Economic Review - Fourth Quarter 2025

The state of the general economy can help or hinder a business' prospects by influencing the demand for its goods and services. The economy also affects the availability and price of inputs such as capital and labor. The prevailing economic conditions, therefore, directly affect the value of a business at a specific point in time. The 128 month economic expansion from June 2009 to February 2020 was the longest since the 1850s. The COVID 19 global pandemic suddenly and severely affected economies and markets around the world, causing the U.S. economy to lose nearly 22 million jobs and enter a recession from February 2020 to April 2020, representing the shortest recession in U.S. history. After returning to growth in May 2020, the U.S. economy rapidly recovered by adding over 12 million jobs during the last 8 months of 2020. Since the beginning of 2021, the U.S. economy has added back nearly 16 million jobs through the fourth quarter of 2025, representing a cumulative gain of 28 million jobs in the 68 months following April 2020.

Summary

The state of the general economy can help or hinder a business' prospects by influencing the demand for its goods and services. The economy also affects the availability and price of inputs such as capital and labor. The prevailing economic conditions, therefore, directly affect the value of a business at a specific point in time. The 128 month economic expansion from June 2009 to February 2020 was the longest since the 1850s.[1] The COVID 19 global pandemic suddenly and severely affected economies and markets around the world, causing the U.S. economy to lose nearly 22 million jobs and enter a recession from February 2020 to April 2020, representing the shortest recession in U.S. history.[2] After returning to growth in May 2020, the U.S. economy rapidly recovered by adding over 12 million jobs during the last 8 months of 2020. Since the beginning of 2021, the U.S. economy has added back nearly 16 million jobs through the fourth quarter of 2025, representing a cumulative gain of 28 million jobs in the 68 months following April 2020.

The Federal Open Market Committee (the "Committee") of the Federal Reserve held two meetings during the fourth quarter of 2025: one in October and one in December to discuss the additional measures being taken to support the economy, which include:

- Lowering the target range for the federal funds of 4.00 to 4.25 percent by 25 basis points in each meeting, reaching 3.50 to 3.75 percent by the end of the fourth quarter of 2025. The Committee noted the slowing pace of job growth and the recent rise in the unemployment rate in recent quarters as support for its decision to reduce the target range in successive meetings.

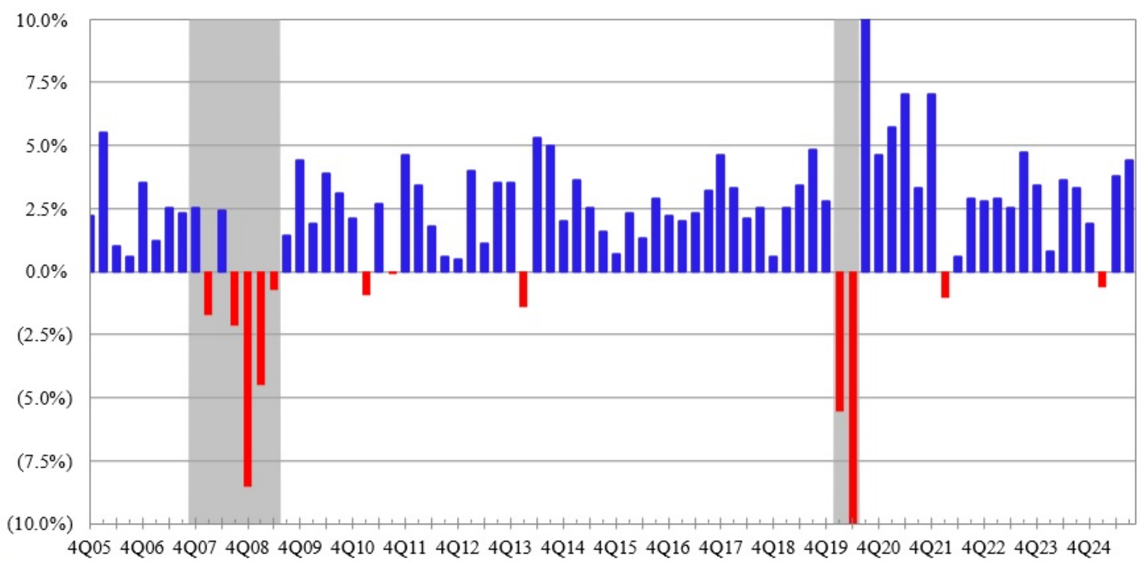
- Assessing the current and incoming economic data when determining the appropriateness of future policy decisions.

- Discontinuing the reduction of assets held on the Federal Reserve's balance sheet, which began in June 2022, and ultimately reduced the total assets held by the Federal Reserve by $2.3 trillion, from $8.9 trillion as of the second quarter of 2022 to $6.6 trillion by the end of the fourth quarter of 2025.[3]

Gross Domestic Product

The U.S. Bureau of Economic Analysis estimates that real gross domestic product (GDP) the output of goods and services produced by labor and capital located in the United States - increased at an annual rate of 4.4 percent in the third quarter of 2025, following an increase of 3.8 percent in the second quarter, which was preceded by the first quarterly contraction in real GDP in nearly three years of 0.6 percent during the first quarter of 2025. In 2024, GDP increased by 2.8 percent, compared to a 2.9 percent increase in 2023, and has risen each of the last four years after the decline in 2020. Quarterly GDP data for the preceding 20 years is shown in the following figure.

QUARTERLY U.S. GDP GROWTH
Seasonally Adjusted Annualized Rates; Shaded Bar Indicates Recession



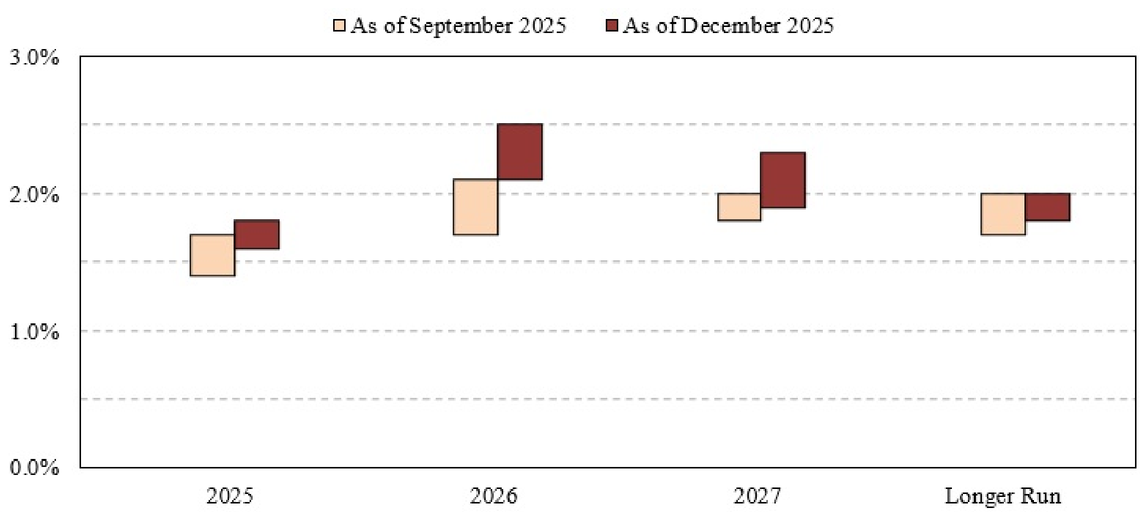
Sources: U.S. Bureau of Economic Analysis and National Bureau of Economic Research. GDP percent change is based on chained 2017 dollars.

Note: For 2Q20 and 3Q20, we note the percentage changes in GDP were (28.1%) and 35.2%, respectively. We keep our range for the figure between (10.0%) and 10.0% in order to maintain an appropriate scale for the remaining quarters over the last 20 years.

The Federal Reserve projects GDP growth to be 1.7 percent for 2025, followed by 2.3 percent in 2026, and 2.0 percent in 2027, before settling at 1.8 percent for the longer run. The current projected GDP growth rate of 1.7 percent for 2025 is slightly higher than the September 2025 projection of 1.6 percent, while the projected growth for 2026 is markedly improved from 1.8 percent in September to 2.3 percent in December.

The improved 2026 GDP growth forecast reflects the Committee's optimism regarding recent inflation data and the sustained levels of consumer spending, despite the gradual softening of the labor market. The Committee's projections for GDP growth are presented in the following figure.

U.S. GDP GROWTH ESTIMATES



Sources: Federal Reserve.

Employment

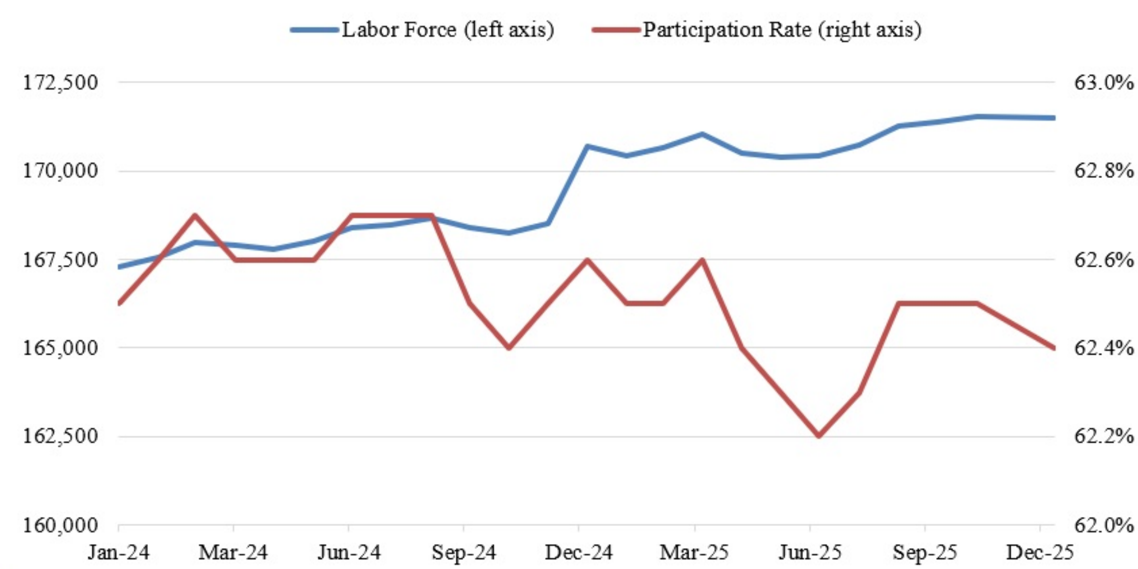
From March 2010 (the end of the 2008 2009 recession) to February 2020, 23.2 million net non farm jobs were created.[4] After the brief recession caused by the coronavirus pandemic eliminated ten years of job growth in just a few months, the economy returned to its pre pandemic levels of employment in June 2022. In the fourth quarter of 2025, nearly 120,000 jobs were lost (140,000 were lost in October alone), compared to a gain of 70,000 jobs added in the third quarter of 2025.

The decline in employment during the fourth quarter of 2025 marks the first quarterly contraction since the impacts of the coronavirus pandemic in March and April of 2020. However, despite a loss of almost 120,000 jobs during the fourth quarter, the unemployment rate only ticked up slightly, from 4.4 percent in September to 4.5 percent in November (its highest level since October 2021), before settling back to 4.4 percent again by the end of the fourth quarter of 2025.

After spiking from the effects of the coronavirus pandemic, the unemployment rate has remained below 5.0 percent since September 2021 and continued to do so throughout 2025 despite the gradual softening of the labor market during the year. The current unemployment rate of 4.4 percent is aligned with the Federal Reserve's estimate of the non cyclical (or "structural") unemployment rate of 4.4 percent for the fourth quarter of 2025, suggesting that the labor market is effectively operating at full employment.[5] Full employment suggests the current unemployment rate is at a level where any additional increases in employment may be inflationary, while any declines in employment could be recessionary.

In the fourth quarter of 2025, about 230,000 people joined the labor force, a lower pace than the 880,000 people who entered during the third quarter. The labor force participation rate decreased from 62.5 percent in September 2025 to 62.4 percent in December 2025.[6] The labor force participation rate has stabilized in recent years between 62.2 to 62.7 percent since January 2024 and approximates its pre pandemic levels. The labor force and labor force participation rate for the last two years are shown in the following figure.

U.S. LABOR FORCE AND PARTICIPATION RATE
(Amounts in Thousands and Percentages)



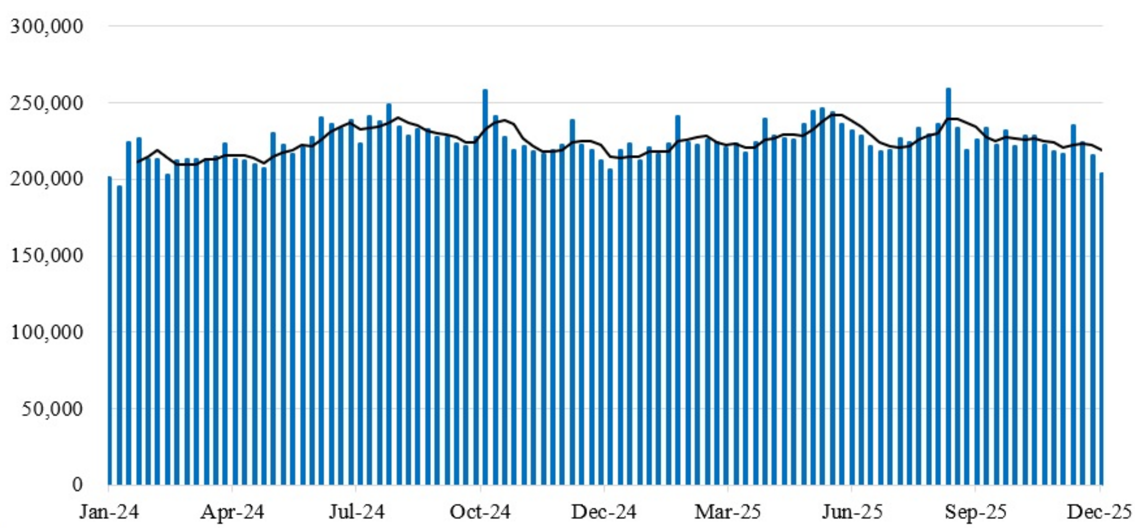
Source: Federal Reserve Bank of St. Louis.

A more expansive measure of labor underutilization, including discouraged workers who have left the workforce and part time workers who would prefer full time work, increased from 8.1 percent in September 2025 to 8.4 percent in December 2025, and reached 8.7 percent in November 2025, its highest level since August 2021. The rising unemployment and labor underutilization rates reflect the general softening of the labor market over recent quarters.[7,8]

Initial unemployment claims are considered a good proxy for the level of layoffs within the labor market. As the data is published on a weekly basis, it is one of the few sources of economic data that can quickly provide updates on labor market conditions in real time. After spiking to their highest recorded levels due to the effects of the coronavirus pandemic in 2020, initial claims have since retreated and remained historically low in recent years. Initial unemployment claims fell slightly during the fourth quarter of 2025 to an average of 223,000, compared to an average of 228,000 during the third quarter.[9]

Initial claims fluctuated between 215,000 and 235,000 during the fourth quarter, before dropping to 203,000 for the final week of the fourth quarter (the week ending December 27, 2025), its lowest level since January 2024. Initial claims have been stable and historically low over the past two years, as indicated by the four week moving average remaining between approximately 200,000 and 250,000 during that time (since data started being collected in 1967, weekly initial claims had averaged approximately 350,000 through 2019). Weekly initial unemployment claims and the four week moving average for the past two years are shown in the following figure.

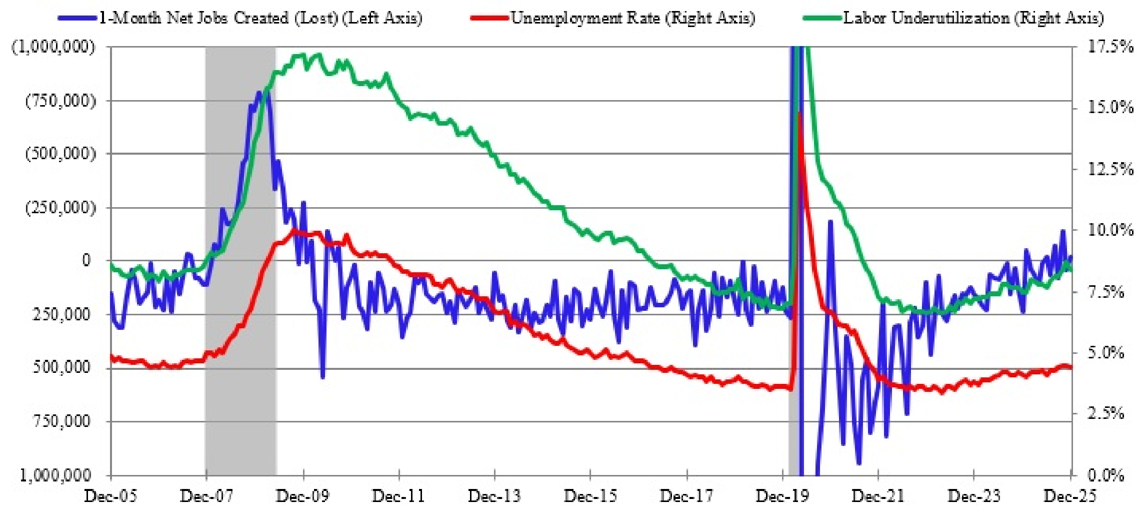
WEEKLY INITIAL UNEMPLOYMENT CLAIMS



Source: Federal Reserve Bank of St. Louis.

Unemployment and underemployment restrain economic growth as consumers are unable or hesitant to spend. The past 20 years of job creation, employment, and underemployment data are presented in the following figure.

MEASURES OF STRESS IN THE LABOR MARKET
Shaded Bar Indicates Recession



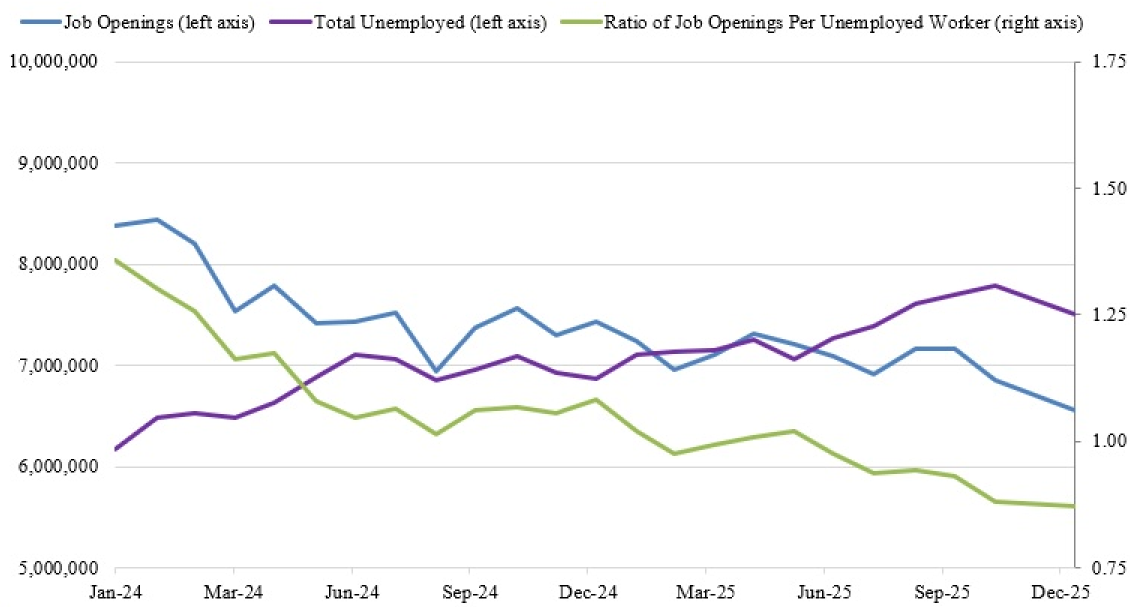
Sources: Department of Labor, Bureau of Labor Statistics, and National Bureau of Economic Research. Data represents non-farm payrolls.

Note: The 1 month net jobs created and labor underutilization rate both briefly exceeded the scale of the figure following the episodic fluctuations from the coronavirus pandemic. We maintain the range of our figure in order to reasonably view the changes that have occurred in each of the metrics for the remainder of the past 20 years.

As the labor market has continued to soften following the extremely favorable conditions workers experienced during the recovery from the coronavirus pandemic, the relationship between workers and employers has reversed accordingly. This is indicated by the ratio of unfilled job openings per job seeker declining from 1.36 to 0.87 between January 2024 and December 2025. By the end of the fourth quarter of 2025, the number of people looking for work exceeded the number of job openings by over 950,000, a sharp reversal from the more than 2.2 million jobs in excess of the number of people looking for work as of January 2024.[10]

The widening gap between job openings and job seekers during the second half of 2025 suggests the labor market is continuing to shift against workers relative to recent years. Although the existence of slightly less than one open job per job seeker does not directly suggest the labor market is flashing recessionary signals, a sustained expansion of this gap would be indicative of weakening economic conditions. The relationship between job openings and the total number of people unemployed and seeking work over the past two years is shown in the following figure.

JOB OPENINGS COMPARED TO TOTAL UNEMPLOYED
(Amounts in Whole Numbers)



Source: Federal Reserve Bank of St. Louis.

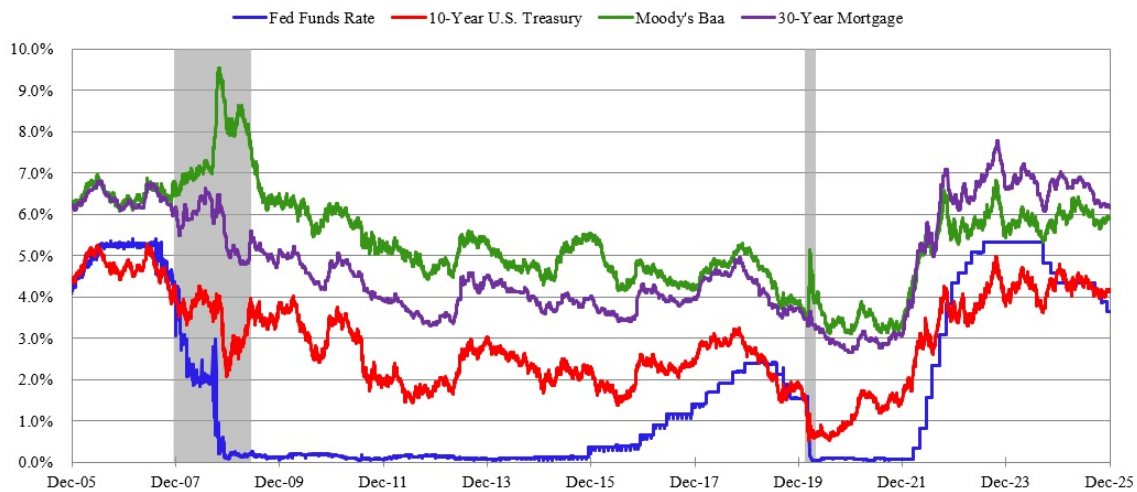
In addition, about 3.2 million workers reportedly quit their jobs in December alone, a level that has remained largely unchanged over the past year and is still considered historically high.[11] The high rate at which workers are quitting their jobs remains a positive sign for the labor market despite weakening data, as workers usually quit their jobs only if they believe they can find (or have already found) a better job. After considering all available labor market data, the Committee acknowledges that the downside risks to the labor market have increased in recent months.

Interest Rates

Despite the Committee decreasing the target range for the federal funds rate by 50 basis points in the fourth quarter of 2025, interest rates remained relatively unchanged. The Committee will continue to weigh developments in the incoming economic data before making additional changes to the target range. As the Committee has repeatedly stated, it will closely monitor incoming data and balance the risks before deciding whether further changes to the target range are necessary.

During the fourth quarter, the yield on the 10 year U.S. Treasury increased by 2 basis points to 4.18 percent, while the Moody's Baa rate increased by 7 basis points to 5.90 percent, which are both within their general ranges observed in recent years. The 30 year fixed home mortgage rate declined by approximately 15 basis points to 6.15 percent, its lowest level since October 2024. Interest rates will likely continue to closely follow the Committee's actions and outlook. The past 20 years of historical interest rate data are shown in the following figure.

SELECTED INTEREST RATES
Shaded Bar Indicates Recession



Source: Federal Reserve Statistical Release H.15 (519) Selected Interest Rates.

Stock Market Activity

The major indices added modest gains in the fourth quarter of 2025, following robust gains in the second and third quarters, to finish the year with significant returns. Despite the weakening data on employment during the fourth quarter, these concerns were mitigated by the Committee's decision to cut the target range for the federal funds rate by a total of 50 basis points, as well as strong corporate earnings and consumer spending, which kept positive pressure on equity and asset prices.

The NASDAQ Composite was the most volatile index in 2025, finishing the year as the best performing index (exceeding 20 percent growth) despite being the worst performing index in the first quarter (declining over 10 percent). For the fourth quarter alone, the NASDAQ Composite posted a modest return of 2.6 percent. All other major indices, except the S&P MidCap 400, posted double digit returns for the year, primarily fueled by the easing of trade tensions in the first half of the year, coupled with accommodative monetary policy and largely positive economic data throughout 2025.

The Dow Jones Industrial Average was the best performing index of the fourth quarter, posting a return of 4.0 percent. The Dow Jones Industrial Average largely performs well when investors prefer the established nature of the companies that make up the index, which primarily engage in energy, pharmaceuticals, communications, and consumer staples, relative to some of the smaller stocks of the Russell 2000 and S&P MidCap 400, or the volatility of the technology based stocks that account for a larger portion of the NASDAQ Composite and S&P 500.

Inflation improved but remained elevated throughout the fourth quarter of 2025 and has made little progress in the past year. In addition, the sustained weakening in the labor market has heightened concerns about the economic outlook. However, market participants ultimately felt that the combination of a falling federal funds rate and strong corporate earnings and consumer spending buoyed asset prices during the fourth quarter and all of 2025.

Gold continued its substantial growth for the year, gaining more than 10 percent in the fourth quarter of 2025 alone, bringing its year to date return to over 60 percent. Similarly, the price of silver grew alongside gold, but particularly spiked during the fourth quarter as a cheaper alternative to recently elevated gold prices, while still being viewed as a "safe haven" asset. The price of silver grew by nearly 50 percent during the fourth quarter of 2025 and more than doubled during 2025.

Total returns for U.S. stock indices for the fourth quarter of 2025 and year to date are shown in the following figure.

TOTAL RETURNS OF MAJOR U.S. STOCK INDICES

Index	Fourth Quarter 2025	Year To Date
S&P 500	2.7%	17.9%
Dow Jones Industrial Average	4.0%	14.9%
NASDAQ Composite (1)	2.6%	20.4%
S&P MidCap 400	1.6%	7.5%
Russell 2000	2.2%	12.8%

Note:
(1) Return represents principal only.

Inflation[12]

Inflation remained a prevalent topic surrounding the U.S. economy throughout the fourth quarter of 2025. Chairman Powell has reiterated that the Committee will utilize the appropriate tools to fulfill its dual mandate as directed by Congress, which includes stable prices (defined as 2.0 percent annual inflation) and maximum employment. After elevating during the second and third quarters, inflation modestly decreased by the end of the fourth quarter of 2025.

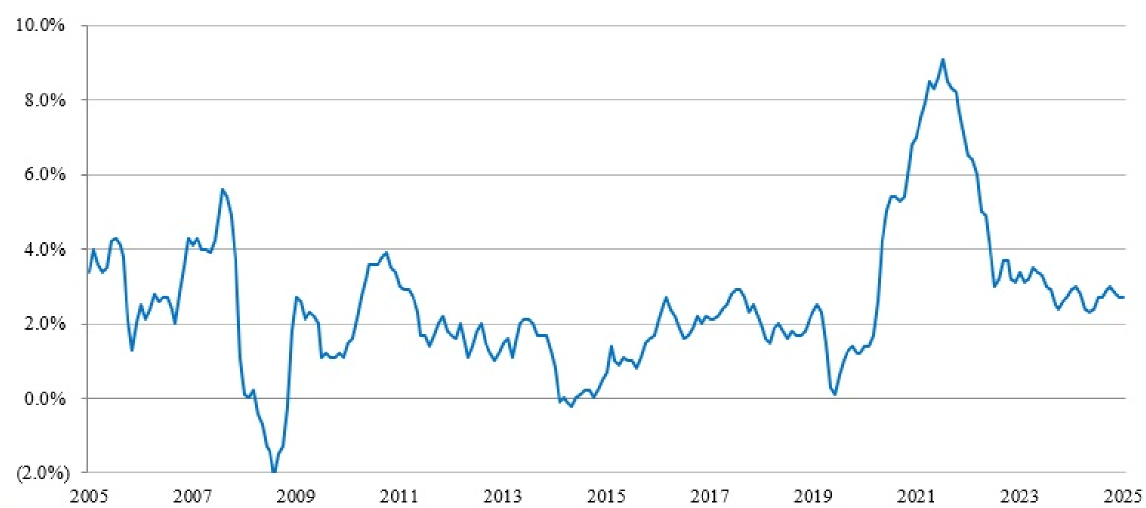
The 12 month change in the consumer price index ("CPI") decreased from 9.1 percent to 3.0 percent between June 2022 and June 2023, before increasing to as high as 3.7 percent in September 2023. Since then, inflation has trended downward and reached as low as 2.3 percent in April 2025, which matches the lowest 12 month increase since February 2021. However, for the following five months, the 12 month change in the CPI gradually increased to 3.0 percent as of September 2025. During the fourth quarter, this trend reversed, as the 12 month change in the CPI fell to 2.7 percent as of December 2025, matching the average 12 month change during 2025.

For the month of December alone, the CPI increased by 0.3 percent, largely driven by higher costs for natural gas and food. After posting the largest monthly decline in March 2025 since May 2020, the CPI has increased each month from April to December, with increases ranging from 0.1 percent to 0.4 percent during that period.

Core CPI, which excludes oil and food due to their volatility, increased by 2.6 percent over the 12 month period ending December 2025, a notable decrease from the 12 month change of 3.0 percent in September 2025, and is the lowest 12 month change since March 2021. After peaking in September 2022 at 6.6 percent, the increase in Core CPI has gradually declined over the past three years, suggesting that price pressures on goods and services, excluding food and energy, are trending towards the Committee's long run target of 2.0 percent. Core CPI rose on a monthly basis by 0.2 percent in December 2025.

Notable items that experienced meaningful price increases in December include natural gas (4.4 percent), food (0.7 percent), and apparel (0.6 percent). For the 12 months ending December 2025, price increases for natural gas (10.8 percent), electricity (6.7 percent), and medical care services (3.5 percent) were noteworthy as well. The annual change in the CPI for the last 20 years is shown in the following figure.

ANNUAL CHANGE IN THE CPI



Source: Bureau of Labor Statistics.

Inflation Expectations

Despite the 12 month change in the CPI improving between the third and fourth quarters of 2025, inflation expectations among consumers and investors for the near term remained unchanged during the fourth quarter.

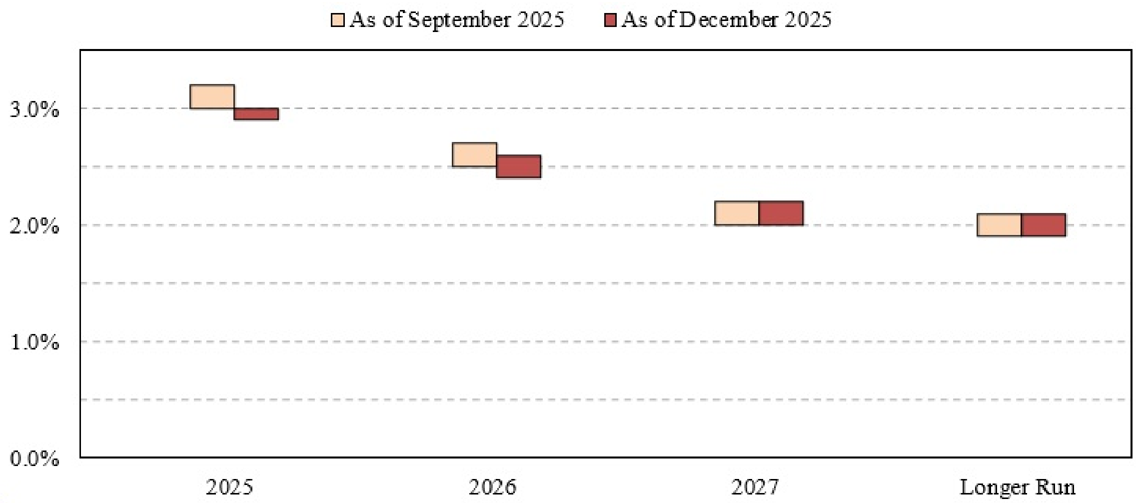
The Federal Reserve monitors inflation expectations because if consumers and businesses anticipate wage and price increases, they can adjust their behavior accordingly, making the expected inflation a reality. Every month, the Federal Reserve Bank of New York publishes expectations of future inflation.[13] Before 2020, one year forward-looking inflation expectations generally remained between 2.5 percent and 3.0 percent since 2015.

While inflation decreased during the fourth quarter of 2025, inflation expectations over the near term did not respond in kind. One year forward looking inflation expectations remained at 3.4 percent between September 2025 and December 2025. In addition, three year forward looking inflation expectations have remained effectively unchanged at 3.0 percent during 2025, which is still above the Committee's longer run target. The lack of improvement in three year inflation expectations in 2025 suggests some pessimism among consumers and businesses has become ingrained regarding the likelihood of long term inflation reaching the Committee's 2.0 percent target.

Inflation expectations between the one year and three year periods began to diverge during the first quarter of 2025, due to increased uncertainty surrounding the announcement of widespread tariffs, which led consumers, businesses, and investors to expect price pressures in the short term. After narrowing somewhat during the second quarter, the gap between the two metrics diverged again during the third quarter and remained unchanged during the fourth quarter of 2025, with one year and three year expectations of future inflation at 3.4 percent and 3.0 percent, respectively, as of December 2025.

The Federal Reserve publishes estimates of personal consumption expenditures ("PCE") inflation and Core PCE inflation. For 2025, PCE and Core PCE inflation are projected to be 2.9 percent and 3.0 percent, respectively. Thereafter, it expects inflation to moderate, with projected PCE and Core PCE inflation of 2.4 percent and 2.5 percent, respectively, in 2026, 2.1 percent in 2027, and 2.0 percent in the longer run. This supports the Committee's belief that its policies will successfully bring inflation towards its 2.0 percent target. The Committee's range of projections of Core PCE inflation is presented in the following figure.

CORE PCE ESTIMATES



Source: Federal Reserve.

Federal Funds Rate Outlook

The Committee has confirmed its intent to adjust its policies accordingly to achieve stable prices and maximum employment. At its December meeting, the members of the Committee provided their outlook for the target range for the federal funds rate in the coming years. By the end of 2026, all but four members expect the federal funds rate to be between 3.0 to 4.0 percent, suggesting that there may be no changes to the federal funds rate during 2026.

For 2027 through 2028 and into the longer run, there is a wider variance among the Committee members, although a slim majority expect the federal funds rate to settle between 2.75 to 3.50 percent. However, some members suggest a floor as low as 2.0 percent and a ceiling as high as 4.0 percent for the target range may be appropriate over the coming years.

This suggests that there may be additional cuts to the current target range of 3.50 to 3.75 percent over the next few years. Although based on the Committee's projections, it appears they expect to reach a "neutral" federal funds rate as early as 2026. A neutral rate is one that suppresses elevated inflation without stifling economic activity to the point of putting upward pressure on unemployment.[14]

Government Shutdown[15]

Between October 1, 2025, and November 12, 2025, the United States federal government was unable to be fully operational due to a lack of funding. This resulted in a large number of federal employees being furloughed, or, for some, working without pay until a funding bill was ultimately approved by Congress. Many of the agencies that collect and publish economic data were closed or limited in their operations, as they were not deemed to be critical.

As a result, there was a gap in available economic data, particularly for October. For the data unavailable in October, to maintain continuity in the aforementioned graphs and figures, we interpolate between the average of September and November as a reasonable estimate for the unavailable metrics.

The exact economic impacts of the shutdown will not be fully known for several months. However, the Congressional Budget Office estimated the shutdown cost the economy approximately $11 billion in lost GDP output. Further, the Federal Reserve expects the shutdown to lower fourth quarter 2025 GDP growth by approximately 100 basis points due to the lack of government spending but anticipates this will be largely recovered in the first quarter of 2026 as the withheld government funds are ultimately spent.

Disclaimer: this article has content that is general and informational in nature. This document is not intended to be accounting, tax, legal, or investment advice. Data from third parties is believed to be reliable, but no assurance is made as to the accuracy or completeness.

Endnotes:

1. National Bureau of Economic Research. <https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions>.

2. Ibid.

3. Board of Governors of the Federal Reserve System, "FOMC Communications Related to Policy Normalization," November 26, 2025. <https://www.federalreserve.gov/monetarypolicy/policy-normalization.htm>.

4. Bureau of Labor Statistics. "Employment, Hours, and Earnings from the Current Employment Statistics survey (National)." <http://data.bls.gov/timeseries/CES0000000001?output_view=net_1mth>.

5. FRED Economic Data, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/NROU/>. "The natural rate of unemployment (NAIRU) is the rate of unemployment arising from all sources except fluctuations in aggregate demand."

6. FRED Economic Data, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org>.

7. Ibid.

8. "U 6 total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force." Reported on a seasonally adjusted basis.

9. FRED Economic Data, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org>.

10. Ibid.

11. Bureau of Labor Statistics, "Job Openings and Labor Turnover - December 2025," February 5, 2026. <https://www.bls.gov/news.release/archives/jolts_02052026.htm>.

12. Bureau of Labor Statistics, "Consumer Price Index - December 2025," January 13, 2026. <https://www.bls.gov/news.release/archives/cpi_01132026.htm>.

13. Federal Reserve Bank of New York, "Survey of Consumer Expectations." <https://www.newyorkfed.org/microeconomics/sce#/>.

14. Board of Governors of the Federal Reserve System, "Summary of Economic Projections," December 10, 2025. <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20251210.htm>.

15. United States Congress, "The 2025 (FY2026) Government Shutdown: Economic Effects," January 29, 2026. <https://www.congress.gov/crs-product/R48832>.