Bruin Reserve Bank

Monthly Economic Outlook: October 2025

Barriers and Balances: Entering a New Era of Uncertainty

Image created by ChatGPT, October 2025.

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At a Glance: The U.S. Macro Pulse

	Q2 2024	Q2 2025	YOY
GDP	$29,147.044B	$30,485.729B	+4.59%
CPI	314.131	323.364	+2.94%
PPI	255.463	262.443	+2.73%
PCE INDEX	123.889	127.285	+2.74%
UNEMPLOYMENT	4.2%	4.3%	+0.1%
S&P 500	5708.75	6,687.65	+17.15%
UMICH CONSUMER SENTIMENT INDEX (BASE=100)	67.9	58.2	-9.7
EFFECTIVE TARIFF RATE	2.5% (2024 AVG)	17.4%	+14.9%

Table 1: Quarterly macro indicators highlight a year of resilient top-line growth but eroding sentiment. While GDP expanded by 4.6 % and equity markets surged 17 %, consumer sentiment fell nearly 10 points, signalling that household perceptions lag financial recovery. The effective tariff rate's jump to 17.4 % underscores the structural shift toward policy-driven price rigidity rather than cyclical inflation.

Key Insights: The Economy in Transition

- The 2025 tariff overhaul has become a **permanent policy lever**, not a negotiating tool, with the U.S. **average effective tariff rate of 17.4%** being at a 90-year high. Collections near **$200 billion** offer little relief against **interest costs exceeding $1 trillion**, while the **1.7% rise in prices** has shifted purchasing power from households to revenue. Trade has **diverted, not declined**—with **ASEAN exports to the U.S. up 11%** and **EU textile imports from China up nearly 20%**—marking a global re-routing of value chains.

- Inflation hovers near **3%**, with **services inflation above 4 percent** keeping core pressures sticky even after the Fed's **25-basis-point cut** to the **4.00–4.25%** range, as firms absorb tariff costs through margin compression. Expectations stay mildly above target, signalling **anchoring fatigue**; inflation has become **structurally** driven by pricing opacity instead of overheating.

- Unemployment has risen **above 4%**, and job openings have fallen below available workers. Immigration curbs, including the $100,000 H-1B surcharge, constrain skilled-labour supply and future productivity. Consumer sentiment has slipped to 55.1, with higher-income spending steady but lower-income demand retrenching — a two-speed economy amplifying margin and credit stress.

- The **Fed's first rate cut in a year** aims to cushion labour weakness without reigniting inflation, but policy and prices remain misaligned. Markets diverge: **equities rally on AI optimism**, **bond yields signal caution**, and **crypto assets rise under the GENIUS Act**, reflecting a split between financial exuberance and real-sector fatigue.

- With an AI Preparedness Index of 0.77 and $220 billion in global semiconductor investment, the U.S. remains near the technological frontier even as industrial policy shifts from subsidy to strategic control.

- October's economy balances on managed fragility. Fiscal visibility masks imbalance, inflation steadies yet expectations drift, and markets celebrate innovation amid slowing fundamentals. The IMF estimates that front-loaded trade lifted global growth 0.3% in early 2025 but could trim 0.2% of world GDP as distortions persist.

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MEO Spotlight - Beyond the Border: Tariff Mechanics

According to the Yale Budget Lab, in the baseline scenario where current 2025 tariffs remain permanent, consumers face an average effective tariff rate of 17.4 %, the highest since 1935.[1] After accounting for substitution effects (i.e., trade shifting), that effective rate would still hover around 16.4%.[2] Unlike the episodic tariff escalations of 2018–19, the current measures are not framed as temporary bargaining chips but as structural instruments of economic policy.

In this context, tariffs function not merely as border taxes, but as macro-financial shocks transmitted through overlapping channels — shaping consumption, fiscal balances, external accounts, and financial conditions. In today's globally integrated system, these channels interact rather than isolate, magnifying spillovers across markets and borders. Tariffs capture the headlines, but the real story lies beneath the border, in the channels through which price shocks, fiscal pressures, and global reallocation quietly accumulate into macroeconomic change.

This Spotlight examines four such transmission paths — from fiscal capacity to price pass-through, from trade diversion to currency dynamics — grounding each in recent data, institutional research, and macroeconomic theory to frame the outlook for October 2025.

The Fiscal Mirage: Revenue Without Relief

The tariff regime of 2025 has undeniably strengthened the U.S. Treasury's cash position, but its macro-fiscal efficacy remains overstated. According to the Bipartisan Policy Center's analysis of Daily/Monthly Treasury Statements, cumulative tariff collections reached $192 billion through October 2nd, 2025.[3] By comparison, the Treasury documented that as of August 31st, interest expenses for the Financial Year 2025 exceeded $1.13 trillion.[4] The optics of fiscal discipline thus obscure a deeper imbalance: a sovereign balance sheet increasingly dominated by debt-service costs rather than productive expenditure.

While tariffs provide a transient revenue surge, their second-round effects are regressive. Yale's Budget Lab (September 26th, Update) finds that the 2025 schedule raises the price level by 1.7%, resulting in a real household income loss of approximately $2,400.[5] The Budget Lab (TBL) further documents that the short-run burden on the first decile is more than three times that of the top decile (-3.6% versus -1.1%)[6],

[1] The Budget Lab at Yale. "State of U.S. Tariffs: September 26,, 2025." The Budget Lab at Yale, Yale University, 26 September 2025, budgetlab.yale.edu/research/state-us-tariffs-september-26-2025.
[2] The Budget Lab at Yale, *"State of U.S. Tariffs: September 26, 2025."*
[3] Synderman, Rachel, et al. "How Much Are U.S. Tariffs Raising in Revenue?" Bipartisan Policy Center, Bipartisan Policy Center, October, 2025, bipartisanpolicy.org/explainer/tariff-tracker/.
[4] Fiscal Data. "Interest Expense and Average Interest Rates on the National Debt FY 2010 – FYTD 2025" Fiscal Data, U.S. Department of the Treasury, 30 September, 2025, https://fiscaldata.treasury.gov/interest-expense-avg-interest-rates/.
[5] The Budget Lab at Yale, *"State of U.S. Tariffs: September 26, 2025."*.
[6] The Budget Lab at Yale, *"State of U.S. Tariffs: September 26, 2025."*

as well as estimates that 61-80% of the new 2025 tariffs were passed through to consumer core goods prices.[7]

At a structural level, this dynamic exemplifies the **fiscal-dominance hypothesis** first articulated by Sargent & Wallace (1981)[8] and extended by Leeper (1991)[9]: when fiscal policy contributes to inflationary pressures without altering the primary deficit, monetary authorities become subordinated to debt-service imperatives. The Fed's September 2025 rate cut - intended to stabilize credit conditions and respond to declining job creation - has inadvertently compounded this tension by lowering the effective cost of borrowing while tariffs push up tradable-goods inflation.[10] This results in a fiscal monetary feedback loop, whereby each lever neutralises the other's effect.

Contemporary evidence supports this view. Federal interest payments are expected to rise to 18.4% of federal revenues by year-end, the highest share since 1991, according to PGPF.[11] In such an environment, tariffs operate less as counter-cyclical stabilisers and more as signalling tools — politically salient measures that showcase "action" without shifting underlying solvency dynamics.

Outlook (October 2025): Without a credible path for expenditure restraint or structural tax reform, tariff revenue is more likely to deepen debt–inflation linkages than to stabilize fiscal pressures. As servicing costs claim a growing share of receipts, tariffs become less a stabilizer and more a visibility measure. The lesson: visibility does not guarantee viability.

Elastic Timing: The Slow Mechanics of Pass-Through

Tariffs in 2025 continue to operate as sector-specific consumption taxes, their incidence determined by the elasticities of import demand. While comprehensive elasticity estimates for 2025 remain scarce, institutional evidence now delineates where these price shocks are binding most tightly.

Tariffs function effectively as selective consumption taxes, with their distortionary impact determined by import demand elasticities across sectors. While 2025-specific elasticity estimates remain limited, a wide empirical literature quantifies how trade restrictions disproportionately burden consumption-heavy goods. For example, estimates from Ahmad and Riker (USITC Working Paper, 2020) place the elasticity of substitution for U.S. textiles and apparel in the 2.5–5.5 range (a 10% price increase can cut import

[7] The Budget Lab at Yale, *"State of U.S. Tariffs: September 26, 2025."*
[8] Wallace, Neil and Sargent, Thomas J. "Some Unpleasant Monetarist Arithmetic." *Federal Reserve Bank of Minneapolis, Quarterly Review 531*, Fall 1981, https://www.minneapolisfed.org/research/quarterly-review/some-unpleasant-monetarist-arithmetic
[9] Leeper, Eric M. "Equilibria under 'active' and 'passive' monetary and fiscal policies." *Journal of Monetary Economics*, vol. 27, no. 1, February, 1991, pp. 129-147, Science Direct, https://www.sciencedirect.com/science/article/pii/030439329190007B
[10] Bennett, Geoff, and Courtney Norris. "Federal Reserve Cuts Interest Rates amid Economic Uncertainty." PBS, Public Broadcasting Service, 17 September, 2025, www.pbs.org/newshour/show/federal-reserve-cuts-interest-rates-amid-economic-uncertainty.
[11] Peter G. Peterson Foundation. "*Interest Costs on the National Debt*", Peter G. Peterson Foundation, Peter G. Peterson Foundation, October, 2025, https://www.pgpf.org/programs-and-projects/fiscal-policy/monthly-interest-tracker-national-debt/.

volumes by 25–55%).[12] This is reinforced through TBL's sector-wise commodity price effects schedule, with leather and apparel facing some of the steepest increases amongst any sector at 35.8% and 34.0%, respectively, in the short run.[13]

On the other hand, demand for capital goods and pharmaceuticals tends to be closer to –1.0, implying muted quantity responses (Kee, Nicita, and Olarreaga, 2008).[14] Once again, TBL's database enforces this empirical analysis, with basic pharmaceutical products slated to increase by 5.4% in the short term (granted, the 100% tariff on branded pharmaceuticals only took effect on September 25th).[15] Retail-scanner data compiled by Yale further show that firms in these sectors have shifted pricing strategies faster than those in inelastic segments such as machinery or pharmaceuticals, where costs are absorbed or delayed rather than immediately passed through.[16]

These findings are reinforced by the predictions made by the Richmond Fed in Economic Brief No 25-23, released in June: the forecasts that textiles, leather, and apparels would incur the steepest prices were indeed realised in Q3 2025.[17] The evidence points to elasticity not merely as a measure of substitution, but as a map of where inflation becomes most visible to households.

Unlike in 2018–19, when tariffs caused an abrupt price shock, pass through in 2025 has been gradual but measurable this year. Beyond TBL's aforementioned pass-through expectations of 61-80%,[18] a Federal Reserve FEDS Note (May 9, 2025) estimates the new tariffs added about 0.3% to core-goods PCE and 0.1% to core PCE overall—small in the aggregate but consistent with category-level price pressure in tariff-exposed goods.[19]

Crucially, pass-through depends on expected persistence. In the Boston Fed's Current Policy Perspectives study, firms that believed tariffs would last 1–4+ years reported expected pass-through rates up to ~70%, versus <20% for firms expecting a short-lived shock—evidence that beliefs shape

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[12] Ahmad, Saad, and David Riker. Updated Estimates of the Trade Elasticity of Substitution. U.S. International Trade Commission, Working Paper 2020–05-A, May, 2020, https://www.usitc.gov/publications/332/working_papers/ahmad_and_riker_eos_2020.pdf.
[13] The Budget Lab at Yale, *"State of U.S. Tariffs: September 26, 2025."*
[14] Kee, Hiau, et al. "Import Demand Elasticities and Trade Distortions." *The Review of Economics and Statistics*, vol. 90, no. 4, 2008, pp. 666-682, https://econpapers.repec.org/article/tprrestat/v_3a90_3ay_3a2008_3ai_3a4_3ap_3a666-682.htm.
[15] The Budget Lab at Yale, *"State of U.S. Tariffs: September 26, 2025."*
[16] The Budget Lab at Yale. "*Short-Run Effects of 2025 Tariffs So Far." The Budget Lab at Yale*, Yale University, 2 September, 2025, https://budgetlab.yale.edu/research/short-run-effects-2025-tariffs-so-far.
[17] https://www.richmondfed.org/publications/research/economic_brief/2025/eb_25-23
[18] The Budget Lab at Yale. "*Short-Run Effects of 2025 Tariffs So Far." The Budget Lab at Yale*, Yale University, 2 September 2025, https://budgetlab.yale.edu/research/short-run-effects-2025-tariffs-so-far.
[19] Minton, Robbie, and Mariano Somale. "Detecting Tariff Effects on Consumer Prices in Real Time." The Fed - Detecting Tariff Effects on Consumer Prices in Real Time, 5 September, 2025, www.federalreserve.gov/econres/notes/feds-notes/detecting-tariff-effects-on-consumer-prices-in-real-time-20250509.html.

pricing plans even before contracts fully roll.[20] A broader policy backdrop points the same way: the Fed's June 2025 Monetary Policy Report notes that while tariff effects are hard to observe directly in headline statistics, the pattern of net price changes across goods is consistent with a tariff contribution to the upturn in goods inflation.[21] To further substantiate this, in an April speech, Boston Fed President Susan Collins highlighted survey evidence that full pass-through can take up to two years as inventories turn and contracts reset—underscoring why 2025 looks phased, not abrupt.[22]

Outlook (October 2025): As the year closes, the consumption channel remains the clearest conduit of tariff-driven price stress. High-elasticity goods will continue to experience faster pass-through and deeper volume adjustments as inventories reset. Lower-elasticity sectors may appear stable but conceal latent cost accumulation that surfaces with lagged repricing. Tariffs now function less as episodic taxes and more as permanent consumption distortions redistributing welfare through differences in elasticity.

The New Geometry of Trade: Diversion

The 2025 tariff cycle has evolved from a bilateral dispute into a structural test of the global trading system. Trade flows are being re-routed, price elasticities are diverging across regions, and supply chains are re-optimising in ways that expose new asymmetries in global resilience.

Empirical evidence now confirms that the dominant response to U.S. tariffs has been diversion rather than contraction. Going back to clothing trade, China's textile exports to the EU rose nearly 20% in value and volume during the first half of 2025, offsetting declines to the U.S. market.[23] The ECB's Economic Bulletin (Sept 2025)[24] finds that these U.S. restrictions corresponded to a 2–3 % increase in

[20] Federal Reserve Bank of Boston. "Who Will Pay for Tariffs? Businesses' Expectations about Costs and Prices." Federal Reserve Bank of Boston, 29 September, 2025, www.bostonfed.org/publications/current-policy-perspectives/2025/who-pays-for-tariffs.aspx.
[21] Board of Governors of the Federal Reserve System. "Recent Economic and Financial Developments." *Board of Governors of the Federal Reserve System*, Federal Reserve, June 2025, www.federalreserve.gov/monetarypolicy/2025-06-mpr-part1.htm.
[22] Collins, Susan M. "Supply Factors and the Evolution of the Economy." Speech, 10 April 2025, Federal Reserve Bank of Boston. https://www.bostonfed.org/-/media/Documents/Speeches/PDF/collins/2025/20250410-text.pdf
[23] China Reroutes Clothes Exports to Europe after US Tariffs Upset Trade." *Financial Times*, The Financial Times Ltd., 5 October, 2025 https://www.ft.com/content/245ff63f-42ec-433c-8c1d-068eb469843f?accessToken=zwAGQIqIQ4Hwkc8kX._Y_QuxDPNOMHQaOtGmEPw.MEYCIQCQv88HSlYXwyeBj3uKimKwYjEmA2H8H74oU_vWkwGgzgIhAK5lu5WfMlRDwNYnYS8CCLoELj139Zv4_3CdF9ZPtVL-&sharetype=gift&token=238d6e55-b4fd-4898-b78b-4f5f204e1a32
[24] European Central Bank. "The Implications of US-China Trade Tensions for the Euro Area — Lessons from the Tariffs Imposed by the First Trump Administration." *ECB Economic Bulletin: Focus*, Issue 3/2025, prepared by Vanessa Gunnella, Giovanni Stamato & Alicja Kobayashi, 2025, www.ecb.europa.eu/press/economic-bulletin/focus/2025/html/ecb.ebbox202503_02~b2916b44db.en.html

redirected Chinese exports to the euro area, while the Rhodium Group (May 2025) describes the phenomenon as "a structural accelerator of global supply re-sorting.[25]

The IMF's July 2025 World Economic Outlook Update reinforces this reading: trade and investment front-loading in early 2025 drove global growth 0.3% above April's forecast, largely due to anticipatory import surges before higher tariffs took effect.[26] However, the Fund projects this "front-loaded resilience" will unwind through 2026 as inventories normalize and temporary diversions fade. The IMF estimates that U.S. effective tariff rates averaged 17.3%, compared with 24.4% in its April reference scenario, as temporary pauses were introduced, softening—but not reversing—trade distortions.[27]

The Yale Budget Lab reports that imports of tariff-sensitive consumer goods from ASEAN economies grew 11 % y/y in Q2 2025, even as U.S. import volumes overall declined.[28] Such regional substitution reveals widening elasticity asymmetries: Southeast Asia's high export flexibility contrasts with the rigid pricing structures of Mexico and Korea, where intermediate-goods contracts in dollars delay price pass-through.[29]

The UNCTAD Global Trade Update (Sept 2025) adds a critical dimension—trade policy uncertainty as a transmission channel in itself. Its analysis finds that U.S. import volatility surged before tariffs were enacted, peaking in early 2025, then easing once firms adapted to the new environment[OBJ]. The report's volatility indices show developing-country exports to the U.S. swung up to twice as sharply as those from advanced economies, revealing how elasticity and uncertainty compound vulnerability.[30]

Trade diversion is not merely geographic—it is networked. The OECD TiVA database (June 2025) indicates that nearly 40% of U.S. imports subject to 2025 tariffs are intermediate inputs used in domestic production.[31] These inputs create price-linkage multipliers along supply chains, especially in electronics and transport equipment, where pass-through effects are magnified by contract rigidities. The IMF similarly notes that tariff shocks have propagated through inventory accumulation, raising short-term output but at the cost of potential inventory overhangs and delayed investment once demand softens.

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[25] Boullenois, Camille, and Jeremy Smith. "Trade Diversion: Blessing or Curse?" *Rhodium Group*, 7 May 2025, rhg.com/research/trade-diversion-blessing-or-curse/.
[26] International Monetary Fund. *World Economic Outlook Update, July 2025: Global Economy: Tenuous Resilience amid Persistent Uncertainty*, International Monetary Fund, 29 July 2025, www.imf.org/en/Publications/WEO/Issues/2025/07/29/world-economic-outlook-update-july-2025
[27] International Monetary Fund, "*World Economic Outlook Update, July 2025.*"
[28] The Budget Lab at Yale, *"State of U.S. Tariffs: September 26, 2025."*
[29] International Monetary Fund, "*World Economic Outlook Update, July 2025.*"
[30] UN Conference on Trade and Development. *Global Trade Update (September 2025): Trade Policy Uncertainty Looms over Global Markets*. 1 Sept. 2025, unctad.org/publication/global-trade-update-september-2025-trade-policy-uncertainty-looms-over-global-markets.
[31] OECD. *"(TIVA) 2025 Edition: FFD_DVA — Australia (W) (A)"*. OECD Data-Explorer, data-explorer.oecd.org/vis?pg=0&bp=true&tm=%22%28TIVA%29%202025%20edition%22&snb=5&df[ds]=dsDisseminateFinalDMZ&df[id]=DSD_TIVA_MAINLV%40DF_MAINLV&df[ag]=OECD.STI.PIE&df[vs]=1.1&dq=FFD_DVA.AUS..W..A&pd=2015%2C&to[TIME_PERIOD]=false.

This mechanism explains the divergence between a superficially stable global growth rate (3.0% in 2025) and underlying inefficiencies in production allocation.[32]

Amid tariff escalation, India exemplifies adaptive resilience rather than exposure. The KPMG India "U.S. Tariff Shifts" (September 2025) report notes that despite a 50 % composite tariff on Indian exports to the U.S., the macro impact remains modest—an estimated 0.3–0.4 % of GDP loss—owing to low export dependence and active market diversification.[33] Over 30 % of India's shipments in textiles, pharmaceuticals, smartphones, and marine products are U.S.-bound, yet exporters are re-routing output toward the EU, Gulf, and ASEAN, and expanding into value-added segments like premium cotton and generics.[34]

On a similar tangent, the IMF's July External Sector report explicitly links tariffs to shifts in national saving and investment balances, noting that tariffs can raise the current-account balance in surplus economies (e.g., China) and widen deficits in the U.S. via higher import prices and weaker investment by ~0.4 % of GDP while boosting household saving marginally—producing a structural reallocation rather than net improvement in global balances.[35]

Outlook (October 2025): The IMF frames the next leg as a "payback phase": the front-loaded trade that lifted 2025 activity will unwind, and with effective tariff rates lower than April assumptions, near-term growth looks slightly firmer, but inventory normalization and elevated uncertainty temper momentum into 2026.

Puzzle of the Year: 2025's Sliding Dollar

Tariffs shape the external balance in two competing ways. On one side, higher import prices compress demand and can temporarily narrow bilateral trade deficits; on the other, global diversion usually leaves the **overall current account unchanged**. This is not new: the IMF's review of the 2018–19 U.S.–China tariffs found that external balances **barely shifted**, since U.S. deficits ultimately stem from **structural savings–investment** gaps rather than tariff policies.[36]

Current international transactions data tell a similar story. The U.S. current-account deficit narrowed to **$251.3 billion (3.3% of GDP)** in Q2 2025, down from **$439.8 billion (5.9% of GDP)** in Q1.[37] Much

[32] International Monetary Fund, "*World Economic Outlook Update, July 2025.*"
[33] KPMG. *U.S. Tariff Shifts: Tariff Revisions and Their Impact on India*. September 2025, assets.kpmg.com/content/dam/kpmgsites/in/pdf/2025/09/us-tariff-shifts-tariff-revisions-and-their-impact-on-india.pdf.
[34] KPMG, "U.S. Tariff Shifts: Tariff Revisions and Their Impact on India".
[35] International Monetary Fund. *2025 External Sector Report: Global Imbalances in a Shifting World*. July 2025, www.imf.org/en/Publications/ESR/Issues/2025/07/22/external-sector-report-2025
[36] International Monetary Fund. *World Economic Outlook, October 2019: Global Manufacturing Downturn, Rising Trade Barriers*. October 2019, www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019
[37] U.S. Bureau of Economic Analysis. "U.S. International Transactions, 2nd Quarter 2025." *U.S. Bureau of Economic Analysis*, 23 Sept. 2025, https://www.bea.gov/data/intl-trade-investment/international-transactions

of this $188.5 billion swing reflects **short-term import compression and front-loading**, not durable adjustment. In the language of international economics, the **Marshall-Lerner condition** (which states that tariffs only improve the trade balance if demand for exports and imports is elastic enough) helps explain why such improvements tend to be fleeting.

Textbook open-economy models add another layer. In the **Mundell-Fleming framework** (which extends IS-LM to an open economy), tariffs can appreciate the home currency if capital inflows remain strong, offsetting any competitiveness gains. Historically, the dollar has also tended to strengthen during global uncertainty shocks.[38] Yet, 2025 has diverged significantly from that pattern. The U.S. Dollar Index (DXY) declined by **11% in H1 2025**, its sharpest decline since 1973; Morgan Stanley projects another **10% drop by year-end**. The Treasury's June 2025 FX report confirmed a **5.1% fall** in the trade-weighted dollar between December 2024 and April 2025.[39]

Why the divergence? The answer lies in **capital flows and expectations**: Fed easing has reduced U.S. yield differentials, fiscal and tariff risks have lifted risk premia, and portfolio reallocations have magnified depreciation. In short, while theory points to appreciation, in practice, the **financial channel** has dominated, coinciding with dollar weakness.

Outlook (October 2025): Continued **dollar softness** looks likely if Fed rate cuts arrive. For the U.S., that likely blunts any near-term external-balance improvements from tariffs and may raise import price inflation. For trading partners, tariff risk is increasingly transmitted through **FX volatility**, complicating external financing conditions and leaving global imbalances unresolved.

[38] Georgiadis, Georgios, et al. "Global Risk and the Dollar." *CEMLA Conference Paper*, 9 July 2021, https://www.cemla.org/actividades/2021-final/2021-07-conference-frbny-ecb/SV.2%28PAPER%29Georgiadis_Muller_Schumann.pdf

[39] U.S. Department of the Treasury. *Report to Congress on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States*. June 2025, https://home.treasury.gov/system/files/136/June-2025-FX-Report.pdf

Reading Between the Prices

Are Tariffs Becoming a Cost Consumers Can't Ignore?

Headline inflation readings in August came in at 2.9% for the CPI and 2.7% for the PCE, a sign that tariffs are being reflected in consumer prices. Core inflation, which excludes food and energy, **ran even higher at 3.1% for CPI and 2.9% for PCE, underscoring that tariff-driven costs are materializing in categories beyond temporary swings in commodities**. The Bureau of Labor Statistics[40] reported that shelter prices rose 0.4% month-over-month, while food and energy increased 0.5% and 0.7%, respectively, with gasoline alone up 1.9%. Within the core CPI, gains in airline fares, vehicles, and apparel outweighed declines in medical care, recreation, and communication services.

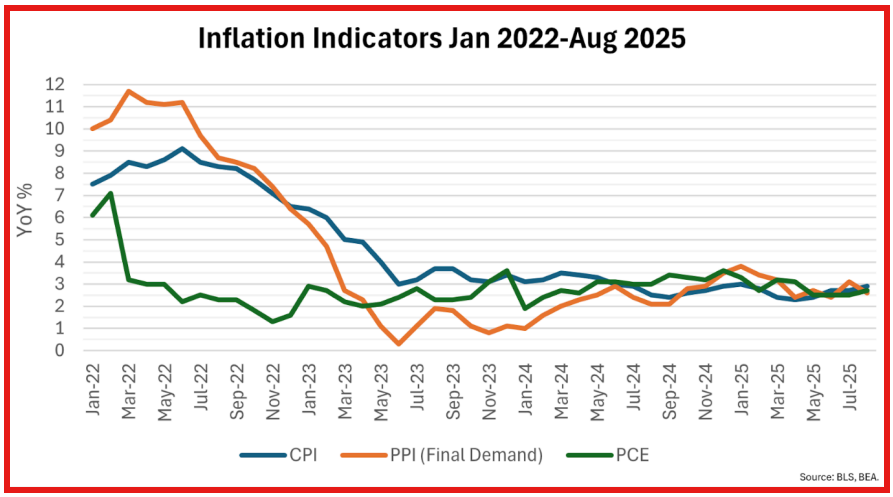

Figure 1: CPI and PCE inflation have stabilised near 3 %, while PPI has eased to 2.6 %, signalling that firms are absorbing tariff-driven input costs rather than passing them on to consumers — a sign of margin compression and asymmetric price transmission.

Yet, August also highlighted a disconnect between consumer and producer prices. While CPI continued to rise, PPI fell to 2.6% year-over-year, marking another rare instance of wholesale prices running below consumer prices. **This dynamic signals that producers are absorbing higher input costs, compressing margins rather than fully passing costs to consumers amid weaker demand**. As research from Bergin and Corsetti (2025)[41] shows, tariffs can create this divergence by pushing down PPI while simultaneously driving CPI higher, reflecting the asymmetry of cost absorption across the supply chain.

[40] U.S. Bureau of Labor Statistics. "Consumer Price Index Summary – 2025 M08 Results." *U.S. Bureau of Labor Statistics*, 11 September, 2025, https://www.bls.gov/news.release/cpi.nr0.htm

[41] Paul R. Bergin and Giancarlo Corsetti, *The Macroeconomic Stabilization of Tariff Shocks: What Is the Optimal Monetary Response?* (NBER Working Paper No. 26995, April 2020, rev. July 2021).

While tariffs are often viewed as a one-time upward shift in prices, the current data suggests **the pass-through is incomplete**. Firms that have thus far shouldered higher costs may raise prices again if demand conditions improve, posing a risk of renewed upward pressure on consumer inflation.

Uncertainty, Data Bias, and Volatility — What Can We Expect for Prices?

The noise and uncertainty regarding the future direction of inflation contributes to a murky outlook for the next couple of months, but inflation expectations can help gauge its likely trajectory. Many different sources report inflation expectations, and while results may vary, the general trend seems to hold: **near-term inflation expectations remain well-above optimal levels**. Readings from the New York Federal Reserve[42] and the University of Michigan's Survey of Consumers[43] depict individuals/firms in the U.S. believe inflation in one year will be 3.2% and 4.8%, respectively. But if tariffs are a one-time price increase, why do inflation expectations matter? Future inflation depends not only on unemployment or output gaps, but also on inflation expectations. If workers and firms foresee more inflation, they build that into wage demands and pricing decisions, which then feed into actual inflation, **reinforcing a vicious cycle** (read more about the Expectations-Augmented Phillips Curve). The recent rise in inflation expectations appears to stem from heightened pessimism surrounding tariffs, with weak buying conditions for durable goods and related sentiment indexes reinforcing consumer and business caution. Given that tariffs imposed under IEEPA are likely to be at least partially upheld by the Supreme Court alongside Section 232 measures, price pressures are expected to remain elevated. **This persistence, combined with increasingly pessimistic buying conditions, suggests that inflation will remain a central concern, not only for households but also for investors and the Federal Reserve as they gauge policy and market direction.**

[42] Federal Reserve Bank of New York. "Survey of Consumer Expectations." *Federal Reserve Bank of New York*, https://www.newyorkfed.org/microeconomics/sce

[43] University of Michigan, Survey Research Center. *Surveys of Consumers*. The Regents of the University of Michigan, https://data.sca.isr.umich.edu

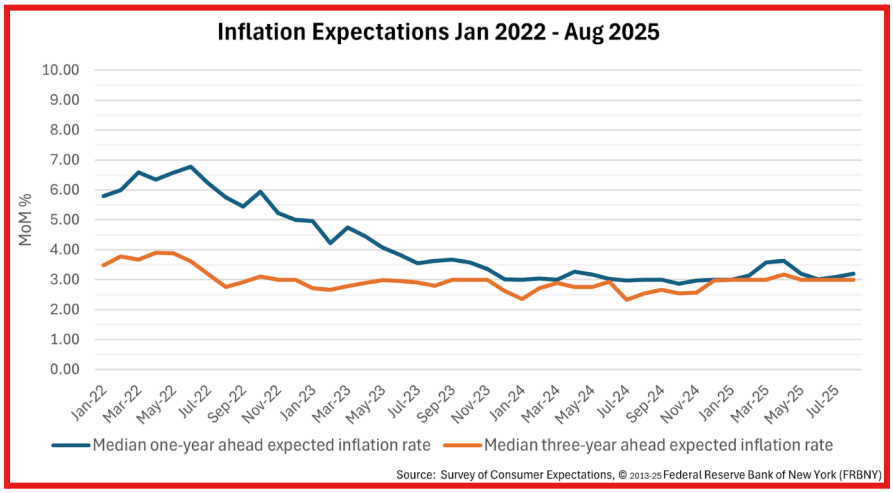

Figure 2: Inflation expectations remain anchored but elevated, with one-year and three-year medians near 3 % and 2.9 %, respectively. This persistence highlights how tariff uncertainty and weak sentiment are entrenching inflation expectations above target, keeping price stability a central concern for both households and policymakers.

While expectations are a helpful indicator, the path of inflation data itself is headed into an uncertain direction. Headline data, such as CPI, PPI, and PCE, are tools that consumers, investors, and even institutions such as the Fed rely on to make decisions. However, we must begin to question the bias and accuracy that these indicators possess, especially with CPI data. According to the Apollo Academy[44], when the Bureau of Labor Statistics does not have all the data for the CPI calculation, it tends to impute around 10% of data. In practice, this means the BLS estimates missing prices, often by using similar items, historical trends, or category averages, so the index can be calculated on time. Now, **the share of data in the CPI that is estimated has surged in recent months to an all-time high of almost 35% as of June 2025.** This implies that a growing share of prices in future CPI releases will be estimates based on proxy measures, introducing additional volatility and potential bias into the data. When headline CPI figures are released, it is important to question their reliability and **to cross-check with alternative measures of inflation.** In practice, that means doing your own due diligence and relying on a broader set of gauges, such as PCE, market-based expectations, and survey indexes, rather than treating CPI alone as the definitive signal.

[44] Sløk, Torsten. "The Quality of CPI Data Continues to Deteriorate." *Apollo Academy*, 26 July 2025, www.apolloacademy.com/the-quality-of-the-cpi-data-continues-to-deteriorate/

Resilience to Rigidity: Labor Frictions in 2025

From Cracks to Collapse? The Labor Market's Next Test

Just when the U.S. thought the labor market was showing resilience, it was in for an unpleasant surprise - with softening employment data and elevated inflation, fears of stagflation are resurfacing as the economy seems to be losing its footing. The unemployment rate (U-3) has risen by 0.1 % to 4.3% in August from July.[45] While this is still historically low, unemployment remains noticeably higher than the sub-4% rates of the last couple of years, indicating a weakening trend compared to the tight labor market we saw earlier this year. However, headline unemployment does not tell the entire story.

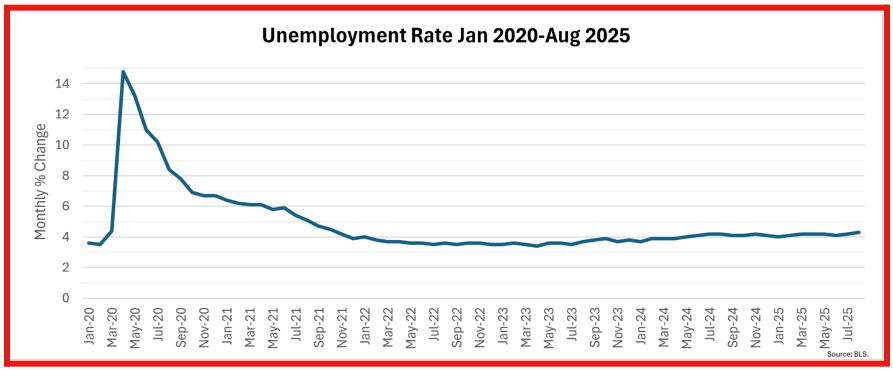

Figure 3: The unemployment rate has largely plateaued around 4.3 % through mid-2025, signaling a shift from recovery to stagnation. While the rise is modest, the persistence near this level reflects cooling labor demand, slower hiring, and reduced immigration inflows — pointing to structural slack in the job market.

Initial jobless claims have been trending downward in recent weeks, ending at 218,000 in the week of September 22, consistently **below the average consensus of 235,000**[46]. However, leading indicators of employment are beginning to flash warning signs for the labor market. Job openings have declined substantially, with **multiple** downward revisions to earlier reports beginning in March 2025, suggesting that the economy was headed towards a downward trajectory even before the summer. Since June, the labor market has shifted into more troubling territory. For the first time in several years, **the number of unemployed individuals now exceeds available job openings**, a clear sign of cooling labor demand. At the same time, the labor supply itself has been shrinking, creating an uneasy imbalance in the employment picture. This is in part due to reduced immigration flows, highlighted by recent research. Immigrants have always been a key driver of U.S. labor force growth, but stricter enforcement and policy changes have slowed inflows and even pushed an estimated **1.2 million immigrants out of the labor**

[45] U.S. Bureau of Labor Statistics. "Employment Situation Summary – 2025 M07 Results." *U.S. Bureau of Labor Statistics*, 3 July 2025, www.bls.gov/news.release/empsit.nr0.html
[46] U.S. Department of Labor. "Unemployment Insurance Weekly Claims Data." *U.S. Department of Labor*, 25 Sept. 2025, www.dol.gov/ui/data.pdf

force in 2025 alone, according to AP News.[47] This matters because foreign-born workers typically exhibit higher labor force participation than many native-born groups, meaning weaker immigration inflows can exacerbate labor shortages and sustain wage and inflationary pressures.

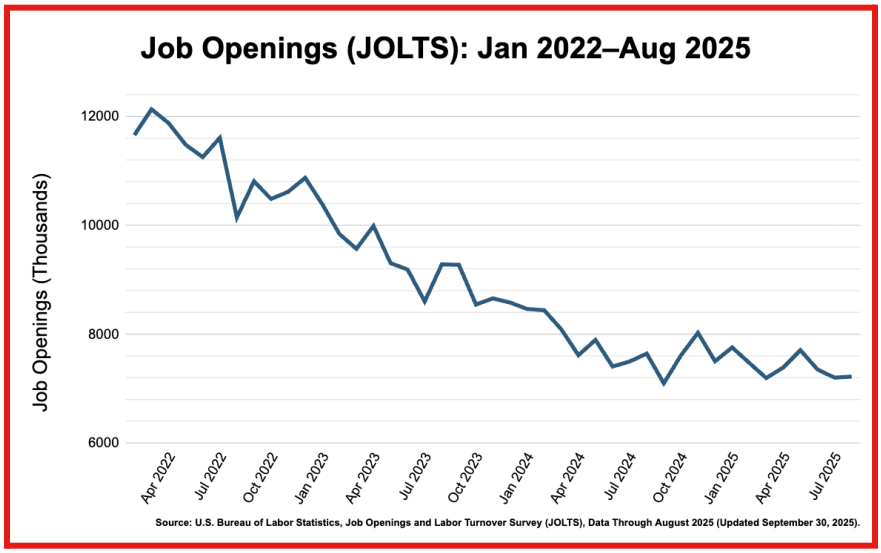

Figure 4: Job openings have declined steadily from over 12 million in early 2022 to just above 7 million by August 2025 — the lowest level since 2019. The downtrend reflects weaker labor demand, as firms slow hiring amid policy uncertainty.

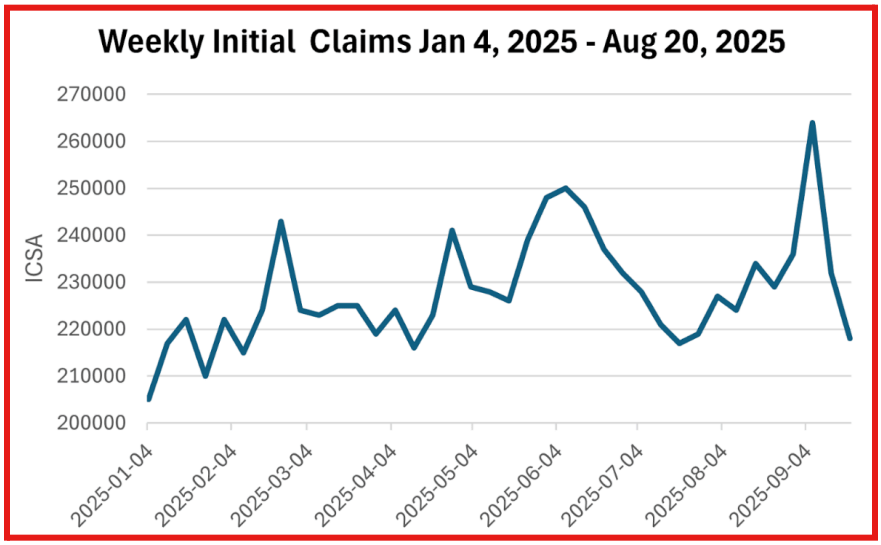

Figure 5: Initial jobless claims have hovered near 220,000 through mid-2025 but show renewed volatility since July, suggesting that labor market softness is broadening beyond isolated sectors.

[47] 1.2 Million Immigrants Are Gone from the U.S. Labor Force Under Trump, Preliminary Data Shows." *Associated Press*, 1 Sept. 2025, apnews.com/article/labor-day-immigration-trump-9a40f9e371209cc1d145e4a7f157a499 .

Labor supply could be stretched further with the administration's new policy of raising costs for firms sponsoring H-1B visas. On September 19, the Trump Administration imposed a **$100,000 annual fee** on new H-1B applicants - a dramatic increase from prior fees. While existing visa holders are exempt, the price of hiring even a single foreign worker now skyrockets, pushing firms, especially startups and smaller companies, to look domestically. This may benefit some U.S. workers in the short term, but it shrinks the overall pool of high-skilled labor, risks pushing up wage demands, and could deter investment in R&D and innovation. Looking ahead, companies may respond by **continuing to scale back hiring or automating roles** to avoid the steep costs. With fewer job opportunities and declining high-skill labor inflows, the policy could **accelerate the cooling already visible in the labor market**, leaving growth and innovation on shakier ground.

Credibility and Controversy - The BLS Scandal

To top things off, the credibility of U.S. labor market data has come under scrutiny following major downward revisions and leadership turmoil at the Bureau of Labor Statistics (BLS). With nearly 1 million jobs erased in annual benchmark revisions and the abrupt firing of former BLS commissioner Erika McEntarfer in August, confidence in the reliability of official data has weakened. This has raised questions for investors, policymakers, and households - **how can we make informed decisions if the data guiding us is inaccurate or politically altered?**

McEntarfer was fired on August 1, 2025, shortly after the BLS released a weak job report in July, which showed only 73,000 jobs added, far below expectations, and included significant downward revisions to the May and June employment figures. This clashed with the Trump administration's narrative of a booming economy, prompting accusations that she manipulated the data, though no evidence was provided. In her place, Deputy Commissioner William Wiatrowski became the Acting Commissioner, with the Trump administration nominating Heritage Foundation - a conservative think tank - economist E.J. Antoni as her permanent successor. This has raised concerns about politicization, sharpening fears over the independence of U.S. economic data. Especially as the BLS has already been struggling with years of budget and a shrinking workforce, straining its ability to maintain survey coverage and quality data. With credibility now in question, the reliability of key labor and inflation statistics faces greater scrutiny than ever before. Still, while the risks are clear, it is too early to draw firm conclusions, with the path of data trustworthiness remaining uncertain.

AI is Coming Faster Than We Think - As a Threat or Ally?

Without a doubt, artificial intelligence is currently the biggest conversation as we see the possibility of a future with AI chatbots, autonomous vehicles, and even humanoid robots catering to our everyday needs. This has caused excitement in markets with investors throwing cash at megacap and startup firms utilizing AI, and corporations dumping investments into data centers. Technological innovation is exciting not just for the U.S., but globally as well. However, we must start considering how this will impact our labor force in the near future. Many can agree that AI will boost productivity, but whether the impact will be inflationary or deflationary remains to be seen. From a theoretical standpoint, AI and other

innovative tech would boost capital per effective worker, increasing productivity. This increases the overall aggregate supply, allowing prices to fall, which is a **deflationary effect** (read this paper from the *Bank of International Settlements*).

According to the IMF's AI Preparedness Index[48], the U.S. scores about **0.77** (range of 0 to 1), indicating it is near the frontier of integrating AI into its economy. Another possibility that we are beginning to witness now is AI replacing certain workers, shrinking total labor income. With fewer wages being paid, household spending also falls, further reinforcing disinflation or even deflation. In the long run, once AI is fully integrated into the U.S. economy, the system will reorganize around it, reallocating labor and capital toward new sectors, products, and tasks that did not exist before. This structural transition can fuel fresh demand and push equilibrium prices higher, offsetting the initial deflationary impact. In effect, AI may deliver short-term disinflationary pain but set the stage for long-term structural inflationary pressures, and ultimately, economic gains.

[48] International Monetary Fund. "AI Preparedness Index: Advanced, Emerging Market, and Low-Income Economies." *IMF Data Mapper*, International Monetary Fund, n.d., https://www.imf.org/external/datamapper/AI_PI@AIPI/ADVEC/EME/LIC.

A Growing Confidence Gap

Consumer Confidence: Mixed Signals

The University of Michigan's Survey of Consumers[49] reported a 5% drop in overall sentiment in September, from 58.2 in August to 55.1, though sentiment remained above the lows recorded in April and May 2025. The decline was broad-based, cutting across age, income, and education groups. Confidence fell among consumers under 35, stayed steady for those aged 35–55, and rose among those over 55. Perceptions of current job availability worsened for the eighth consecutive month, with more consumers expecting fewer jobs in the months ahead and optimism about future income decreasing.. Short-term (12-month) inflation expectations ticked up slightly to 4.7% in August from 4.6% in July, following three consecutive months of easing.

While consumer assessments of current business conditions improved slightly in August (more people rated them as both "good" and "bad)", indicating less unanimity of pessimism, their view of the labor market deteriorated. Concerns grew about a frozen job market with limited hiring outside healthcare. Nevertheless, more consumers now expect business conditions to improve six months ahead, even as worries about future income and job availability persist. Consumers' assessments of their own family finances improved modestly, but 44%[50] blamed high prices for eroding their household finances. Overall, the data depict a public that is slightly more positive about future business activity but more anxious about jobs and personal financial security.

Policy Uncertainty and Business Costs

Inflationary pressures have been a persistent theme since 2024. That year, despite high prices and elevated interest rates, consumer spending stayed resilient, partly because wage growth outpaced inflation and the job market held up. Gains in income, the stock market, and home equity cushioned high-income households, allowing them to drive much of the overall spending, especially in consumer discretionary categories. In contrast, lower-income households faced the brunt of inflation and high borrowing costs, cutting back on non-essential goods and services. This split in spending patterns was reflected in sectoral performance: home-improvement and auto-part retailers struggled as households delayed renovations and big-ticket purchases, while Amazon and Tesla posted strong gains. Homebuilding stocks rallied on hopes of lower mortgage rates following expected interest-rate cuts.

The outlook for consumer discretionary firms in late 2025 hinges on whether inflation eases, the Fed cuts rates, and recession fears subside. Current policy signals are mixed: lighter regulation and lower

[49] State of the Consumer 2025: When Disruption Becomes Permanent." *McKinsey & Company*, 9 June 2025, www.mckinsey.com/industries/consumer-packaged-goods/our-insights/state-of-consumer
[50] U.S. Consumer Confidence." *The Conference Board*, The Conference Board, n.d., www.conference-board.org/topics/consumer-confidence/press

corporate taxes benefit businesses, but higher tariffs are squeezing margins and pressuring both firms and consumers. Nearly three-quarters of sub-industries in the consumer discretionary sector, notably automobiles and components, consumer durables and apparel, and consumer services, are expected to face margin compression through the end of 2025 before recovering in 2026. Distribution and retail sub-industries are expected to see only marginal improvement. Tariffs have already prompted many firms to raise prices, with consumers noticing and reacting: 60%[51] of respondents in consumer surveys volunteered comments about tariffs, perceiving them as worsening buying conditions. Retailers such as Target and Best Buy have warned of flat or declining holiday sales, Walmart has flagged weakness in discretionary items like toys and electronics, and even Amazon is under pressure from rising import costs. PwC's survey shows Gen Z shoppers planning to cut their holiday budgets by 23%[52], dragging down overall U.S. holiday spending projections by 11%[53] from last year.

Shifting Consumer Spending Patterns

Consumer spending held up in June, partly driven by front-loading purchases ahead of anticipated tariffs and by steady labor-market incomes. As in 2024, high-income households carried much of the spending because they were better able to weather economic uncertainty.

However, a sharp pullback in discretionary spending intentions is now evident across all income groups, alongside a rise in the number of consumers reporting "mixed feelings" about the economy. A McKinsey survey[54] found that consumers intend to prioritize essentials over the next three months, with net intent positive in necessity-driven categories but negative in most semi-discretionary ones. Holiday spending plans illustrate the uneven strain: 46% of Americans intend to keep holiday spending at last year's levels, while nearly 25% plan to spend less, a weaker outlook compared with many European countries, where a higher proportion expect to maintain their budgets. McKinsey further reports that among U.S. consumers, 65% of high-income households expect to spend the same or more than last year, compared with 56% of middle-income and 48% of low-income households. This disparity highlights the disproportionate effect of tariffs and labor-market uncertainty on lower-income households, which are also vulnerable to proposed tax reductions that could affect social programs such as SNAP and Medicaid.

Most consumers have already changed or plan to change their shopping habits in response to tariff announcements. Gen Z and millennials, previously more prone to splurge, show higher intent to adjust, while baby boomers, who were less inclined to splurge to begin with, show smaller behavioral shifts.

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[51] Consumer Confidence." *The Conference Board*, The Conference Board, n.d., www.conference-board.org/topics/pdf.cfm?brandingURL=consumer-confidence

[52] Clark, Chris. "Americans Are Slashing Their Holiday Shopping Budgets This Year, Survey Says — Here's How a Scaled-Back Season Could Set the Tone for 2026." *Moneywise*, Updated 22 Sept. 2025, moneywise.com/life/shopping/americans-are-slashing-their-holiday-shopping-budgets-this-year-survey-says-heres-how-a-scaled-back-season-could-set-the-tone-for-2026.

[53] Consumer Confidence." *The Conference Board*, The Conference Board, n.d., www.conference-board.org/topics/pdf.cfm?brandingURL=consumer-confidence

[54] State of the Consumer 2025: When Disruption Becomes Permanent." *McKinsey & Company*, 9 June 2025, www.mckinsey.com/industries/consumer-packaged-goods/our-insights/state-of-consumer

Reported changes include cutting back on non-essentials, buying fewer items, switching to cheaper brands, and in Gen Z's case, buying secondhand items even if they could afford new ones. Consumers across all age groups are seeking sales, comparing prices, using coupons, and reusing items to manage household budgets.

Spending intent has shifted across categories: Gen X and Gen Z are cutting back on apparel, footwear, electronics, and personal care, but are planning to spend more on cruises and international flights compared with the previous quarter, a shift reflecting seasonal spring and summer travel priorities. Home improvement and gardening supplies remain seasonal bright spots. Consumers still plan to splurge most on restaurants and groceries, but fewer intend to do so compared with 2024.

Economic and Business Implications

With nearly 70%[55] of U.S. GDP tied to personal consumption expenditures, any slowdown in household spending raises risks for near-term economic growth. Weak demand for durable goods could ripple through manufacturing, logistics, and financial services, constraining output and employment. Rising delinquency rates on credit-card and auto loans, especially among lower-income households, could further tighten lending standards and add to stress on both households and the broader economy. Historically, periods of weakening consumer sentiment alongside rising inflation have often preceded economic slowdowns or recessions, with the heaviest impact falling on lower-income households and amplifying concerns over income inequality and social stability. Proposed cuts to federal programs combined with tariff-related price hikes threaten to deepen these disparities.

For businesses, the current environment underscores the importance of adaptability. Companies offering essentials and competitively priced products are better placed to capture value-conscious consumers. Discount retailers and e-commerce platforms are expected to outperform traditional brick-and-mortar stores with higher overhead costs. Conversely, luxury brands, retailers of big-ticket durable goods, and companies dependent on imported items face squeezed profit margins as they contend with both higher input costs and weaker consumer demand. The trend toward value-seeking behavior is pushing retailers to rethink pricing strategies and promotions.

In the longer term, firms that innovate by streamlining production, investing in affordability and sustainability, focusing on essentials, and exploring new markets and distribution channels will be better positioned to navigate shifts in consumer preferences. The growing emphasis on cost savings and price comparison also suggests a lasting transformation in the retail landscape favoring digital channels and discount-oriented models.

[55] Hagler, Rees, and Dhiren Patki. "Why Has Consumer Spending Remained So Resilient? Evidence from Credit Card Data." *Federal Reserve Bank of Boston Current Policy Perspectives*, 13 Aug. 2025, www.bostonfed.org/publications/current-policy-perspectives/2025/why-has-consumer-spending-remained-resilient.aspx

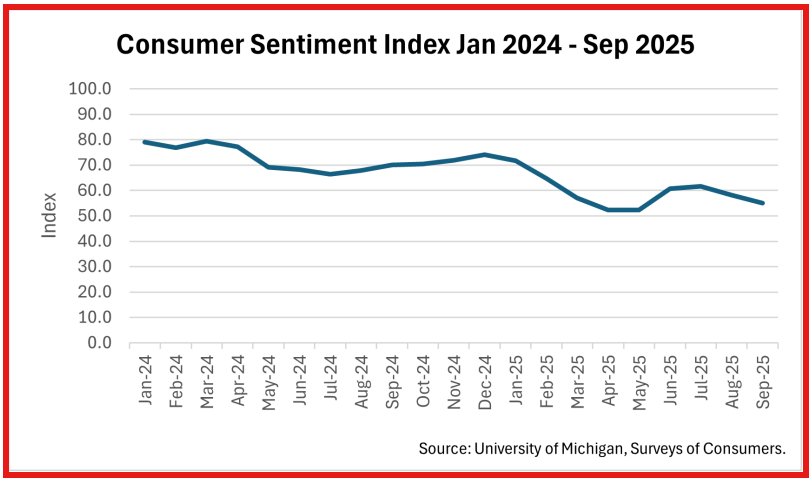

Figure 6: Consumer sentiment has remained subdued throughout 2025, drifting from near 70 in early spring to the mid-50s by September. The decline underscores growing pessimism over prices, job security, and credit conditions, particularly among lower-income households, signaling that resilient spending may soon give way to broader demand fatigue.

Geoeconomic Rewiring

Discussion of the Trump administration's economic policy has centered around the calamitous overturning of the free trade norms that have governed global commerce for decades; however, there is at least one area where the Trump administration is taking cues directly from the Biden playbook: semiconductors. Much has changed since Donald Trump began his second term, but semiconductors are still a key area of interest in national security and strategic competition with China.

Intel: A Case Study

In August of 2025, the Trump administration reached a deal with Intel to convert billions of dollars in federal grants awarded by the Biden administration into common stock, amounting to a 9.9% equity stake in the company.[56] The president has faced some criticism over the deal from his opponents. In at least one instance, Governor Gavin Newsom took to the social media platform X to call Trump a socialist.[57] While it is true that the left wing of the Democratic Party had floated the idea of taking such a stake when the grants were initially awarded, it would be a mistake to view this action as taking place within the realm of politics exclusively.[58]

The government stake in Intel does not reveal a dramatic change in policy from Biden to Trump, but it instead shows how dramatically the value of Intel had fallen in just three years. The intent of the CHIPS and Science Act of 2022, which provided the grants, was to maintain government control over part of the nation's semiconductor supply chain. Biden's subsidies were a gasp of fresh air for a floundering intel. It was an absolute strategic necessity to rescue the failing American chip fabrication industry, which produces the components that are crucial to US weapons systems. Converting the grants into equity is a rational next step from Biden's policy after Intel had lost so much leverage and market confidence. At

[56] "Intel and Trump Administration Reach Historic Agreement to Accelerate American Technology and Manufacturing Leadership." Intel Corporation, 22 Aug. 2025, https://www.intc.com/news-events/press-releases/detail/1748/intel-and-trump-administration-reach-historic-agreement-to.

[57] Governor Newsom Press Office [@GovPressOffice]. "DONALD TRUMP IS A SOCIALIST! — GCN https://t.co/4ohjCMhfck." Tweet. Twitter, 22 Aug. 2025, https://x.com/GovPressOffice/status/1959002916708393132.

[58] "PREPARED REMARKS: Sanders Files Amendment on Microchip Legislation to Restrict Blank Check Corporate Welfare." Bernie Sanders: U.S. Senator for Vermont, 19 Jul. 2022, https://www.sanders.senate.gov/press-releases/prepared-remarks-sanders-files-amendment-on-microchip-legislation-to-restrict-blank-check-corporate-welfare/#:~:text=In%20my%20view%2C%20we%20must,people%2C%20not%20just%20wealthy%20shareholders.

the time of writing, following Nvidia's $5 billion investment in Intel in September, the government's stake is worth approximately $16 billion.[59,60]

Growing Liabilities in Taiwan

Viewing Trump's policy in these terms of reducing reliance on Taiwan and strategic competition with China allows one to better understand the shifting regulatory landscape around the sale of American-designed chips abroad. In December of 2024, President Biden signed an executive order to cap chip sales around the world to choke the international black market for high-end chips like Nvidia's.[61] The goal was to maintain the United States' competitive edge in AI and information technology by raising the barriers between Chinese firms and high-powered chips. Looking back further, it was the first Trump administration that banned Huawei from purchasing US-designed chips, showing that this issue has been on the minds of policymakers consistently. The aggressive control of semiconductor exports has been a fixture of US policy since Trump launched the trade war with China in 2018. Also, both the Biden and Trump administrations have made concerted efforts to reduce the industrial concentration of semiconductor fabricators in Taiwan through onshoring.

By no means will it be feasible to exclude Taiwan from the semiconductor supply chain in the foreseeable future, but remaking the global technology sharing architecture in a way that excludes China specifically will require "freezing out" Taiwan. Though Taiwan and China have irreconcilable security interests, technology transfer is very much alive between the two. It was a Taiwanese engineer who built SMIC, China's premier chipmaker, and it was Taiwanese firms like Foxconn that brought sophisticated manufacturing to China's industrial base.

Boiling the Frog

Unresolved political conflicts within Taiwan and the threat from China could also damage the relationship between Taiwanese industry and US chip designers. During the second half of 2025, Taiwan's ruling Democratic Progressive Party (DPP), whose members are sometimes derisively referred to as frogs by Chinese netizens, has sharply declined in the polls. Its rivals, the Kuomintang (KMT) and Taiwan People's Party (TPP), have capitalized on their failures.[62] The DPP can be called the most pro-Western of the three main political parties in Taiwan, the KMT being the least, and the TPP falling somewhere in between. Internal political pressures could see Taiwan lean towards appeasing China, putting US security

[59] "NVIDIA and Intel to Develop AI Infrastructure and Personal Computing Products." Nvidia Corporation, Sep. 18, 2025, https://nvidianews.nvidia.com/news/nvidia-and-intel-to-develop-ai-infrastructure-and-personal-computing-products.
[60] Yip, Juares. "Intel Stock up 50% in Last Month, Putting U.S. Stake at $16 Billion." CNBC, 2 Oct. 2025, https://www.cnbc.com/2025/10/02/intel-stock-us-trump-stake.html.
[61] Lawler, Dave, and Alison Snyder. "Biden's Looming Chip Export Controls Shake up U.S.-China AI Race." Axios, 18 Dec. 2024, https://www.axios.com/2024/12/18/china-ai-chip-export-controls.
[62] Smith, Courtney Donovan. "DPP supports slips as TPP regains footing." Taipei Times, 10 May, 2025, https://www.taipeitimes.com/News/feat/archives/2025/05/10/2003836629#:~:text=The%20president's%20Democratic%20Progressive%20Party,at%20the%20end%20of%20March.

interests at risk. Across the strait, Xi Jinping's rhetoric about the island has become increasingly confrontational. Reunification is the most important issue for the nationalist interests within the Communist Party. If Xi intends to make good on his promises, it could spell consequences for Taiwan ranging from industrial sabotage and secret stealing to outright invasion. In the event of a Chinese occupation, it is a certainty that parts of the Taiwanese semiconductor industry would be destroyed in the fighting or deliberately sabotaged by Taiwanese resistance.

US commitment to the defense of Taiwan is not ironclad either. The costs of US support for Ukraine and Israel in terms of materiel and political capital are immense. If, as all signs indicate, these policies persist, the US may not have sufficient materiel or support from regional allies to defend Taiwan.

Chips Hold Up Half the Sky

The Trump administration has had to balance its commitment to US security interests with its support for the US economy. A handful of tech firms hold a massive share of market capitalization, and Nvidia leads the pack. If the chips sector stumbles, there would be dramatic consequences in the market. This seems to be the rationale behind the negotiations between the Trump administration and Nvidia and AMD, which allowed them to sell chips in China in exchange for 15% of the revenue.[63] In an economy that is firing out mixed signals, this was an easy way to support the strongest performing parts of the economy while raising government revenue. Keeping Nvidia's coffers full is a virtuous cycle. Nvidia invests in American tech to drive demand for its chips. There was the aforementioned $5 billion deal with Intel, and on September 22nd, a $100 billion investment in OpenAI was announced (Nvidia, 2025).[64]

Huawei or the Highway

This chips-forward strategy hit a snag when Chinese regulatory bodies ordered domestic firms not to purchase Nvidia chips and opened an anti-trust case on the company.[65] This indicates Chinese confidence in the growth of their own chip designers. China is decades and trillions of dollars away from building a non-American supply chain, but in the meantime, China is intent on producing more chokepoint technologies in advanced semiconductors.

This reflects a chapter in the US-China Trade War from 2019. Trump banned Chinese tech giant Huawei from using US technology, hoping to choke their business. Instead, the opposite happened. Huawei's smartphone business exploded by 2024, threatening the position of Apple's iPhone in the Chinese

[63] Ruwitch, John. "Trump says Nvidia will hand the U.S. 15% of its H20 chip sales to China." NPR, 11 Aug. 2025,https://www.cnbc.com/2025/09/17/nvidia-ceo-disappointed-after-reports-china-has-banned-its-ai-chips.html

[64] "OpenAI and NVIDIA Announce Strategic Partnership to Deploy 10 Gigawatts of NVIDIA Systems." Nvidia Corporation, 22 Sep. 2025. https://nvidianews.nvidia.com/news/openai-and-nvidia-announce-strategic-partnership-to-deploy-10gw-of-nvidia-systems.

[65] Browne, Ryan. "Nvidia CEO says he's 'disappointed' after report China has banned its AI chips." CNBC, 17 Sep. 2025, https://www.cnbc.com/2025/09/17/nvidia-ceo-disappointed-after-reports-china-has-banned-its-ai-chips.htm.

market.[66] In addition, the company has made strides in the automobile industry and artificial intelligence. Huawei has come to symbolize a new mentality driving Chinese policy. The top brass in Beijing now feel that it is a blessing in disguise to be excluded from the American chip market because it spurs Chinese innovation. Waning are the days of smuggling chips into the country in briefcases. Policymakers in China are unfolding a new vision for its tech sector, one where it is untethered from industry leaders in the US.

[66] Madhok, Diksha and Joyce Jiang. "Huawei isn't just back from the dead. It's a force to be reckoned with." CNN, 24 Jun. 2025, https://www.cnn.com/2024/06/24/tech/china-huawei-harmony-os-growth-intl-hnk.

Recalibrating Control: Policy Landscape

Balancing Act: Fed's Rate Cut Navigates Inflation and Employment Risks

At the September 17th Federal Open Market Committee (FOMC) meeting[67], the federal funds rate was cut by 25 basis points, bringing the federal funds range down to 4.00 - 4.25%, which marks the first rate cut since last December. Recent months have shown labor market softening, especially after the recent downward revision[68] to jobs reports from prior months, showing a weaker labor market than expected.

Although tariffs have pushed prices higher in some sectors and inflation is still above the Fed's 2% target, the long-run effects of tariffs remain uncertain. The Fed expects tariffs to likely cause a one-time increase in price levels, but maintains that tariffs are still a risk that could contribute to persistent inflation. This dynamic of dual risks creates tension within the Fed's dual mandate to maintain maximum employment and stable prices. Near-term inflation risks are tilted upward while employment risks are tilted downward, making it especially challenging to balance monetary policy decisions. The softening labor market and the accompanying risk of further increases in the unemployment rate in the coming months seemed to have been a concern at the last meeting, prompting the Fed to shift towards a more neutral monetary policy stance and begin cutting rates.

In other news, in August, Fed chair Jerome Powell stated[69] that the flexible inflation target (FIT) framework would replace the flexible average inflation target (FAIT) framework four years after the initial swap from FIT to FAIT[70] in 2020. Under the FAIT framework, the Fed aimed to average at 2%, allowing at times inflation to run above that to make up for periods of lower inflation in the past, while under the FIT framework, they aim for a symmetric 2% inflation rate. The change in framework was made to adjust for the current higher-tariff environment, which has led to a rise in price levels, leading the Fed to abandon FIT for the symmetric FIT framework.

Going forward, two additional rate cuts are expected for this year at the FOMC meetings in October and December, with the median projected policy path[71] at 3.6% for this year, and declining through 2026 and 2027 to 2.4% and 2.1% respectively, a downward trend from the June projections. Despite the fall in

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[67] "Federal Reserve Board - News & Events." *Www.federalreserve.gov*, 17 Sept. 2025, www.federalreserve.gov/newsevents.htm.
[68] "Current Employment Statistics Preliminary Benchmark (National) Summary - 2025 A01 Results." *Bureau of Labor Statistics*, 2025, www.bls.gov/news.release/prebmk.nr0.htm.
[69] "Speech by Chair Powell on the Economic Outlook and Framework Review." *Board of Governors of the Federal Reserve System*, 2025, www.federalreserve.gov/newsevents/speech/powell20250822a.htm.
[70] Duncan, Roberto, et al. "Tempting FAIT: Flexible Average Inflation Targeting and the Post-COVID U.S. Inflation Surge." *Federal Reserve Bank of Dallas, Working Papers*, vol. 2025, no. 2511, Apr. 2025, https://doi.org/10.24149/wp2511. Accessed 22 May 2025.
[71] "September 17, 2025: FOMC Projections Materials, Accessible Version." *Federalreserve.gov*, 2025, www.federalreserve.gov/monetarypolicy/fomcprojtabl20250917.htm.

projected interest rates, the Fed remains cautious, balancing the risks of inflation and declining employment in the near future.

Breaking up the Giants? Antitrust in Big Tech

Two months ago, in August, Judge Amit Mehta of the DC U.S. District Court issued a remedies ruling (appeals expected) in the antitrust trial *U.S. v. Google LLC* (2020)[72]. The DOJ, joined by 11 states, accused Google of illegally monopolizing the markets for general search services and search text advertising through exclusive default agreements, violating Section 2 of the Sherman Act. Alongside a separate lawsuit accusing Google (2023) of monopolizing the adtech market and three more lawsuits against other major tech companies - including Facebook/Meta (2020), Amazon (2023) and Apple (2024) - these suits represent the largest challenges from federal antitrust to leading tech firms since the landmark *U.S. v. Microsoft* (1998)[73] case more than two decades ago, where Microsoft was prosecuted under sections one and two of the Sherman Act for exclusionary tactics used to maintain its PC operating system (Windows) monopoly.

An Introduction to Antitrust

Antitrust in the US mainly covers mergers, monopolization and anti-competitive practices. The laws are primarily based on the Sherman Antitrust Act (1890)[74], created to "protect trade against unlawful restraints and monopolies". Section one prohibits contracts that "unreasonably restrain trade," while Section two (which Google's case falls under) prohibits monopolization or attempts to monopolize any part of trade or interstate commerce. To fill in the gaps in the Sherman Act, Congress enacted the Clayton Act (1914) to address practices like price discrimination and the Federal Trade Commission Act (1914) to create the FTC to combat anticompetitive business practices beyond the scope of the original laws. The DOJ and the FTC jointly enforce[75] antitrust laws, with states and private parties also being able to bring antitrust suits to court.

For parties found to violate antitrust laws, there are a wide range of consequences, including fines, injunctions (requiring behavioral changes), asset freezes, damage payouts, and structural remedies (breakups of monopolies). For example, in one of the most consequential modern antitrust cases, AT&T was split up into seven regional companies to end its telephone related monopolies in 1982. Since the 1970s[76], however, antitrust enforcement has tended to lean more towards behavioral remedies and

[72] "U.S. And Plaintiff States v. Google LLC." *Www.justice.gov*, 20 Oct. 2020, www.justice.gov/atr/case/us-and-plaintiff-states-v-google-llc.
[73] The United States Department of Justice. "U.S. V. Microsoft: Court's Findings of Fact." *Justice.gov*, 14 Aug. 2015, www.justice.gov/atr/us-v-microsoft-courts-findings-fact.
[74] Cornell Law School. "15 U.S. Code § 1 - Trusts, Etc., in Restraint of Trade Illegal; Penalty." *LII / Legal Information Institute*, 2015, www.law.cornell.edu/uscode/text/15/1.
[75] Office, Accountability. "Antitrust: DOJ and FTC Jurisdictions Overlap, but Conflicts Are Infrequent." *Gao.gov*, 2023, www.gao.gov/products/gao-23-105790.
[76] Arslan, Melike. "Policy Paradigm Modes: Explaining USA Antitrust Law Changes in the 1970s." *Journal of Public Policy*, vol. 43, no. 4, 2 Aug. 2023, pp. 681–703, https://doi.org/10.1017/s0143814x23000193.

compliance monitoring, influenced by changing economic paradigms, market conditions, policy goals, regulatory aggressiveness and legal precedents.

The shift from the proactive enforcement and big breakups to rarer interventions over the past 30 years followed a move from the Harvard SCP[77] (structure-conduct-performance) paradigm to the Chicago School[78] (consumer welfare focus) and market stresses like high inflation and increasing competition from foreign markets. The growing Chicago school influence in courts and the policymakers' control over enforcement agencies (through budget and leadership appointments) led to a more conservative enforcement and fewer merger challenges, and later on to higher market concentrations.

The Looming Giant: the Microsoft Case Precedent

The Microsoft (1998) case, which served as the primary precedent for the Google (2020) antitrust case, arose from allegations that Microsoft engaged in anticompetitive practices to maintain its PC OS monopoly (e.g., tying its browser to Windows). The case focused on whether Microsoft's conduct harmed consumer welfare by stifling innovation and competition. Initially, as far as remedies, Microsoft was ordered to break up, but it successively appealed based on procedural issues. Instead, a 2001-2002 settlement required Microsoft to share its application programming interfaces (APIs), refrain from exclusivity agreements, and allow PC makers to install non-Microsoft software without retaliation, with compliance monitoring for five years. The case shifted tech antitrust enforcement from aggressive structural remedies towards behavioral changes and oversight, aiming to protect innovation while preserving competition after the prior cases (like AT&T's breakup) were thought to have perhaps gone too far.

Google Antitrust: Remedies and Market Impact

The Google (2020) case alleged that Google maintained its search engine monopoly through exclusive agreements and tying practices, such as preloading its apps on devices, to exclude competitors. The case, distinct from the 2023 adtech lawsuit, focused on search dominance. In the Google (2020) case's initial remedies decision, Judge Mehta issued the ruling[79] that 1) Google would no longer be able to hold exclusive agreements related to the distribution of Google Search, Chrome, Google Assistant and the Gemini app and 2) Google would share search index and user interaction data with competitors and potential competitors. The ruling was done with the hope that it would "kickstart" competition in the long-stagnant search industry and would keep Google from easily gaining a monopoly over new GenAI-related industries using similar tactics.

Granting rivals access to Google's search index and user data could theoretically help improve their

[77] Panhans, Matthew. *The Rise, Fall, and Legacy of the Structure-Conduct-Performance Paradigm*. Jan. 2023.
[78] Reder, M. W. "Chicago School." *The New Palgrave Dictionary of Economics*, 1987, pp. 1–8, https://doi.org/10.1057/978-1-349-95121-5_83-1. Accessed 7 Oct. 2025.
[79] "Department of Justice Wins Significant Remedies against Google." *Justice.gov*, 2 Sept. 2025, www.justice.gov/opa/pr/department-justice-wins-significant-remedies-against-google.

products. However, it's unlikely to significantly reduce Google's dominance in the search market, where its market share of desktop search engines sits near 80%[80] as of early 2025. Although Google's share has trended down from its high of 90%, its position in the market remains strong due to embedded structural advantages, notably exclusive default agreements with major device manufacturers and browsers like Apple and Samsung. Since most users rarely change default settings without a significant reason, these deals maintain Google's dominance, not exclusively due to having a better product, but also by limiting rivals' access to scale.

Even if these exclusivity agreements were banned, Google's advantages would likely continue. It can outbid smaller competitors for default placements and may deter partners from favoring rivals due to fears of retaliation such as lost ad revenue or reduced technical support. While sharing its index and user interaction data could help competitors to improve their products, only firms with resources comparative to Google's, like Microsoft's Bing, are in a position to benefit significantly. Smaller rivals like DuckDuckGo would still likely struggle to gain market share. Additionally, these remedies are still subject to appeal, which Google certainly intends to do, potentially weakening their impact.

The remedy also addressed the rise of AI, a nascent industry where already well established tech firms like Google and Microsoft are fairly well positioned to dominate, either through internal development or acquisitions. While these changes could foster competition in both stagnant existing and emerging tech sectors, they might also just lead to new tech giants. Overall, the intention of the Google (2020) remedies ruling was to limit increasing concentration in the tech sector by attempting to promote competition in existing as well as new markets. Whether or not the intention is actually realized, only time will tell.

The Future of Tech Antitrust: Shifting Strategies and Market Power

While both the Microsoft (1998) and Google (2020) cases ended with relatively conservative remedies compared to earlier breakups, the Google case signals a shift in enforcement tied to changes in economic paradigms, political context, aggressiveness and case precedent. The economic thinking in antitrust has evolved from the hands-off Chicago School during Microsoft's era to a more interventionist Neo-Brandeisian[81] approach today, reflecting a trend toward more proactive enforcement. Politically, bipartisan scrutiny of Big Tech firms' power, privacy, and influence over nascent industries like AI is much stronger today, unlike during Microsoft's era, when regulatory hesitancy followed debates of the AT&T (1974) breakup.

Regarding enforcement aggressiveness, although both cases resulted in behavioral remedies rather than breakups, recent years have witnessed a noticeable uptick in antitrust actions, with at least five major Big Tech lawsuits filed in the past five years. The DOJ and FTC have launched a coordinated "blitz" on concentrated technology markets, aiming to foster competition in stagnant areas such as search and

[80] Bianchi, Tiago. "Search Engine Market Share Worldwide." *Statista*, 23 Jan. 2025, www.statista.com/statistics/216573/worldwide-market-share-of-search-engines/.
[81] Lambert, Thomas, and Tate Cooper. *Neo-Brandeisianism's Democracy Paradox* .

nascent fields like AI. Breakups are not off the table, as the DOJ's pursuit of Chrome's divestiture shows, but effective outcomes can also come from sustained behavioral enforcement or prolonged trials, as cases like IBM (1969)[82] show.

Notably, newer cases such as Google's 2023 adtech[83] suit and ongoing litigations against Amazon (2023)[84] , Facebook/Meta (2020)[85], and Apple (2024)[86] show a pattern of more aggressive antitrust enforcement. Especially after Google's ruling, judges in other cases may be less burdened by more conservative case precedent, leading to more progressive remedies and enforcement, from high fines ($2.5 billion settlement, Amazon 2023)[87] to possible breakups (Google 2023). Regardless of the remedies and individual effects of the recent Google case, it seems like the Tech industry could be in for a shakeup.

[82] "United States' Memorandum on the 1969 Case." *Www.justice.gov*, 25 June 2015, www.justice.gov/atr/case-document/united-states-memorandum-1969-case.
[83] "Antitrust Division | U.S. And Plaintiff States v. Google LLC [2023] | United States Department of Justice." *Www.justice.gov*, 25 Jan. 2023, www.justice.gov/atr/case/us-and-plaintiff-states-v-google-llc-2023.
[84] "FTC and Plaintiff States v. Amazon.com, Inc., No. 2:23-Cv-01495 (W.D. Wash. Sept. 26, 2023) - National Association of Attorneys General." *National Association of Attorneys General*, 8 Apr. 2025, www.naag.org/multistate-case/ftc-and-plaintiff-states-v-amazon-com-inc-no-223-cv-01495-w-d-wash-sept-26-2023/.
[85] Federal Trade Commission. "Facebook, Inc., FTC v. (FTC v. Meta Platforms, Inc.)." *Federal Trade Commission*, 9 Dec. 2020, www.ftc.gov/legal-library/browse/cases-proceedings/191-0134-facebook-inc-ftc-v-ftc-v-meta-platforms-inc.
[86] "Antitrust Division | U.S and Plaintiff States v. Apple Inc. | United States Department of Justice." *Www.justice.gov*, 21 Mar. 2024, www.justice.gov/atr/case/us-and-plaintiff-states-v-apple-inc.
[87] "FTC Secures Historic $2.5 Billion Settlement against Amazon." *Federal Trade Commission*, 25 Sept. 2025,www.ftc.gov/news-events/news/press-releases/2025/09/ftc-secures-historic-25-billion-settlement-against-amazon.

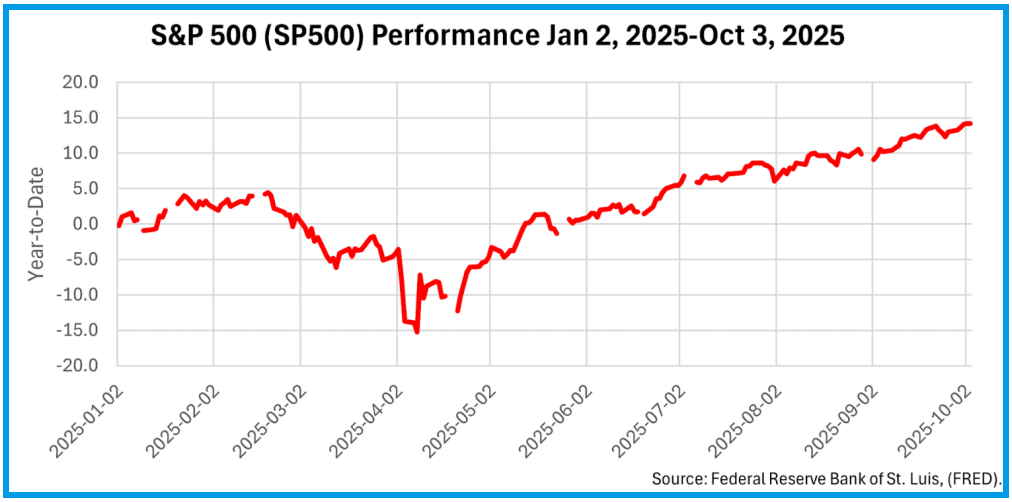
Pricing the Risk Premium

A Tale of Two Markets: Why Wall Street and the Economy Are Disconnected

Right now, the financial markets are telling a very different story from the one many people are experiencing in the everyday economy. This section acts as the connecting web for all the topics in this report - from tariffs to jobs to global issues. While our analysis in other sections shows a slowing economy, parts of the stock market are booming. The big question is whether this market optimism is a sign of future growth or if it's simply ignoring the warning signs.

Stocks: A Market Split by AI

Looking at the S&P 500's overall growth doesn't tell the whole story. The reality is that the market is split. While the index is up a strong **14% year-to-date**,[88] these gains are almost entirely driven by a handful of mega-cap technology companies focused on AI. Players like Nvidia, alongside other semiconductor firms like AMD and Broadcom, have seen their market capitalizations soar, with some posting gains of over 40% this year alone, far outpacing the broader index. As we discussed in the Labor Markets section, investors are betting that AI will unlock massive productivity gains, which could help cool inflation. This belief is driving huge investments, like Nvidia's recent deals with Intel and OpenAI, creating a wave of excitement around these specific stocks.



[88] S&P Dow Jones Indices. "Index Dashboard: S&P 500® Factor Indices - September 2025." S&P Global, September, 2025
https://www.spglobal.com/spdji/en/documents/performance-reports/dashboard-sp-500-factor.pdf.

Figure 7: The S&P 500 has surged roughly 14% year-to-date, but gains are narrowly concentrated in AI-driven mega-cap firms such as Nvidia, AMD, and Broadcom. The chart highlights how equity markets remain buoyant despite slower macro data, underscoring the disconnect between financial optimism and real-sector strain.

However, for most other companies, the situation is much tougher. Sectors more sensitive to the real economy, such as consumer discretionary and industrials, are flat or even down for the year. As noted in our Inflation section, tariffs are raising the cost of materials. But with consumers cutting back on spending - a key point from the Economic Sentiment section - these companies can't easily raise their prices. This means their profits are being squeezed. This growing divide between the AI-powered tech sector and the rest of the market cannot last forever. While the CBOE Volatility Index (VIX)[89] remains relatively subdued, this narrow market leadership poses a risk; a correction in the high-flying AI stocks without a corresponding pickup in other sectors could pull the entire market down.

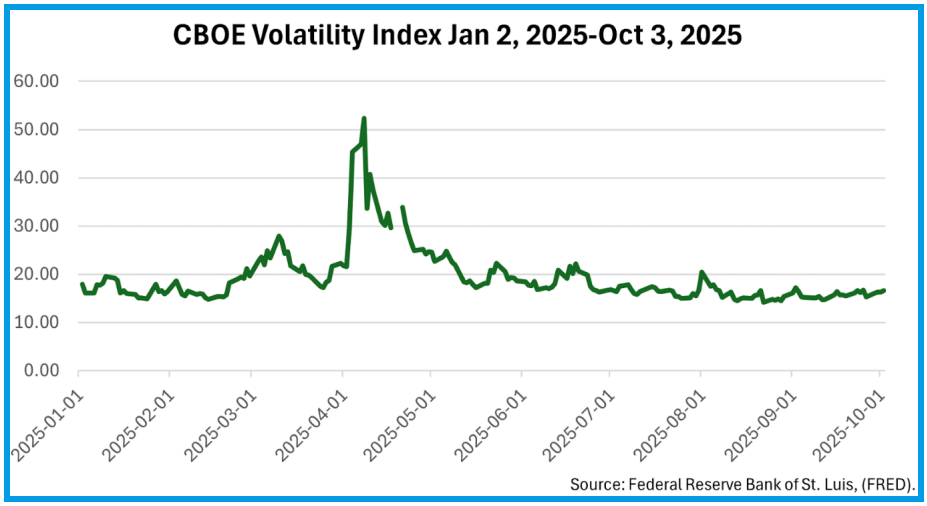


Figure 8: The CBOE Volatility Index (VIX) has hovered near 20 for most of 2025, reflecting investor calm despite macroeconomic uncertainty. Yet, such low volatility amid narrow market leadership heightens the risk of abrupt repricing if sentiment turns — a reminder that complacency can itself become a systemic vulnerability.

Bonds: Pricing in a Slowdown, Not Just Inflation

The bond market, where investors lend money to governments and companies, is sending a much more cautious message. The Federal Reserve recently cut interest rates, a move prompted by the weakening job numbers detailed in our Labor Markets analysis. This action was meant to help support the economy.

However, the rates on long-term bonds, like the 10-year Treasury, remain low[90] (4.121% as of 10/3/2025), and the yield curve is telling a story of concern. This is a stark contrast to earlier in 2025, when the 10-year yield briefly spiked to a multi-year high of around 4.8% in January as markets priced in the inflationary impact of newly announced tariffs. The subsequent fall in yields indicates that investors

[89] VIX Index." Cboe Global Markets, Cboe Global Markets, n.d., www.cboe.com/tradable_products/vix/
[90] U.S. 10 Year Treasury (US10Y)." CNBC, CNBC, n.d., www.cnbc.com/quotes/US10Y

are now more worried about a future economic slowdown than they are about high inflation. For the 10-year yield to rise significantly, the market would need to see a surprise shift: either a sustained rebound in economic growth that forces the Fed to pause its cutting cycle or a new inflationary shock that reignites fears of higher-for-longer rates. For now, the bond market seems to agree with the concerns raised in our report, even if the stock market's leaders don't reflect it yet.

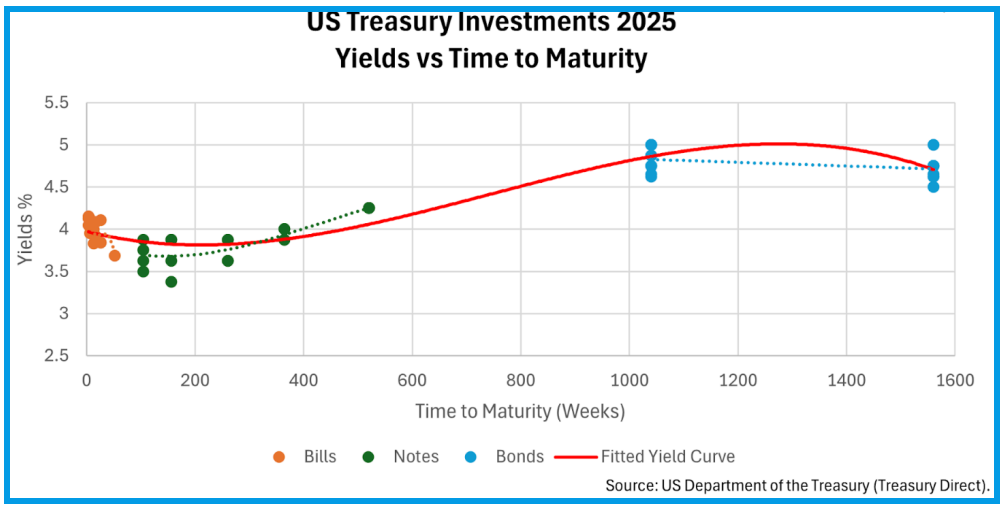


Figure 9: The U.S. Treasury yield curve as of October 7th, 2025 remains shallow, with the 10-year yield near 4.1%, signaling persistent investor caution. Despite the Fed's rate cuts, long-term yields have failed to rise, reflecting markets' greater concern over slowing growth than inflation — a clear vote of skepticism toward the recovery's durability.

Crypto: A New Financial Frontier in an Uncertain World

In this era of economic uncertainty, a growing number of investors are turning their attention to digital assets. Cryptocurrencies, once seen as a niche interest, are now a significant part of the financial conversation. This shift is driven by two powerful forces: a search for a haven from inflation and a renewed appetite for high-risk, high-reward investments.

Bitcoin has led the charge, with its price climbing significantly. Many investors now view it as a form of "digital gold" - an asset that exists outside the control of central banks and governments, making it an attractive hedge against inflation and policy missteps.

This trend has been supercharged by recent government action. The passage of the **GENIUS Act** has provided the clear rules and regulations that large, institutional investors were waiting for. This regulatory "green light" has removed a major barrier, making it much safer for pension funds, asset managers, and corporations to enter the market. The success of the recently approved spot Bitcoin ETFs (investment funds traded on the stock market) is proof of this demand, as billions of dollars have

flowed into these products, making it easy for everyday investors to get exposure to Bitcoin through their traditional brokerage accounts.[91]

The confidence from Bitcoin's success has now spilled over into the broader crypto market, kicking off what is known as an "alt season." This is a period where capital rotates out of Bitcoin and into smaller cryptocurrencies, or "altcoins," in search of the next explosive growth opportunity. We are seeing significant rallies in a wide range of projects related to decentralized finance (DeFi), gaming, and other blockchain-based technologies. This signals that the market's mood is shifting from just safety-seeking to active speculation, as investors are willing to take on more risk for potentially higher returns.

Looking ahead, the industry is already looking toward the next milestone. Following the success of Bitcoin ETFs, market participants are now speculating that an ETF for **Solana (SOL)** could be next. Solana is a major competitor to Ethereum, known for its high speed and low transaction costs. The approval of a Solana ETF would be another landmark moment, confirming that institutional interest is expanding beyond Bitcoin to the wider ecosystem of blockchain platforms.

In summary, the crypto market is currently a fascinating mix of caution and excitement. While Bitcoin serves as a hedge against macroeconomic instability, the booming "alt season" and the talk of new ETFs show a wave of speculative energy. For investors, crypto represents both a potential shield from traditional market risks and a frontier for high-growth opportunities.

Other Market Signals: Gauging Fear and Confidence

Two other areas give us a clear read on the health of the economy:

- **Commodities:** The prices of raw materials like oil and grain are a direct reflection of global risk. As our **Geopolitical Issues** section highlights, conflicts in Ukraine and the Middle East create constant threats to supply, which can drive prices higher and feed into inflation.
- **Company Deals (M&A and IPOs):** The fact that very few companies are going public (IPOs) or buying other companies (M&A) is a strong sign of caution. When business leaders are confident about the future, they make big deals. Right now, they are waiting on the sidelines, which speaks volumes about the underlying anxiety in the economy.

[91] Congressional Research Service. “Stablecoin Legislation: An Overview of S. 1582, GENIUS Act of 2025.” Congressional Research Service, 11 July, 2025, https://www.congress.gov/crs_external_products/IN/PDF/IN12553/IN12553.3.pdf.

Outlook: Managing Fragility in a Fragmented Economy

This October outlook finds the U.S. economy at a precarious crossroads, defined by the "Barriers and Balances" of a new, uncertain era. The core narrative is one of fragmentation. Structural tariffs and persistent geopolitical friction are no longer temporary headwinds but foundational features of the landscape, feeding into sticky inflation and complicating global supply chains. Domestically, this has created a series of difficult trade-offs. The Federal Reserve is navigating a narrow path, cutting rates to support a visibly softening labor market even as inflation remains stubbornly above target, a challenge compounded by growing questions around the credibility of official economic data. This tension is mirrored in financial markets, where a spectacular, AI-driven rally in a narrow segment of the stock market stands in stark contrast to the cautionary tale told by an inverted yield curve and anemic activity in the broader real economy. The result is an economy losing momentum, yet simultaneously grappling with persistent cost pressures and a speculative fervor in niche sectors.

Looking forward, the central question is which of these competing narratives will prevail. The path ahead appears to hinge on the resilience of the consumer and the durability of corporate profit margins, both of which are being tested by persistent inflation and slowing growth. The Federal Reserve's pivot to easing represents a calculated risk: that it can cushion the labor market without reigniting price pressures. However, the disconnect between the AI-fueled stock market and the broader economy cannot persist indefinitely; either the rally must broaden to reflect a genuine economic recovery, or the market leaders will eventually succumb to the weight of the underlying slowdown. Ultimately, the outlook for the remainder of 2025 and beyond will be shaped not by a return to a familiar cycle, but by how the economy adapts to these new structural realities - from deglobalization and strategic industrial policy to the transformative, yet uneven, impact of artificial intelligence. Navigating this landscape will require a focus on resilience over simple growth forecasts.

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