

## When 3.3 Becomes 3.8

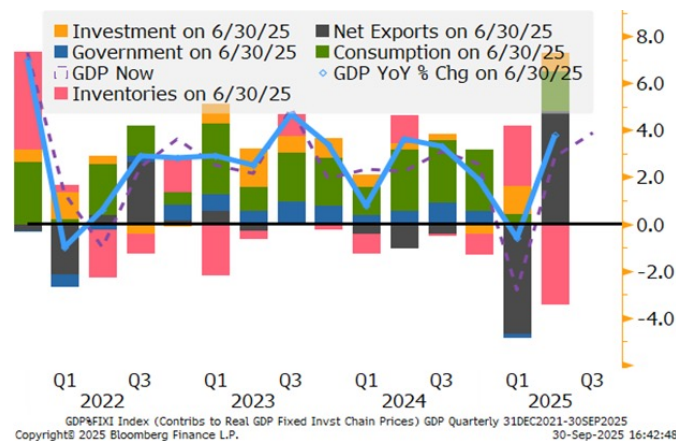
In January, we framed the year ahead with the theme of “paranoid optimism.” Nine months later, it still fits: optimism fueled by growth, paranoia by policy shifts and data surprises.

The optimism case was built on a sturdy job market, tax and regulatory tailwinds, and a revival of “animal spirits.” Markets have reflected that strength: the S&P 500 has gained 14% year to date, hitting record highs, while small caps showed signs of life and the bond market remained stable.

Yet last week reminded investors of a subtler source of paranoia: data revisions. The second-quarter GDP update, expected to be a footnote, turned into a potential inflection point. Headline GDP was revised up from 3.3% to 3.8%, but the real story lay in private final domestic sales—a cleaner measure of underlying demand—which jumped from 1.9% to 2.9%. Business investment was revised higher as well, from 5.7% to 7.3%. Both revisions reflect genuine consumption and capital spending. The Atlanta Fed now pegs third-quarter GDP at 3.9%.

The takeaway: consumers are spending, businesses are investing, and the slowdown narrative looks potentially dated. This week’s labor reports will test whether jobs catch up to growth. If they do, investors may have to revisit the “good news is bad news” dilemma—where strong data temper expectations for rate cuts. For now, optimism is back in the driver’s seat, though paranoia remains in the rearview.

### GDP Growth & GDP Now



Bureau of Economic Analysis, Atlanta Fed. Data accessed via Bloomberg. GDP revision data from Chris Low, “FHN Economic Weekly,” September 26, 2025.

### Economy

Last Week	This Week
- <b>S&amp;P Flash PMIs (Sept.):</b> Manufacturing 52.0 vs. 53.0 one month prior Services 53.9 vs. 54.5 one month prior	- <b>JOLTS (Aug.): 9/30</b>
- <b>2Q GDP Revision:</b> 3.8% from 3.3%	- <b>ISM Manufacturing (Sept.): 10/1</b>
- <b>Personal Income &amp; Spending (Aug.):</b> Income +0.4% MoM unchanged from month prior. Spending +0.6% MoM vs. +0.5% one month prior.	- <b>ISM Services (Sept.): 10/3</b>
- <b>PCE Price Index (Aug.):</b> HL 0.3% MoM / 2.7% YoY Core 0.2% MoM / 2.9% YoY	- <b>Payrolls &amp; Unemployment (Sept.): 10/3</b>

### Equities

Index	Level	1 Week	Returns (%)				
			QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
S&P 500	6661	-0.48	7.66	14.33	17.58	24.63	16.30
Russell 1000 Growth	4696	-1.33	9.99	16.68	25.54	31.28	17.40
Russell 1000 Value	2002	0.36	4.74	11.02	9.12	16.54	13.62
FTSE High Dividend Yield*	510	0.33	6.04	12.34	13.04	17.49	15.11
S&P Small and Mid Cap	18107	-0.67	6.50	5.11	5.36	14.82	13.32
MSCI EAFE	2748	-0.08	4.16	24.93	13.12	22.12	11.65
MSCI EM	1340	-0.27	10.38	27.54	17.18	18.56	7.37

### Characteristics

Index	NTM P/E	NTM P/E (20Y med)	Div Yield	S&P Sector Returns YTD				
S&P 500	22.0	15.5	1.2	30				
Russell 1000 Growth	29.4	17.9	0.5	25				
Russell 1000 Value	16.9	13.5	2.1	20				
FTSE High Dividend Yield*	13.2	13.0	3.9	15				
S&P Small and Mid Cap	15.1	15.4	1.8	10				
MSCI EAFE	15.1	13.5	3.0	5				
MSCI EM	13.3	11.2	2.5	0				

\* Bloomberg U.S. Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

### Fixed Income

Index	Yield	1 Week	Returns (%)				
			QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
U.S. Aggregate	4.37	0.13	2.07	6.18	2.69	4.94	-0.44
U.S. Int. Gov/Credit	3.98	-0.04	1.48	5.68	3.80	5.16	0.81
U.S. Corporates	4.81	0.09	2.66	6.94	3.52	7.09	0.36
High Yield	6.69	-0.16	2.54	7.22	7.43	11.08	5.54
Municipals (1-10)	2.96	-0.44	2.32	4.11	3.16	4.25	1.20

Key Rates	Last	1 Wk Ago	Levels (%)			
			Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago
2-yr Treasury	3.62	3.59	3.72	4.24	3.61	4.20
10-yr Treasury	4.14	4.11	4.23	4.57	3.73	3.79
30-yr Treasury	4.70	4.72	4.78	4.78	4.07	3.73
SOFR	4.13	4.12	4.45	4.49	5.05	2.96
6-mo. CD rate	3.99	3.95	4.28	4.33	4.41	4.31
Prime Rate	7.25	7.25	7.50	7.50	8.00	6.25
30-yr fixed mortgage	6.35	6.33	6.80	7.28	6.70	6.83

Data as of 2:11 PM ET, September 30, 2025. Returns through September 29, 2025.