



October 6, 2025

Morning Briefing

Still Roaring

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

Executive Summary: Sunshine during my tour of the West Coast and in the stock market last week. But everyone's on the lookout for signs of an AI bubble. Jeff Bezos has a positive take on bubbles that makes sense to us: They accelerate funding and hasten AI's tremendous benefits. Revisiting the BRAIN Revolution and our long-standing confidence in technology and its positive impact on the economy. ... Also: Pandemics, tangled supply chains, and tariffs are no match for the resilient US economy in the Roaring 2020s. ... And: The labor market is weak, but productivity is strong. ... Dr Ed reviews "Downton Abbey" (+).

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: Westward Ho! Taylor Swift had her "The Eras Tour." I have my "Roaring 2020s Tour." Two weeks ago, I visited our accounts in Austin and Houston. This past week, I did the same in Newport Beach, Los Angeles, and San Francisco, where I also spoke at a conference hosted by our friends at Main Management. My West Coast tour ended last Thursday in Vancouver, where I spoke at a conference sponsored by our friends at Hamilton Funds. The weather was sunny and pleasant.

The same can be said for the S&P 500, which rose to a new record high of 6715.79 at the end of last week ([Fig. 1](#)). The Nasdaq did the same on Thursday of last week, peaking at a record 24892.76 ([Fig. 2](#)). That happened despite the government shutdown that started on Wednesday of last week and means that the government isn't releasing any economic indicators. Nevertheless, the stock market is certainly roaring.

Just about every conversation I had on my West Coast tour included a discussion about whether the stock market is in a bubble. There is certainly a bubble in fears of a stock market bubble, especially in technology stocks associated with AI. When I took an Uber from the San Francisco airport to my hotel in town, just about every billboard on the way was sponsored by tech companies advertising their AI capabilities. That seems to be a clear indication of a bubble. On the other hand, the market continues to climb the wall of bubble worries.

On Friday, Jeff Bezos appeared on stage at Italian Tech Week in Turin, Italy. He was asked whether AI is a bubble. The Amazon founder said, “This is a kind of industrial bubble.” He told the audience that during bubbles, every experiment or idea gets funded—the good ideas and the bad ideas. “And investors have a hard time in the middle of this excitement, distinguishing between the good ideas and the bad ideas. And that’s also probably happening today.”

Notwithstanding the speculative excesses, Bezos affirmed that “AI is real, and it is going to change every industry.” He concluded, “The [bubbles] that are industrial are not nearly as bad; [they] can even be good, because when the dust settles and you see who are the winners, societies benefit from those inventions. That is what is going to happen here, too. This is real, the benefits to society from AI are going to be gigantic.”

That all makes sense to me.

When I first started writing about the Roaring 2020s in our January 6, 2020 [Morning Briefing](#), I didn’t mention AI. However, my 20/20 vision for the decade ahead was based on my thesis that technological innovations would boost productivity growth. I’ve had this vision since March 20, 1995, when I wrote a [Topical Study](#) titled “The High-Tech Revolution in the US of @.” I predicted: “I am more convinced than ever that our economy is rapidly evolving in a very positive direction. Real incomes will grow at a faster pace along with productivity. Bearish problems like the federal and trade deficits will be overshadowed by the bullish consequences of the High-Tech Revolution. I am especially bullish on the stock prices of high-tech companies.”

I first wrote about the “BRAIN Revolution” in my 2018 book [Predicting the Markets: A Professional Autobiography](#). The BRAIN Revolution was being led by innovations in biotechnology, robotics, AI, and nanotechnology. I wrote: “In the past, technology disrupted animal and manual labor. It sped up activities that were too slow when done by horses, such as pulling a plow or a stagecoach. It automated activities that required lots of workers. Assembly lines required fewer workers and increased their productivity. It allowed for a greater division of labor, but the focus was on brawn. Today’s ‘Great Disruption,’ as I like to call it, is increasingly about technology doing what the brain can do, but faster and with greater focus.”

Our December 18, 2023 [Morning Briefing](#) was titled “A Dozen Reasons To Remain Bullish In 2024.” In it, we wrote: “The current bull market started on October 12, 2022. It received a big boost when AI-related stocks took off after OpenAI launched ChatGPT on November 30, 2022. We believe that date is when the stock market first started to discount our Roaring 2020s scenario. At first, the bull market was narrowly based, but it since has been broadening to include more sectors and industries. We believe that reflects investors’ realization that the beneficiaries of the Roaring 2020s theme aren’t just the companies that make technology but also those that use it to boost their productivity—i.e., companies generally whatever their industry may be.”

By the way, at the Italian Tech Week conference, Bezos predicted that data centers will be built in space to conserve energy on Earth: “We will be able to beat the cost of terrestrial

data centers in space in the next couple of decades.” He added, “[G]iant training clusters ... will be better built in space, because we have solar power there, 24/7. There are no clouds and no rain, no weather.” Of course, he and Elon Musk have rocket ships that can make this happen.

US Economy I: ‘Resilient’ Is Still the Right Word. Since a very short, two-month recession in early 2020, the US economy has continued to grow despite numerous shocks ([Fig. 3](#)). The pandemic hit the US economy during February 2020 and quickly led to the March and April lockdowns that caused a recession during those two months. When the lockdowns ended, social distancing restrictions continued to weigh on the economy, but it continued to grow nonetheless.

Global supply-chain disruptions hit the US economy hard during 2021 and 2022, triggering a big spike in US inflation, led by soaring consumer durable goods prices ([Fig. 4](#) and [Fig. 5](#)). To combat inflation, the Fed raised the federal funds rate from nearly zero on March 17, 2022 to 5.50% on July 26, 2023 ([Fig. 6](#)). The bond yield jumped from 0.50% on August 4, 2020 to 5.00% on October 19, 2023.

This year, the economy was subjected to Trump’s Tariff Turmoil. And the latest shock is the government shutdown that started on Wednesday.

Also shocking this year has been the slowdown in payroll employment. Over the past three months through August, BLS payroll employment rose only 29,300 per month on average, down from this year’s peak of 203,300 during January ([Fig. 7](#)). Over the past three months through September, ADP payroll employment rose 23,000 per month on average.

These numbers are likely to be lowered when the final annual benchmark revision to payroll employment is released next year in February. The preliminary benchmark revision, released in September, showed that total nonfarm payroll employment for March 2024 was preliminarily estimated to be 911,000 jobs lower than the level previously reported by the monthly payroll survey. The original survey estimates suggested an average monthly job gain of about 147,000. The preliminary benchmark suggests the actual average monthly job gain may have been closer to 71,000 during that period.

While the labor market isn’t roaring, the growth rate of Q2’s real GDP was revised up from 3.3% to 3.8% (saar) recently, with real consumer spending growth revised up from 1.6% to 2.5%. Q3’s real GDP growth is tracking at 3.8%, with real consumer spending growth running at 3.2% (saar). All the above suggests that productivity growth must be very strong. Productivity is also the main driver of real hourly labor compensation ([Fig. 8](#)). That would also explain how consumer spending is holding up given that payroll employment is so weak. Real hourly wages are increasing ([Fig. 9](#)).

In addition, the personal saving rate has been falling recently and should continue to fall if the ratio of household net worth divided by disposable income continues to rise ([Fig. 10](#) and [Fig. 11](#)). This is especially likely to happen given that the Baby Boomers increasingly are retiring, no longer getting paychecks, and spending their retirement funds, as we have often discussed in the past.

US Economy II: The Labor Market Again. How can the US economy be described as “resilient” when the labor market has weakened so much since the start of this year? The only answer is that productivity must be growing at a faster pace, as noted above.

Unfortunately, because of the government shutdown, Q2’s Productivity & Costs revised data were not released on Thursday of last week as scheduled. The main thesis of our Roaring 2020s scenario has been that a combination of labor shortages and skills mismatches is forcing business managers to increase productivity with the aid of technological innovations, including AI.

AI may already be reducing the need for some entry-level jobs, as evidenced by the rapid increase in the unemployment rates from April 2023 to August 2025 for 16- to 19-year-olds from 9.4% to 13.9% and for 20- to 24-year-olds from 5.5% to 9.2% ([Fig. 12](#)). The jobless rate for older workers remained below 4.0% over this period. On the supply side, the numbers of foreign-born people in the population and in the labor force have dropped over just the past five months (from March record highs through August) by 1.9 million and by 1.5 million ([Fig. 13](#)).

While employment statistics collected by the government aren’t available, there are other economic barometers that continue to generate useful data. For example, September’s announced layoffs remained low at 54,100, according to Challenger, Gray & Christmas. Last week’s ISM purchasing managers surveys showed that both the manufacturing and non-manufacturing employment indexes remained below 50.0 in September at 45.3 and 47.2 ([Fig. 14](#)).

September’s ISM surveys also showed that the manufacturing and non-manufacturing purchasing managers indexes (PMI) were relatively weak at 49.1 and 50.0. However, neither of these indexes has been a useful indicator of the growth rates of real GDP goods and real GDP services, both of which have been stronger than suggested by the two PMIs ([Fig. 15](#) and [Fig. 16](#)).

The Fed cut the federal funds rate by 25bps on September 17 in response to the weakness in payroll employment. It is unlikely that monetary easing can fix the structural problems bedeviling the labor market. Instead, Fed rate cuts are likely to fuel a meltup in the stock market, increasing the risks of financial instability.

Movie. “Downton Abbey: The Grand Finale” (+), 2025, is the final movie to end a wonderful TV series. Although each character’s storyline is wrapped up with a satisfying ending, there is no plot to speak of. Still, it’s nice to see all these characters again and listen to the iconic soundtrack. I will miss Carson most of all. (See our movie reviews [archive](#).)

Calendars

US: Mon: CB Employment Trends; Consumer Credit \$14.0b; Schmid. **Tues:** Atlanta Fed GDPNow 3.8%; Consumer Inflation Expectations; EIA Short-Term Energy Outlook; Bostic;

Bowman; Kashkari. (Source: FX Street)

Global: Mon: Eurozone Retail Sales 0.1%; Eurozone Sentix Consumer Confidence -7.5; Japan Household Spending 1.2% y/y; Lagarde; De Guindos; Lane; Bailey. **Tues:** Germany Factory Orders 1.2%; UK Halifax House Price Index 0.4%; Lagarde; Nagel. (Source: FX Street)

Strategy Indicators

Global Stock Markets (US\$ Performance) ([link](#)): The US MSCI index rose 1.0% during the October 3 week to a hair below its record high on Thursday. The AC World ex-US outperformed with a gain of 2.8% for the week to a 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 36 weeks. EM Asia was the best performing region last week, with a gain of 4.3%, followed by EM (3.6%), Europe (3.3), EMU (3.1), and the AC World ex-US. EM Latin America was the worst regional performer, with a decline of 1.0%, followed by EMEA (2.1) and EAFE (2.5). The Korea MSCI index, with a gain of 6.9%, performed the best among country indexes, ahead of Taiwan (6.3), Switzerland (4.8), China (4.1), and South Africa (3.8). The Brazil MSCI index was the worst performer w/w, with a decline of 2.6%, followed by Mexico (-0.3), Japan (0.0), the US (1.0), and India (1.1). In terms of ytd performance rankings, the 14.3% gain for the US MSCI index ranks as the third worst country performer and trails the 25.5% 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 35.2%, followed by EMU (33.3), EM Asia (27.8), EM (27.7), Europe (27.3), and the AC World ex-US. EMEA is the worst ytd performer, albeit with a gain of 23.6%, followed by EAFE (24.3). All but one of the 18 major selected country markets that we follow are higher ytd now. Korea is now the best ytd performer, with a gain of 62.1%, followed by Spain (58.9), South Africa (55.0), Mexico (41.8), and China (40.1). The worst performing countries ytd: India (-0.4), Australia (13.7), the US (14.3), Japan (4837), and Switzerland (22.7).

US Stock Indexes ([link](#)): Forty-six of the 48 major US stock indexes that we follow rose during the week ended October 3, up from 12 rising a week earlier. The Russell 2000 Growth index was the best performer for the week, rising 2.0%, ahead of S&P 600 SmallCap Value (1.8%), S&P 600 SmallCap Pure Value (1.7), and Russell 2000 (1.7). The Nasdaq Industrials index was the worst performer, with a decline of 0.5%, followed by S&P 400 MidCap Pure Value (-0.1), Russell MidCap Growth (0.2), S&P 400 MidCap Pure Growth (0.2), and S&P 500 LargeCap Pure Growth (0.3). All but one of the 48 indexes are higher ytd. With a gain of 19.2%, the S&P 500 LargeCap Growth index is in the top spot as the best performer so far in 2025, ahead of Nasdaq Composite (18.0), Nasdaq 100 (18.0), Russell 1000 Growth (16.0), and Russell 3000 Growth (15.9). The worst performing major US stock indexes ytd: Dow Jones 20 Transports (-0.3), S&P 600 SmallCap Equal Weighted (2.9), S&P 600 SmallCap Value (3.5), S&P 600 SmallCap (4.0), and S&P 600 SmallCap Growth (4.9).

S&P 500 Sectors Performance ([link](#)): Six of the 11 S&P 500 sectors rose during the week ended October 3, and four were ahead of the S&P 500's 1.1% gain. That compares to five S&P 500 sectors rising a week earlier, when the same five were ahead of the S&P 500's 0.3% decline. The outperformers last week: Health Care (6.8%), Utilities (2.4), Information Technology (2.2), and Industrials (1.2). The underperformers last week: Energy (-3.3), Communication Services (-2.1), Consumer Discretionary (-0.8), Consumer Staples (-0.4), Financials (-0.3), Real Estate (0.2), and Materials (1.1). The S&P 500 is now up 14.2% ytd, with all 11 sectors now positive ytd and four are 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. Information Technology now wears the crown as the best ytd performer with a gain of 22.8%, followed by Communication Services (22.2), Utilities (17.3), and Industrials (17.1). These seven sectors are lagging the S&P 500 so far in 2025: Consumer Staples (1.2), Real Estate (3.2), Energy (3.9), Consumer Discretionary (3.9), Health Care (5.2), Materials (7.8), and Financials (11.2).

US Economic Indicators

US Non-Manufacturing PMI ([link](#)): The US service sector in September was at the breakeven point (50.0) between expansion and contraction for the first time since January 2010, down from 52.0 in August. The business activity/production index (to 49.9 from 55.0) moved from expansion to contraction in September—sinking below 50.0 for the first time since May 2020. Meanwhile, the new orders (50.4 from 56.0) measure deteriorated, sinking near the breakeven-point of 50.0, after a solid showing in August. The inventories (47.8 from 53.2) measure was in contraction territory for the third time this year—posting its lowest reading since January—a 5.4-percentage point decrease from August's reading. The supplier deliveries (52.6 from 50.3)—gauge was in expansion territory for the 10th successive month, indicating a slower supplier delivery performance. (Supplier deliveries is the only ISM index that is inversed; a reading above 50.0 indicates slower deliveries, which is typical as the economy improves and customer demand increases.) Employment (47.2 from 46.5) was in contraction territory for the fourth straight month in September and the fifth time in the last six months, though held steady around August's pace. On the inflation front, the price index (to 69.4 from 69.2), exceeded 60 percent for the 10th successive month—its longest streak since the 30 consecutive months recorded from October 2020 through March 2023.

Global Economic Indicators

Global Composite PMIs ([link](#)): Global economic growth slowed slightly in September from August's 14-month high, while business confidence picked up. The Global C-PMI Output Index (to 52.4 from 52.9) continued to expand in September, slowing only negligibly from August's recent high—recording a reading above the neutral 50.0 mark for the 32nd straight month, though the mild upturn “was insufficient to create meaningful job creation,” according to the report. There continues to be a disparity between the manufacturing and service sectors, with the service sector outperforming the manufacturing sector for the seventh consecutive month, though both measures eased in September to 52.8 for the former and

51.3 for the latter. Regionally, of the 15 countries for which composite output PMI data are available, the majority (10) saw output expand in September, however, of those 15 countries, 10 saw readings fall from their August levels—signaling either a growth slowdown or a faster rate of contraction compared to the prior month. India remained at the number one spot in the rankings, with the US and Spain rounding out the top three, while China, Japan, and Germany also registered expansions during the month. Turning to business confidence, the report notes optimism climbed to a seven-month high, with optimism improving in both the manufacturing and service sectors. Turning to pricing, September data showed rates of increase in both input costs and output charges eased slightly during the month.

Eurozone CPI ([link](#)): The Eurozone's CPI was at 2.2% y/y in September, after three months at 2.0%. It was at a low for this year at 1.9% in May, and a high of 2.5% in January. 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 September for the fifth 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 edged up to 3.2% in September, after easing from 4.0% in April to 3.1% by August—it hovered between 3.2% and 3.3% from May through July. The rate for energy prices was at -0.4% y/y in September, narrowing steadily 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 for a second month from 3.3% in July to 3.0% in September—hovering between 3.0% and 3.3% since April. The rate for non-energy industrial goods was at 0.8% y/y in September for the third consecutive month, after fluctuating in a narrow band between 0.5% and 0.6% since last October. September's yearly inflation rates moved higher among the largest Eurozone countries: Spain (3.0% from 2.7%), Germany (2.4 from 2.1), Italy (1.8 from 1.6), and France (to 1.1 from 0.8).

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