



A Franklin Templeton Company

# U.S. Economic Outlook: Consumer Still Standing, Corporations Healthy

19 November 2025

## Key Takeaways

- ▶ While the labor market has decelerated, job creation could pick up next year on the back of Fed cuts, the peak fiscal impulse of the One Big Beautiful Bill and more visibility on the tariff front. Personal income tax cuts could also help consumers manage higher prices.
- ▶ Companies are delivering record margins with healthy results across the market; this is indicative of the broadening of earnings participation we have been anticipating and a distinctly non-recessionary corporate environment.
- ▶ An easing cycle for monetary policy is likely to counteract risks such as AI disintermediation, trade flareups and stress in private credit markets, keeping the current expansion intact.

## Resilience Should Continue as 2026 Path Gets Smoother

The U.S. economy maintained its post-pandemic expansionary path in 2025, although it took a less straightforward route than over the previous few years. The Trump administration's aggressive trade rhetoric and onslaught of tariffs in the first half of the year sent consumer sentiment to multiyear lows, raised the risk of resurgent inflation and put corporate management teams on the defensive. Despite headwinds, households and businesses have embodied the words of Sir Elton John in his classic "I'm Still Standing" this year. Whether that resilience can continue as the U.S. emerges from the longest government shutdown in history is a key theme we will be watching in the year ahead.

We recently spoke with Jeff Schulze, ClearBridge's Head of Economic and Market Strategy, about the key spending, employment and policy factors he is following as we turn the page to 2026.

**Let's start with your North Star on the economy, the ClearBridge Recession Risk Dashboard. What signal is the dashboard sending currently and how does that provide clues about the trajectory of economic activity?**

While the government shutdown has caused us to rely on alternative data sources for five of the dashboard's 12 indicators, our analysis shows consumer spending is holding steady and labor market trends remain mostly in place. Our favourite indicator for the health of the labor market, initial jobless claims, remains at a manageable level. The overall dashboard continues to flash a green expansionary signal; at the moment, the odds of a recession over the next 12 months look to be about 30%.

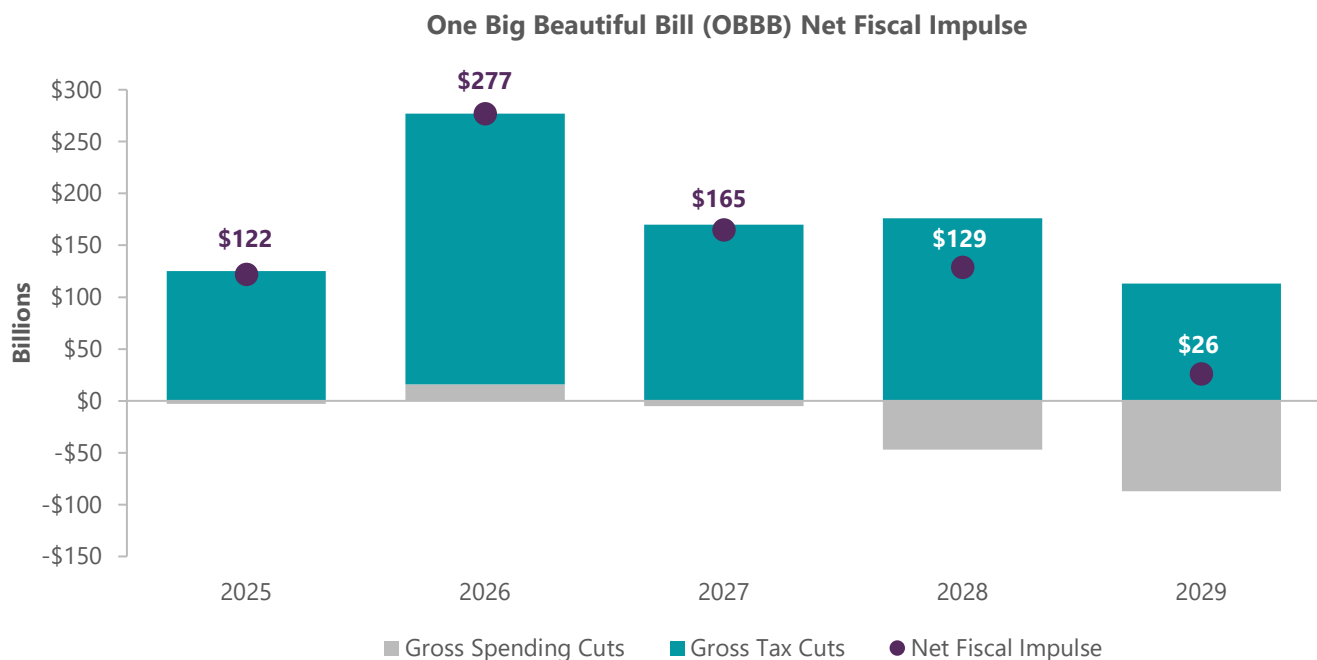
**The labor market is an important gauge for consumer health. Are you concerned about the slowdown in hiring we have seen in 2025?**

## OUTLOOK

Hiring has decelerated but this is not an entirely new development. The September release of annual preliminary benchmark revisions to payrolls, which covered the period from April 2024 through March 2025, was the largest in history with a downward revision of 911,000. If the revision was evenly applied, it suggests the economy has been creating fewer than 50,000 jobs per month for the entirety of this year. While some of this weakness has come from reduced labor demand emanating from the uncertainty around tariffs, a lot of it is related to shifts in immigration. A huge tailwind of labor supply has dissipated with the steep drop in border encounters — which is a proxy for illegal immigration — as well as sharply lower legal immigration levels.

However, as we look forward to next year, we think job creation could pick up to 80,000 or 90,000 per month on the back of Fed cuts, the peak fiscal impulse of the One Big Beautiful Bill (OBBB) and more visibility on the tariff front once we get the Supreme Court's decision on the legality of the International Emergency Economic Powers Act (IEEPA) tariffs. Although this is lower than the past several years, it is certainly enough to keep this expansion moving forward.

Exhibit 1: Tax Tailwind



Data as of 30 September 2025. Based on final CBO Scoring of the One Big Beautiful Bill Act. Source: Wolfe Research. There is no assurance that any estimate, forecast or projection will be realised.

### What are your thoughts on AI's potential to disrupt labor markets? Is that a valid concern?

There is always some form of creative destruction going on in the economy, but AI can accelerate and broaden the trend. A big concern right now is how AI is making it harder for young people to get jobs. The unemployment rate for 16- to 24-year-olds was 10.5% in September, up from 9.6% in September 2024 and the recent low of 7.5% in August 2023. It has become a harder job market for young people, but this has been more than just the AI effect. Labor churn has fallen, meaning fewer workers are quitting, creating less of a need for employers to backfill jobs and making it harder for young people coming into the workforce.

Importantly, we are not seeing widespread job losses at a national level from AI, just pockets of it in specific industries. This was the same worry that we had in the 1990s, but at that time widespread job losses didn't occur until the economy fell into recession in 2001. It may take a couple of years to see accelerated job losses, but they will likely come in the wake of an economic downturn, not during the current expansion.

**What about the health of the corporate side of the economy? What are profit margins telling us about business activity?**

Third-quarter earnings results were very strong with roughly two-thirds of companies beating revenue forecasts, and, overall, companies delivering record margins. All 11 sectors had healthy results, indicating a broadening of earnings participation that we had been anticipating. In short, corporate America is in good shape right now, and the environment looks distinctly non-recessionary.

Exhibit 2: Profits Don't Look Recessionary



Note: Nonfinancial Corporate Profits w/IVA and CC Adj (Gross Value Add), 1965-Present. Data as of 30 June 2025, latest available as of 30 September 2025. Source: BEA, Bloomberg, NBER.

**The Federal Reserve delivered its second interest rate cut of the easing cycle in October, but Chairman Powell expressed caution on additional monetary action. What is your take on Fed policy in the new year?**

Late summer into the fall, the Fed was concerned about increasing downside risks in the labor market and wanted some insurance against a meaningful weakening there. But jobless claims are not going up and now, in mid-November, we have yet to see downside risks in the labor market really materialise. A lot will depend on the coming release of official data as the federal government reopens.

Should the data show the labor market still holding up but underlying inflation continuing to build, the case for additional cuts faces a higher bar. The Fed dots show two additional cuts as a baseline, while market expectations have come down but are still for an additional three 25 basis point cuts by the end of 2026. Our view continues to be that the Fed will cut less because the neutral rate is higher than commonly understood. That said, we see the potential for two additional rate cuts by the end of 2026.

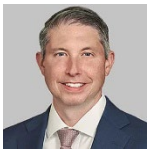
## **What about inflation, how will that impact Fed decisions? Is the economy through the worst on the tariff-induced inflation front or is the threat of structurally higher prices still an issue?**

We are not convinced inflation risks have been fully tamed. Most companies have been able to lessen the tariff blow so far because they stocked up on inventory ahead of time or have been absorbing most of the price pressure rather than passing it on to consumers. Given this we believe that the January effect, where companies take the opportunity to set prices around year-end, could be larger than normal in 2026.

These price increases may be easier to pass though because the outlook for the consumer looks healthy heading into the new year. Individuals, broadly speaking, will see materially larger than typical tax refunds next year considering the recent OBBB tax changes, for which the IRS didn't end up adjusting withholding tables.

## Conclusion

The U.S. economy has consistently defied expectations over the last five years, and we see no reason why that resilience won't continue. There are a lot of risks heading into 2026, including the buildup in private credit, disintermediation from AI, resurgent inflation and potential trade flareups. However, fiscal stimulus is coming online, corporate America looks solid and the consumer in aggregate has not showed signs of rolling over. An object in motion tends to stay in motion, and there is an adage that economic expansions don't die of old age but are killed off by the Fed. This is a topic we discussed in 2025 and it's central to our outlook for 2026. With the Fed clearly in easing mode, we choose not to fight the central bank and remain optimistic on the path forward.



### **Jeffrey Schulze, CFA**

Managing Director, Head of Economic and Market Strategy | ClearBridge Investments, LLC

- 20 years of investment industry experience
- Joined firm in 2014
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