October 30, 2025

Morning Briefing

On Consumer Spending & China's Leading Humanoid

Check out the accompanying chart collection.

Executive Summary: Consumer spending is being buffeted by countervailing winds—with heady financial market returns potentially lifting spending even as deportations, the government shutdown, and the effects of AI on employment potentially depress it. Jackie examines the recent earnings reports of consumer discretionary companies to extrapolate how these effects are netting out. … Also: A look at Unitree, the Chinese robotics company likely to give Tesla's robotics division a run for its money, and Unitree's visionary young founder Wang Xingxing.

Consumer Discretionary I: Watching for the Grinch. With the stock market hitting new record highs seemingly daily, you'd generally anticipate one heck of a holiday shopping season. Surely, consumers will plow gains from the market into presents for loved ones … and themselves.

Some folks may not be so lucky, however. Layoff notices, particularly from tech companies, are on the upswing. The adoption of artificial intelligence (AI) and robots is affecting headcounts, both in corporate headquarters and on the factory floor.

ADP Research reported on Tuesday that only 14,250 private-sector jobs were added in the four weeks ended October 11. Meanwhile, the ytd performances of employment-related stocks may be disturbing forward-looking indicators: ManpowerGroup shares have fallen 47.0% ytd, Automatic Data Processing shares are 10.8% lower so far this year, and Paychex shares have lost 16.3% ytd compared to the S&P 500's 17.2% ytd gain (*Fig. 1*).

While the Trump administration's One Big Beautiful Bill Act is expected to put more money into consumers' pockets, other policies out of Washington aren't helping matters. Due to the government shutdown, most US government employees aren't getting paychecks, and starting next month, Supplemental Nutrition Assistance Program (SNAP) food benefits won't be paid.

Yet the Department of Homeland Security will continue to arrest illegal aliens, which is having a chilling effect on immigration and on spending by anyone who's in the country illegally. Fewer foreign students have come to study in the US this year. And don't expect the Canadians to pick up the slack. They're still madder than heck about US tariffs and are boycotting US goods and travel south of their border.

There will literally be fewer people shopping in the US this holiday, and those who are say they'll be spending less this season. Here's a look at some of the clouds hovering over consumer spending as the S&P 500 hits its latest record high:

(1) *Visa's results indicate all's still well.* Visa reported earnings for its fiscal Q4 (ended September 30) rose 12% y/y, and adjusted earnings climbed 10% to $2.98 a share, beating analysts' estimates by a penny.

"US payments volume was up 8%, slightly above Q3, with e-commerce growing faster than face-to-face spend. Credit and debit were both up 8%, reflecting resilience in consumer spending," *said* CFO Christopher Suh.

Higher-spending cardholders drove more of the growth during the quarter, which should continue during fiscal (December) Q1, when Suh expects low-teens adjusted EPS growth. A price increase that Visa put through earlier this year benefited fiscal Q4 results and will help fiscal Q1 results as well.

Consumers *surveyed* during the first week of October by the National Retail Federation have a different story to tell about Q4 spending. They plan to spend $890.49 on average this year on holiday gifts, food, and decorations. While that's the second-highest amount in the survey's 23-year history, it is 1.3% less than last year's record level. Likewise, a PwC *holiday survey* found that consumers expect to reduce their seasonal spending by an average of 5% y/y, the first notable drop since 2020.

(2) *AI and robots impact jobs.* It has been a tough couple of months for humans, with the adoption of AI and robots prompting layoff announcements. Consumers will be less likely to splurge this holiday season if they're afraid a pink slip will be in the mail in 2026.

This week, Reuters *reported* that Amazon plans to lay off 30,000 employees from its corporate workforce. The cuts are part of a broader cost-cutting campaign aimed at reducing managers and flattening the organization. CEO Andy Jassy *said* in June that Amazon's workforce could shrink as a result of the company's embracing generative AI, telling staffers that the company "will need fewer people doing some of the jobs that are being done today, and more people doing other types of jobs."

Workers at Amazon's warehouses escaped this round of layoffs but may be targeted in the future. *The New York Times* obtained *documents* revealing that Amazon would like to double the amount of products it sells by 2033 but will avoid increasing warehouse headcount by increasingly automating its facilities. At its most advanced facilities, Amazon's robotics team aims to automate 75% of the operations.

More layoffs have been announced in recent months by Accenture, Intel, Microsoft, Oracle, Salesforce, and UPS among others. Salesforce CEO Marc Benioff specifically highlighted the company's AI adoption as a catalyst behind the layoff of 4,000 customer support staffers.

(3) *The impact of government.* While temporary, the US government shutdown isn't boosting consumers' willingness or ability to spend. There are 730,000 federal employees working without pay, and another 670,000 federal workers furloughed *without pay* due to the shutdown, which began on October 1.

In addition, states were told not to pay November SNAP benefits because of a lack of funding due to the shutdown, something that has never occurred in previous government shutdowns. There are nearly 42 million people who rely on SNAP, previously known as "food stamps."

US Immigration and Customs Enforcement (ICE) officers aren't being paid, but they continue working. Arrests of illegal immigrants, anecdotally, has had an impact on shopping behavior. Folks who are in the country illegally are more likely to stay home and avoid stores, restaurants, or entertainment areas where ICE agents might detain them.

Under the Trump administration, 527,000 illegal aliens have been deported, more than 1.6 million have voluntarily self-deported, and the borders have been closed, stopping the flow of illegal immigrants into the US, according to a DHS *press release*.

There are also fewer foreign students studying in the US this year. International students arriving in the States on *student visas* declined 19.1% y/y, by 313,138 students, in August, the largest y/y drop ever except during the pandemic. The most significant drop was among students arriving from China, an 86,647-person decline. More recent data isn't available due to the government shutdown.

And as we noted in the October 2 *Morning Briefing*, our Canadian neighbors aren't happy with the tariffs the Trump administration has placed on Canadian imports into the US. They've protested by shunning California wines and traveling to spots outside of the US. One area that was particularly hard hit by Canadians' ire this summer was Las Vegas.

On Tuesday, Caesars Entertainment reported that Q3 revenue at its Las Vegas operation decreased 9.8% y/y to $952 million and net income dropped 40.3% y/y to $132 million, hurt by a decline in visitation and poor gaming profitability. The company sees sequential-quarter improvement in Q4, helped by more business groups visiting Sin City.

Consumer Discretionary II: Can Equity Balances Save the Day? The amazing rally in US stocks has created oodles of wealth for US consumers to tap. Since the bull market began in October 2022, the S&P 500 has gained 92.6%. Those positioned in technology stocks fared even better, with the S&P 500 Information Technology sector soaring 193.8% and the S&P 500 Communication Services sector close behind with a 171.0% leap (*Fig. 2*).

As the bull market enters its fourth year, equities as a percentage of households' and nonprofit organizations' net worth has risen to 34.7%, more than double the level in 2009 and a new record high (*Fig. 3*). Likewise, equity as a percentage of households' and nonprofit organizations' financial assets is 45.4%, also a record high (*Fig. 4*).

Notably, the percentage of adult Americans who own stock has been remarkably stable: It's currently 62%, at the high end of a relatively narrow 10ppt range over the past decade. The percentage was a little higher in 2004, at 63%, before it tumbled after the financial crisis in 2008 to a low of 52% and started climbing again in subsequent years (*Fig. 5*). Will gains in 401(k) and other equities accounts be enough to offset the losses consumers have sustained as a result of layoffs and government policies? We'll find out over the next few months.

Disruptive Technologies: China's Humanoid Robot Darling. Tesla aims to unveil the latest iteration of its Optimus humanoid robot, the V3, in Q1. "It won't even seem like a robot. It will seem like a person in a robot suit … [I]t will seem so real that you'll need to poke it, I think, to believe that it's actually a robot," said CEO Elon Musk on the company's earnings *conference call* last week.

While Musk acknowledged the difficulties of making human-like hands and establishing a new supply chain for robots, he remains optimistic as always. He forecasts producing at least 1 million Optimus 3 robots by the end of 2026, and ultimately 10 million Optimus 4 robots and 50-100 million Optimus 5 robots.

Musk will have to move quickly and deliver an extraordinary product, as he faces competition both at home and abroad. In China, Unitree Robotics is among the strongest contenders. It recently introduced the H2 humanoid, with a face that almost looks human and with 31 motorized joints that give it impressive dexterity and fluidity of motion. This advanced humanoid will retail for well over $100,000, though the company has other lower-priced models as well, including *the R1*, which retails for $5,900.

Here's some additional information about the soon-to-be publicly held Unitree and its founder, CEO, and CTO Wang Xingxing:

(1) *About Wang.* Wang, born in 1990, wasn't the best of students and didn't attend an elite university, held back by poor English test scores. But he did have a penchant for science and making models. He majored in mechatronics engineering at Zhejiang Sci-Tech University and received a master's degree from Shanghai University. He launched Unitree shortly after graduating in 2016.

Wang's *rising star* was on full display in February when he was seated in the front row at President Xi Jinping's high-profile business symposium. He was the youngest among the group of executives invited to the event.

(2) *IPO plans.* Unitree, based in Hangzhou, has said it will file an initial public stock offering in Q4 for shares listed in China. The nine-year-old company, which aims to have a $7 billion valuation, counts China Mobile, Alibaba Group Holding, Ant Group, and Tencent Holdings among its investors. Unitree describes itself as a civilian robotics company, though its robot dog has appeared in videos fitted with machine guns, and unarmed it was in pictures alongside military personnel.

The company has not released any financial information, but it has *noted* that 65% of its revenue last year came from quadruped robots, 30% from humanoid robots, and the remainder from component products. About 80% of the robot dogs it sold were for research, education, and consumer use, with the remaining 20% used for inspection and firefighting. Humanoid robots were used in research, education, and consumer fields.

Wang sees robots' capabilities developing *in three stages*: (1) performing pre-programmed actions, like dancing; (2) responding to real-time commands; and (3) responding to simple requests in unfamiliar environments.

Wang recently *highlighted* some of the hurdles that need to be overcome to develop the most sophisticated robots. They include: (1) harnessing enough energy to power the highly advanced semiconductors that these robots will require or developing semiconductors that use less energy; (2) designing robots that use fewer wires, to extend their lifespan and reduce malfunctions; and (3) making advances in *robotics AI*.

Calendars

US: Thurs: Bowman; Logan. **Fri:** Chicago PMI 42.3; Bostic; Hammack. (Source: FX Street)

Global: Thurs: Eurozone GDP 0.1%q/q, 1.2%y/y; Eurozone Business and Consumer Survey 95.7; ECB Interest Rate Decision & Deposit Facility Rate 2.15% & 2.00%; Germany GDP 0.0%q/q, 02%y/y; Germany Unemployment Rate 6.3%; France GDP 0.1%q/q; Italy GDP 0.1%q/q; Italy Unemployment Rate 6.0%; Spain CPI 2.9%y/y; Japan Industrial Production 1.6%; Japan Unemployment Rate 2.5%; Japan Retail Sales 0.8%y/y; Lagarde. **Fri:** Germany Retail Sales 0.2%; Germany Import Prices -0.2%; France CPI 0.1%m/m,1.0%y/y; Italy CPI -0.1%m/m,1.6%y/y. (Source: FX Street)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): During the October 23 week, the S&P 500's forward revenues rose 0.1% w/w to a record high. Forward earnings fell 0.4% w/w from a record high as the forward profit margin remained steady at a record high of 14.0%. The forward profit margin is now 3.7ppts 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 39-month high of 6.4%. From a longer-term perspective, that's well above its 20-year average of 5.2%. It has gained 4.1ppts 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 was steady w/w at a nine-month high of 13.5%, up 2.6ppts from its 15-month low of 10.9% during the May 29 week. That's a bit stronger than its 20-year average of 11.4%, and is just 0.8 ppts below its 38-month high of 14.3% during the December 12 week. That'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 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 5.9% in 2025 (up 0.1ppt w/w) and 6.4% in 2026 (steady w/w), compared to a 5.0% rise in 2024. They expect an earnings gain of 11.7% in 2025 (up 0.2ppt w/w) and a 13.9% rise in 2025 (down 0.1ppt w/w) compared to 2024's earnings gain of 11.6%. Analysts expect the profit margin to rise 0.6ppt y/y to 13.1% in 2025 (down 0.1ppt w/w) and 1.0ppt y/y in 2026 to 14.1% (unchanged w/w), compared to 2024's 12.5%. Looking at valuation data as of October 23, the S&P 500's weekly forward P/E rose 0.1pt w/w to 22.8. That's just 0.2pts below its five-year high of 23.0 during the October 9 week and is now up 3.6pts 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 rose 0.01pt w/w to 3.19, and is just 0.03pt below its 3.22 record high during the October 9 week. 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 October 23 week, eight of the 11 S&P 500 sectors posted gains in their forward revenues; six posted gains in their forward earnings; and the forward profit margin rose for three sectors. These five sectors had post pandemic- or record-high forward revenues this week: Communication Services, Consumer Discretionary, Financials, Information Technology, and Utilities. These three are less than 0.2% from their very recent record high revenues: Health Care, Industrials, and Real Estate. Consumer Staples' would be near a record high too, but is instead 5.7% below due to Drug Retail's exit in late August. Energy's is improving now from its three-year low in May, but remains depressed at 29.1% below its September 2008 record and 16.4% below its cyclical high in October 2022. Materials' has improved to a 26-month high to 3.9% below its June 2022 record high. These two sectors had record-high forward earnings this week: Financials and Real Estate. These five are less than 1.2% from their record highs. Communication Services, Consumer Discretionary, Consumer Staples, Health Care, Industrials, Information Technology, and Utilities. Forward earnings remains depressed for the last two sectors, Energy and Materials, but have improved in recent months to 38.4% and 21.9% below their respective highs during 2022. Looking at the forward profit margin, three sectors rose w/w and four fell. Financials was steady at a record high again. These five sectors remain close: Communication Services, Consumer Discretionary, Industrials, Information Technology, 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 (28.1%, down 0.2ppt w/w from a record high 28.3 for nine weeks, its first since September 2024 when low-margin Dell's addition to the index lowered the margin 1.3ppts then to 26.3%), Financials (21.0, at a record high), Communication Services (19.4, down 0.2ppt w/w and down from its 19.8 record high during the August 7 week), Real Estate (16.8, up 0.1ppt w/w to an eight-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 (14.0, at a record high), Materials (11.0, steady at a nine-week 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 0.1ppt w/w from a record high 9.4), Energy (8.9, up 0.1ppt w/w and up 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 (11.0, down 0.2ppt w/w to 0.3ppt below 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 (7.2, up 0.1ppt w/w and up 0.5ppt from a 21-month low of 6.7 during the 9/4 week just before Drug Retail's exit from the sector, and down from its 7.7 record high in June 2020).

S&P 500 Q3 Earnings Season Monitor (*link*): With 45% of the S&P 500 companies having reported Q3 results through mid-day Wednesday, the Q3-2025 earnings season is now kicking into high gear. For the 223 reporting companies in aggregate, Q3 revenues are ahead of the consensus forecast by 2.3%, and earnings have exceeded estimates by 6.5%, down from 2.6% for revenues and 8.2% for earnings. We are expecting a q/q weakening in the revenue and earnings surprise, but that's because company guidance has improved considerably since Q2. On a positive note, we expect aggregate Q3's y/y revenue and earnings growth will be ahead of Q2's positive rate and that more companies will record higher y/y revenues and earnings growth. For the 223 Q3 reporters, revenues have risen 7.7% y/y, and earnings are up 12.2%, compared to 6.3% and 12.8% in Q2. So far, a 14-quarter-high 84% of the 223 companies have higher revenues y/y, and a 15-quarter-high 74% have higher earnings y/y, up from 81% and 69% rising y/y in Q2. Financials' Q3 season is nearly two-thirds complete and has driven much of the S&P 500's surprise so far. Excluding Financials, the S&P 500's: revenue surprise remains steady at 2.3%, and the earnings surprise drops to 5.5% from 6.5%; y/y revenues growth drops to 7.3% from 7.7%, and earnings growth tumbles to 7.0% from 12.2%.

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