

THE HQs'

2025-2026 ECONOMIC FORECAST:

Heavy Fog With Hailstorms

By Kathleen Graham



CONCLUSION

Driving in heavy fog is different than driving in other weather. At night in normal weather, to see hidden dangers/risks, high beam headlights (i.e., a sharp penetrating focus on the facts about the visible/foreseeable road ahead) keep one safe. In heavy fog, however, do not use high beam headlights—i.e., the usual deep data dive into the entire environment ahead—as it is almost useless (see the conflicting information uncovered in our Factors Considered sections).

High beam headlights in heavy fog obscures visibility by making the fog brighter¹. Researching this Economic Forecast was quite similar to driving in a heavy fog, due to the missing/confusing data caused by significantly changing regulations and procedures that may or may not be binding or continued.

With this much change in the economic environment, there are sure to be severe storms as different ideas clash. Hail is formed in strong thunderstorms with intense updrafts, lots of water, covering great heights². Thus, **today and throughout 2026, as these different policies/regulations/procedures combined with massive structural changes** (in geopolitical relationships, gender role traditions/choices, immigration/delinking of work with location, levels/consequences of debt, and the evolution of AI as a third alternative production substitution resource) **are causing intense updrafts, widespread wailing/weeping, on a global basis**.

It takes different tactics to keep personal careers, businesses, and boards driving safely through this weather. Therefore, The HQs' 2025-2026 advice is:

- **Use low beam headlights/fog lights: i.e., focus just on the road right ahead of you.**³
- **Proceed slowly and know the locations of your exit ramps.**⁴
- **Take temporary shelter during hail storms: i.e., adopt a low profile and keep what's important protected.**⁵

Do remember also that our world has faced many other turbulent storms. After the storm has passed, usually there is beautiful weather as winter storms/spring showers bring summer flowers. Whatever roads are destroyed are rebuilt better to service the new environment. Staying safe while protecting what's most important and surviving to enjoy better weather is what's of value.

FACTORS CONSIDERED

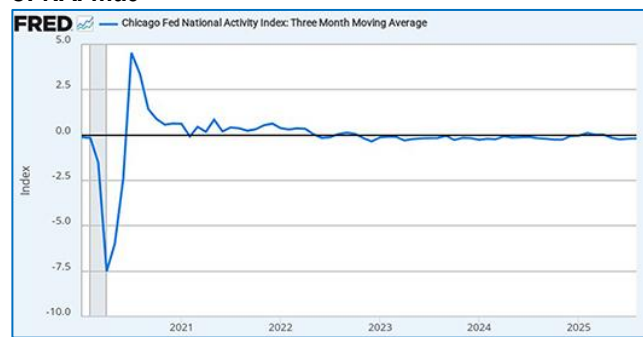
OECD Economic Outlook⁶

Positives: industrial production/trade increased...but it's unclear as to whether the increase is due to front-loading before higher tariffs commenced.

Negatives: "gold spot prices, traditionally an indicator of uncertainty, have risen ~40% since start of the year."

Negatives (continued): US unemployment rate up...or, according to others, is it something else?^{7,8,9,10,11}

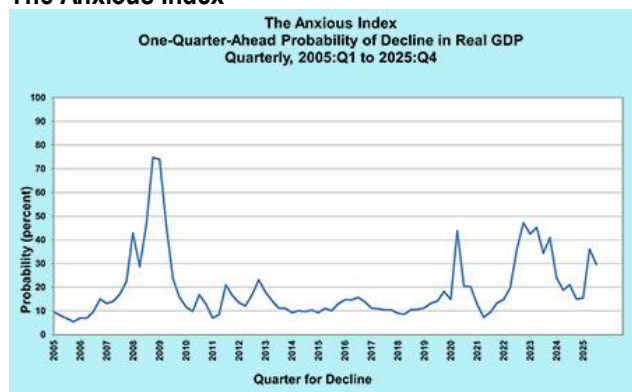
China's widespread corporate deflation with changing consumer patterns: even well-off consumers are now focused on saving money because of how hard it is for businesses to make money.¹²

CFNAI-ma3¹³

The Chicago Fed National Activity Index is designed to gauge overall economic activity and inflation pressure.

Positives: It's not in negative growth (recession) territory.

Negatives: It continues to hover ~0, which is zero growth.

The Anxious Index¹⁴

Positives: The Anxious Index escalates sharply to a peak as recessions begin. In 3rd Quarter 2025, the peaking process reversed and began a decline, which is a good sign.

Negatives: that latest decline could be a false signal as it could be due to the demand increase in securing components and goods before the commencement of tariffs.

Senior Management (CEO Economic Outlooks)

Positives: The Business Roundtable CEO Economic Outlook Index¹⁵ posted a slight gain (76) in Q3 over Q2's 5-year low (69), but is still below significant GDP growth (which occurs in the 80s) AND yet remains above the level that signals economic recession (50) expectations.

The Conference Board's CEO Economic Forecast Survey¹⁶ concurs, rising from 34 in Q2 to 49 in Q3 (below 50 indicates more negative than positive responses). "CEO confidence recovered, but fell short of signaling a return to optimism" with all 3 components improving from deep pessimism to near neutral. Fear of recession within ~ 1 year concerns fell ~50%, with only 36% of CEOs now fearing a recession.

Negatives: these CEO indicators are not signs of high expectations of future growth...and both surveys aren't showing signs of optimism nor employment expansion.

Status of Retained Recruiters

Positives: "labor market is notably cooler now ...albeit still relatively competitive by historical standards."—SHRM Hiring & Retention Difficulty Indexes.¹⁷

Negatives: Challenger, Gray, & Christmas dubbed 2025 the start of the "CEO gig economy" as turnover in this top job hit a 5-year high in 2023 and has stayed escalated to the present day. A Korn Ferry consultant notes, "Market instability is one of the major reasons I see as to why candidates, especially performers, are reluctant to move." Korn Ferry's report also says that for recruiters, this trend is poised to make hiring significantly more difficult.¹⁸

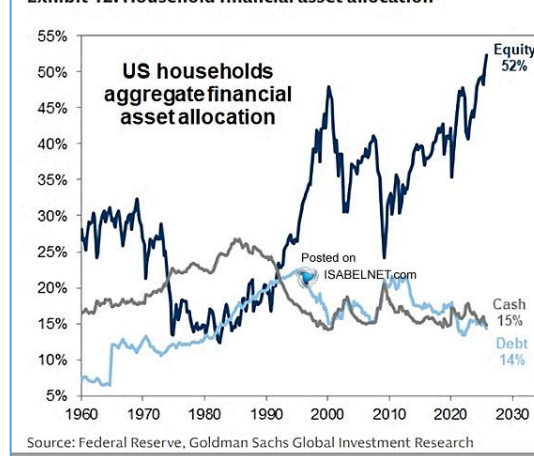
SHRM Hiring & Retention Difficulty Indexes confirm: "values for Q3 2025 suggest that the hiring and retention difficulty experienced by organizations in the most recent 12-month period is broadly similar to what was observed in the prior quarter, whereas **expected hiring and retention difficulty over the next 12 months has rebounded somewhat** after falling in Q1 and Q2...the most recent Bureau of Labor Statistics (BLS) jobs report suggests that the labor market is much weaker than previously thought, raising the possibility that **our indexes might drop significantly in Q4 2025**."¹⁹

Word on the Street

Positives:

Private credit: is now open for inclusion as a retail ETF product for the \$21 trillion retirement assets market, offering potentially more attractive returns than what was previously available. Also, Q3 brought in a new wave of consolidations/joint ventures with banks, insurance companies, and other asset managers—a win-win for asset managers access to private markets at a larger scale while private credit funds gain more capital to deploy.²⁰

Exhibit 12: Household financial asset allocation



US investment market: US stock market is up over 10% year to date with **US households now owning 52% of financial assets in equities: wealthier households owning the majority of stocks** and wealthier households' consumer spending being the main US growth driver.^{21, 22, 23}

Word on the Street (continued)

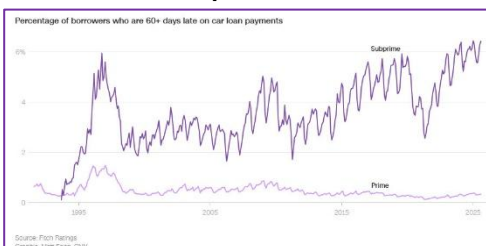
Negatives:

Private credit: private credit inclusion in retail ETF retirement assets could increase spread of risk throughout financial system, ditto the new wave of consolidations/JVs with banks, insurance, asset managers.²⁴

As for private equity and venture capital investments, “Don’t call the IPO wave a comeback” was the title of Pitchbook’s 10/18/25 VC, PE, & M&A article, which states that: (1) **most IPO hopefuls are concentrated among profitable or policy-aligned companies in the AI, space, and crypto industries**, “so the pipeline filings remains a trickle, not a flood;” (2) nearly 2/3 of VC dollars this year have flowed into AI or machine learning (ML) deals, “pushing valuations ever higher even as liquidity stays tight.”²⁵

US investment market: “the optimism priced into many US asset classes likely requires robust economic growth to maintain lofty valuations and avoid an erosion of pension assets and other wealth...”²⁶ yet CEOs (see Senior Management section, page 2) don’t offer such perspectives.

AI investments may be masking the true condition of US stock market valuations/private investments.^{27, 28, 29, 30}



Consumer delinquencies: doubled in 2025 from 2022 to levels not seen since 2012.³¹ The largest group: those with credit scores <670 and are 60+ days late on car loans: numbers worse than COVID, GFC, or 1990s dot-com bust.³²

Corporate delinquencies: distressed firms’ restructurings financed by private credit funds (PCF) loans include 2/3 of all PCF loans in first half of 2025.³³ Corporate bank loan³⁴ delinquencies increased to levels seen in 2017,³⁵ large corporate bankruptcies again increased 44% over historical annual average started in 2005,³⁶ corporate real estate (CRE) delinquencies have spiked in the Office sector so much that they now surpass the levels seen in the Great Financial Crisis (GFC) while other CRE sectors also saw delinquencies rise in 2025,³⁷ plus short-distance trucking is at highest distressed index ratings since the GFC.³⁸

Monetary Factors

Positives:

US Currency: US dollar ended 1st half of 2025 with biggest lost since 1973, which could be a boost for US exporters.³⁹

Negatives: in addition to OECD gold spot prices up 40%,

US Currency: US dollar ended 1st half of 2025 with biggest lost since 1973, making travel abroad more expensive for Americans, US assets less compelling for foreign investors⁴⁰, and import prices could rise adding to inflation.⁴¹

Usual 21st Century Risks

Positives:

War, cyber, & food: with US CEOs ranking geopolitical instability and cyber as their top concerns⁴², it must be celebrated that no wars or cyber attacks have yet spread, most have been contained, extinguished, didn’t happened.

Another big positive: outside of beef and eggs, most consumer food prices are rising 3 cents per dollar to flat for all of 2025, with similar predicted outcomes for 2026.⁴³

Negatives:

AI: although only 33% of US companies use AI, **99% of Fortune 500 companies use AI.**⁴⁴ **These Fortune 500 companies accounted for 2/3 of the US GDP in 2025.**^{45,46} which means that the impact on US GDP could be huge if anything goes significantly awry in the AI industry. For instance, (1) major AI cloud providers are seeing a drop in free cash flow growth; (2) key revenue segments for hyperscalers appear to be slowing due to market saturation, monopolies, and increased competition.⁴⁷

The power needs of massive AI data complexes could be (or NOT be⁴⁸) driving up consumer electricity bills because **wholesale electricity now costs as much as 267% more for a single month than it did five years ago in areas located near significant data center activity.**⁴⁹

Energy: utilities are grappling with how much of AI data center power demand requests are real because AI companies are rolling out ambitious plans to build server farms (some that would consume as much electricity as entire cities) AND are shopping those same projects at the same time to different utilities across the country.

This data center shopping approach is making it difficult for utilities to determine how much power generation they will need to ensure the reliability of the already patchwork US electric grid. FERC and utilities cannot efficiently plan the electric generation and transmission needs if they don’t forecast accurately how much energy AI data centers will actually need...and the difference of a few percentage points in electricity load forecasts can impact billions of dollars of investment, as well as customers’ electric bills.⁵⁰

Healthcare: hospitals/health systems provide life-saving care to millions. However, they are facing major financial pressures: finding/retaining educated labor in a workforce shortage environment is the largest category of expense, with Medicare/Medicaid reimbursements not keeping up with rising cost inflation (e.g., general inflation rose 14.1% from 2022-2024 while Medicare only rose 5.1%).⁵¹

Uncertain:

Tariffs & US national debt: the extent, impact, and repercussions of tariffs on both US producers and consumers is still a work-in-progress. Also uncertain is the outcome and impacts from the US national debt level, aka “The Big Ugly Debt Gray Rhino.”⁵²

- ¹ Motorbiscuit.com/5-tips-drive-during-foggy-nights/.
- ² worldatlas.com/articles/what-causes-hail.html.
- ³ Motorbiscuit.com/5-tips-drive-during-foggy-nights/.
- ⁴ The Do's And Don'ts of Driving In A Hail Storm, 3/7/23, NTSI.com.
- ⁵ The Do's And Don'ts of Driving In A Hail Storm, 3/7/23, NTSI.com.
- ⁶ "Finding the Right Balance in Uncertain Times," OECD Economic Outlook, Interim Report, September 2025.
- ⁷ 8/4/25 "Jobs data see staggering revisions." with "Top Perspectives from Daniel Altman: "If you look closely, the big news isn't the revisions. It's the continuing drop in the employment population ration. There are fewer American workers per non-worker aged 16 and older...What this means is that with an economy that is near full employment, where almost everyone who wants a job can find one, there are bizarrely few Americans working. Are we measuring unemployment incorrectly, or have more Americans simply left the labor force?"
- ⁸ 8/21/25 "Companies are planning fewer hires." Cate Chapman, LinkedIn News Editor: "Hiring plans by U.S. companies have shrunk for a second year, with 20% (1 in 5) of employers saying they will bring on fewer employees in the second half of year" ...with WSJ Ray Smith adding, "[which] is nearly double the rate of companies anticipating bringing on fewer people at this time last year."...and Jacob Morgan saying, "Slower hiring isn't doom and gloom—it's smart strategy. It reflects a shrinking labor pool, not just weaker demand. This isn't retreat. It's recalibration."
- ⁹ 9/5/25. "Second weak jobs report in two months." Scott McIntyre, NYT: "The labor market is sputtering. The US added 22,000 jobs in August, well below number forecasters expected."
- ¹⁰ 10/3/25. "Corporate data paints jobs picture." Cate Chapman, LinkedIn News Editor, "LinkedIn's preliminary data for September reveals a continued decline in hiring. Information from other sources, including payroll provider ADP, also show a slowing labor market." with Karin Kimbrough, Chief Economist, LinkedIn saying, "According to LinkedIn data, national hiring fell 3.5% month-over-month, 8.7% year-over-year. Since January, hiring has declined > 7%, and it's now +20% below pre-pandemic levels (September 2019). Broader labor market signals are softening: The LinkedIn Separation Rate (i.e., quits) and our Labor Market Tightness metric (jobs per applicant) each dropped 4% from August to September. These shifts suggest a cooling labor market heading into fall."
- ¹¹ 10/9/25. "Break-even employment number drops, Dallas Fed says." Liz Kiesche, Seeking Alpha News Editor, "The number of new jobs needed to absorb the net monthly increase in US labor force has declined due to reduced immigration and lower labor force participation, according to research from the Federal Reserve Bank of Dallas. Anton Cheremukhin, a principal research economist at the Dallas Fed wrote, "A new, high-frequency estimate of break-even employment shows a dramatic reversal in immigration flows, combined with cyclical shifts in labor force participation, has caused the monthly break-even requirement to collapse from ~250,000 peak in 2023 to ~30,000 in mid-2025. About half of the decline from 2023 to mid-2025 is attributed to a slowdown in population growth, & the rest explained by the labor force participation rate slowdown...With payrolls & GDP growth heavily influenced by demographic factors, they've become less reliable indicators of economic slack or overheating...[i.e.] the unemployment rate is a better indicator of labor market conditions than the increase/decrease in nonfarm payrolls."
- ¹² Doing business in China? Factor in deflation, 9/9/25 CNBC.com.
- ¹³ https://www.chicagofed.org/research/data/cfnai/current-data
- ¹⁴ https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/anxious-index
- ¹⁵ https://www.businessroundtable.org/media/ceo-economic-outlook-index/ceo-economic-outlook-index-q3-2025
- ¹⁶ "CEO Confidence Survey: Confidence Revived in Q3, but CEOs Remain Cautious," 8/7/25, linkedin.com/pulse/ceo-confidence-survey-revived-q3-ceos-remain-cautious-eldme/
- ¹⁷ SHRM Hiring & Retention Difficulty Indexes, https://www.shrm.org/executive-network/insights/research/shrm-hiring-retention-difficulty-indexes
- ¹⁸ "The Great Resentment," Nick Lichtenberg & Ashley Lutz, 8/20/25.
- ¹⁹ SHRM Hiring & Retention Difficulty Indexes, https://www.shrm.org/executive-network/insights/research/shrm-hiring-retention-difficulty-indexes
- ²⁰ "Credit Conditions Q3 2025," McDermott Will & Schulte.
- ²¹ "The stock market has only seen 4 periods like this in 100 years," USA Today, 10/17/25
- ²² https://www.isabelnet.com/equity-u-s-households-aggregate-financial-asset-allocation/
- ²³ "Early consumer earnings make the wealth effect clear," Reuters, Agarwal, P; Varghese, A, 10/21/25: "Affluent consumers drive spending, boosting equity markets. Spending by well-to-do consumers has bolstered consumption and, in tandem, equity markets. That creates something of a virtuous cycle for the wealthiest, as the rising market benefits more affluent households that have more money invested in stocks."
- ²⁴ "Credit Conditions: Q3 2025," McDermott Will & Schulte
- ²⁵ "Don't call the IPO wave a comeback," Pitchbook, 10/18/25
- ²⁶ "Global balance sheet trends," McKinsey
- ²⁷ "The AI boom is lifting the stock market, but it may be masking a weaker economy," C Morabito, CNBC, 10/14/25: "A September 2025 analysis from Deutsche Bank argued that without AI-related investment, the US economy might already be in a recession. GDP is being driven by all this investment, Earnings growth is being driven by all this investment. The S&P 500 is pretty unbalanced now. And that does create a vulnerability to an investment bust at a point when we've blown out government spending to unprecedented levels...Many of today's AI giants are bringing in a lot of cash, but some experts are worried it may not be enough to sustain the elevated level of spending. Some companies are turning to the bond market to finance the infrastructure expansion by issuing debt that they plan to pay back later. Oracle, Meta, and CoreWeave have each raised billions in debt or private credit to finance new data center infrastructure."
- ²⁸ "AI Stocks Have Fueled the Bull for 3 Years—Will the Momentum Continue?" C. Laidley, Investopedia, 10/1/25: "Stock market returns throughout the rest of the year are likely to be strongly influenced by the infrastructure spending, cloud computing deals, and positive sentiment lifting AI and tech stocks. Some experts warn an increasingly "circular" AI ecosystem in which companies invest in their own customers could be vulnerable to a shift in the business environment. The US stock market entered the final quarter of the year near record highs, boosted by soaring AI stocks...most of the best-performing stocks in the S&P 500 this year are directly tied to the AI boom. As such, the performance of most investment portfolios is increasingly tethered to the performance of AI stocks. Today AI companies are investing in one another, and using those investments to buy goods and services from each other. So there's a bit of circularity...there's a risk to these sorts of deals [as] none of these things are guaranteed."
- ²⁹ "At US \$1.2 trillion, more high-grade debt now is tied to AI than banks," J. Lago, Financial Post, 10/7/25
- ³⁰ "Credit fuels the AI boom—and fears of a bubble," Fortune, 8/25/25: "Credit investors are pouring billions of dollars into AI investments, just as industry executives and analysts are raising questions about whether the new technology is inflating another bubble. OpenAI alone estimates it will need trillions of dollars over time to spend on the infrastructure required to develop and run AI services. Much of the debt funding now is coming from private credit markets. Private credit funding of AI is running at around \$50 billion a quarter, at the low end, for the past three quarters. Even without factoring in the mega deals from Meta and Vantage, [the private credit markets] are already providing two to three times what the public markets are providing," said UBS head of credit strategy. And many new computing hubs are being funded through commercial mortgage-backed securities (CMBS), tied not to a corporate entity, but to the payments generated by the complexes. The amount of CMBS backed by AI infrastructure is already up 30%, to \$15.6B, from the full year total in 2024, per JPMorgan Chase & Co. estimate this month."
- ³¹ "Transition into Serious Delinquency (90+) by Loan Type," Quarterly Report on Household Debt and Credit: 2025: Q2," Federal Reserve Bank of New York.
- ³² "A significant group of Americans are falling behind on their car payments – an economic warning signal," M. Egan, C. Isidore, CNN Business, 10/23/25: "America's current subprime delinquency rate is the 2nd highest level since early 1990s—the only time it was higher was January 2025. Cars are being repossessed at the highest rate since the GFC. A disturbing trend to economists as car loans are typically the last payments Americans are willing to miss because they're too important to their lives. 46% of used car loans & >75% of new car loans have \$500+ monthly payments. Motor vehicle repair costs surged 15% Y-O-Y in August 2025—the most in nearly 2 years, with auto repair costs increasing 5% between July and August 2025. Car insurance rates have increased significantly since COVID. The wide gap between delinquency rates of prime and subprime borrowers is another reminder: many Americans who have money in the stock market and own increasingly valuable homes are doing well and spending aggressively, but many others, especially lower-income consumers, are struggling to stay afloat."
- ³³ "Corporate Credit Risk Looking for a Catalyst to Break Out," Moody's, 8/7/25. "1st half of 2025, 64% [2/3] of all [new] credit events [in the private credit corporate direct lending space] were distressed restructurings."
- ³⁴ "Delinquency Rate on Business Loans, All Commercial Banks 2008-2025, Federal Bank of St. Louis (FRED).
- ³⁵ "Corporate Delinquencies Reach Highest Rate Since 2017," PYMNTS, 2/17/25.
- ³⁶ "Trends in Large Corporate Bankruptcy and Financial Distress," Cornerstone Research, Midyear 2025 Update.
- ³⁷ "Trends in Large Corporate Bankruptcy and Financial Distress," Cornerstone Research, Midyear 2025 Update.
- ³⁸ "The <250 Miles Logistics Goods & Components Distressing Situation," K. Graham, M. Zoff, October 2025.
- ³⁹ "What is Fueling the Depreciation of the Dollar?," 8/21/25, Morgan Stanley Investment Management.
- ⁴⁰ "Investors pour record sums into ex-US funds," 10/10/25, Financial Times.
- ⁴¹ "What is Fueling the Depreciation of the Dollar?," 8/21/25, Morgan Stanley Investment Management.
- ⁴² "CEO Confidence Survey: Confidence Revived in Q3, but CEOs Remain Cautious," 8/7/25, linkedin.com/pulse/ceo-confidence-survey-revived-q3-ceos-remain-cautious-eldme/
- ⁴³ "Food Price Outlook – Summary Findings," 9/25/25, USDA. https://www.ers.usda.gov/data-products/food-price-outlook/summary-findings.
- ⁴⁴ "Fortune 500 companies use AI" Globe Newswire, 6/30/25; "Fortune AIQ50 2025," Fortune.
- ⁴⁵ "How Many Companies Use AI in 2025?" Kumar, https://www.demandsage.com/companies-using-ai/, 4/16/25.
- ⁴⁶ "The 10 largest US companies by revenue: F500 list, 6/24/25; "Fortune 500," Wikipedia.
- ⁴⁷ "The Bull Market's Seventh Inning, L. Shalett, Morgan Stanley, 10/1/25. "Major AI cloud providers seeing drop in free cash flow growth; hyperscalers key revenue segments slowing down (market saturation, monopolies, increased competition)."
- ⁴⁸ "AI and Data Centers May Not Be to Blame for Your Electricity Bill," W. McCurdy, "PCMag, 10/26/25.
- ⁴⁹ "AI data centers are sending electric bills soaring," Bloomberg, 9/30/25.
- ⁵⁰ "Utilities grapple with a multibillion question: How much AI data center power demand is real," S. Kimball, CNBC, 10/17/25.
- ⁵¹ "The Cost of Caring: Challenges Facing America's Hospitals in 2025," American Hospital Association, April, 2025.
- ⁵² "The Big Ugly Debt Gray Rhino: everyone is talking about it...but what can (or will) Washington do?" Michele Wucker, 8/6/25, "1/2025: \$377 or 123% of GDP." https://grayrhinowrangler.substack.com/p/the-big-ugly-debt-gray-rhino.