



## ECONOMIC COMMENTARY

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*For every one to attain  
financial well-being*

### EARNINGS ARE UP, BUT IS THE ECONOMY REALLY HEALTHY?

After months of political noise, market volatility, and endless debate over tariffs and artificial intelligence (AI), the United States' (US') corporate engine seems to be humming again. Third-quarter results show that US company earnings are growing at their fastest pace in four years, defying gloomy predictions that President Donald Trump's trade war would stifle growth.

Across the broad Russell 3000 Index, median earnings grew by about 11% year-on-year, up from 6% in the previous quarter. It is the strongest growth since 2021. Six of the eleven major S&P 500 sectors posted positive earnings growth (up from only two earlier in the year). Corporate America, it seems, has learned to absorb higher tariffs and higher costs without losing profitability.

The tech sector, once again, dominates the story. AI-related investments and data-centre expansion have driven valuations sky-high. Yet, the same week that investors celebrated strong earnings, more than \$900 billion was wiped off the market value of eight of the most expensive AI-linked companies. This whiplash reflects a deeper question: Have markets begun to mistake momentum for value?

As long as macroeconomic data are limited by the ongoing US government shutdown, corporate earnings are the best clues we have to the real state of the economy. The numbers look good, but the narrative underneath them is more complex. Consumer-facing companies are warning that demand is softening, particularly among lower-income households. The University of Michigan's latest Consumer Sentiment Index has fallen to a three-year low. The top 40% of US households now control almost 85% of total wealth and, unsurprisingly, they are the ones still spending. This widening divide between the "haves" and "have-nots" poses a subtle threat to the apparent resilience of the world's largest economy. It is not that the US has stopped growing, it is that fewer Americans are participating in that growth.

#### China's slowdown

Meanwhile, China is slowing. Retail sales grew just 2.8% in October, down from 3% in September. Industrial output growth also eased, and fixed-asset investment actually turned negative. Beijing's push to stimulate consumer demand through subsidies and trade-in incentives has had only a temporary effect. Analysts now expect China's growth to hover near 5% in 2025, sustained less by organic demand and more by state-directed investment. The long-promised shift to consumption-led growth remains elusive. For South Africa and other commodity exporters, this matters as weaker Chinese demand means softer export prices, slower trade, and a tougher growth outlook.

#### The uneasy co-existence between wealth and want

The irony of 2025 is that the global economy appears both strong and fragile at the same time. Markets are near record highs, yet affordability remains the dominant concern of ordinary citizens across the world. In the United Kingdom, the Bank of England is considering its first rate cut in more than a year, even as inflation remains above target. In the US, the Federal Reserve faces what one official called "a balancing act" between buoyant equity prices and rising hardship among low-income households. And in China, the state is tightening control just when the private sector most needs confidence and the freedom to invest.

#### A lesson for South Africans

For South Africans, these global tremors matter not only because of what they say about growth, but because of what they reveal about value. When profit becomes detached from real well-being (when markets reward speculation more than stewardship and wealth creation), economies begin to drift from their purpose. The world is still expanding in nominal terms, but the deeper question is whether it is creating value that lasts. As investors, we need to look beyond quarterly earnings to ask: Are companies building something that will endure, or are they merely inflating another cycle of exuberance? Economic history teaches us that markets can price risk, but cannot price meaning. That task – defining what is truly valuable – remains ours.

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