

Third Quarter 2025

Economic and Market Commentary

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Most people are familiar with the term “writer’s block.” It’s a real thing, what many people don’t realize is it often comes about not because the author has nothing to say, but because they have so much to say and don’t know where to begin. My writing style always starts with an outline of potential topics, then detailed research and then a draft.

This quarter’s problem is the fact that day one of the fourth quarter started with a federal government shutdown. One, by all appearances, will probably still be in place by the time you receive this commentary. Now government shutdowns are nothing new. In fact, the United States has gone through 11 of them since 1980. They lasted anywhere from 1 hour (1984) to 35 days (2018-2019). This one can easily break the record, so the question becomes how you can write a substantive piece without ignoring the 800lb gorilla in the room.

SO, WHO’S AFFECTED

The reality is that we all are affected, some more than others, but no one’s immune. Essential services like law enforcement, military, the National Weather Service, the Postal Service and agencies of that nature will all be on duty. They get paid, but for how long is anyone’s guess. Oh, I forgot to mention all members of Congress will continue to get paid regardless, that’s because their pay cannot be altered except by direct law (who votes on that should it come up? Congress.) Not counting the above exceptions, basically every other government function is either open to cutbacks, furloughs or now job elimination.

To date, pay has been suspended for over 2 million Federal workers still required to show up for work, and almost 1 million workers have been furloughed. Now we have the threat of hundreds of thousands of Federal jobs being permanently eliminated. From an information standpoint, we have no data on job creations, job losses, CPI, unemployment claims just to mention some of the key data points economists rely on in determining the health of the economy. Our latest information dates back to the end of August 2025.

SO, WHAT DO WE HAVE TO RELY ON?

Analysts and Economists are closely monitoring two sets of data points:

1. Historical data indicates trend lines of the last 12 to 24 months of data readily available.
2. Corporate reporting, which still needs to occur whether there are Federal employees on the job or not reviewing them. To be sure, private sector eyes will be pouring over the data.

When these (the Authors) private eyes peruse third quarter data, a very distinct pattern catches my eye and oddly enough is relatively easy to interrupt which explains a great deal as to why equity markets have been so resistant these past couple of years in spite of geopolitical turmoil, wars, tariffs and a bifurcation of American opinion that I have not witnessed since I was a kid.

Unemployment, a relatively reliable gauge of economic health, has remained somewhat staple, if not inching up very modestly. Setting aside, the pending disruption in the Federal job sector, private industry as measured by job numbers remains virtually unchanged over the past 24 months. Using the S&P 500 companies as a benchmark, they accounted for approximately 29 million jobs globally 2 years ago, just about the same number as today.

SO, HERE'S THE QUESTION

If job growth and job loss have remained just about stable, why has both productivity and our GDP grown? The answer is actually more obvious than one might think, it lies in three basic facts:

1. Improvements in human capital; If workers become more skilled and better educated, the same number of workers can produce better and more products at a faster rate.
2. Capital deployment: We frequently hear the term Cap Ex. What it stands for is Capital Expenditure. Simply put, it's money that companies are willing to spend on things like modern machinery, renovating buildings to make them more efficient and expanding their plant facilities. This is all done to grow business, improve product and efficiency. Its money spent to improve and develop long-term opportunities. This is where the "cost of capital" becomes so crucial. When companies are able to secure capital at lower costs, either through bank borrowing or bond issuance, they are more apt to spend. When the cost of capital increases (higher interest rates), they are less apt to spend and defer those investments to a future date.

3. **Advances in Technology:** Simply put technological advancements allow for greater output per single worker. It creates greater output with the same amount of labor and capital, creating more goods and services; Using automation can allow one worker to now manage various processes that used to take a multitude of workers to do. Just as the advent of the assembly line revolutionized manufacturing a120 years ago, robotics and improvements in supply chain management is doing the same today.
4. **Artificial Intelligence (AI)** is the modern-day nexus of innovation fused with engineering to improve the human condition. We are just now scratching the surface and already are seeing massive advances in medicine and biotechnology. As AI becomes more adaptive in other industries like manufacturing, food production and aerospace the possibilities become staggering. This is not some flash in the pan phenomena, but a revolution that will be morphing 100 years from now.

Francis Bacon, the British philosopher and statesman advocated more than 400 years ago that “The true and legitimate goal of the sciences is to endow human life with new discoveries and resources.”

It’s estimated that AI alone can contribute in excess of 15 trillion dollars to the global economy by 2030. As exciting as that thought alone is one must recognize some of the inequities in the world will make it difficult for many to benefit by these advancements. Much of the world currently lacks basic internet infrastructure thus leaving them unable to fully benefit in the advances ahead. This simply expands the divide between first world counties and third world countries.

SO, WHAT DID THE 3RD QUARTER OF 2025 LOOK LIKE FROM AN ECONOMIC PERSPECTIVE?

Once again, the economy showed great resilience during the 3rd quarter of 2025. Although the expected signs of a slowing economy were there in the form of a softening labor market, restrained spending at the lower end of the economic spectrum and continued fear of inflation and tariffs, GDP growth on an annualized basis came in at a remarkably strong adjusted annualized rate of 3.9%.

Readings on inflation varied throughout the quarter, in large part due to the uncertainty of the tariff situation. The Federal Reserve cut interest rates in September and probably will do so again before the year’s out. Markets recovered nicely after their “Liberation Day” scare of early April with tech stocks once again taking a leadership role. All in all, our economy far in a way represents the strongest of all developed nations in spite of the continued uncertainties our nation faces.

SO, WHAT LIES AHEAD?

It's always a balancing act between growth and decline. We continue to have an overhang of debt, tariffs and inflation, all of which will weigh on real GDP growth. On the other hand as relatively stable labor statistics are implemented, a more accommodating monetary policy and enhancements to productivity through technology. A lot of analogies are being made between the fact that the 5 largest companies in the S&P 500 account for 30% of the indexes value to the dot.com bust of the early 2000s. That analogy is completely a false beard and here's why I believe that to be the case:

1. Unlike the dot.com bubble, today's market leaders are Mega-Cap companies with strong balance sheets and profitable business models. They are supported by strong cash flows whereas the dot.com companies had vague business models, zero cash flow and outrageous valuations.
2. Today's Mega-Cap companies are paying for the AI buildouts with cash in the bank not with other peoples (read that as VC and speculators) money.
3. Infrastructure Build Out: Unlike the dot.com era when money was invested in hand puppets, today's Mega-Cap companies are investing in data centers, chip manufacturing and software infrastructure. Assets that will retain or grow in value even if some (and they will) AI companies fail.

LET ME BRING IT HOME

Our Economy continues to demonstrate resilience in large part brought on by strong consumer sentiment fostered by upper income earners. (Did you know that 50% of all products and services sold in America are currently purchased by the top 10% of earners.) Corporate earnings continue to remain strong. With an increase in Fed accommodation (lowering interest rates), the housing market can pick up and so can Cap Ex spending. The tradeoff is can AI productivity gains be enough of an offset to balance out an unknown trade policy and inflationary pressures. Most analysts are touting a guardedly optimistic 2026 with growth slowing and continued bouts of volatility. Astute sector selection and diversification will continue to be the investors' friend as well as attention to earnings growth. Companies capable of demonstrating continued sales growth while maintaining positive earnings should be well rewarded. Companies with shrinking margins and missing earnings forecasts will not be treated kindly.

As always, with best regards,
Ray