



September 29, 2025

Morning Briefing

Meet Bonnie

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

Executive Summary: Our Roaring 2020s outlook has been on target since the beginning of the decade. Over the past two quarters, GDP growth and consumer spending have been robust, and the recession widely anticipated for three years and as recently as April never showed. The Fed's September interest-rate cut—made proactively in response to weak payroll stats—was probably a mistake that could stoke price inflation and financial speculation. While unemployment is low, AI is disrupting some areas of the labor market. The Fed's rate cut won't help former tech workers now driving for Uber. ... The good news: Consumer spending should remain strong as Baby Boomers work down substantial nest eggs and support the spending of their adult progeny. ... Also: Dr Ed reviews "Audrey's Children" (+ +).

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](#).

Roaring 2020s Tour: Deep in the Heart of Texas. I visited our accounts in Austin and Houston last week. I also spoke at an investor conference sponsored by Capital Creek Partners in Austin and at a dinner in Houston of 400 Titans of Investing, a collegiate program founded and led by legendary investor Britt Harris.

I always enjoy these marketing trips and learn a great deal from my discussions with our accounts in their offices. I also learn from my conversations with Uber drivers in between meetings. That wasn't so easy this time because half of them spoke only Spanish. In addition, one of the Uber rides was in a Waymo. It was my first experience in a driverless vehicle, and it was a bit freaky when the car didn't follow the route my Waze app suggested.

One of my Uber drivers was Bonnie. She said she recently moved to Austin from Silicon Valley in California. She has six years of work experience in the tech industry, during which time she was laid off twice. She was hoping that the job market would be better in Austin, but all she could secure were interviews for entry-level positions paying significantly less than her previous job. She said that her younger techie friends with less job experience

couldn't even get interviews. She blamed their misfortunes on artificial intelligence.

She opened up to me after I told her that I am an economist. She wanted to know when the economy would get better for her and her friends. Ironically, we had that conversation last Thursday. That morning, the Bureau of Economic Analysis revised Q2's real GDP growth rate significantly from 3.3% (saar) to 3.8% ([Fig. 1](#)). Importantly, consumer spending was revised up from 1.6% to 2.5%.

Furthermore, on Friday, the Atlanta Fed's [GDPNow](#) model's estimate of Q3's growth rate was raised from 3.3% to 3.9%, confirming that the economy is performing very well indeed ([Fig. 2](#)). Consumer spending is tracking at a very robust 3.4%.

Over the past three years, we've experienced the most widely anticipated recession of all time that never happened. We called it the "[Godot](#) recession." Recession fears declined last year. This year started with the odds of a recession down to 18%, according to Polymarkets.com. During the spring of this year, Trump's Tariffs Turmoil raised recession expectations back up over 65% ([Fig. 3](#)). Now they are down to 7%. However, expectations of a significant economic slowdown have been widespread since the Bureau of Labor Statistics began reporting much weaker payroll employment data for May ([Fig. 4](#)). The slowdown isn't happening according to the GDP data.

Nevertheless, the Federal Open Market Committee (FOMC) voted to lower the federal funds rate (FFR) by 25bps for the first time this year on September 17. In his post-meeting press conference that afternoon, Fed Chair Jerome Powell described it as a "risk management cut" in response to the recent batch of weak payroll employment numbers. With the benefit of hindsight provided by last Thursday's GDP report, the FOMC might not have rushed to cut the FFR, given its previous assertions all year long that the committee was in no rush to lower it!

Additionally, last Thursday's weekly initial unemployment claims report showed a sharp decline during the week of September 19, indicating that the unemployment rate remains very low at around 4.3% ([Fig. 5](#)). Notwithstanding Bonnie's woes, jobless claims confirm that layoffs remain subdued.

I forgot to ask Bonnie how long she had been laid off before she started driving for Uber and was no longer counted in the continuing unemployment claims series, which has been edging down in recent weeks. The downward drift could be because other claimants likewise are finding jobs, while still others have stopped receiving their unemployment

benefits after 26 weeks.

While Bonnie is working and not classified as “unemployed,” she feels as though she is, given the significant drop in her income. She is not alone. Payroll employment in the information industry is down 18,400 on a ytd basis through August ([Fig. 6](#)). In fact, this industry’s payrolls peaked at a record 3.7 million during February 2001 and is now down to 2.9 million ([Fig. 7](#)).

There isn’t much that the Fed can do for Bonnie by lowering the FFR. Rate cuts might stimulate even faster growth in GDP, potentially boosting consumer price inflation in the short run such that her income doesn’t stretch as far. That might also cause bond yields and mortgage rates to rise, as occurred late last year following the Fed’s rate cuts ([Fig. 8](#)). At the same time, stock and precious metals prices might continue to melt up. Unnecessary rate cuts could also increase financial instability by fueling speculative excesses.

Nevertheless, our base-case outlook remains the Roaring 2020s. Our Roaring 2020s scenario has had a good five-year run since we started to predict it in 2020. It also has had a good month so far, with upward revisions in GDP and downward revisions in payroll employment implying that productivity will be revised higher.

Consumers: The Baby Boomers Are Spending. The good news is that consumers are still doing what they do best, as evidenced by the upward revisions in real consumer spending during Q2 and Q3. August’s personal income report, released on Friday, indicates resilient consumer spending despite moderating income growth. Nominal personal consumption expenditures (PCE) rose 0.6% m/m, while disposable personal income increased 0.4% ([Fig. 9](#) and [Fig. 10](#)). The PCE deflator rose 0.3%. So in real terms, both series rose.

On the negative side, it has been widely reported that a relatively small percentage of well-to-do consumers accounts for more of the growth of consumer spending. Consumers in the top 10% of the income distribution scale accounted for 49.2% of total spending in Q2, up from 48.5% in Q1, reaching the highest level in data going back to 1989, according to a March 2025 [analysis](#) of Federal Reserve [data](#) by Mark Zandi, chief economist for Moody’s Analytics.

We are somewhat skeptical about these findings. Zandi’s estimates seem like ammo for Progressives, who always want to redistribute income and wealth. We’ve often observed that the Baby Boom cohort seems to be following the advice of Spock in *Star Trek*: “Live

long and prosper.” This generation has net worth of \$85.4 trillion, or 51.1% of household net worth ([Fig. 11](#) and [Fig. 12](#)). They own \$27.4 trillion in equities and mutual fund shares ([Fig. 13](#)). That’s 53.5% of the holding of these assets by households ([Fig. 14](#)). They have been living long and prospering!

We’ve predicted that as the Baby Boomers retire, they will be spending their substantial retirement nest eggs. Their outsized representation in the population combined with this huge spending in the absence of labor income will likely turn the personal saving rate negative in coming years. Moreover, studies have shown that many Baby Boomers are providing financial support to their adult children. These patterns together explain why consumer spending is able—indeed, likely—to remain strong even if the labor market is weak.

Inflation: Stuck at 3.0%. August’s PCE deflator was released on Friday in the personal income report. The headline and core inflation rates were 2.7% and 2.9% ([Fig. 15](#)). The core rate has been stuck just south of 3.0% for the past six months. Here’s more:

(1) Tariffs have boosted the PCED durable goods inflation rate from last year’s low of -3.1% y/y during May to 1.2% in August ([Fig. 16](#)). This confirms our view that while tariffs haven’t boosted the overall core inflation rate, they have kept it from falling from around 3.0% currently down to the Fed’s 2.0% target.

(2) Meanwhile, the PCED nondurable goods inflation rate has been fluctuating around zero in recent months ([Fig. 17](#)).

(3) In the housing-related services sector, PCED inflation continues to moderate significantly ([Fig. 18](#)). Housing and utilities inflation is down to 3.9%, led by a drop to 3.5% in tenant rent. The problem is that the “super-core” inflation rate, which is PCED services less energy and housing, has been stuck just south of 3.5% in recent months ([Fig. 19](#)).

So the economy has been growing faster than 3.0% (saar) for the latest two quarters. The unemployment rate is 4.3%. Inflation remains stuck around 3.0%. No wonder the financial markets are starting to signal fewer Fed rate cuts over the next six to 12 months ([Fig. 20](#)).

Movie. “Audrey’s Children” (+ +) is an inspiring 2025 biopic that shines a light on the remarkable life and work of Dr Audrey Evans. Set mostly in 1969, the British physician became a pioneer in pediatric oncology at the Children’s Hospital of Philadelphia (CHOP). She faced sexism, institutional resistance, and the obstacles of medical conventions. Still,

she pushed forward innovations: creating a staging system for neuroblastoma (a childhood cancer), experimenting with combination chemotherapy, and advocating for families of young cancer patients by helping to found what became the first Ronald McDonald House. (See our movie reviews [archive](#).)

Calendars

US: Mon: Pending Home Sales 0.2%; Dallas Fed Manufacturing Index; Williams; Bostic.

Tues: Consumer Confidence 95.3; JOLTS 7.15m; S&P/CS HPI Composite 2.3%/y; Chicago PMI 43.2; Goolsbee; Jefferson; Collins; Logan. (Source: FX Street)

Global: Mon: Eurozone Business & Consumer Survey 95.2; Spain CPI 3.1%/y; Spain Retail Sales; Japan Industrial Production -0.7%; Japan Retail Sales 1.0%; Japan Leading & Coincident Indicators 0.8% & -2.6%; China Caixin M-PMI & NM-PMI 46.6 & 50.3; Lane; Schnabel; Nagel; Ramsden; Noguchi. **Tues:** Germany Retail Sales 0.5%; Germany Unemployment Rate 6.3%; Germany CPI 0.1%/m/m, 2.3%/y/y; Germany Import Prices -0.2%; France Consumer Spending 0.3%; France CPI -0.9%/m/m, 1.3%/y/y; Italy CPI 0.2%/m/m, 1.7%/y/y; UK GDP 0.3%/q/q, 1.2%/y/y; RBA Interest Rate Decision 3.60%; Japan Housing Starts -4.9%; Japan Large Manufacturing Index 14; Japan M-PMI 48.4; Elderson; Nagel; Mann; Ramsden; Breeden. (Source: FX Street)

Strategy Indicators

Global Stock Markets (US\$ Performance) ([link](#)): The US MSCI index fell 0.3% during the September 26 week to 0.8% below its record high on Monday. The AC World ex-US trailed with a decline of 0.7% for the week and closed 1.1% below its September 17 record high. The AC World ex-US has been hitting new record highs since May 14—the first time it's had such a long streak of successive record highs since June 15, 2021. Despite its strength in recent weeks, the US MSCI outperformed the AC World ex-US in only 13 of the past 35 weeks. EMEA was the best performing region last week, with a gain of 0.9%, followed by EM Latin America (0.1%), EMU (0.0), EAFE (-0.4), Europe (-0.5), and the AC World ex-US. EM Asia was the worst regional performer, with a decline of 1.6%, followed by EM (-1.1). The Mexico MSCI index, with a gain of 1.7%, performed the best among country indexes, ahead of South Africa (1.0), Spain (0.3), the UK (0.2), and Japan (0.1). The India MSCI index was the worst performer w/w, with a decline of 3.9%, followed by Hong Kong (-2.1),

Switzerland (-2.1), Korea (-2.0), and Canada (-1.6). In terms of ytd performance rankings, the 13.2% gain for the US MSCI index ranks as the third worst country performer and trails the 22.0% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EM Latin America leads with a gain of 36.5%, followed by EMU (29.3), Europe (23.3), EM (23.3), EM Asia (22.5), and the AC World ex-US. EMEA is the worst ytd performer, albeit with a gain of 21.1%, followed by EAFE (21.2). All but one of the 18 major selected country markets that we follow are higher ytd now. Spain is the best ytd performer, with a gain of 56.6%, followed by Korea (51.6), South Africa (49.3), Mexico (42.3), and China (34.6). The worst performing countries ytd: India (-1.5), Australia (10.5), the US (13.2), Switzerland (17.0), and Japan (18.7).

US Stock Indexes ([link](#)): Just 14 of the 48 major US stock indexes that we follow rose during the week ended September 19, down from all 48 rising a week earlier. The Dow Jones 15 Utilities index was the best performer for the week, rising 2.3%, ahead of S&P 500 LargeCap Pure Value (1.4%), S&P 500 Transportation (1.3), Dow Jones 20 Transports (0.8), and S&P 600 SmallCap Pure Value (0.6). The Russell MidCap Growth index was the worst performer, with a decline of 1.5%, followed by Nasdaq Industrials (-1.1), Russell 2000 Growth (-1.0), S&P 500 LargeCap Growth (-0.9), and Russell 3000 Growth (-0.9). All but one of the 48 indexes are higher ytd. With a gain of 18.0%, the S&P 500 LargeCap Growth index is in the top spot as the best performer so far in 2025, ahead of Nasdaq 100 (16.6), Nasdaq Composite (16.4), S&P 500 LargeCap Pure Growth (15.5), and Russell 1000 Growth (14.8). The worst performing major US stock indexes ytd: Dow Jones 20 Transports (-1.0), S&P 600 SmallCap Value (1.7), S&P 600 SmallCap Equal Weighted (1.8), S&P 600 SmallCap (2.7), and S&P 600 SmallCap Growth (4.1).

S&P 500 Sectors Performance ([link](#)): Five of the 11 S&P 500 sectors rose during the week ended September 26, and the same five were ahead of the S&P 500's 0.3% decline. That compares to five S&P 500 sectors rising a week earlier, when just three were ahead of the S&P 500's 1.2% gain. The outperformers last week: Energy (4.7%), Utilities (2.8), Real Estate (0.9), Information Technology (0.3) and Industrials (0.1). The underperformers last week: Communication Services (-2.7), Materials (-2.0), Consumer Discretionary (-1.2), Consumer Staples (-1.1), Health Care (-0.9), and Financials (-0.4). The S&P 500 is now up 13.0% ytd, with 10 of the 11 sectors positive ytd and four now 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 underperforming the index. Communication Services still wears the crown as the best ytd performer, with a gain of 24.8%, followed by Information Technology (20.1), Industrials (15.8), and Utilities (14.5). These seven sectors are lagging the S&P 500 so far in 2025: Health Care (-1.5), Consumer Staples (1.7), Real Estate (3.0),

Consumer Discretionary (4.7), Materials (6.7), Energy (7.5), and Financials (11.5).

US Economic Indicators

GDP ([link](#)): Real GDP growth for Q2 was revised upward for the second time to 3.8% (saar)—the highest quarterly rate since Q3-2023—from the previous estimate of 3.3% and the initial estimate of 3.0%. Real GDP had contracted 0.6% during Q1. Comparing the third estimate to the second estimate, the increase in GDP during Q2 mostly reflected a decrease in imports (-29.3% from -29.8%, saar), which are subtracted when calculating GDP, while exports (-1.8 from -1.3) posted a slightly larger decline than previously reported. Personal consumption expenditures (2.5 from 1.6) showed nearly a percentage-point gain, led by services (2.6 from 1.2) consumption, with goods (2.2 from 2.4) consumption showing little change. Nonresidential (7.3 from 5.7) investment was stronger, led by equipment (8.5 from 7.4) spending, while the decline in structures (-7.5 from -8.9) was a little less negative. Meanwhile, residential investment (-5.1 from -4.7) was slightly more negative.

Personal Income & Consumption ([link](#)): For the third month in a row, consumers have been spending more than they're making and saving less. Personal income rose 0.4% in August, following gains of 0.4% and 0.3% in July and June, respectively, with personal consumption expenditures rising 0.6%, 0.5%, and 0.5% over the comparable periods. Goods consumption rose a solid 0.8% in August, following gains of 0.6% and 0.8% over the prior two months, with both durable and nondurable consumption matching the 0.8% increase. Services consumption continued to climb, rising 0.5% in August and 3.4% ytd. Adjusted for inflation, consumer spending advanced 0.4% in August, following gains of 0.4% and 0.3% the prior two months—the strongest monthly gain since March's 0.8% increase. Real goods consumption rose 0.7%, following gains of 0.7% and 0.4% the prior two months, which followed a two-month decline of 1.0%. Real durable goods spending climbed 0.9% and 1.8% during August and July, respectively, following a three-month decline of 3.0%, while real nondurable goods spending climbed 1.3% during the three months through August. Real services consumption increased for the sixth straight month, by 0.2% in August and 1.5% over the period. Personal saving fell \$252.2 billion during the four months through August, with the personal saving rate dropping from 5.7% in April to 4.6% by August. Turning to prices, the headline rate rose 0.3% in August, in line with expectations, while the core rose 0.2%. The headline PCED climbed to 2.7% in August, after easing from 2.7% in February to 2.3% in April, while the core rate was unchanged at 2.9% in August; the rate was at 2.6% in April. The headline and core rates peaked at 7.2% and 5.6%, respectively, during June 2022 and September 2022.

Consumer Sentiment Index ([link](#)): Consumer sentiment fell in September, as consumers have been feeling pressure from both the prospect of higher inflation as well as the risk of weaker labor markets. Consumer sentiment fell to 55.1 during September after climbing from 52.2 in April and May to 61.7 in July. The report noted: “Although September’s decline was relatively modest, it was still seen across a broad swath of the population, across groups by age, income, and education, and all five index components.” Current conditions fell for the second month, from 68.0 in July to 60.4 this month, while the expectations component fell from 58.1 in June to 51.7 in September. Turning to inflation, year-ahead inflation expectations eased slightly to 4.7% this month from 4.8% in August, while long-run inflation expectations moved up for the second straight month to 3.7% this month, though is lower than the 4.4% spike recorded in April.

Durable Goods Orders & Shipments ([link](#)): Durable goods orders unexpectedly rebounded in August, on widespread gains. Orders for durable goods rose for the first time in three months, rebounding 2.9% in August and beating consensus expectations of a 0.5% shortfall, following declines of 2.7% in July and 9.4% in June. August’s gain was led by a 7.9% jump in transportation orders, notably defense aircraft & parts and nondefense aircraft & parts, which soared 50.1% and 21.6%, respectively. Excluding transportation, orders rose 0.4% last month; excluding defense, they climbed 1.9%. Orders also increased for communications equipment (1.5%), machinery (1.3), and fabricated metals products (+0.7), but sank 2.0% for computers and related products. Nondefense capital goods orders ex aircraft—a proxy for business spending—climbed 0.6%, building on July’s 0.8% increase. Shipments of core capital goods—used in the calculation of the GDP component of business equipment spending—fell 0.3% in August, though remained on a steep uptrend, up 10.7% from its recent bottom in October 2024.

Existing Home Sales ([link](#)): “Home sales have been sluggish over the past few years due to elevated mortgage rates and limited inventory. However, mortgage rates are declining, and more inventory is coming to the market, which should boost sales in coming months,” noted Lawrence Yun, chief economist of NAR. Existing home sales slipped 0.2% in August to 4.0mu (saar)—above consensus estimates of 3.93mu and 1.8% above a year ago. Single-family home sales dipped 0.3% in August to 3.63mu (saar), while condominium and co-op sales were flat at 370,000 units. The former rose 2.5% versus a year ago, while the latter was 5.1% below last August sales. Regionally, existing home sales were a mixed bag: Sales in the Midwest (2.1% m/m & 3.2% y/y) showed the strongest housing market, climbing on both a monthly and yearly basis, while the Northeast (-4.0 & -2.0) was the weakest market, falling over both time spans. Meanwhile, sales in the West (1.4 & -1.4)

rose on a monthly basis and fell on a yearly basis, while sales in the South (-1.1& 3.4) did the opposite. The inventory of unsold existing homes at the end of August was at 1.53 million units, down 1.3% from July, though 11.7% above last August. Unsold inventory is at a 4.6 months' supply at the current sales pace, unchanged from July and up from last August's 4.2 months.

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