TED LONGO, STEVE LONGO & CHRIS COLLINS
SENIOR WEALTH MANAGEMENT ADVISORS
2054 GAUSE BLVD. E. | SLIDELL LA 70461
985-445-1042 | 833-475-6646 (Toll-Free)
INFO@LONGOGROUP.NET | WWW.LONGOGROUP.NET

THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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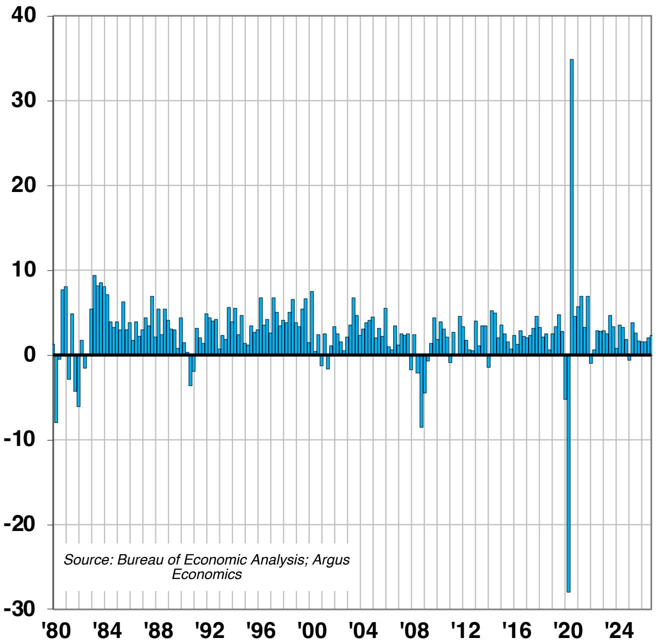
SECOND-HALF GDP LOOKS HEALTHY

Our outlook is for healthy GDP growth even with a few twinges. Non-government data, company earnings reports, market "internals," and our own research support our diagnosis even with the government bureaus shuttered. Our analysis suggests that the underlying rate of growth is approximately 2.2% in the second half of 2025. Third-quarter GDP looks stronger than the baseline, and 4Q may be slightly weaker because of the shutdown and comparisons against very strong investments in artificial intelligence. We remain comfortable with our 2.6% estimate for 3Q GDP growth. The Atlanta Fed's GDPNow projection is 4%. Our estimate is lower because much of the September data has not been reported, and nor have revisions to August. We expect 1.7% growth in 4Q25 and 1.6% growth in 1H26, before an acceleration to 2.3% growth in 4Q26. We expect full-year growth of 1.9% in both 2025 and 2026. Federal Reserve officials expect 1.6% growth this year and 1.8% growth next year, based on median projections provided in September. The positive slope of the yield curve suggests 2.9% GDP growth over the next 12 months, according to the Cleveland Fed. Discretionary stocks trouncing consumer staples over the last three and six months is another good sign. Based on available indicators, a still-low unemployment rate, continuing investments in AI, and spending on services still appear to be drivers of economic growth. A jump in new layoff announcements, slower hiring, and signs that lower income households are struggling may be constraints on growth. We still expect holiday sales to rise approximately 3.75% this year, helped by the wealthiest households.

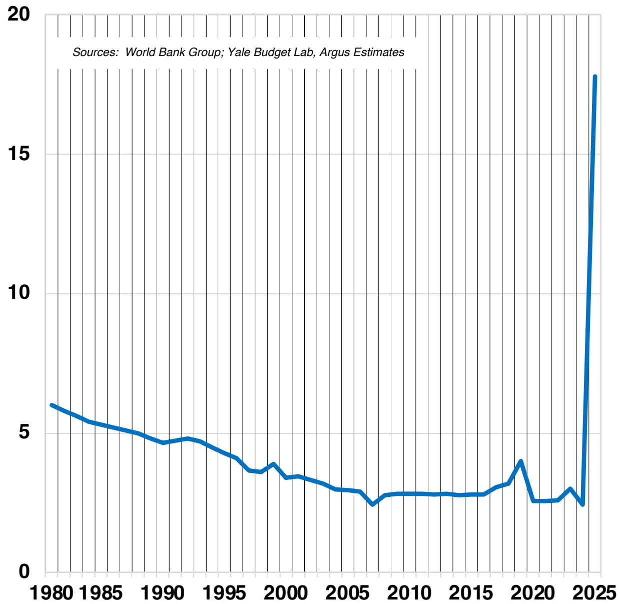
GDP TRENDS & OUTLOOK (% CHANGE)



TARIFFS ARE A FACT OF ECONOMIC LIFE

According to The Budget Lab at Yale University, the overall effective tariff rate is 17.9%, the highest since the Great Depression. This rate has no doubt been a factor in reducing the monthly U.S. trade deficit. But earlier deficits reflected in part extraordinary imports before tariffs started to kick in, and current levels are consistent with 2H24 readings. The impact of tariffs is hard to model, but we have several key takeaways. 1) We expect a drag on GDP growth of less than 100 basis points, assuming tariff revenue reduces the deficit and is reinvested productively. 2) Inflation may rise 50-100 basis points, at which point prices plateau but don't fall back. 3) The dollar likely will recover as other countries cut rates and uncertainty dissipates. The stronger dollar will offset inflation but make American exports more expensive. 4) Investors' capital will still flow to efficient businesses. 5) There will be unintended consequences, but with an unemployment rate of 4.0%-4.5% and inflation at around 2%-3%, tariffs may not have a devastating impact. The U.S. economy is among the strongest in the world and U.S. consumers have benefitted from imports. With the economy humming and unemployment low, we think this is an odd time to fiddle with a bedrock economic principle like free trade.

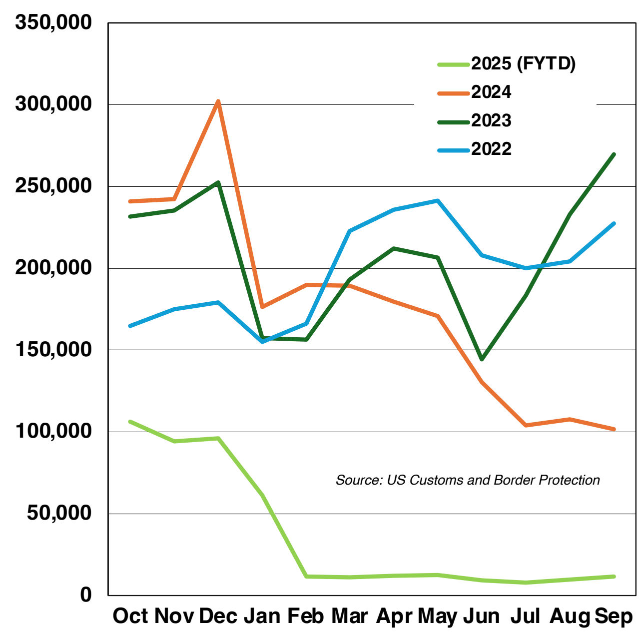
USA MEAN TARIFF RATE (%)



THE IMMIGRATION EFFECT ON UNEMPLOYMENT

The current labor force is 170.8 million, according to the St. Louis Fed, and has grown at an annual rate of 0.7% on average since 2000. Immigration has been a big part of that growth, accounting for over 70% of prime-age labor force growth since 2017, per the CBO. But that trend looks to be headed in the other direction, according to recent data from the U.S. Customs and Border Protection, as Southwest Land Border encounters year to date are down 80% compared to last year. This emphasis on immigration will almost certainly mean tighter labor supply, upward wage pressure, and stickier inflation. For companies that are already grappling with services inflation running above 3.5% year over year, higher wages threaten to embed those costs further. We draw five takeaways for investors. 1) Labor scarcity could trim 0.2–0.3 percentage points from GDP annually. 2) Persistent wage pressure may force the Fed to stay restrictive longer. 3) Labor-heavy industries could see margin compression. 4) Immigration policy will shape sector-level winners. 5) Political risk is now economic risk. The unemployment rate last stood at 4.3%, due in part to a slowdown in the growth of the labor force. Immigration constraints may prove a headwind to disinflation and productivity.

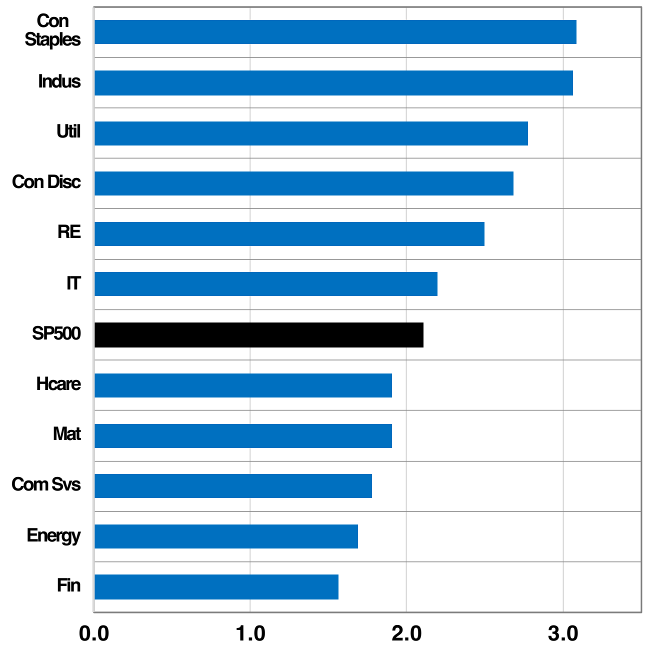
FY SOUTHWEST LAND BORDER ENCOUNTERS (BY MONTH)



VALUE SECTORS

Each month, we examine at an aspect of sector investing. This month, we are looking at growth and valuation. Investors hunting for stocks that reasonably balance long-term growth prospects and current value characteristics might look at companies in the Healthcare, Financial, and Communication Services sectors. These are among the industry groups that are selling for (price/earnings)/(growth+yield) ratios at or below the S&P 500's ratio of 2.1. To generate the PEGY ratios, we use the P/E ratio for each sector based on forward earnings for the numerator. For the denominator, we average the growth rates for the past five years along with two years of forward estimates, this to achieve a less-volatile earnings-growth rate trend. We then add the current yield to approximate total return. Sectors with favorable growth and valuation characteristics, in addition to the three listed above, include Energy and Materials. Premium-valued sectors with low growth rates include the Consumer groups.

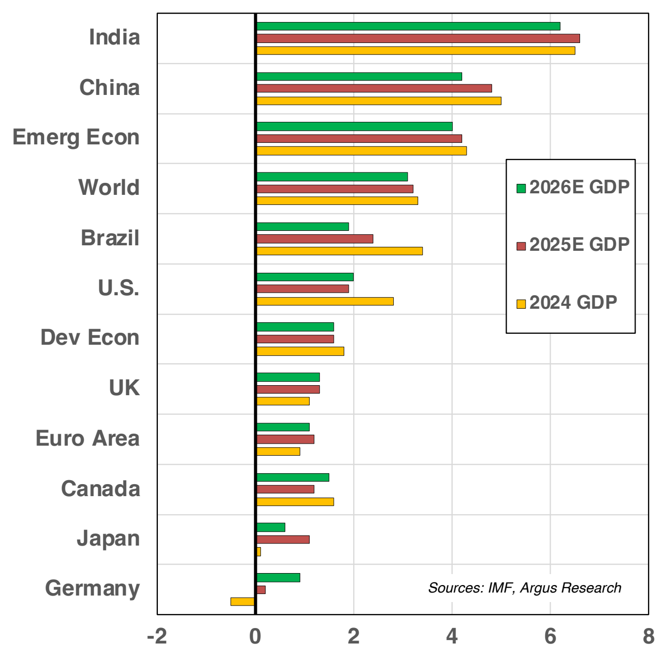
SECTOR PEGY RATIOS



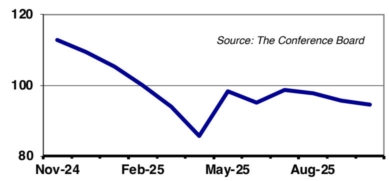
EMERGING MARKETS POSITIONED FOR GROWTH

Global economic growth is expected to cool slightly in 2026, according to the latest World Economic Outlook from the International Monetary Fund. The World Economy is expected to expand at a 3.1% rate in 2026, down from the forecast 3.2% rate in 2025 and the recorded 3.4% rate in 2024. While the differences may be imperceptible, these rates are all lower than the long-term historical global growth rate of 3.8%, due to the recent impact of tariffs and trade wars, onshoring, inflation, and higher interest rates. For advanced economies, growth is forecast at 1.6% in 2026, the same rate as in 2025. These forecasts have been lowered in recent months due to trade wars. Among the advanced regions, the U.S. economy is expected to grow the fastest next year (at a 1.9% rate), while Europe's forecast is for 1.1% growth and Japan is estimated at 0.6%. For emerging economies, growth forecasts call for 4.0% in 2026. The clear leaders are expected to be India and China, with average growth for the two years of 6.4% and 4.2%, respectively. These nations have different drivers: population growth in India, which points toward commodity and industrial-based infrastructure products; and productivity growth in China, which suggests spending on healthcare, technology, and financial services, as GDP/capita grows. Recent financial market activity reflects the bullish outlook for emerging market economic growth. The emerging market index ETF (EEM) is up 22% year to date, outpacing the S&P 500. Within the index, companies from China and Latin America are performing well.

GLOBAL GDP GROWTH RATES & FORECASTS (%)



Release:	**Consumer Confidence**
Date:	11/25/2025
Month:	November
Previous Report:	94.6
Argus Estimate:	94.0
Street Estimate:	93.3



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CHARTS & CALENDAR (CONTINUED)

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
17-Nov	Construction Spending	August	**-1.6%**	-3.0%	NA	**-1.6%**
18-Nov	Factory Orders	August	1.6%	1.4%	NA	**3.8%**
19-Nov	Trade Balance	August	-$78.3 Bln.	-$60 Bln.	-$61 Bln.	NA
20-Nov	Nonfarm Payrolls	September	22K	56K	50K	NA
	Unemployment Rate	September	4.3%	4.3%	4.3%	NA
	Average Weekly Hours	September	34.2	34.2	34.2	NA
	Average Hourly Earnings	September	3.7%	3.7%	3.7%	NA
	Existing Home Sales	October	4.06 Mln.	4.10 Mln.	4.09 Mln.	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
1-Dec	ISM Manufacturing	November	48.7	NA	NA	NA
	ISM New Orders	November	49.4	NA	NA	NA
3-Dec	ISM Services Index	November	52.4	NA	NA	NA
5-Dec	U. Michigan Sentiment	December	50.3	NA	NA	NA

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