# American Economic Resilience

## *What Lies Beneath the Headlines?*

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*October 2026*

> *Economic resilience is an observed condition, not evidence of a sustainable trajectory*

Two recent articles, Robert Armstrong's "Winter Arrives in Markets" in the *Financial Times* (23 October) and "The Winners and Losers of Trumponomics" in *The Economist* (25 October), offer different perspectives on the US economy. Armstrong examines the recent retreat in technology stocks and rally in US Treasuries. The Economist considers how the benefits and costs of the administration's economic policies have been distributed across American households.

Both describe an economy that continues to perform relatively well. Consumer spending remains resilient, corporate earnings are growing and aggregate economic activity is expanding. Yet both also identify developments that raise questions about the sustainability of this performance.

The distinction between current economic conditions and the forces shaping future performance is central to our *Emerging Markets Investor's Guide to Country Risk*. An economy may be performing well while some of the foundations of that performance are weakening. Equally, an economy experiencing difficulties may be undergoing changes that improve its longer-term prospects. For investors, the challenge is to distinguish between the two.

Financial markets: a change in sentiment or something more fundamental?

Armstrong describes a significant change in financial-market sentiment. The US 10-year Treasury yield fell 19 basis points to 4.96%, while the Nasdaq declined 2.6%. Although the immediate explanation centered on concerns about AI-related spending, the adjustment had been developing for several months.

Weakness initially appeared among industrial companies benefiting from data-centre construction before spreading to technology businesses more directly exposed to AI. Meanwhile, traditionally defensive sectors, including healthcare and consumer staples, strengthened. Nearly three-quarters of S&P 500 constituents have risen since October 5, suggesting a rotation away from concentrated AI exposure rather than a general retreat from equities.

The Treasury rally is also revealing. Falling yields reflected declining real yields rather than lower inflation expectations or a significant reassessment of Federal Reserve policy. Investors appear increasingly willing to accept lower returns on government bonds in preference to the risks associated with highly valued equities.

Nevertheless, two important supports remain. Real consumer spending grew 2.5% in the second quarter, while FactSet forecasts S&P 500 earnings growth of 33% in 2026 and 16% in 2027.

These figures provide grounds for confidence, but not necessarily complacency. The relevant question is whether recent market movements represent an adjustment in valuations and investor positioning, or an early indication that the economic conditions supporting corporate earnings are beginning to deteriorate.

The distinction matters considerably for investment decisions.

Economic growth and the distribution of prosperity

The Economist approaches the same economy from another direction. It asks whether the administration's policies have delivered the promised improvement in working-class prosperity.

Its findings suggest a substantial divergence between aggregate economic performance and household experience.

Despite estimated annualized GDP growth of approximately 3% in the third quarter, many Americans face declining purchasing power. Tariffs have increased consumer goods prices by approximately 2%, imposing an estimated annual cost of $1,100 on the average household. Higher energy prices associated with the Iran war are expected to add another $1,000.

Tax reductions provide some compensation, but their benefits are concentrated among wealthier households. The Economist estimates that the poorest tenth of households will lose almost 3% of disposable income from the combined effects of the administration's policies, while the wealthiest tenth will gain nearly 3%.

The labor market presents a similarly uneven picture. Manufacturing employment has declined by approximately 20,000 since January 2025, despite rising output. Real private-sector hourly wages have fallen 0.7% over the past year. Employment gains have been concentrated in healthcare, social assistance and AI-related investment.

Meanwhile, nearly 90% of the $17 trillion increase in household equity and mutual-fund wealth since the end of 2024 has accrued to the wealthiest tenth of Americans.

These developments do not establish that consumer spending is about to weaken. Higher-income households account for a substantial proportion of expenditure and possess financial buffers that may allow consumption to remain resilient. Nevertheless, the distribution of income and wealth matters for the composition and sustainability of demand.

Strong aggregate consumption can coexist with deteriorating conditions for businesses serving lower- and middle-income households. Equally, rising corporate profits need not translate into broad improvements in employment or real wages.

For investors, these differences are commercially significant.

What does the Investor's Rutter tell us?

Our Investor's Rutter examines country developments through four interconnected dimensions: Endowments, Enablers, Context and Outcomes. It distinguishes between short-term developments, which we describe as the *Weather*; medium-term forces influencing economic performance, the *Winds*; and deeper structural influences, the *Currents*.

The framework is intended to help investors assess not simply where a country stands, but where it may be heading and why.

Applied to the United States, the recent equity-market rotation, Treasury rally and changes in investor sentiment are primarily matters of Weather. They affect valuations and financing conditions, sometimes abruptly, but do not necessarily indicate a fundamental change in economic prospects.

The Winds include developments in household purchasing power, the concentration of investment in AI, changes in corporate profitability, labor-market conditions and the consequences of tariffs for production costs and competitiveness. These developments are more likely to influence the sustainability of economic growth.

The Currents concern the underlying strengths and weaknesses of the American economy. The United States retains formidable advantages: deep capital markets, technological leadership, entrepreneurial capacity, sophisticated institutions and the international role of the dollar.

These endowments help explain the economy's capacity to absorb shocks and sustain investment. But they do not operate independently of the institutional and policy environment.

Trade restrictions, immigration policies, fiscal priorities and the predictability of economic governance can affect how effectively these advantages are translated into productive investment and sustained growth. The consequences may emerge gradually, long before they become apparent in aggregate economic indicators.

This is where the distinction between condition and trajectory becomes particularly important.

Strong GDP growth and corporate earnings describe economic outcomes. They do not, by themselves, establish whether the institutional, policy and commercial conditions supporting those outcomes are improving or deteriorating.

Nor should the analysis be reduced to a judgement about whether the United States is becoming a more or less attractive investment destination. Different developments have different consequences for different businesses and investors.

From economic developments to investment performance

Consider three illustrative investments.

A senior secured loan to a consumer-facing business may appear attractive while aggregate consumption remains strong. Yet the company's ability to service its debt will depend on the purchasing power of its customers, its exposure to tariff-related costs, its pricing power and its capacity to maintain operating cash flow. Strong national consumption figures provide little comfort if its own customers are reducing expenditure.

An equity investment in an AI infrastructure supplier presents a different set of considerations. Continued growth in AI investment may support revenues, but the returns available to shareholders will also depend on competition, operating margins, capital requirements and the price paid for the investment. A successful technological transformation does not necessarily produce attractive returns for every investor financing it.

A loan to an established healthcare business may benefit from relatively stable demand, even if broader economic conditions weaken. Nevertheless, labour costs, reimbursement arrangements, operating margins and the timing of cash receipts will determine whether the business can meet its financial obligations.

The point is straightforward. Country developments do not translate uniformly into investment outcomes. Their consequences depend on the characteristics of the sector, the individual business and the financial instrument through which capital is committed.

For lenders, the central concern is the borrower's capacity to generate or mobilise sufficient cash to meet its obligations when due. For equity investors, it is the relationship between prospective cash generation, capital requirements, valuation and the eventual realisation of investment returns.

This transmission from country developments to business performance and investor returns is an essential part of the Investor's Rutter approach.

Resilience and the direction of change

Neither Armstrong nor The Economist provides convincing evidence that the United States is approaching an economic downturn. Consumer spending remains resilient, corporate earnings are growing and the country's underlying economic strengths remain considerable.

There are plausible reasons why this performance could continue. Wealthier households may sustain consumption despite pressures elsewhere. AI-related investment may eventually generate substantial productivity improvements. American businesses may adapt successfully to changes in trade and economic policy.

But these possibilities are not the same as evidence that the economy's trajectory is improving.

The two articles raise questions that investors should examine rather than assume away. Are current earnings expectations consistent with the likely evolution of household demand? Will AI investment generate returns sufficient to justify current valuations? Are policy developments strengthening or weakening the economy's productive capacity? And how might changes in institutional effectiveness and policy credibility affect investment prospects over time?

The United States is particularly interesting because its considerable economic strengths provide substantial capacity to absorb adverse developments. Policies that might destabilize a more vulnerable economy can have less immediate effect on American economic performance. That resilience, however, may also delay the recognition of accumulating weaknesses.

Our book focuses on emerging markets, but the underlying analytical approach is equally relevant to advanced economies. Strong endowments and favorable current outcomes do not eliminate country risk. Nor do they guarantee that the conditions supporting investment performance will persist.

The task for investors is therefore not simply to determine whether the American economy is strong or weak. It is to identify the forces shaping its trajectory, assess how those forces may change and understand their consequences for investments.

**Economic resilience is an observed condition, not evidence of a sustainable trajectory. For investors, it is the trajectory—and its transmission into business cash flows and realized investment returns—that ultimately matters.**

References

Robert Armstrong, "Winter Arrives in Markets", *Financial Times*, 23 October 2026.

"The Winners and Losers of Trumponomics", *The Economist*, 25 October 2026.

Richard Marney and Philipp Waeber, *The Emerging Markets Investor's Guide to Country Risk – Systematic Risks and the Threat to Investment Performance*, Palgrave Macmillan, 2026.