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Morning Briefing

'Resilient' Still Best Describes The US Economy

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

Executive Summary: The US economy has performed remarkably well this decade to date despite multiple unusual challenges that would have felled a less resilient economy. Widespread recession expectations failed to pan out repeatedly. The pattern continues, with today's recession alarmists likewise bound to be wrong for reasons that Dr Ed explains. ... Also: A look under the hood of recent GDP data. Capital spending has been robust, with more than 50% of the capital spending in nominal GDP reflecting booming investments in technology. Consumer spending is strong despite flattening disposable income, reflecting spending that's not reliant on income—i.e., by well-heeled retired Baby Boomers.

US Economy I: Still Shock Resistant. The last significant recession in the US lasted 18 months, from its December 2007 peak to its June 2009 trough. This so-called Great Recession was triggered by the subprime mortgage crisis and the subsequent global financial collapse. It was the longest and deepest downturn since the Great Depression. The Covid-19 recession lasted just two months, from its February 2020 peak to its April 2020 trough. This was the shortest recession in US history, caused by the sudden government-imposed economic shutdown during the onset of the pandemic.

Since then, the economy has experienced the most widely anticipated recession that never happened. These fears were triggered by the pandemic, social distancing requirements, supply-chain disruptions, soaring inflation, Russia's invasion of Ukraine, the tightening of monetary policy, a mini-banking crisis, tougher immigration and deportation policies, Trump's Tariff Turmoil, a federal government shutdown, and a challenging labor market for job seekers—all challenges with the potential to have clobbered a less resilient economy.

The labor market is starting to show more signs of life. During January, payroll and household employment rose 130,000 and 528,000, respectively. This relatively strong performance was foreshadowed by declining weekly initial and continuing unemployment claims, which remain low, suggesting that February's employment report might also be

surprisingly strong. The unemployment rate fell back down to 4.3% last month and probably remained this low in February.

The newest concern triggering recession fretting is that real personal disposable income has been flat for several months. Consumer spending growth has been bolstered by a falling saving rate. The nattering nabobs of negativity are warning that this isn't sustainable, implying that consumers will be forced to retrench, sending the economy into a recession.

We anticipated that the economy's naysayers wouldn't remain quiet for long. But they needn't get alarmed by the flattening of real disposable income. As we've observed in recent weeks, it's the increasing retirement of Baby Boomers, who were well paid before they retired, that's depressing disposable income and saving. Once retired and no longer earning taxable wages and salaries, people rely on their retirement nest eggs and on the income they earn from their investments. So they continue to spend even though their labor income has dropped to zero. They have little need to save. That results in a falling saving rate.

In addition to ringing the alarm bell over the sustainability of consumer spending, the alarmists are warning about signs of distress in the private debt market. The prices of ETFs that invest in private debt have been falling for the past year. That is certainly a legitimate concern: A freeze-up of the private debt market could cause a credit crunch for borrowers in this market. However, we aren't convinced that risk to the financial system broadly is increasing.

That's because if the private debt market were to freeze up, the Fed no doubt would swiftly provide an emergency credit facility to avert an economy-wide credit crunch. The Fed has had extensive experience doing so during the Great Financial Crisis, the Great Virus Crisis, and the Mini-Banking Crisis of March 2023.

US Economy II: GDP At Another Record High. Last year, real GDP growth was depressed in Q1-2025 due to Trump's Tariff Turmoil and in Q4-2025 due to the US federal government shutdown. Yet it still rose 2.2% y/y to another record high because real GDP growth was very strong in Q2- and Q3-2025 ([Fig. 1](#)).

Let's have a closer look at some of the recent developments in the GDP data:

(1) *Q4 growth rates.* Real GDP rose just 1.4% saar during Q4-2025. It was weighed down by a 16.6% drop in the federal government component of real GDP ([Fig. 2](#)). Final sales to

private domestic purchasers rose 2.4%, led by a 3.7% increase in nonresidential fixed investment.

As noted above, real GDP rose 2.2% y/y, led by a very strong 5.1% gain in real GDP of goods ([Fig. 3](#)). Real GDP of services rose only 1.6% y/y, weighed down by the government shutdown. There are more signs that US manufacturing production is finally heading higher following several years of stagnation ([Fig. 4](#)).

(2) *Capital spending.* Nonresidential fixed investment in real GDP rose to a record high during Q4-2025 ([Fig. 5](#)). Leading the way have been intellectual property and equipment, while structures have been gradually declining for the past couple of years ([Fig. 6](#)).

Technology investments have been booming. High-tech spending now accounts for a record 53.8% of capital spending in nominal GDP ([Fig. 7](#)). Software and R&D are included in intellectual property, and technology hardware is included in equipment. All three rose to record highs during Q4-2025 ([Fig. 8](#)).

(3) *Consumer income & spending.* In the January 12 [Morning Briefing](#), we wrote, “A potential risk to our Roaring 2020s scenario is that real wages don’t rise fast enough to fully offset the weakness in employment. In fact, real disposable personal income (DPI) has been flat in recent months. The latter is the best measure of the total purchasing power attributable to labor and nonlabor income.” During December, real DPI rose just 0.9% y/y, while real consumption increased 2.5% as the personal saving rate dropped to 3.6% from 3.8% a year ago ([Fig. 9](#) and [Fig. 10](#)).

However, as we noted on January 12, “There is another potentially massive source of purchasing power, i.e., the \$88.5 trillion in the household net worth of the retiring Baby Boom generation” ([Fig. 11](#) and [Fig. 12](#)). In the January 5 [Morning Briefing](#) titled “The Gen-Shaped Economy,” we discussed the economic effects of the Baby Boomers’ continued spending of their retirement nest eggs on themselves and on their adult children and young grandchildren: “In this unusual economic scenario, consumption would remain strong even as disposable income stays flat. Savings would fuel the consumption strength, and the personal savings rate would turn negative.”

Strategy Indicators

S&P 500/400/600 Forward Earnings ([link](#)): During the February 19 week, forward earnings

rose to another record high for LargeCap, and SmallCap's improved to just 1.3% below its June 2022 record. MidCap's ticked down for the second time in three weeks, but is only 0.3% below its record high during January 29 week.

LargeCap's rose for a 40th straight week, exceeding its 39-week winning streak through the June 23, 2011 week. LargeCap's next milestone is passing the 46-week streak following the Great Financial Crisis (GFC) through the March 25, 2010 week. The SMidCap's forward earnings are also on solid uptrends too, with both indexes missing just a few of the w/w gains since Liberation Day last April.

LargeCap's forward earnings rose 0.4% w/w to its 38th straight weekly record high. MidCap's ticked down 0.1 % w/w to 0.3% from a record high, which that index has posted in 13 of the past 17 weeks. SmallCap's was up a hair w/w to just 1.3% below its June 2022 record. SmallCap's absence from the record-high forward earnings club has lasted longer than its post-GFC drought, 43-months now versus 36 months then.

These three indexes' forward earnings downtrends from mid-2022 to early 2023 during Big Tech's year of cost-cutting and again during Trump's Tariff Turmoil were relatively modest compared to their deep double-digit percentage declines during the Great Virus Crisis and the GFC. LargeCap's forward earnings has soared 42.7% from its 54-week low during the week of February 1, 2023; MidCap's has slowly gained 14.6% from its 55-week low during the week of March 10, 2023; and SmallCap's has quickly rebounded 15.7% from its recent 42-month low during the May 23 week.

Analysts currently expect all three of these indexes to post double-digit percentage earnings growth in 2026 and 2027. Here are their latest consensus earnings growth rates for 2025, 2026, and 2027: LargeCap (12.7%, 15.0%, 15.9%), MidCap (-0.5, 17.3, 15.3), and SmallCap (9.9, 13.5, 16.6).

S&P 500/400/600 Valuation ([link](#)): Valuations rose slightly across the board for all three S&P market-cap-style indexes during the February 20 week. While forward P/Es for the SMidCaps have been mostly below LargeCap's since August 2018, they're improving now and closing the gap as LargeCap's weakens. LargeCap's forward P/E rose 0.1pt w/w to 21.4, but from a seven-month low of 21.3. It's now down 1.4pts since its 25-year high of 22.8 during the October 31 week.

LargeCap's P/E of 21.4 remains 4.4pts above the seven-month low of 17.0 during the October 27, 2023 week. That compares to a 30-month low of 15.1 at the end of September

2022 and an 11-year low of 11.1 during March 2020. It's down 1.4pts from a 25-year high of 22.8 during the October 31 week.

MidCap's forward P/E rose 0.2pt w/w to a 64-week high of 17.1 and is now 4.9pts above the 12-month low of 12.2 in October 2023. That compares to an 11-year low of 10.7 in March 2020 and a record high of 22.9 in June 2020 (when forward earnings was depressed).

SmallCap's forward P/E rose 0.1pt w/w to 15.9, just 0.3pt below its 14-month high of 16.2 during the February 6 week. It's 3.0pts above its 17-month low of 12.9 during the April 4 week and 5.3pts above its 14-year low of 10.6 in September 2022, but remains 1.2pts below its 41-month high of 17.1 during the November 29, 2024 week. That compares to a record high of 26.7 in early June 2020, when forward earnings was depressed, and a record low of 10.2 in November 2009 during the GFC.

MidCap's P/E improved 1ppt w/w to a three-year high 20% discount to LargeCap's P/E. That's up markedly from a 26-year-low 30% discount during the October 31 week. MidCap had been at a 19% discount during the March 2, 2023 week, which matched its best reading since October 14, 2021.

SmallCap's P/E improved 1ppt w/w to a 13-month-high 26% discount to LargeCap's P/E. That's well above its 25-year-low 34% discount during the November 20 week. SmallCap had been at a 23% discount during the November 29, 2024 week, which was its best reading since the March 2, 2023 week.

SmallCap's P/E relative to MidCaps' was steady w/w at a 7% discount, matching the 18-month-low 7% discount during the November 20 week. That remains well above its 20-year-low 10% discount in late 2021. Prior to that, from 2003 to 2018, SmallCap's P/E had been mostly above MidCap's, and both were above LargeCap's.

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