September 18, 2025

Morning Briefing

On Rates, Tesla & Labor Market Shifts

Check out the accompanying chart collection.

Executive Summary: The Fed decided to do yesterday exactly what was expected of it. So its 25-basis-point drop in the federal funds rate barely moved the needle in Wednesday's trading. But anticipation of the move has helped interest-rate-sensitive stocks outperform the broader market ytd. … Tesla's board of directors has a bold plan to boost its market capitalization to $8 trillion, and it rests on the efforts of one man. Will CEO Elon Musk come through for Tesla? Jackie examines the marks he needs to hit to earn a ginormous payout. … Is artificial intelligence replacing recent college grads in the labor market, or are there other reasons for their difficulty breaking into their chosen careers?

The Fed: Doing the Expected. As was widely anticipated, the Federal Reserve lowered interest rates by a quarter of a percentage point yesterday and signaled that further rate cuts are likely during the remainder of this year and next.

The bond market and interest-rate-sensitive areas of the stock market expected yesterday's outcome and have performed well ytd. The 10-year Treasury yield has fallen from a peak of 4.59% on May 21 to a recent yield of 4.06% (*Fig. 1*). Yesterday, the 10-year note yield was largely unchanged in the wake of the Fed decision.

Mortgage interest rates have also fallen to 6.35%, their lowest level since October last year. Mortgage refinancing applications jumped 58% w/w and 70% y/y, according to the Mortgage Banker's Association.

Helped by lower interest rates, many of the S&P 500 industries involved with banking and construction have been standout performers recently. Some that have outperformed the S&P 500 ytd through Tuesday's close include: Investment Banking & Brokerage (up 25.3% ytd), Real Estate Services (23.6), Diversified Banks (22.4), Construction & Engineering (19.7), Consumer Finance (17.2), Construction Materials (15.7), Home Furnishings (14.8), Construction & Transportation Equipment (14.7), Home Building (14.7), Multi-line Insurance

(14.3), and S&P 500 (12.3).

Like bonds, the S&P 500 ended yesterday largely unchanged. Investors may not have sold on the news of the rate cut's size, but they didn't buy on the fact of it actually happening either, having already priced into valuations much of the near-term benefit that lower rates will bring.

Consumer Discretionary: Evaluating Musk's Payday. Tesla's CEO Elon Musk made headlines by buying $1 billion of Tesla's stock on Friday. The acquisition of the shares preceded the company's board of directors' proposal granting him a potentially massive pay package, which includes shares that could be valued at $900 billion. Shareholders will vote on the package on November 6.

Before the board's decision, Musk had noted in a tweet that he might not continue to develop AI as part of Tesla if he isn't given a larger stake in the company. The board obviously caved. Musk owned 19.7% of the company as of August 29. If he reaches the goals that the board laid out for him, Musk will earn an additional 12% stake in the company, according to a September 16 *article* in the *Los Angeles Times*.

To collect his payday, Musk must complete a gigantic task list: deliver a total of 20 million vehicles; place one million robotaxis into commercial operation; reach 10 million active subscriptions to Tesla's full-self-driving functionality; deliver one million "bots"; increase earnings before interest taxes, depreciation and amortization to $400 million a year; and increase the company's market value to $8.5 trillion. Musk also will need to develop a succession plan for the company and wind down his political involvement.

Here's a look at where some of those elements stand:

(1) *Cars.* Tesla has already sold roughly 8 million vehicles, so reaching the goal of 20 million vehicle deliveries should be accomplished in less than seven years, the *LA Times* article suggested. The risk is that competitors are coming to market with snazzier, sometimes less expensive electric vehicles (EVs) that can travel longer distances on one battery charge. One major competitor is China's BYD. We recently saw BYD's showroom in the heart of Milan, where some vehicles sported price tags of only $20,000.

(2) *Taxis.* Getting one million robo taxis into operation seems an even more challenging goal. The company has rolled out only 20-30 prototypes this year, in Austin, Texas, and human drivers remain behind the wheel. That said, Morgan Stanley's analyst Adam Jonas

gave the company's full-self-driving software rave reviews after taking a 1,400-mile trip from New York to Michigan and back in his Model Y, a September 15 *article* in *Teslarati* reported. He reported that full-self-driving handled more than 99% of the driving (he took control during two heavy rain storms and in one fast food parking lot).

(3) *Making robots.* Musk is psyched about Tesla's opportunity to sell robots, a business he expects ultimately to represent 80% of the company's value. To be successful, however, he'll have to compete against US companies like Boston Dynamics as well as many Chinese companies developing robots at very low prices. This *video*, posted on X, shows the latest Tesla Optimus robot, which looks sleek but doesn't follow orders flawlessly.

(4) *Audacious goals.* Nvidia was the first company to cross the $4 trillion valuation mark in July of this year. And now Tesla's board would like Musk to boost the valuation of the company beyond $8 trillion. Musk's share repurchases have inched the company toward that lofty goal.

Week-to-date through Tuesday's close, Tesla shares have risen 6.5%, exceeding the performances of the six other Magnificent-7 stocks (up 2.4%) and the S&P 500's (up 0.3%). The runner-up is Alphabet, with a 4.3% increase, followed by Meta (3.1%) (*Fig. 2*). Tesla's market capitalization rose to $1.3 trillion as of Tuesday's close.

On a ytd basis, Tesla stock is up just 4.4% (versus 15.9% for the Mag-7 collectively) and is approaching its previous high of 479.86 (on December 17) despite sporting an extremely high forward P/E of 203.5 (*Fig. 3*). That far exceeds the forward P/E of the other members of the Magnificent-7, which range from Amazon's 32.1 to Alphabet's 24.2 (*Fig. 4*).

Tesla has failed to grow its earnings in recent years. Its forward revenues have plateaued since 2023, and its forward profit margin has shrunk from a high of 16.9% in October 2022 to 7.1% recently (*Fig. 5* and *Fig. 6*). As a result, forward operating earnings per share has been more than halved to $2.07 (*Fig. 7*). Analysts expect the company will earn $1.49 this year and $2.28 in 2026.

Disruptive Technologies: Is AI an Entry-Level Job Killer? There is growing concern about the rising unemployment rate for recent college graduates (aged 22 to 27). It has climbed to 4.8% in June from a low of 3.8% in May 2022 according to *data* from the New York Federal Reserve.

Notably, the 4.8% unemployment rate for this young subsector tops that for all workers, at

4.0% in June. That's not typical historically: The rate for all workers has been higher at most points over the past 35 years. But starting in 2015, that started to change.

Why are these traditional employment patterns changing? Several recent reports and articles point to artificial intelligence. AI, one argument goes, is able to do the work of a young employee and is eliminating the bottom rung of the job ladder. However, a contrary view is that AI will displace more experienced workers, leaving younger workers unscathed.

Let's take a look at these differing points of view:

(1) *Blame AI.* It's a tough job market for new college grads, no doubt. In a *survey* by Cengage Group administered in June and July, about three-fourths of employers said they would hire the same or fewer entry-level employees in 2025, up from 69% saying so in 2024. The reasons cited include a tight labor market (51%), changes due to AI and emerging technologies (46%), and the current state of the economy (46%).

Only 35% of surveyed employers reported difficulties finding entry-level talent, down sharply from 65% in 2022. And less than one-third of college graduates have landed a full-time job related to their education. Only 51% of graduates believe they have sufficient AI skills for the jobs to which they've applied.

(2) *Don't blame AI.* A 2023 *paper* by the National Bureau of Economic Research came to a different conclusion. After looking at data on resumes, job postings, education levels, and companies, the authors concluded that AI resulted in flatter corporations with more lower-level employees who are able to use the technology to make decisions that might otherwise have been made by management.

"As firms invest in AI, they tend to transition to more educated workforces, with higher shares of workers with undergraduate and graduate degrees, and more specialization in STEM fields and IT skills. Furthermore, AI investments are associated with a flattening of the firms' hierarchical structure, with significant increases in the share of workers at the junior level and decreases in shares of workers in middle-management and senior roles," the study found.

"Specifically, a one-standard-deviation change in the share of AI workers at a firm is associated with a 1.6% increase in the share of junior employees from 2010 to 2018, while middle management declines by 0.8% and senior management by 0.7%." And the report finds that "AI-investing firms experience a significant increase in demand for employees with skills in data analysis and IT, while decreasing their search for employees with skills in traditional operational fields such as finance and maintenance."

(3) *Also to blame: tariff uncertainty.* Our sense is that the weak employment market for college grads reflects business leaders' economic uncertainty as much it does AI adoption. Tariffs and related inflation make it awfully difficult to plan ahead and increase headcount.

The Conference Board measure of CEO confidence fell sharply to 34 in Q2 and bounced back to 49 in Q3. (A reading below 50 reflects more negative than positive responses from CEOs.) Viewed in that context, it's no surprise that the unemployment rate for recent college grads rose from 4.8% in January to a peak of 5.8% in April—a time of heightened concern about tariffs—before dropping back to 4.8% more recently.

(4) *Also to blame: structural change.* A structural change in the job market may also be a factor. Over the past 35 years, the unemployment rate for recent college graduates has almost always been lower than the unemployment rate for all workers. That relationship started to flip in 2015 —before the advent of AI—and now the former is higher than the latter.

Why this change? It may be due to the increase of college educated people in the workforce generally these days, so the new entrants are competing for jobs with more experienced college graduates. The percentage of Americans with a bachelor's degree or higher has jumped to 37.5% up from 25.6% in 2020, according to the *Education Data Initiative*.

Moreover, the unemployment rates associated with various majors are telling. Those with the highest rates of unemployment (based on 2023 data) are: anthropology (9.4%), physics (7.8%), computer engineering (7.5%), commercial art and graphic design (7.2%), fine arts (7.0%), sociology (6.7%), computer science (6.1%), chemistry (6.1%), information systems and management (5.6%), and public policy and law (5.5%), according to New York Fed *data*.

This suggests that too many kids opted to go into computer-related fields and faced a tougher time than expected landing a good job. Tech workers have been some of the hardest hit in a slowing job market, with more than 400 employers—including Meta, Intel, and Cisco—announcing more than 130,000 jobs cut in 2025, according to *tech job site* TrueUp, NBC News *reported*. These also happen to be some of the companies that have most aggressively hired to deploy AI.

Calendars

US: Thurs: Leading Indicators -0.1%; Initial Claims 245k; Philadelphia Fed Manufacturing Index 1.4; Fed's Balance Sheet. **Fri:** Daly Speech. (Source: FX Street)

Global: 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. **Fri:** Eurogroup Meetings; Germany PPI -0.1%m/m,-1.8%y/y; France Business Survey 92; UK Retail Sales 0.4%m/m, 0.5%y/y; Tuominen. (Source: FX Street)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): During the September 11 week, the S&P 500's forward revenues rose 0.1% w/w to just 0.1% below its record high during the August 29 week. Forward earnings rose 0.1% to a new record high, and the forward profit margin remained steady at a record high of 13.9%. The forward profit margin is now 3.6ppts above its seven-year low of 10.3% during April 2020. The consensus expectations for forward revenues growth rose 0.1ppt w/w to a 37-month high of 6.2%. It has gained 3.9ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast rose 0.1ppt w/w to a 32-week high of 12.8%, up 1.9ppts from its 15-month low of 10.9% during the May 29 week. From a longer-term perspective, that's a bit stronger than its 20-year average of 11.4% and slowing from a 38-month high of 14.3% during the December 12 week. It's also down from its 23.9% reading at the end of April 2021, which was boosted by the recovery from the pandemic to its highest reading since June 2010. But it's up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 5.6% in 2025 (unchanged w/w) and 6.3% in 2026 (up 0.1ppt w/w), compared to a 4.9% rise in 2024. They expect an earnings gain of 11.2% in 2025 (unchanged w/w) and a 13.6% rise in 2025 (up 0.2ppt w/w) compared to 2024's earnings gain of 11.4%. Analysts expect the profit margin to rise 0.6ppt y/y to 13.2% in 2025 (unchanged w/w) and 0.9ppt y/y in 2026 to 14.1% (unchanged w/w), compared to 2024's 12.6%. Looking at valuation data as of September 11, the S&P 500's weekly forward P/E rose 0.2pt w/w to 22.4. It's now 0.1pt below its 55-month high of 22.5 the week before that and is up 3.2pts from its 16-month low of 19.2 during the April 17 week. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio gained 0.04pt w/w to a new record high of 3.13. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Revenues, Earnings, & Margins (*link*): During the September 11 week, all but two of the 11 S&P 500 sectors posted gains in their forward revenues; yet only two posted gains in their forward earnings; and the forward profit margin was unchanged for 10 sectors and rose for Financials. These six sectors posted pandemic- or record-high forward revenues this week: Communication Services, Consumer Discretionary, Health Care, Information Technology, Real Estate, and Utilities. The forward revenues of Financials and Industrials are less 0.1% from their record highs a week earlier, and record-high worthy Consumer Staples' is instead 6.0% below due to Drug Retail's exit in late August. Energy's forward revenues is improving now from its three-year low in May, but remains depressed at 29.5% below its September 2008 record and 16.8% below its cyclical high in October 2022. Materials' has improved to a 25-month high to 3.9% below its June 2022 record high. These two sectors had record-high forward earnings this week: Communication Services and Information Technology. These five are less than 0.3% from their record-high forward earnings a week earlier: Consumer Discretionary, Financials, Industrials, Real Estate, and Utilities. Consumer Staples' is now 0.9% below its record high due to Drug Retail's exit, and Health Care's has improved to 1.6% below its April 3 record. Forward earnings remains depressed for the last two sectors, Energy and Materials, but has improved in recent months to 38.5% and 22.6% below their respective highs during 2022. Looking at the forward profit margin, one sector rose w/w and 10 were steady. These two sectors were at record highs: Financials and Information Technology. These four sectors remain close: Communication Services, Consumer Discretionary, Industrials, and Utilities. Consumer Staples, Energy, Materials, and Real Estate are improving somewhat from their recent multi-year lows, but Health Care's is still at a record low. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (28.0%, a fifth straight record high and for the first time since September 2024 when low-margin Dell's addition to the index lowered the margin 1.3ppts then to 26.3%), Financials (20.9, up 0.1ppt w/w to a new record high), Communication Services (19.4, down from its 19.8 record high during the August 7 week), Real Estate (16.7, at a six-month high and down from its 19.2 record high in 2016), Utilities (14.8, at a 43-month high and 0.3ppt below its 15.1 record high in April 2021), S&P 500 (13.9, at a record high), Materials (10.9, at a seven-month high and up 0.5ppt from 51-month low in late February and down from a 20-month high of 11.6 in July 2023 and a 13.6 record high in

June 2022), Consumer Discretionary (9.3, down from a record high 9.4 in early April), Energy (8.9, up 0.4ppt from a 55-month low of 8.5 during the during the May 15 week and down from its 12.8 record high in November 2022), Industrials (11.2, down from its 11.3 record high in early January), Health Care (8.1, at a record low and down from its 11.5 record high in February 2022), and Consumer Staples (7.1, up 0.4ppt from a 21-month low due to Drug Retail's exit during the 9/4 week and down from its 7.7 record high in June 2020).

US Economic Indicators

Housing Starts & Building Permits (*link*): The housing market weakened dramatically in August, with both housing starts and building permits tumbling. *Total housing starts* sank 8.5% to 1.307mu (saar) last month, below consensus estimates of 1.370mu and the fourth lowest reading since May 2020. The breakdown shows that single-family starts plunged 7.0% to 890,000 units (saar), its lowest level since July 2024, while multi-family starts of five units or more fell at a double-digit pace of 11.0% to a three-month low of 403,000 units. *Versus a year ago*, total starts fell 6.0%, with single-family units down 11.7% and multi-family units up 15.8%. *Regionally*, housing starts in the South (-21.0% m/m & -13.0% y/y) posted double-digit declines on both a monthly and yearly basis, while the West (30.4 & 6.5) posted gains over the same periods. Meanwhile, starts in the Northeast (9.2 & -11.6) rose on a monthly basis and fell on a yearly basis, while the Midwest (-10.9 & 5.3) did the opposite. *Building permits*, an indicator of future construction, fell 3.7% to 1.312mu (saar) in August, led by a 6.7% slump in units with five units or more to 403,000 units, while single-family permits were 2.2% lower at 856,000 units. *Versus a year ago*, total permits fell 11.1%, with single-family permits down 11.5% and multi-unit permits 10.8% below last August.

Global Economic Indicators

Eurozone CPI (*link*): The *Eurozone's CPI* was at 2.0% y/y for the third straight month in August, after inching up from 1.9% in May; it was at 2.5% at the start of this year. The rate was at 1.7% last September—which was the lowest yearly rate since April 2021. Meanwhile, the core rate was at 2.3% y/y in August for the fourth successive month, easing from 2.7% in April. The headline and core CPIs are down sharply from their recent peaks of 10.6% in October 2022 and 5.7% in March 2023. *Looking at the components*, the *services* rate eased from 4.0% in April to 3.1% by August—after hovering between 3.2% and 3.3% from May through July. The rate for energy prices was at -2.0% y/y in August, narrowing from -3.6% in both April and May; it had climbed from a recent low of -6.1% last September to 1.9% by January. Meanwhile, the rate for *food, alcohol & tobacco* edged down to 3.2% in August after climbing from 3.1% in June to 3.3% in July—hovering between 3.0% to 3.3% since April. The rate for *non-energy industrial goods* remained at 0.8% y/y in August, after fluctuating in a narrow band between 0.5% and 0.6% since last October. August's yearly inflation rate moved lower in two of the four *largest Eurozone countries*, France (to 0.8% from 0.9%) and Italy (1.6 from 1.7), while the rate was unchanged in Spain at 2.7% and rose in Germany (2.1 from 1.8).

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