

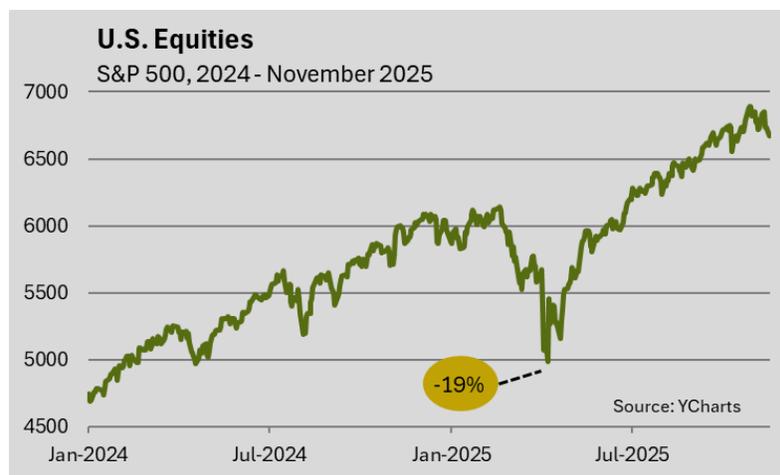
Vibecession 2.0

November 2025

Summary

In January 2024, our commentary titled “Vibecession” described a period where widespread pessimism did not match up with the relatively strong economic situation. Economic writer Kyla Scanlon coined the term, describing an environment where consumer sentiment was low while most financial indicators remained positive. It seems that this feeling of malaise exists again today.

The U.S. stock market fell by 19% early in the year due to concerns over tariff and trade policy. Over the next six months, stocks recovered to reach new highs. As of mid-November, the S&P 500 was up 13% for the year. Diversified portfolios have performed well so far, with international and emerging market stocks realizing even better performance, roughly doubling the S&P 500 return, partially due to the falling value of the dollar. With inflation remaining steady, bonds were a solid ballast during the tariff worries and reached a 6.6% return through mid-November.



Economic data has stayed relatively steady so far this year. U.S. Real GDP growth was 3.8% in Q2, inflation remains low at 3%, the unemployment rate ticked up to 4.4% in September but is still low overall, and average corporate earnings growth was 3.8%. Despite a solid economic backdrop, the widely followed University of Michigan Consumer Sentiment survey shows most of the country is quite pessimistic, with recent readings at one of the lowest levels in the last 70 years. Worries over the cost of living, political divisiveness, trade policy, job security and the impact of AI make people feel like they are in a recession even when mainstream metrics say otherwise.

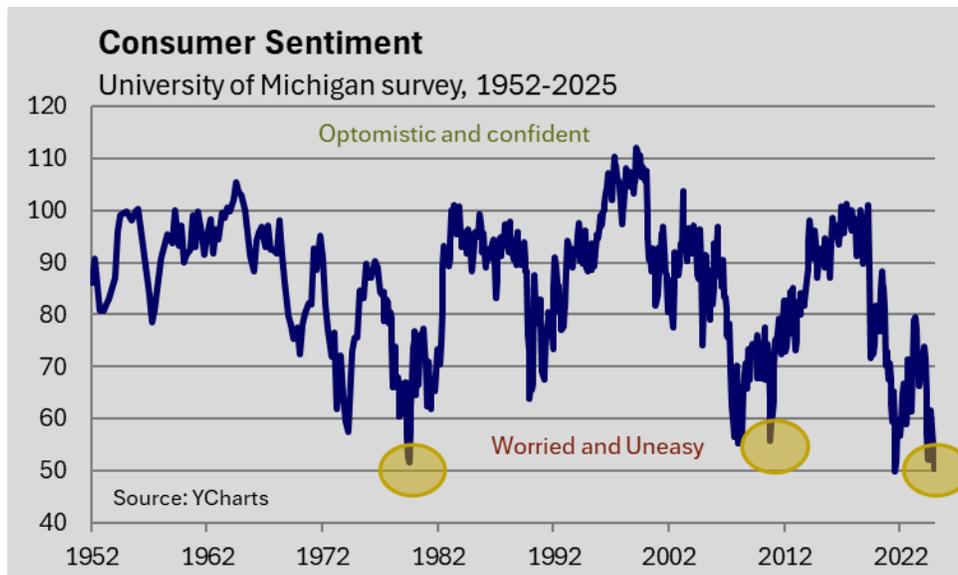
After three years of strong financial markets and months of low stock market volatility, the odds of a pullback continue to increase, lowering the risk / reward of a move to maximum equities. However, a solid economic backdrop, stimulus from the new tax bill, continued corporate profit growth, and a Federal Reserve likely to ease monetary policy indicate the potential for increased volatility but not a market crash. Accordingly, client portfolios have been rebalanced at equity levels that are slightly above their neutral positions.



You've Lost That Lovin' Feeling

The Righteous Brothers recorded “You’ve Lost That Lovin’ Feeling” in 1964, and it seems to be an appropriate analogy for how consumers feel about the current economic situation. The time when consumers felt confident about things is gone... gone... gone.

The University of Michigan publishes an index of Consumer Sentiment which measures how optimistic or pessimistic U.S. consumers are about the economy and their personal finances. High inflation pulled down consumer sentiment in 2022, but it started to recover in 2024. The November reading of 50.3 is the second lowest reading over the last 74 years! People feel worse than they did during the Great Financial Crisis in 2008, the bursting of the Technology Bubble in 2002, and the high inflation / high unemployment period of the 1970s.



Interestingly, consumer sentiment can act as a contrary indicator at times. As Warren Buffett famously noted, “be fearful when others are greedy and be greedy only when others are fearful.”

When the environment seems perfectly lined up for success, how much better can things get? As such, there is a much greater chance of disappointment. When things seem to be grim, there is plenty of room for conditions to be better than anticipated. Some financial commentators call this “climbing the wall of worry,” illustrating how markets advance when concerns about future obstacles are resolved.



Low Inflation but High Prices

Inflation started by the 2020 Pandemic has mostly returned to normal levels. The Consumer Price Index showed a year-over-year change of 3.0% in September. The reading is not far from the Federal Reserve's target of 2.0% to 2.5%, and down significantly from its recent peak of 9.0% in 2022. While inflation is down, prices are not. Notably, inflation is the change in prices, not the absolute level. Even though the rate of inflation has eased, cumulative price increases remain a major financial and emotional pressure point. While prices have stopped going up rapidly, they are still relatively high. This trend is evidenced in the price of homes, autos and bread.

Homes +48% in 5 years

In the U.S., the average home price is up 48% over the last five years. Limited inventory and strong demand have pushed home prices to record highs. The housing market has softened a bit in 2025, but prices have not fallen meaningfully. Since the cost of a home has gone up rapidly, the median age of a first-time home buyer is now 40 years old, up from 33 years just five years ago. Younger families are forced to wait longer to save money for a home or borrow money from their baby boomer parents.

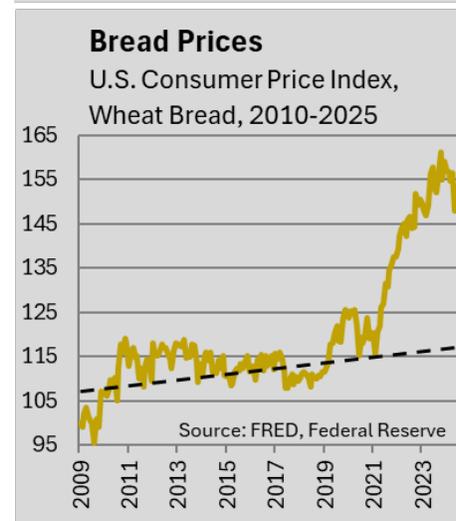
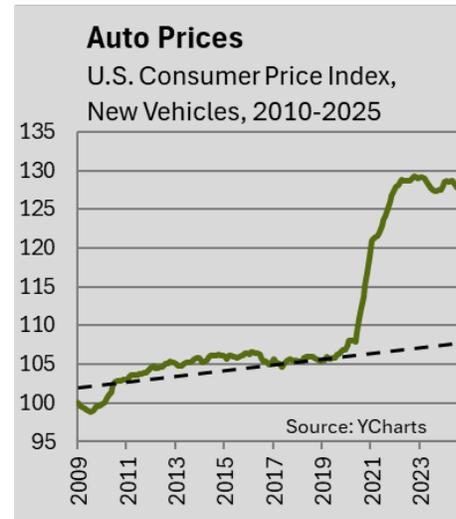
Autos +21% in 5 years

The average price of a new car was flat from 2012 to 2020, but those levels are obsolete. Kelly Blue Book reported that the average sale price for a new vehicle exceeded \$50,000 in September. High interest rates are not helping either – the average interest rate for a prime borrower is roughly 7.5%.

Bread +33% in 5 years

Food prices are perhaps the indicator seen most regularly by consumers – a constant reminder that the cost of daily living is still high. The cost of bread is up 33% over the past five years. Eggs are up 158%, and coffee is up 104%.

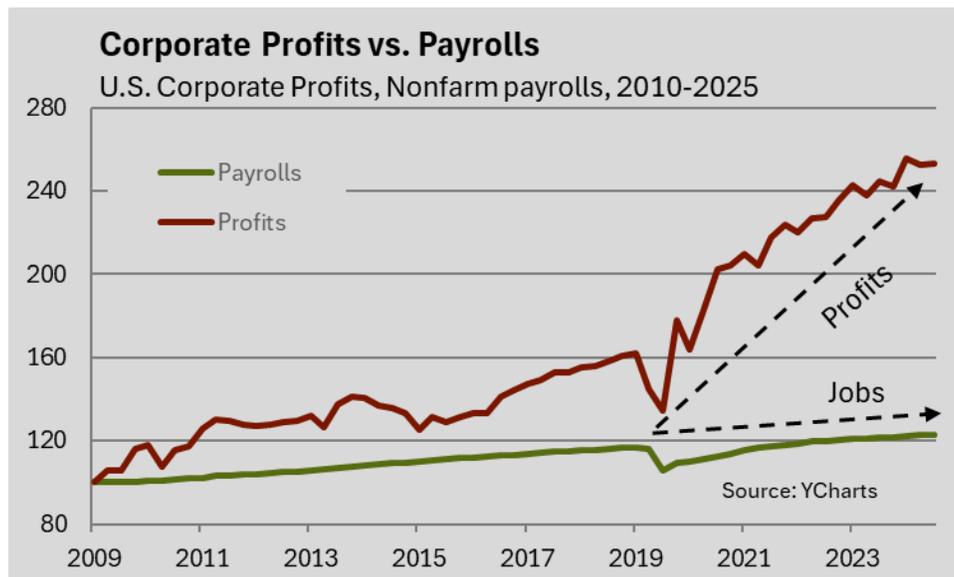
High prices for essentials like homes, cars, and even basic groceries are putting pressure on household budgets, particularly on renters and those who do not own stocks. Together, these elevated prices squeeze finances for many families and are a major contributor to poor consumer sentiment.





Jobless Profit Boom

The job market is cooling from its very robust post-pandemic levels – hiring has slowed, layoffs have ticked up in several industries, and wage growth is losing momentum – yet corporate profits remain surprisingly strong. Many companies have managed to protect or even expand margins through automation, cost-cutting, and price increases that outpaced expenses. Some journalists have called this a “K-shaped” economy due to rising corporate profits and stock prices, combined with a weakening employment picture.



This disconnect is noteworthy but not yet concerning for financial markets. While employment is soft, a “no hire, no fire” environment and vastly lower immigration rates have allowed unemployment to stay relatively low. If unemployment continues to rise, it could indicate that the likelihood of a recession is increasing.

In terms of the environment, the K-shaped economy is another reason that consumers feel uneasy. Jobs are not plentiful. The impact of AI is in headlines every day, raising further questions on the future of the job market. When you add worries about employment prospects to high prices and a rising cost of living, it is not surprising that consumers feel anxious.



AI Excitement and Bubble Concerns

Excitement around AI is prevalent as rapid advances in language models, robotics and automation unlock capabilities that once seemed futuristic. This momentum is fueled by a sense that AI is shifting from a specialized tool to a transformative platform, with applications in medicine, education and business. In addition, public fascination is growing as people imagine how AI might directly impact their lives.

Over the past year, much of the stock market strength can be attributed to surging technology stocks, often identified as the “Magnificent 7.” Stock prices of key players such as Nvidia, AMD, and Alphabet (Google) are up this year by 29%, 48%, and 90%, respectively. Such strong returns and high valuations raise the question of whether the AI buzz is creating a bubble in the overall stock market. While the high valuations are notable and worth monitoring, a correction in technology stocks seems much more likely than a crash associated with a bubble.

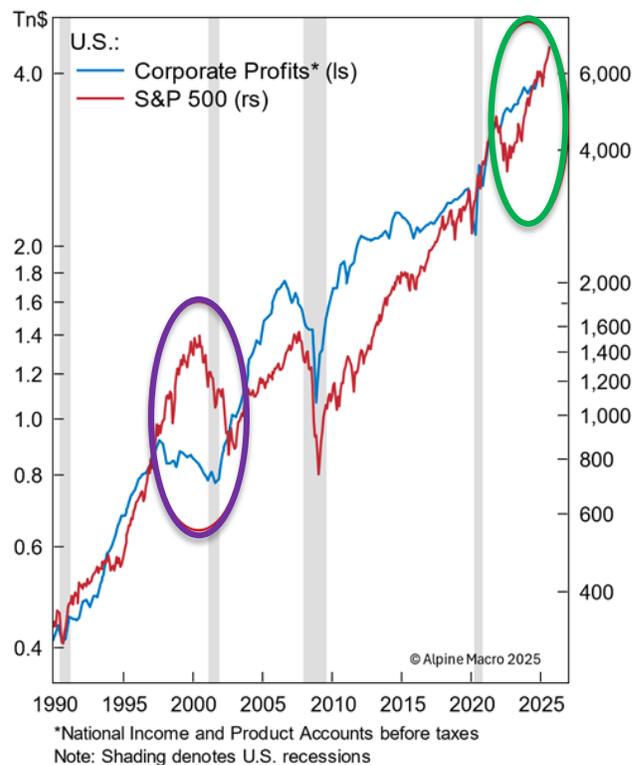
After a strong run in stock prices, news does not have to be bad to spark a pullback – just less positive than the market expected. It appears that a tech-led corrective phase in U.S. equities may be taking place, with volatility increasing over the last few weeks.

The AI excitement also conjures up memories of the 1990s technology bubble, which ended in a 50% stock market decline. While there are certainly similarities and increasing risks, the concerns about a bursting bubble are likely unwarranted. Historically, major market tops almost always require a tightening in financial conditions – something clearly absent today. If inflation remains contained, the Fed is likely to continue easing financial conditions and reducing interest rates in 2026.

In addition, the 1990s technology bubble was characterized by a divergence between stock prices and corporate profits (see chart, right, from Alpine Macro). Companies like Pets.com and Webvan saw large increases in their stock price, but the underlying business models did not generate enough revenue to cover their costs.

While both periods saw soaring stock prices from new technologies, the profit picture is quite different.

In the late 1990s (highlighted in purple), corporate profits diverged from stock prices and fell for several years. By contrast, over the past few years (highlighted in green), not only has the U.S. stock market overall seen increasing profits but technology stocks have also specifically been the main driver of earnings growth.





Final thoughts

The current economy is defined by sharp crosscurrents – growth remains solid and the stock market is near highs, yet consumers feel discouraged and worried about the future. Profound changes are reshaping both America’s trade policy and the core drivers of the current economic expansion. President Trump announced sweeping tariffs that mark the largest shift in U.S. trade policy in 100 years, and roughly 75% of the S&P 500 returns can be linked to companies focused on AI. At the same time, the vibe is off – as the gap between macro-level strength and lived experience means the positives do not register that way.

Recent political developments – and the public’s reaction to them – are rooted in frustration over the cost of living. As financial writer Josh Brown summarized, both Donald Trump and New York mayor Zohran Mamdani are opposite expressions of the same problem. Even though unemployment is still very low and the stock market is hitting new records, high prices for food and shelter are at the forefront, outweighing everything else, depressing how people feel about their situations. Josh Brown summarized the tie between poor sentiment and recent elections,

“If you’re a Democrat and you despise Trump or a Republican and feel physically ill about Mamdani, the skyrocketing costs of everything is the reason you’re in the situation you’re in. If you’re in the center and you hate both, well, same difference. Inflation brought you here.”

The Vibecession appears is back. While volatility is likely to return, we remain confident that disciplined investing and a thoughtful long-term plan continue to serve clients well.

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Managing Partner

Todd Kephart
Managing Partner

Karen Chapell
Managing Partner

John Goff
Managing Partner

Evan LeRoy
VP Wealth Advisor

Megan Flynn
VP Wealth Advisor

Lyn Breen
VP Wealth Advisor

Hank Peyser
Wealth Advisor

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