Westminster Bank Limited 24-hour cash
CHUBB

CoBANK

# Economic outlook

Jeff Johnston, Lead Economist Digital Infrastructure

October 5, 2026

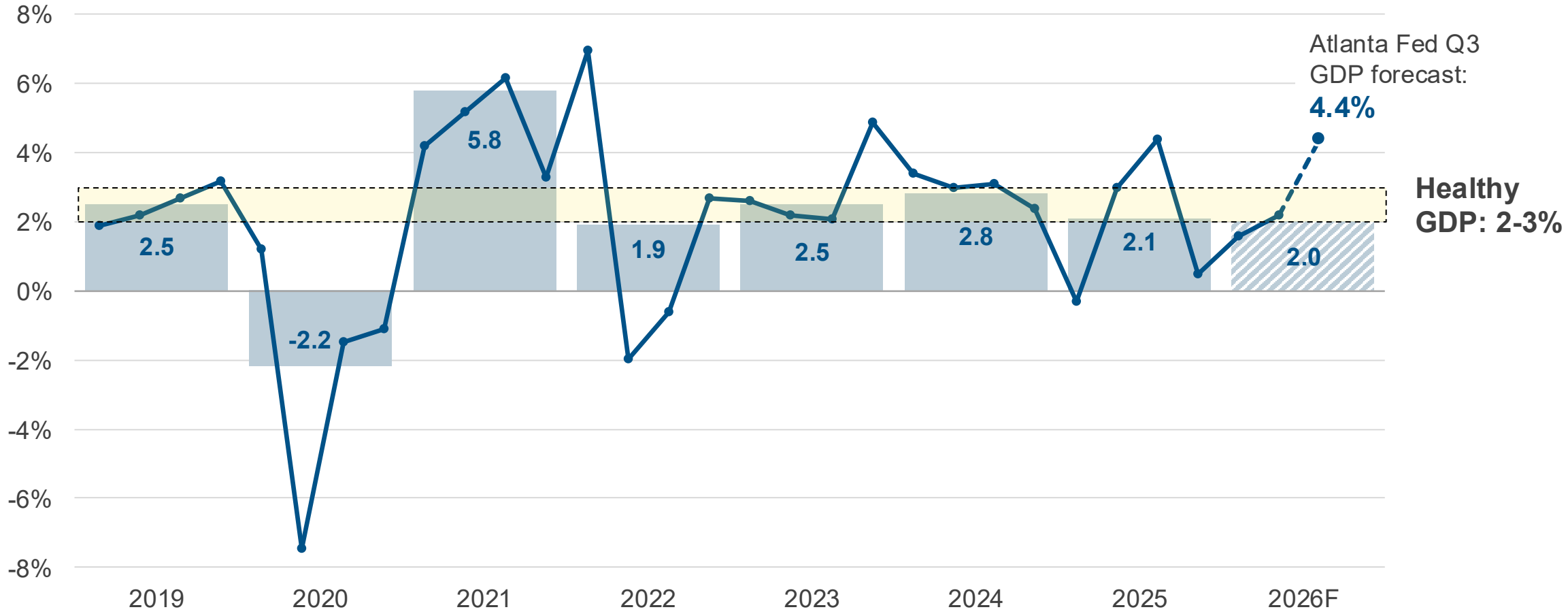
Consumer spending remains strong

Bubble fears over AI investments are exaggerated

Rising deficit is creating market headwinds

# GDP results showing signs of economic softness

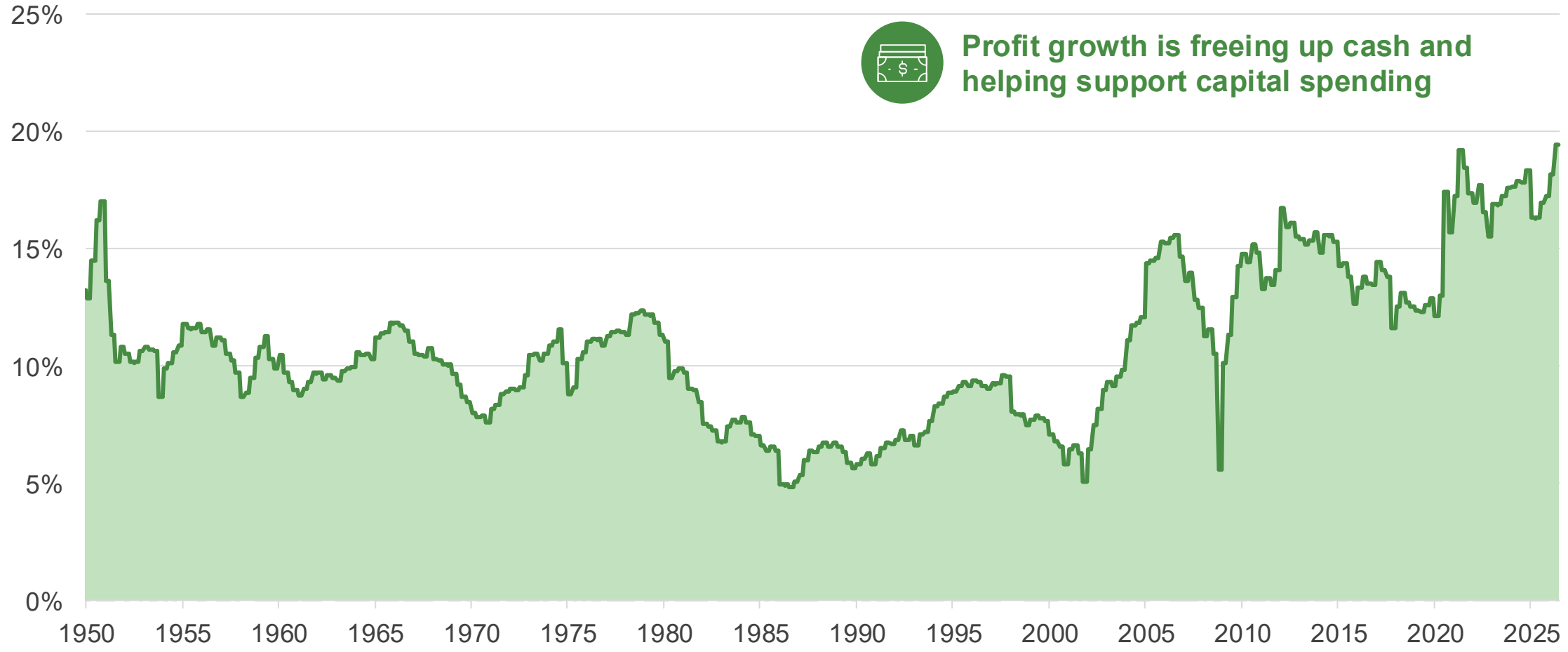
## Quarterly percent change




Source: BLS

# Corporate profit margins at all time highs

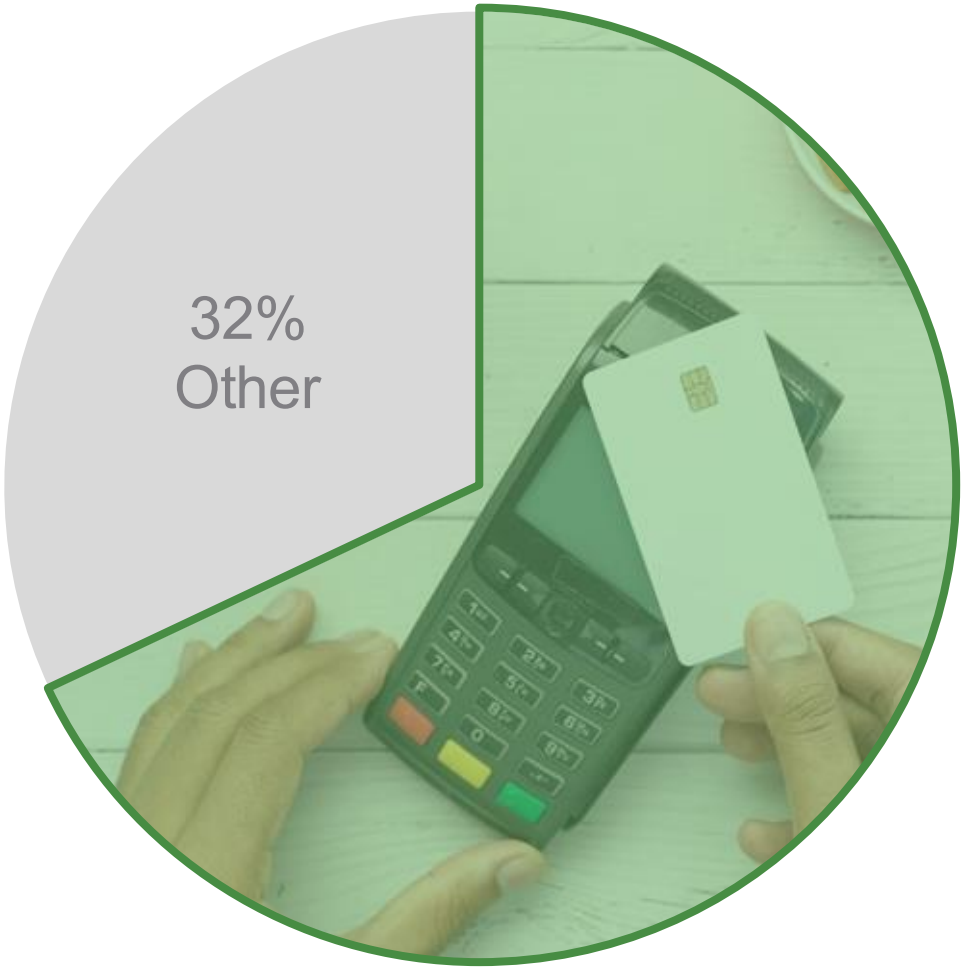
## Corporate after-tax margin




Source: Bloomberg and Bureau of Economic Research

# The U.S. economy is considered a “consumption economy” driven by consumer spending

## Components of GDP

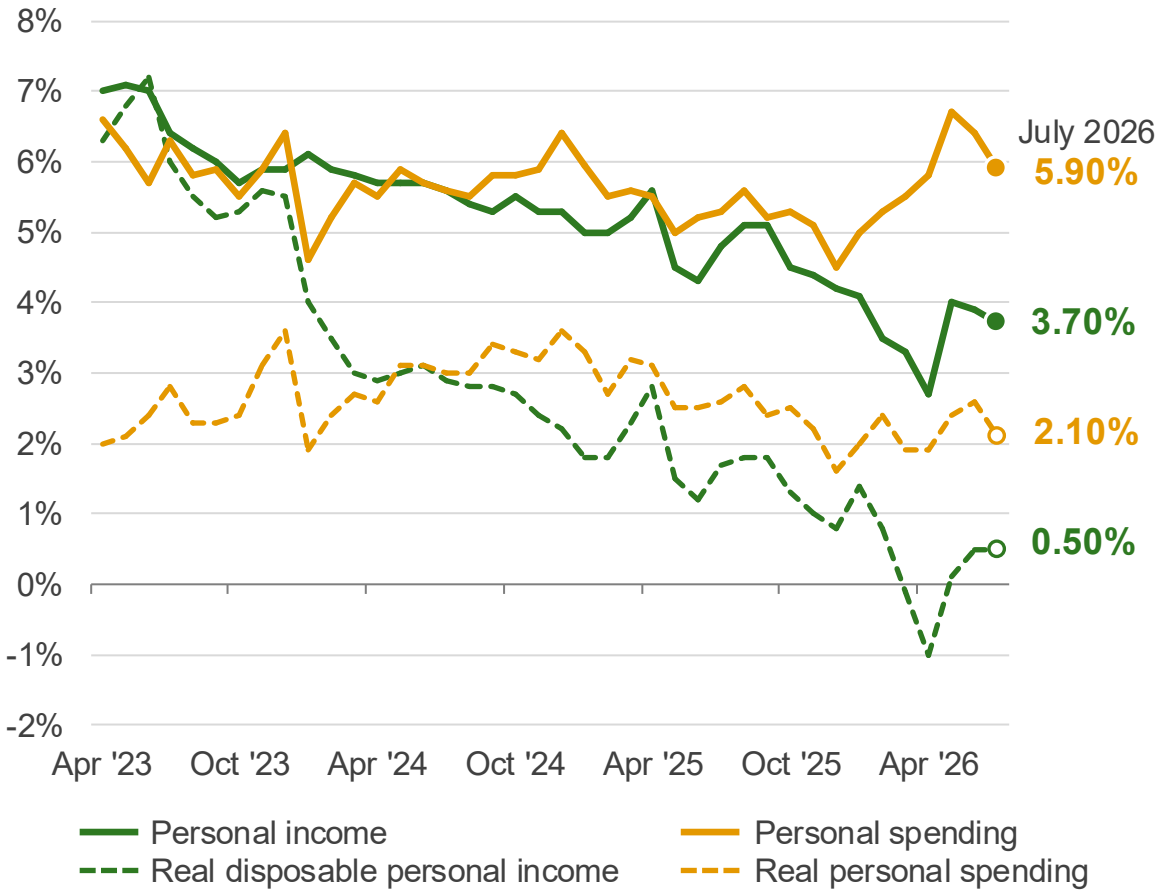



**68%**
**Consumption expenditure**

Source: bea.gov

# Consumers continue to spend…

## Personal income vs personal spending, year-over-year

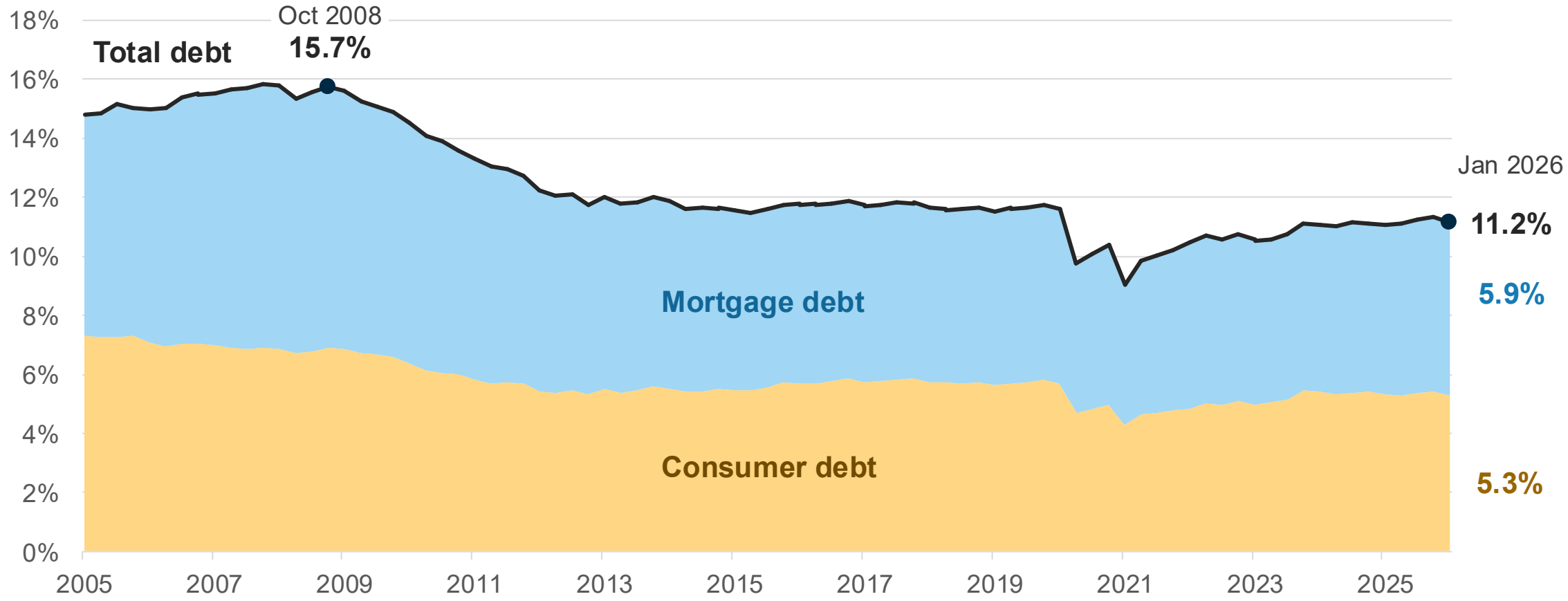



## Personal savings as a percentage of disposable personal income

Source: BEA, Bloomberg

# And their debt burden is manageable

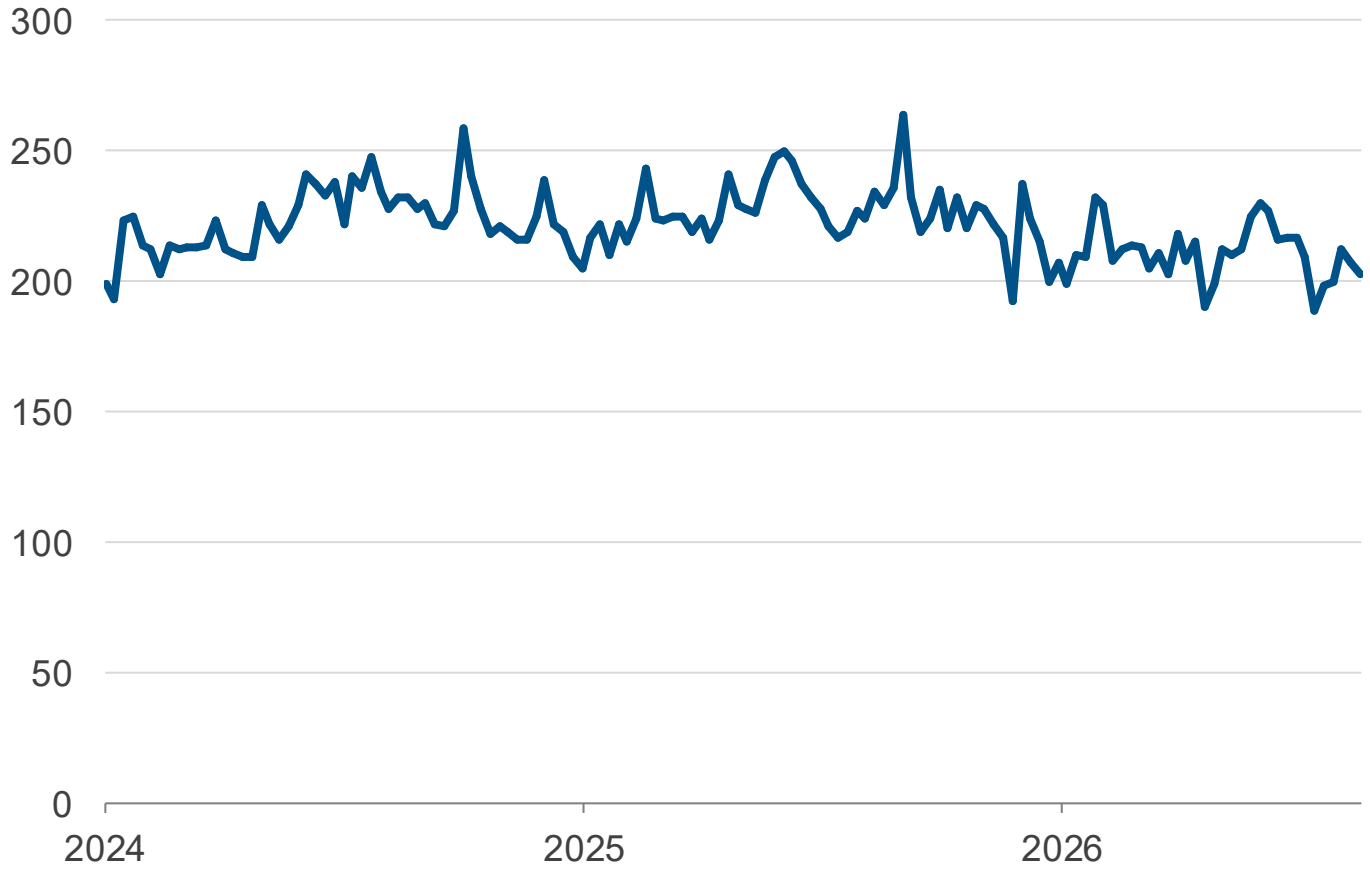
## Debt service payments as percent of disposable income




Federal Reserve Bank of NY, Bloomberg

# Employers are retaining employees despite anemic job growth

## Jobless claims, weekly (thousands)

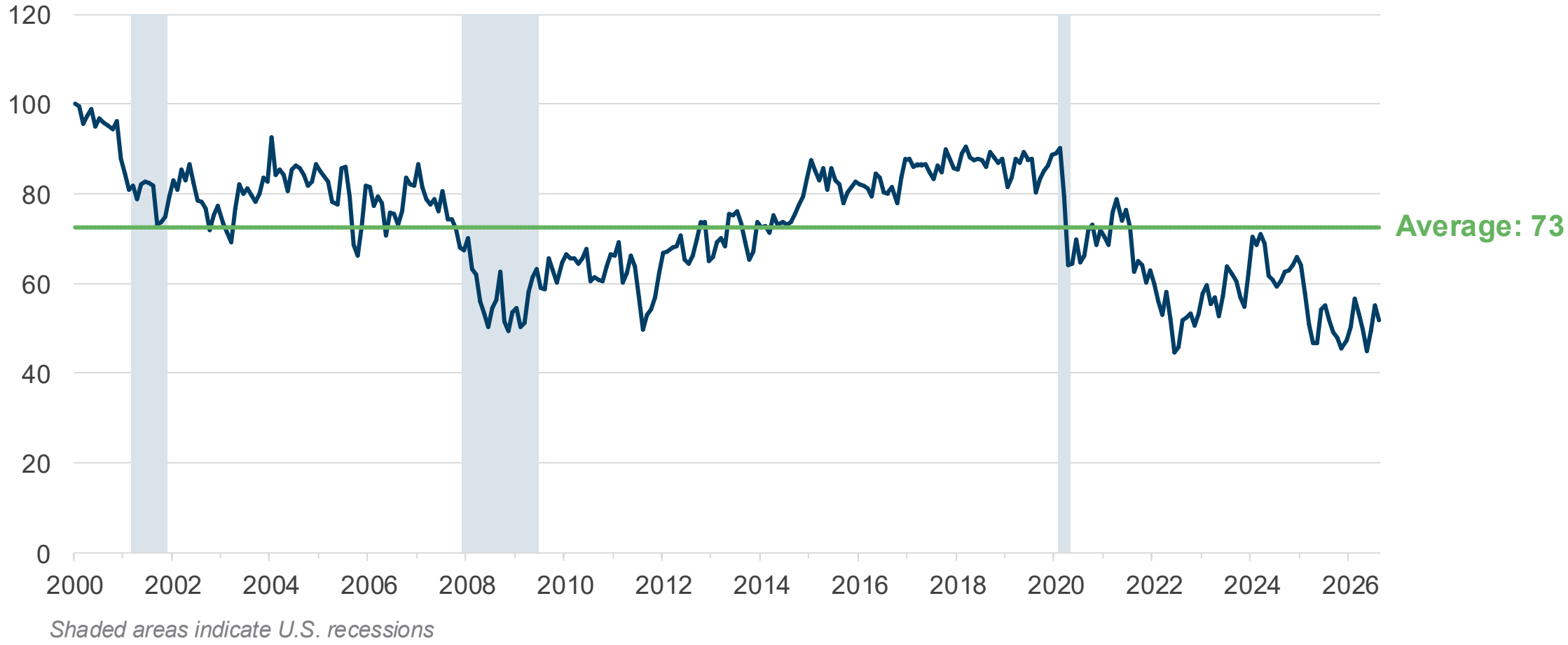



| | |
|---|---|
| 25-year average | 369 |
| Avg 2008 financial crisis | 460 |
| COVID average | 1,800 |
| Current (2026) | 210 |

Source: FRED

# Confidence levels remain below long-term averages

University of Michigan: consumer sentiment (index: 2000:Q1=100)



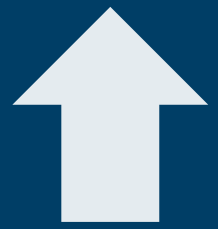

*Shaded areas indicate U.S. recessions*

Source: FRED

# What’s behind the low numbers?

- People care about the price level – not just the inflation rate
- Consumers are worried about the future
- Policy and geopolitical uncertainty keep inflation fears alive
- The benefits of the economy are unevenly distributed
- Political identity influences how people describe the current economic state

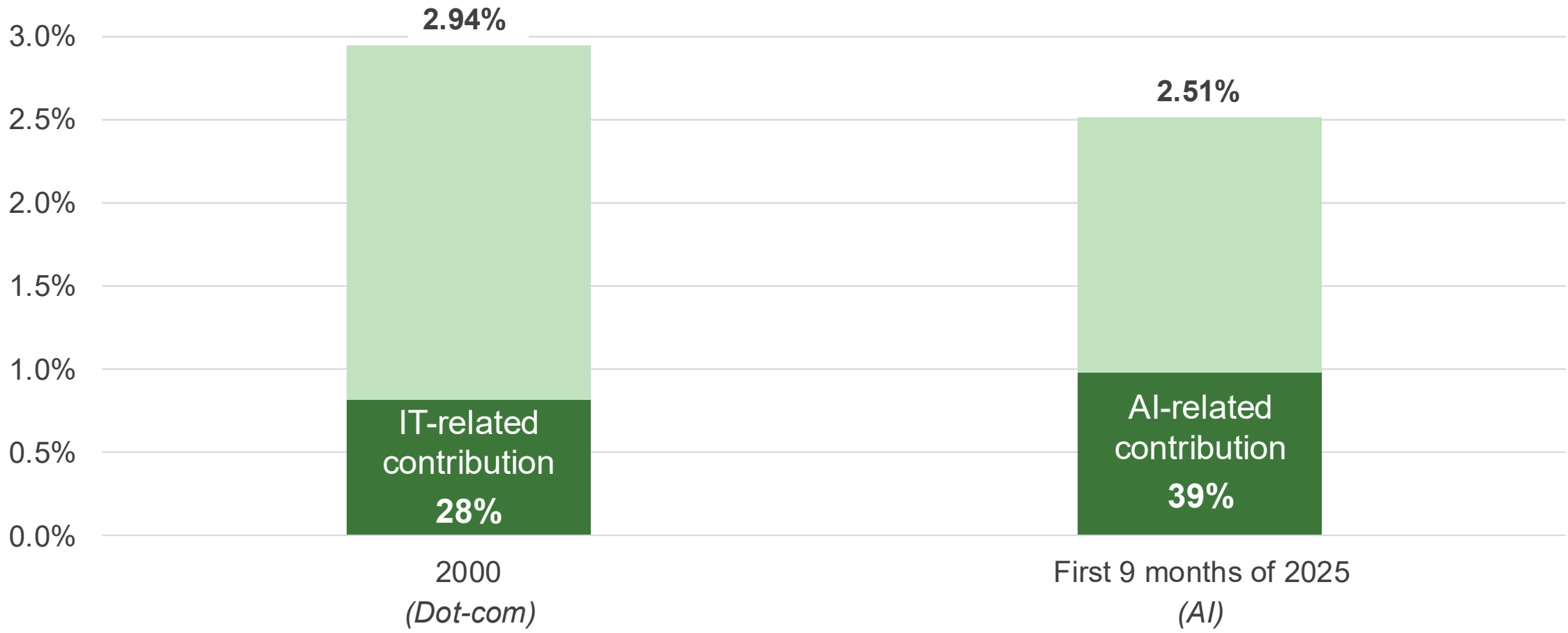
# Over $750 Billion



80%

# AI investment and GDP

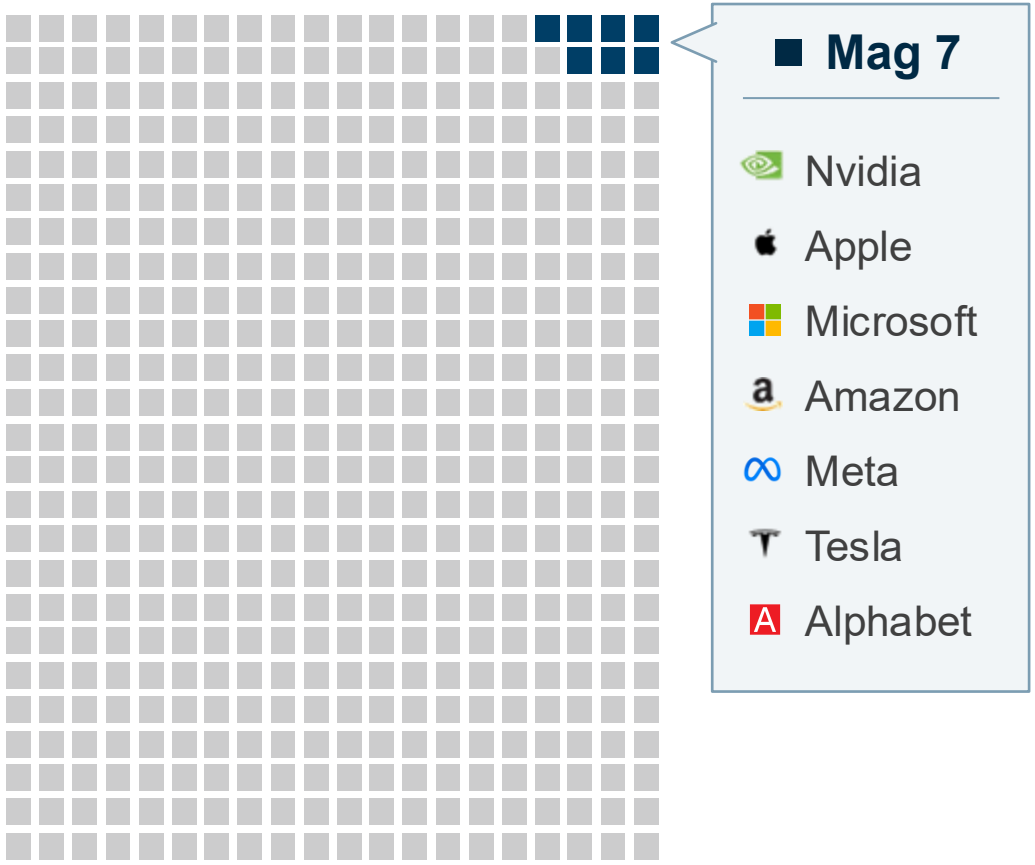
## Real GDP growth



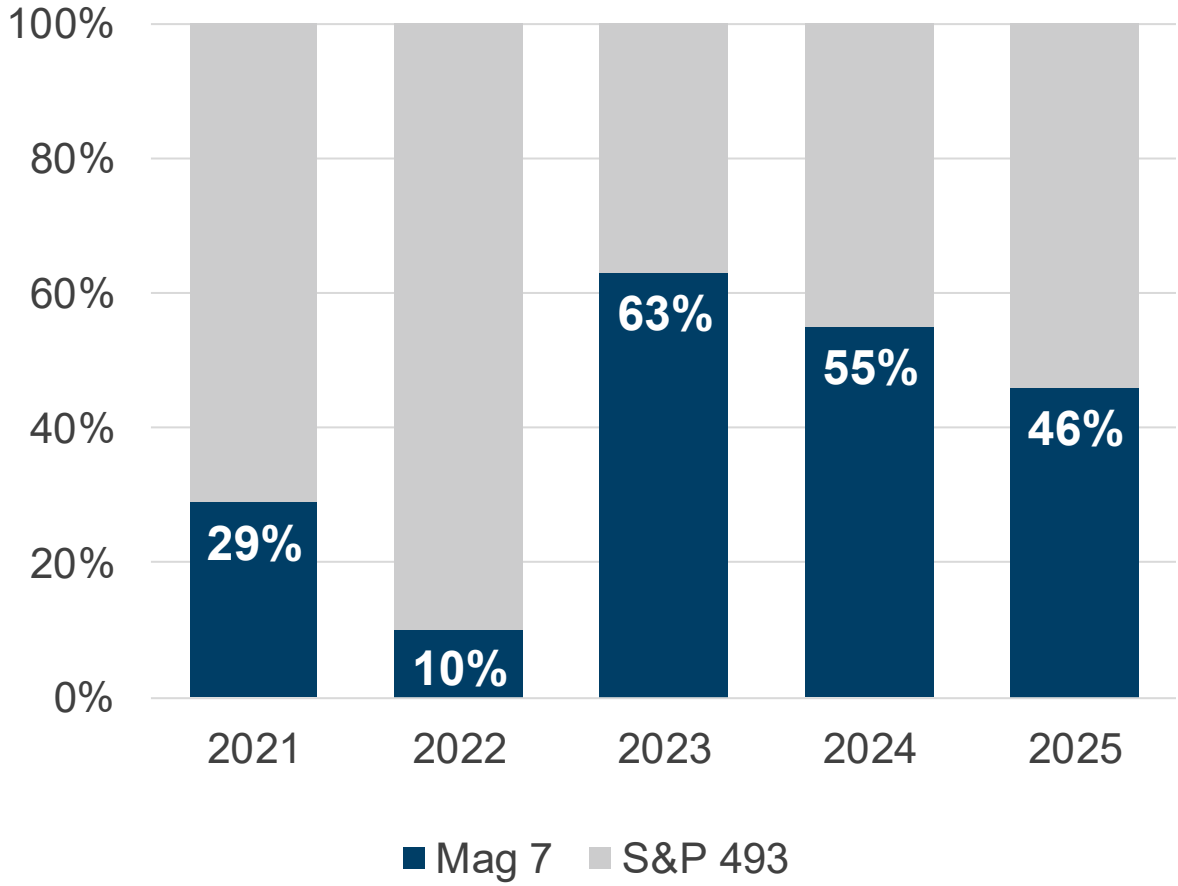

Source: St. Louis Federal Reserve

# Stock market risks increase with heavy concentration

S&P 500 companies



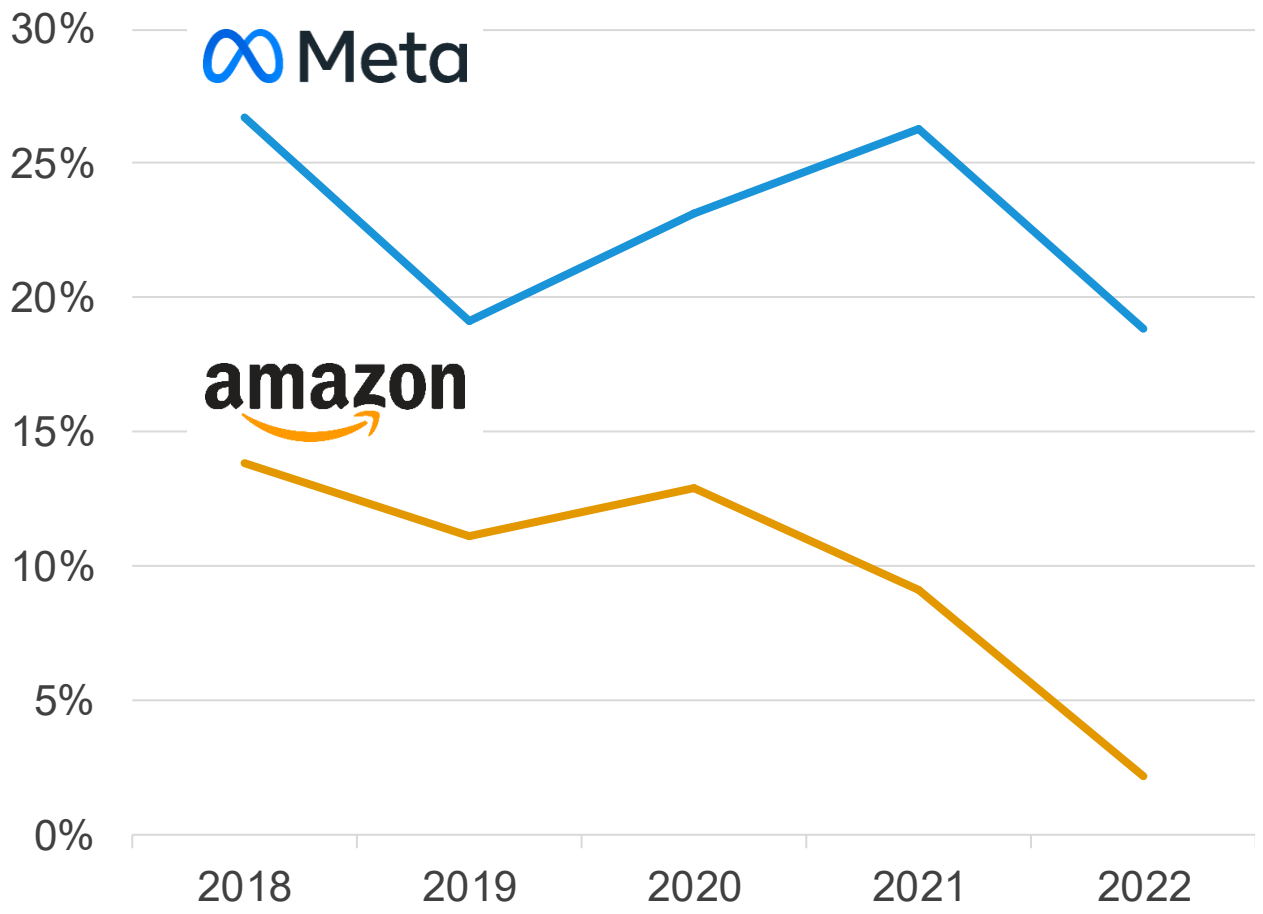

Share of S&P 500 annual return




Source: PPBF Financial Intelligence

# Destroying shareholder value

## Return on invested capital




Source: S&P Capital

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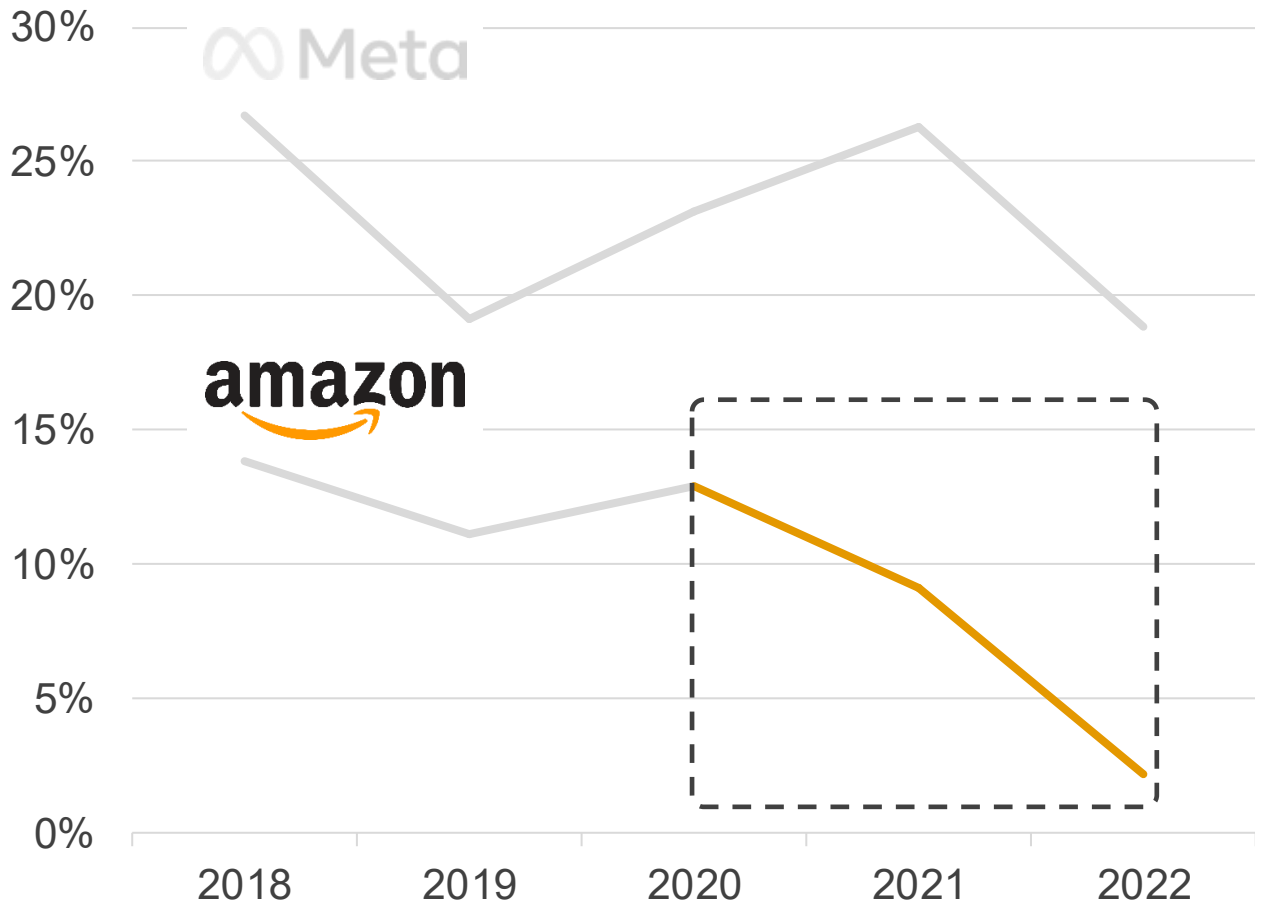


Source: S&P Capital

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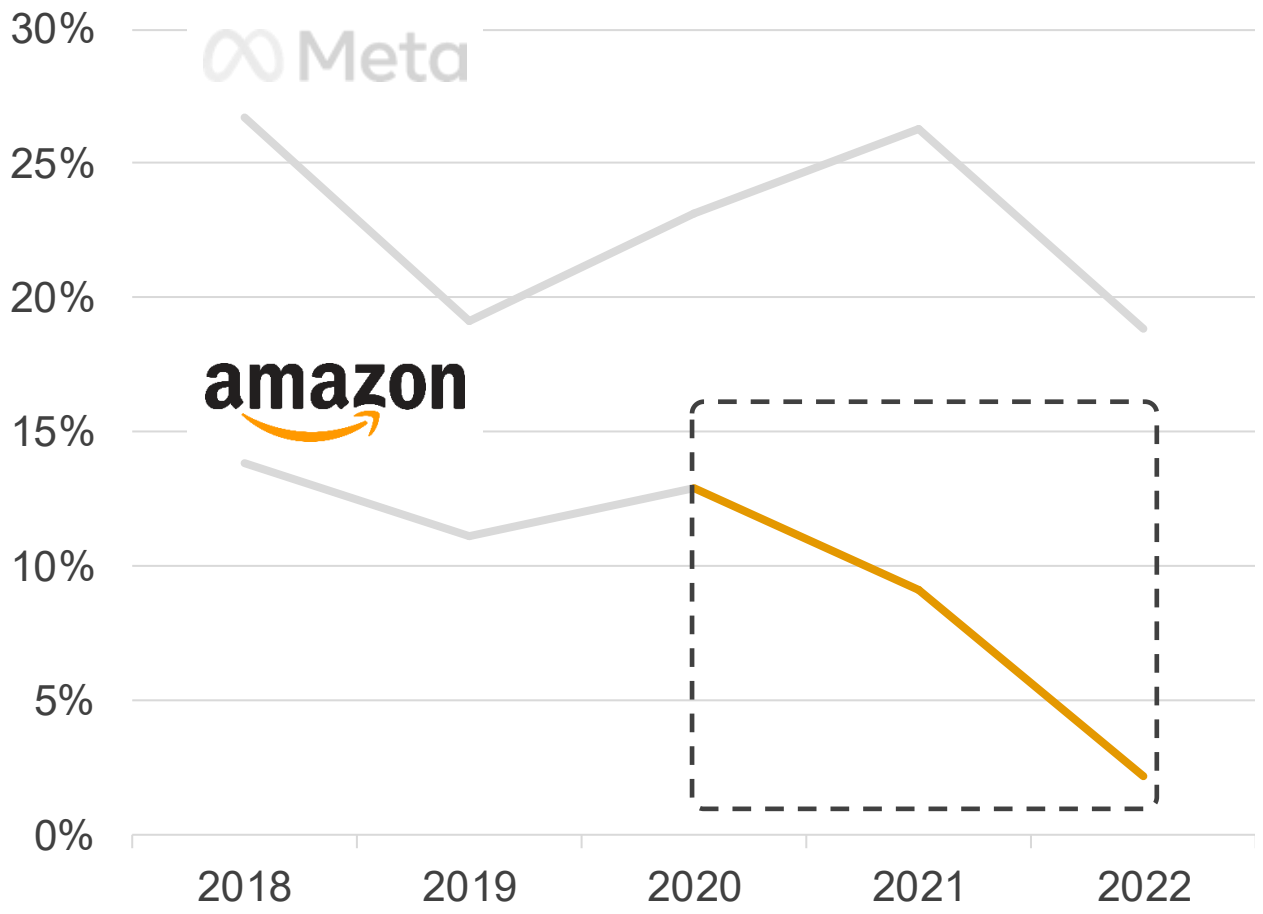

Source: S&P Capital

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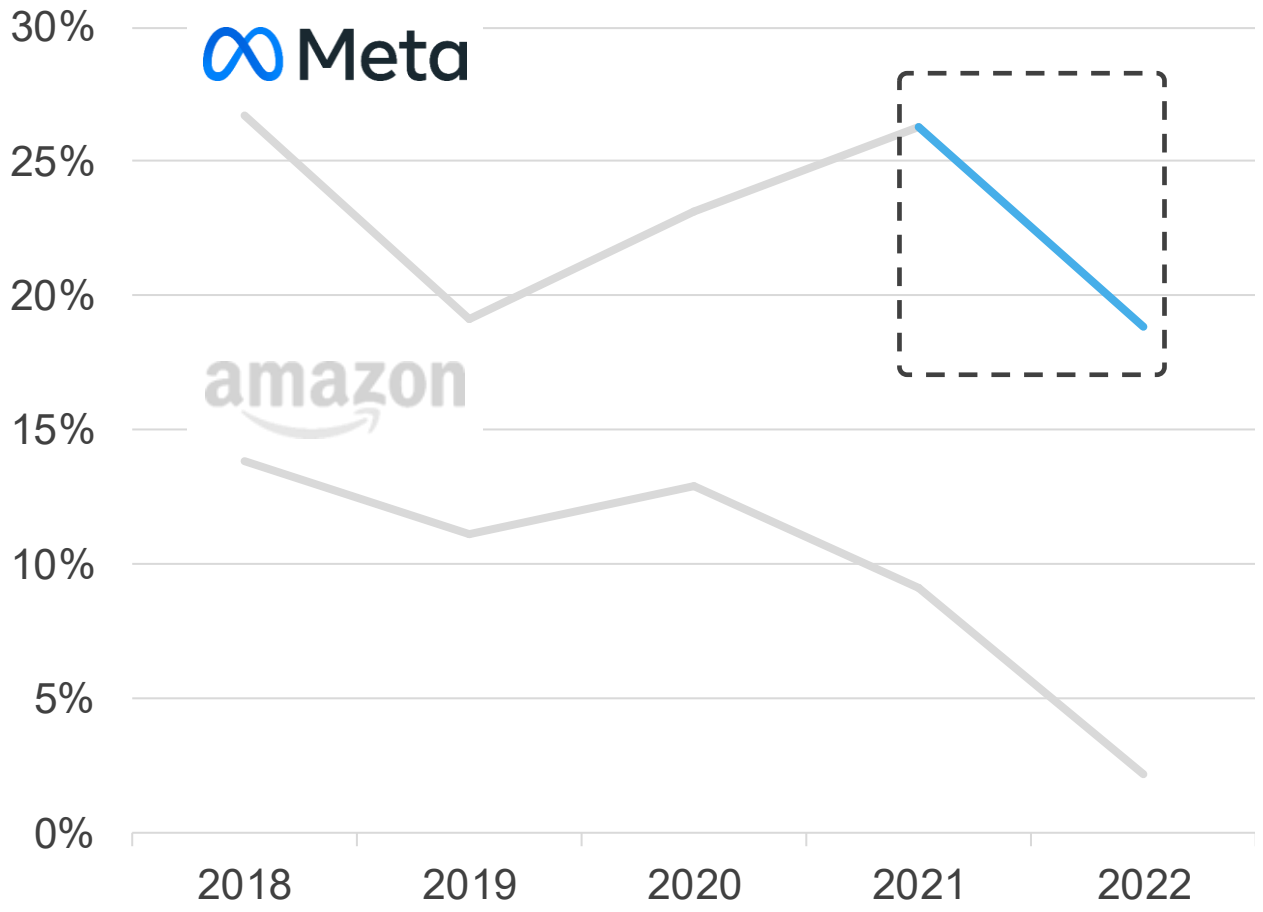


Source: S&P Capital

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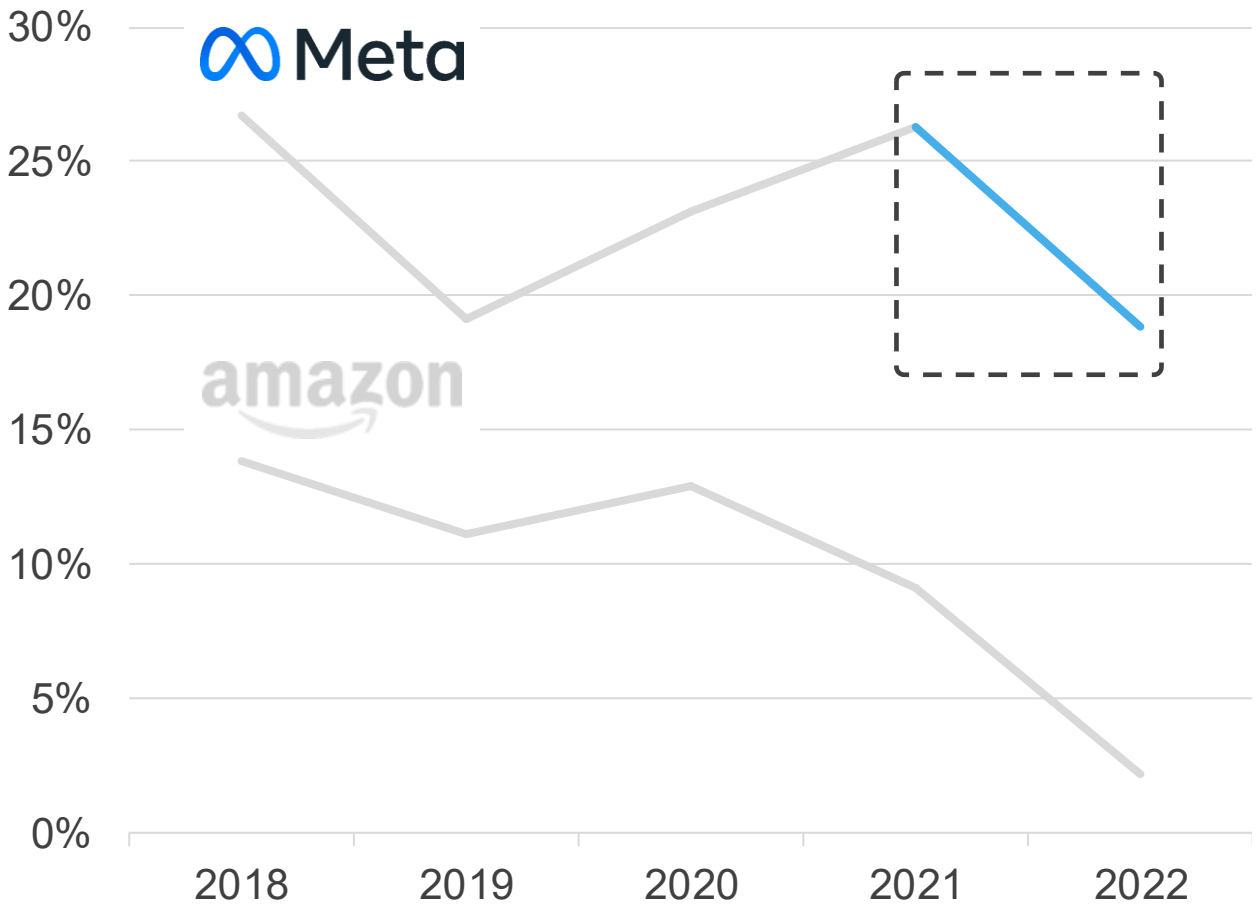
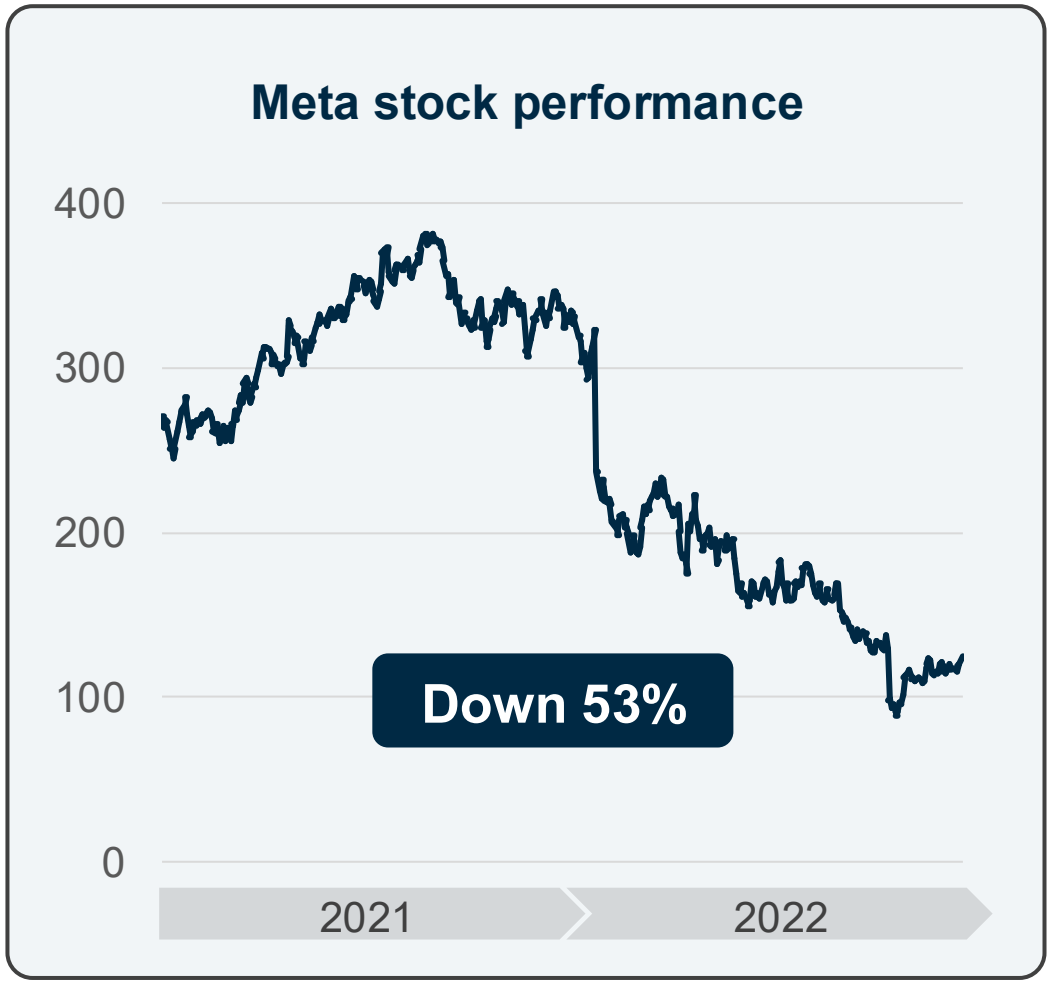
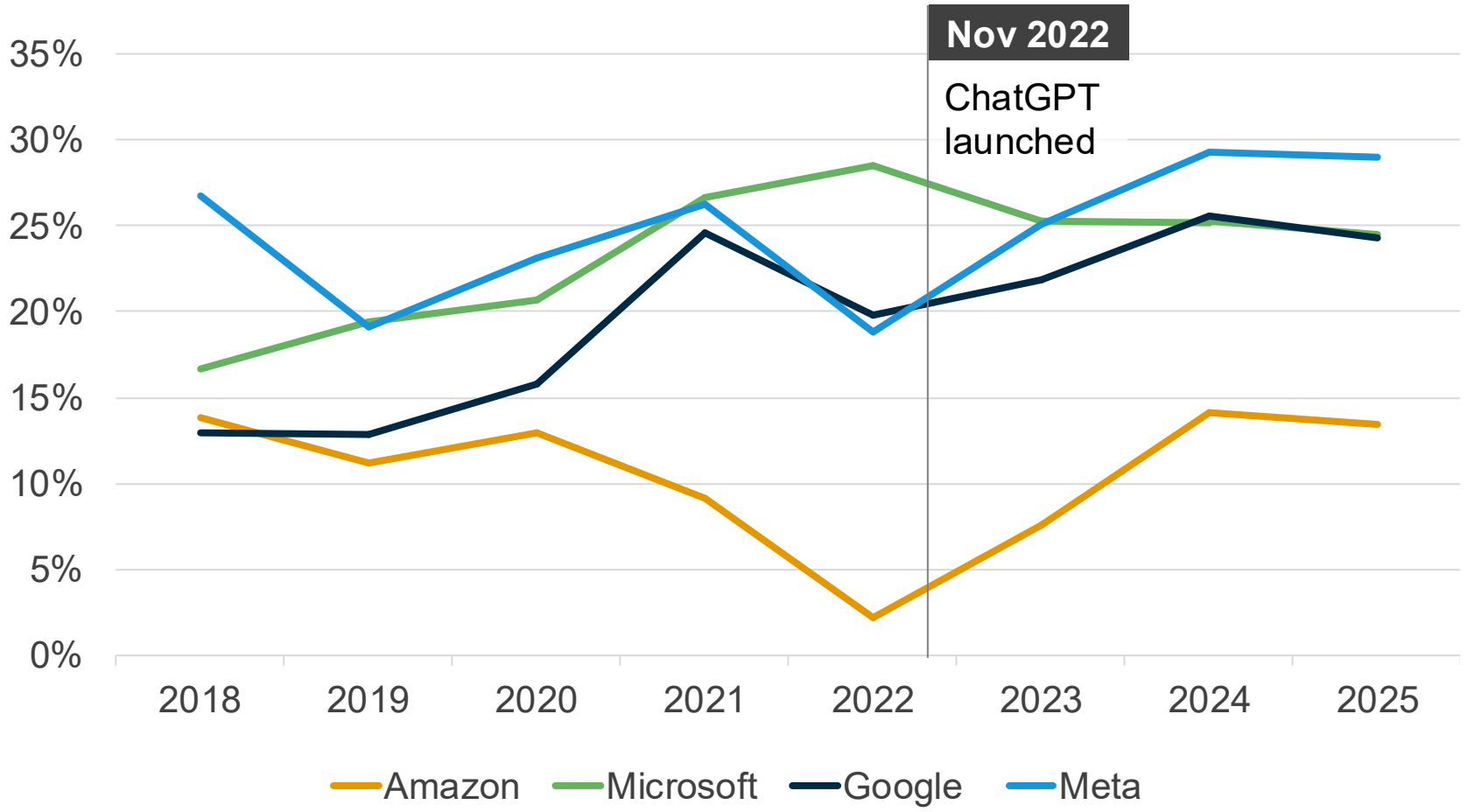



Source: S&P Capital

# Creating shareholder value

## Return on invested capital

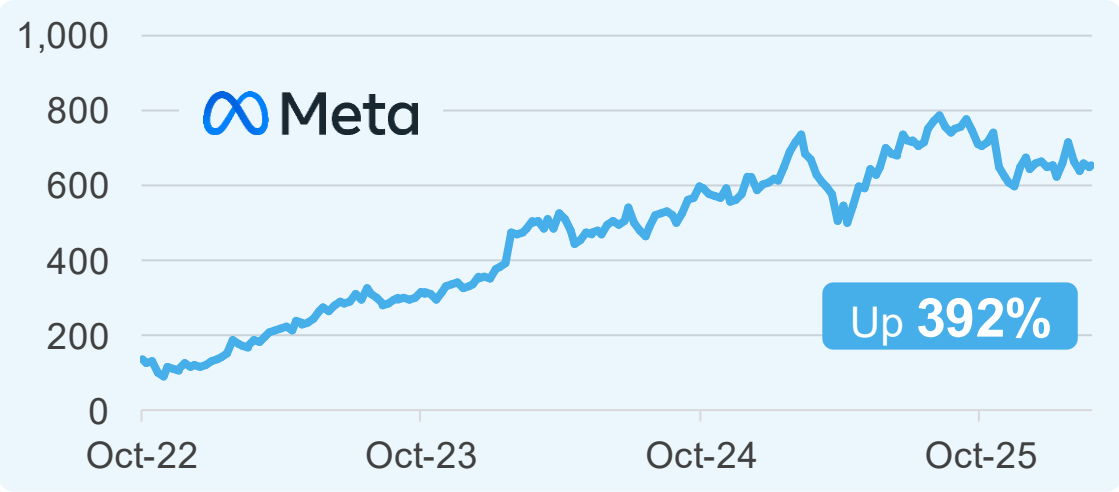


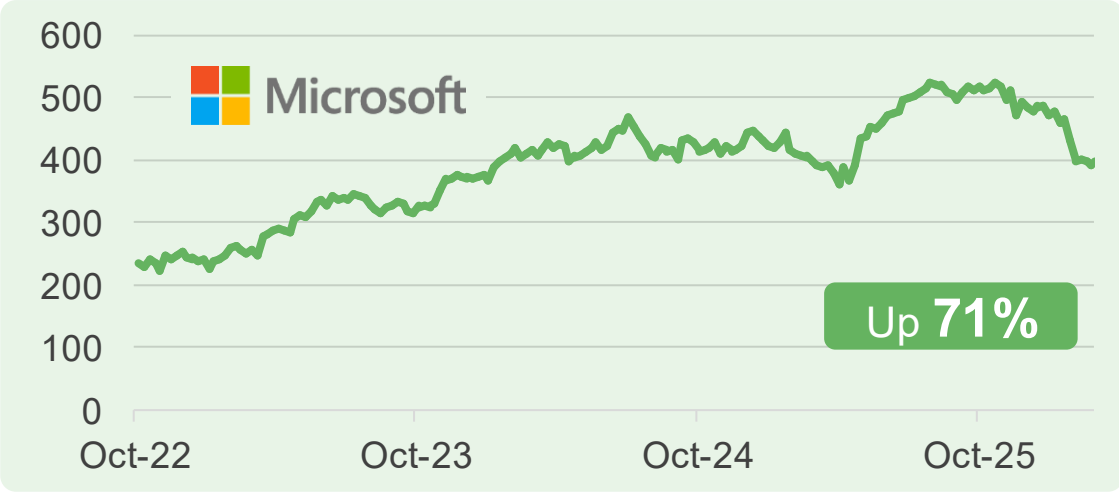

**Percent change since 2022**

| | |
|---|---|
| amazon | 550% |
| Meta | 52% |
| Google | 20% |
| Microsoft | -10% |

Source: S&P Capital

# Stock performance since ChatGPT was launched



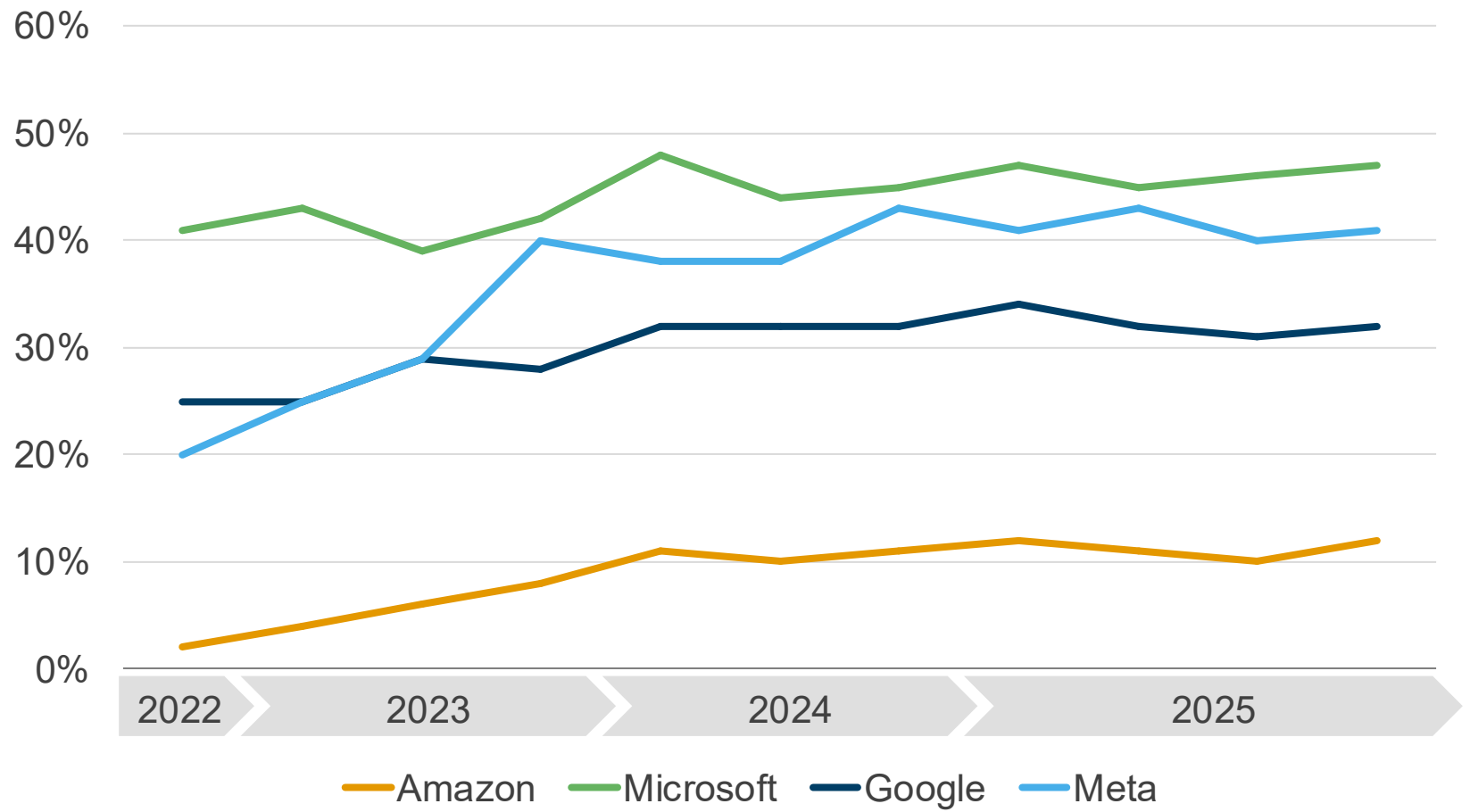



Source: S&P Capital

# A sign of things to come??

## Hyperscalers have been the first to adopt and deploy AI in their operations

### Operating income




**Percent change since 2022**

| | |
|---|---|
| amazon | 400% |
| Meta | 100% |
| Google | 24% |
| Microsoft | 12% |

Source: S&P Capital

$40 TRILLION
(and climbing...)
U.S. FEDERAL DEBT
ENTITLEMENTS
DEFENSE
INTEREST PAYMENTS
DEFICITS
OTHER
INTEREST RATES
HIGHER RATES AHEAD!
FEDERAL RESERVE
PRICE STABILITY
MAXIMUM EMPLOYMENT
CHAIR KEVIN WARSH
RAISE RATES
HOLD
CUT RATES
THE FED
UNITED STATES FEDERAL RESERVE
STABILITY
JOBS
SUSTAINABLE GROWTH

POLITICO

## US debt forecast to hit $64T in a decade as Trump policies widen deficit

Congress' nonpartisan scorekeeper predicts that the annual deficit will grow to $3.1 trillion by 2036.

FOX BUSINESS

## US debt set to crush World War II record as annual deficits explode to $3T within decade

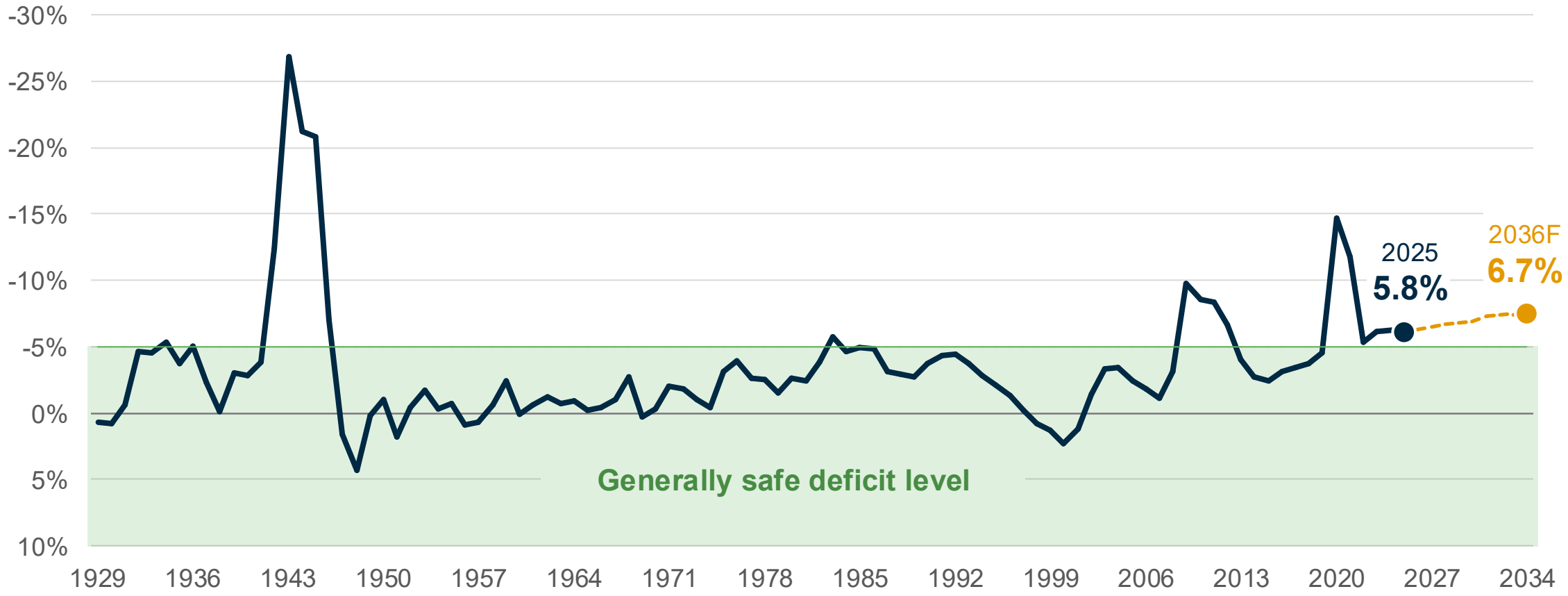
Budget watchdog projects debt held by public will climb to 120% of GDP by 2036, raising fears of fiscal crisis

FORTUNE

## $56 trillion national debt leading to a spiraling crisis: Budget watchdog warns the U.S. is walking a crumbling path

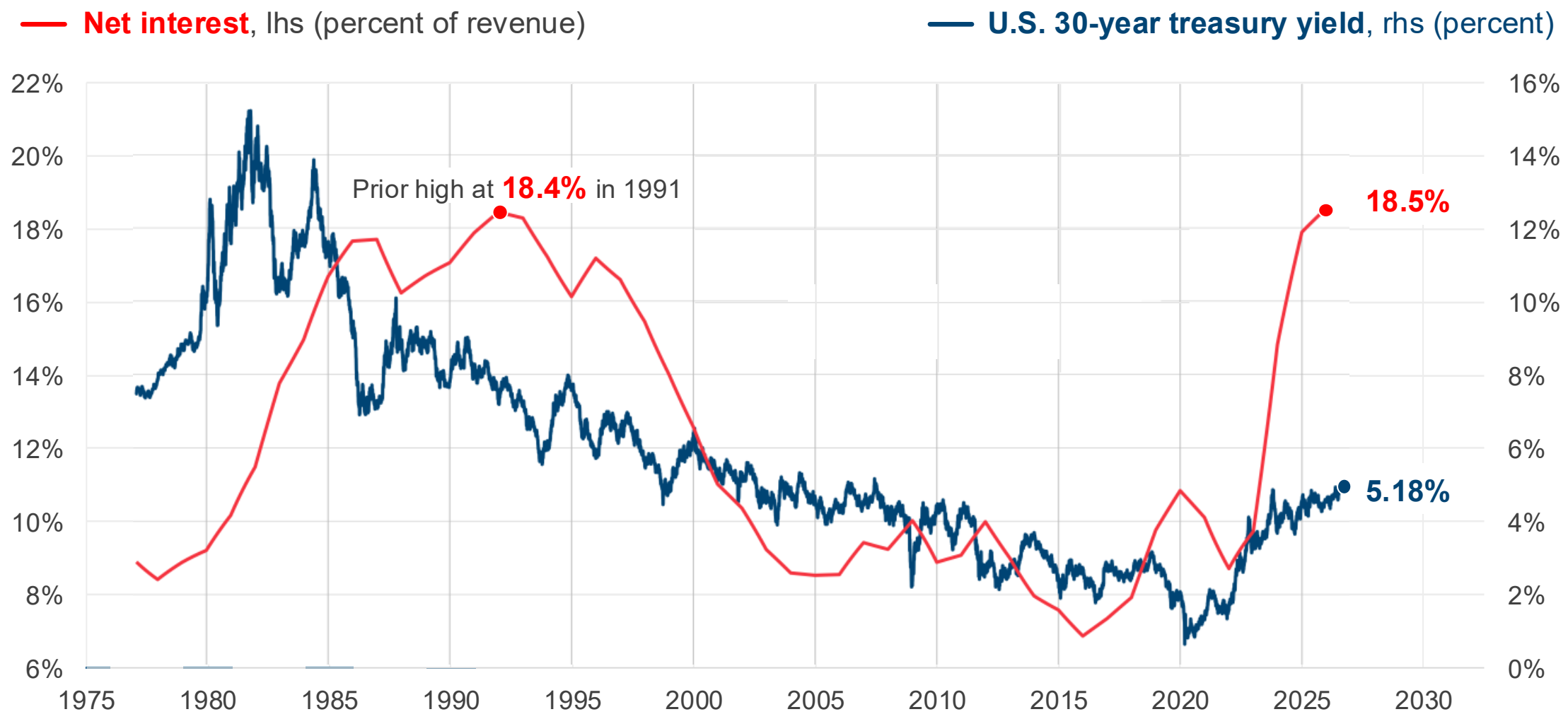
# Federal deficit already at uncomfortably high levels — and projected to climb even higher

## Federal deficit as percent of GDP



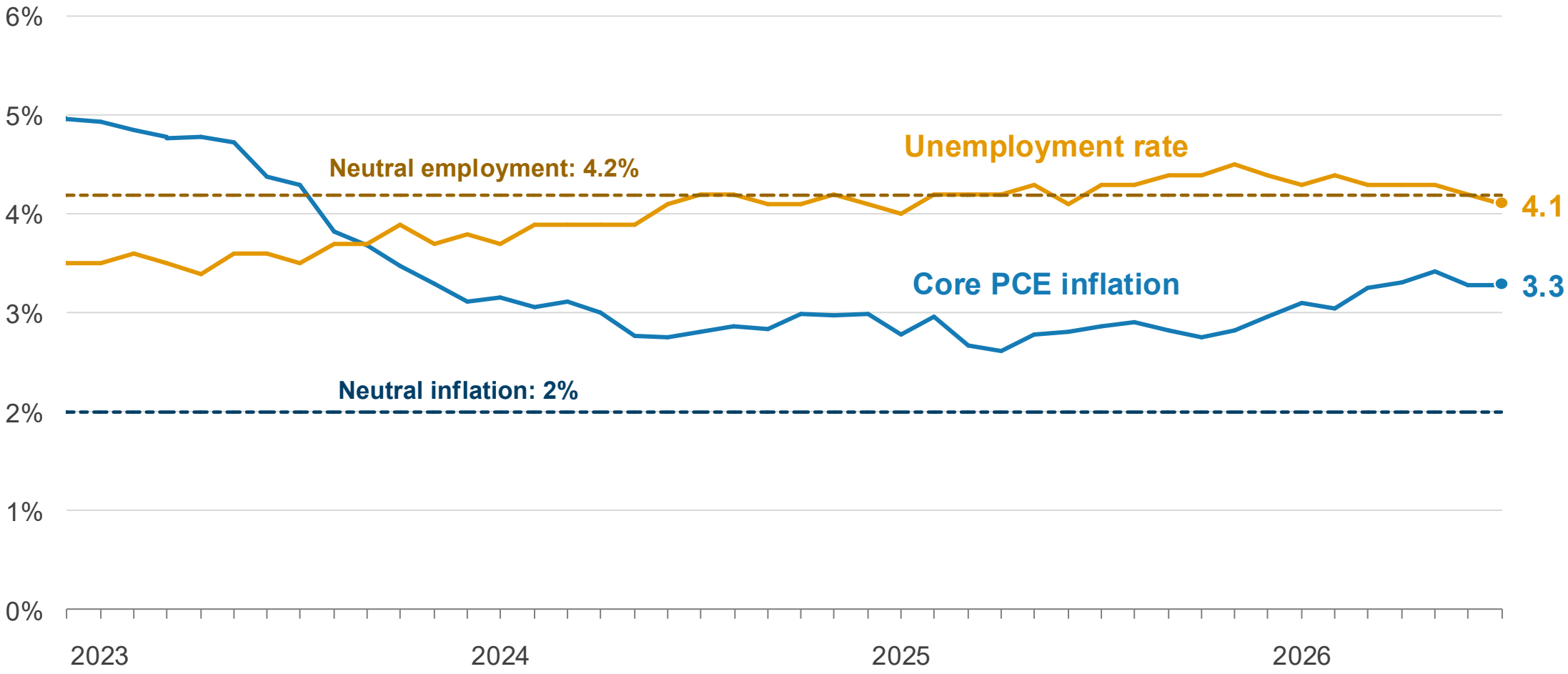

Source: FRED and Congressional Budget Office

# 30-year treasury yield vs. net interest as a percentage of federal revenue




Source: DoubleLine, U.S. Congressional Budget Office, Bloomberg, Macrobond
Net interest as of December 2025; U.S. 30-year treasury yield as of August 27, 2026.

# The Federal Reserve's congressional mandate is to maximize employment and keep prices stable




Source: FRED

Consumer spending remains strong

Bubble fears over AI investments are exaggerated

Rising deficit is creating market headwinds