from global oil producers—setting up a “low prices cure low prices” loop into late 2026. This would bring supply into closer alignment with demand and pave the way for analysts' projections of a recovery into the mid-to-high \$70s per barrel over the next several years.

Here's more:

(1) *Long price retreat.* Crude oil prices have been in a slow retreat since their late-2023 high near \$100 per barrel, following the 2022 Europe-led energy crunch ([Fig. 5](#)). By September 15, WTI spot prices stood at \$63.66 per barrel—a long way from the peak, yet comfortably above the \$20–\$30 troughs of the last two recessions.

(2) *Sweet profits spot.* The Dallas Federal Reserve Bank's Q1-2025 [survey](#) of 130 energy firms pegged the WTI breakeven price at about \$65 per barrel, while the Q2-2025 [survey](#) showed firms expect \$68 per barrel at year-end, reinforcing that pricing above \$65 per barrel remains the sweet spot for profitable drilling and investment.

(3) *Softening price forecasts.* The US Energy Information Administration's (EIA) September 2025 Short-Term Energy Outlook [projects](#) Brent falling from about \$68.00 per barrel in August 2025 to nearly \$50.00 in early 2026. It [attributes](#) the coming slide to inventory builds through the first quarter of 2026 as OPEC+ pumps more oil.

(4) *OPEC+ pumps and pumps.* The EIA locked in its September projections before OPEC+ announced on September 7 a 137,000-barrels-per-day (b/d) production hike for October, which should further inflate stockpiles and push prices lower. This is a modest hike for OPEC+—comparing with the hikes of 555,000 b/d in August and September and 411,000 b/d in June and July—which signals that the cartel is already tapping the brakes, [according](#) to *Reuters*.

(5) *Bullish spin.* The markets took the modest production hike as a positive sign that OPEC+ is easing off the accelerator. Brent crude [rose](#) slightly on the announcement, signaling to OPEC+ that the markets would applaud its efforts to stabilize supply with demand in 2026.

(6) *Supply swing factor.* Nevertheless, the supply side is tracking steady growth in production across suppliers (see our [Global Oil Production](#)). In its monthly report, the

International Energy Agency (IEA) raised its supply view after the OPEC+ hike, [flagging](#) a larger surplus ahead, with supply growth of approximately 2.7 million b/d this year versus an earlier estimate of 2.5 million b/d.

IEA revisions tend to be large and diverge from the actual data. But the message is clear: Supply is set to continue to outpace demand.

(7) *Demand robust.* India and China's oil import data suggest firm, but not frothy, global oil demand (see our [Global Oil Demand](#)). Confirming this view, OPEC's monthly [report](#) just [reaffirmed](#) its unchanged demand forecast alongside an upbeat macro tone. IEA also revised its forecast for world oil demand growth this year to 740,000 b/d.

(8) *Surplus grows.* In other words, demand is fine, but it isn't racing ahead fast enough to absorb all the new barrels coming to market. Taken together, a global oil surplus could exceed 3 million b/d in 2026, according to the IEA.

**Global Energy II: Slippery Slopes.** Several geopolitical narrative threads loom over oil markets. For now, their associated risk premiums are limited, but a small change in the balance could move oil prices, potentially by a lot. Consider the following:

(1) *Middle East escalation resolves (for now).* Oil prices edged higher after Israel carried out a strike on Hamas leadership in Qatar on September 9, sparking fears of wider regional instability. The rally faded as US and Qatari officials signaled no imminent escalation or impact on energy facilities.

(2) *EU swapping Russian for US energy.* One [narrative](#) frames Europe as "succumbing" to US energy dominance—locking into American liquid natural gas (LNG) while squeezing out Russian supply. More Russian oil coming off the market could nudge oil prices higher, but not by as much as that did in 2022. More meaningfully, Europe's deeper reliance on higher-priced LNG could erode its industrial competitiveness.

(3) *Saudi's transition to renewables.* Saudi Arabia has [ambitions](#) to transition to more than one-half reliance on renewable energy sources by 2030 to power its domestic economic growth and industry. If Riyadh meets that goal, its own oil demand falls, freeing up barrels for export and putting downward pressure on global prices.

(4) *On Fed & tariff watch.* Looking ahead, we see two countervailing influences on the oil price: If the Fed cuts interest rates this week, US demand could strengthen and soak up

some of the market's excess supply. On the other hand, tariffs could weigh on demand.

**US Strategy: Are the Seven Regaining Magnificence?** During 2024, the Magnificent-7 beat the S&P 500 for the 11th time in 12 years, recording a collective market-capitalization gain of 46.3%. That was nearly double the S&P 500's 24.4% rise. The Mag-7 has risen a much slower 15.9% ytd through Monday's close but is now outperforming the S&P 500's 12.5% rise. Together, the seven stocks now represent 31.3% of the index's total market capitalization, down slightly from their record-high 32.2% market-cap share during the August 19 week ([Fig. 6](#)).

This year started out as a challenging one for the Mag-7. The strong uptrend in their consensus revenue and earnings growth forecasts slowed amid relatively high valuations, and investors aggressively bid down the group's capitalization into bear-market territory by early April. Since then, all of the lost ground has been regained and consensus forecasts have improved, albeit more slowly than a year earlier. Joe shares the details below:

(1) *Rapid recovery from bear market to market leader.* The Mag-7's collective market capitalization peaked at a record-high \$18.4 trillion on December 24 before tumbling 28.6% to an 11-month low of \$13.2 trillion on April 8. It's back at record highs again. The Mag-7 has risen 15.9% ytd through Monday's close to a record high of \$19.6 trillion. That's now ahead of the S&P 500's 12.5% ytd gain ([Fig. 7](#)).

Indeed, the Mag-7's market capitalization is in positive territory on a y/y basis, as it has been for much of the time since 2013 ([Fig. 8](#)). The group is up 32.4% y/y, well above the 18.2% gain for the S&P 500. Still, that's down substantially from the 75.0% y/y performance at year-end 2023.

(2) *Slower gains this year to new record highs in consensus forecasts.* The Mag-7 stocks' collective forward revenues soared 15.8% during 2024 ([Fig. 9](#)). It's off that strong pace so far in 2025, rising just 9.8% ytd but to a new record high of \$2.5 trillion.

The group's forward earnings soared 35.6% last year but has risen just 15.6% ytd ([Fig. 10](#)). (FYI: "Forward" revenues and earnings refers to the time-weighted average of analysts' current-year and following-year consensus estimates. The forward profit margin is calculated from forward revenues and earnings.)

The Mag-7's collective forward profit margin improvement last year was stunning—from a record 21.6% at the year's start to a new record high of 25.4% at its finish ([Fig. 11](#)). It has

continued to improve this year, reaching a new record high of 26.8% during the September 12 week.

(3) *Forward revenues growth rate turning higher again.* While the Mag-7's forward revenues growth is down from its record high, it remains well above that of the S&P 500 companies in aggregate, as it has since 2013. The group's latest reading of 13.2% is up from 11.8% on May 9 (an 18-month low) and more than double the S&P 500's 6.1% ([Fig. 12](#)).

(4) *Forward earnings growth forecasts still down markedly.* Analysts following the Mag-7 companies currently think the group will grow earnings by 17.5% over the next 12 months ([Fig. 13](#)). That's near the lowest readings in over two years and is only 4.8ppts above the 12.7% earnings growth that analysts forecast for the S&P 500 companies in aggregate.

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## Calendars

**US: Wed:** Fed Interest Rate Decision 4.25%; FOMC Projections; Housing Starts & Building Permits 1.36mu & 1.37mu; Mortgage Applications. **Thurs:** Leading Indicators -0.1%; Initial Claims 245k; Philadelphia Fed Manufacturing Index 1.4; Fed's Balance Sheet. (Source: FX Street)

**Global: Wed:** Eurozone Headline & Core CPI 2.1% & 2.3%/y/y; UK Headline & Core CPI 3.9% & 3.6%/y/y; Lagarde; De Guindos Escriva; Cipollone. **Thurs:** UK Gfk Consumer Confidence -18; BoE Interest Rate Decision 4.00%; German Buba Monthly Report; BoJ Interest Rate Decision 0.50%; Lagarde; De Guindos; Buch; Nagel; Schnabel; Mauderer. (Source: FX Street)

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## US Economic Indicators

**Retail Sales** ([link](#)): Retail sales beat expectations in August, and there was an upward revision to July sales. Headline retail sales rose 0.6% in August, triple the consensus estimate of a 0.2% uptick, while July retail sales rose an upwardly revised 0.6%—first reported up 0.5%. These increases followed two consecutive months of spending declines. Retail sales for the control group—which excludes autos, gasoline, building materials, and food services, used in calculating GDP—also rose a solid 0.7% in August, accelerating from July's 0.5%. Of the 13 nominal retail sales categories, nine increased in August, while four



declined. August sales performance versus that of a year ago: nonstore retailers (2.0% m/m & 10.1% y/y), clothing & accessories stores (1.0 & 8.3), sporting goods & hobby stores (0.8 & 4.7), food services & drinking places (0.7 & 6.5), motor vehicles & parts (0.5 & 5.6), gasoline stations (0.5 & -0.7), electronics & appliance stores (0.3 & 3.7), food & beverage stores (0.3 & 3.2), building materials & garden equipment (0.1 & -2.3), health & personal care stores (-0.1 & 5.1), general merchandise stores (-0.1 & 1.9), furniture & home furnishings (-0.3 & 5.2), and miscellaneous store retailers (-1.1% & 10.7).

**Industrial Production** ([link](#)): Headline industrial production ticked up 0.1%, just above the consensus estimates of no change, and following July's 0.4% shortfall. By industry group, manufacturing output rose 0.2%, with durable (0.2%) and nondurable (0.3) goods production both posting increases. Within durable goods production, August's gain was led by a 2.6% jump in motor vehicles & parts, while nondurable goods production was led by textile & product mills (2.5) and petroleum & coal products (1.6). Meanwhile, mining output rose 0.9% during the month, while utilities output dropped 2.0%. By market group, consumer goods production climbed 0.4%, with durable goods production up 0.6%, driven by a 1.3% advance in automotive products, while nondurable goods output rose 0.3%—with gains in nearly all of its categories. Meanwhile, business equipment output slipped 0.1%, as shortfalls in output of industrial & other equipment (-1.2) and defense & aerospace equipment (-1.1) more than offset gains in transit (2.1) and information processing (0.7) equipment.

**Capacity Utilization** ([link](#)): The headline capacity utilization rate was unchanged at 77.4% in August—hovering between 77.5% and 77.8% the past six months. August's rate was 2.2ppts below its long-run (1972-2024) average. The manufacturing utilization rate ticked up from 76.7% to 76.8% in August, hovering between 76.7% and 76.8% since May. August's rate was 1.4ppts below its long-run average. The utilization rate for mining rose to 90.6% in August, after slipping from 91.3% in June to 89.9% in July. August's rate was 4.1ppts above its long-run average. The utilities rate slipped for the second month, from 71.0% in June to 68.6% in August—remaining substantially below its long-run average.

**NAHB Housing Market Index** ([link](#)): “While builders continue to contend with rising construction costs, a recent drop in mortgage rates over the past few months should help spur housing demand,” notes NAHB Chairman Buddy Hughes. September's housing market index (HMI) was unchanged at 32 in September—the lowest since December 2022. In September, the components of the index were mixed, with sales expectations climbing two points to a six-month high of 45 and current sales conditions unchanged at 34. Meanwhile, traffic of prospective home buyers posted a one-point decline to 21, remaining



at a very low level. Turning to prices, 39% of homebuilders reported cutting prices in September, up from 37% in August, the highest percentage in the post-Covid period. The average price cut held steady at 5% again in September—the same as it's been every month since last November. The use of sales incentives was 65% in September, essentially unchanged from August's 66%. Robert Dietz, NAHB's chief economist noted: "NAHB expects the Fed to cut the federal funds rates at their meeting next week, which will help lower interest rates for builder and developer loans. Moreover, the 30-year fixed rate mortgage average is down 23 basis points over the past four weeks to 6.35%, per Freddie Mac. This is the lowest level since mid-October of last year and a positive sign for future housing demand."

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## Global Economic Indicators

**Eurozone Industrial Production** ([link](#)): Production rebounded in July, despite tariff uncertainty. Headline production rose 0.3%, on widespread gains, following June's 0.6% decline. Production of consumer nondurable (1.5%), capital (1.3), consumer durable (1.1), and intermediate (0.5) goods were all in the plus column in July, with energy (-2.9) output the one outlier. Compared to a year ago, production rose 1.8%, more than double June's 0.7% gain, driven by consumer nondurable (6.6) and capital (2.1) goods output. Intermediate (-0.9) and energy (-0.5) output were just below a year ago, while consumer durable (-0.1) goods output was basically flat. Looking at the largest Eurozone economies, data are available for the top four and show production rose on both a monthly and year-over-year basis in Germany (1.5% m/m & 2.1% y/y) and Italy (0.4 & 0.9), while Spain (-0.7 & 2.3) and France (-1.2% m/m & 1.3% y/y) recorded monthly declines but year-over-year gains.

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