

Review of "Top Analyst Says You Weren't Crazy for Thinking the Economy Felt Worse Than It Looked the Last 3 Years. The 'Rolling Recession' Just Ended"

Introduction

I read this article yesterday, and thought a review of it was worth our time. It's one of the few optimistic outlooks I've found in the last month. In his article published in *Fortune* magazine on September 8, 2025, Nick Lichtenberg explores the thesis of Morgan Stanley's Chief U.S. Equity Strategist, Mike Wilson, who argues that the U.S. economy has been mired in a subtle "rolling recession" since 2022, explaining why many Americans perceived economic hardship despite relatively stable headline indicators like GDP growth and low unemployment rates. Lichtenberg frames this as validation for public intuition, suggesting the recession was not a dramatic, synchronized downturn but a staggered weakening across sectors, now transitioning to a "rolling recovery" as evidenced by the weak August 2025 jobs report. The piece draws heavily on Wilson's recent research note from Morgan Stanley, emphasizing how traditional economic metrics masked underlying pain, and posits an optimistic outlook for a bull market fueled by Federal Reserve rate cuts.

Summary of Key Arguments

Lichtenberg begins by contextualizing recent grim economic headlines, particularly the August 2025 jobs report, which added only 22,000 nonfarm payroll jobs—far below economist expectations of around 76,500—and included downward revisions to prior months' figures, signaling a near-collapse in hiring amid rising inflation and layoffs. Wilson interprets this not as the onset of a new recession but as confirmation that the "rolling recession"—a period of sector-specific downturns dating back to 2022—has reached its bottom and is shifting to recovery. He contends that headline statistics, such as nominal GDP and broad employment numbers, have overstated economic health because they aggregate data across unevenly affected industries.

The article details the mechanics of the rolling recession: Unlike a classic recession with widespread contraction, weakness "rolled" from pandemic-era winners (e.g., technology and consumer goods) to other sectors like manufacturing and housing, preventing sharp spikes in unemployment or GDP drops. Contributing factors included post-pandemic

immigration surges (later curtailed by enforcement), which distorted labor signals; persistent negative median earnings growth across the Russell 3000 index for much of three years; and supply-chain disruptions that eroded consumer and corporate confidence. Wilson highlights April 2025—dubbed "Liberation Day" by the White House following President Trump's announcement of broad reciprocal tariffs—as the inflection point, where leading indicators like earnings revisions breadth showed a "V-shaped" rebound, payroll revisions peaked negatively, and job cuts began declining.

Looking ahead, Lichtenberg relays Wilson's bullish projection: The Fed's ongoing rate cuts (initiated with a 100 basis point reduction last summer in response to labor weakness) will catalyze an "early cycle environment," powering a new bull market that began in April 2025 and extending into 2026, provided policy remains supportive. The article underscores alternative metrics—earnings growth, confidence surveys—as superior gauges of economic health, arguing classical models failed due to the asynchronous nature of the downturn.

Analysis and Additional Research

Lichtenberg's piece effectively popularizes Wilson's nuanced view, which aligns with established economic theory on rolling recessions. A rolling recession occurs when downturns affect specific sectors sequentially rather than the economy as a whole, allowing aggregate indicators to remain resilient while individual industries (and consumers) suffer. This concept, first gaining traction in the early 2020s, was notably applied to the post-COVID era by analysts like those at U.S. Bank and the World Economic Forum, who noted contractions in housing, manufacturing, and retail amid expansions in tech and services. Wilson's application to 2022–2025 is supported by data: For instance, median corporate earnings growth was indeed negative for most Russell 3000 firms during this period, contrasting with S&P 500 gains driven by a few mega-caps. Recent research from IndexBox corroborates the sector-by-sector slump, identifying a trough in April 2025 coinciding with tariff announcements.

Additional research validates the August jobs report as a potential turning point. The Bureau of Labor Statistics (BLS) confirmed the anemic +22,000 payroll addition, with only healthcare (+31,000) showing significant growth, while revisions shaved 80,000 jobs from prior months—echoing Wilson's pro-cyclical revision thesis. This weakness prompted market bets on aggressive Fed easing, with futures pricing 5.5–6 cuts through 2026, aligning with Wilson's view that monetary policy will underpin recovery. Broader outlooks from Deloitte and the Conference Board project U.S. GDP growth rebounding to 2.5–3% in 2026 post-Fed cuts, though tempered by tariff-induced inflation and slower consumer spending. The International Monetary Fund (IMF) similarly upgraded global growth forecasts to 3.0% for 2025, citing U.S. resilience amid policy shifts.

The "Liberation Day" tariffs add a policy layer: On April 2, 2025, President Trump invoked the International Emergency Economic Powers Act (IEEPA) to impose a 10% tariff on all imports effective April 5, framing it as a "reciprocal" measure to address trade deficits (e.g., 67% on China, 40% on the EU, though not strictly matching foreign rates). While Wilson credits this as the recovery catalyst by boosting domestic confidence and earnings guidance, additional analysis reveals mixed impacts: Tariffs have spurred manufacturing reshoring but raised input costs, contributing to the inflation uptick noted in the article. Vanguard economists highlight this as a key watch area, warning that while supply-side boosts (e.g., immigration normalization) aided recovery, tariff escalation could cap growth below pre-2025 levels.

Wilson's recent podcast and notes reinforce the article's thesis, with him stating the jobs slowdown "signals a bottom, not a recession," and projecting S&P 500 upside in cyclicals like industrials and financials. This optimism is echoed in Seeking Alpha coverage, where Wilson's "hidden recession" narrative is seen as prescient, potentially missed by traditional models.

Critique and Limitations

While Lichtenberg's article is accessible and timely, it leans heavily on Wilson's perspective without much counterbalance, potentially overstating the recession's end. No direct criticisms of Wilson's thesis emerged in recent searches, but broader economic forecasts temper the bull market hype: The Treasury's July 2025 statement noted Q2 growth resumption but flagged "modest headwinds" from tariffs and labor softening, projecting only modest acceleration. Critics of rolling recession analyses, like those from Ramsey Solutions, argue such frameworks can downplay systemic risks if sector recoveries desynchronize further—e.g., if tariff-driven inflation prompts Fed hawkishness. Additionally, the article's focus on corporate metrics (e.g., Russell 3000 earnings) may underemphasize wage stagnation for lower-income households, where real median earnings fell 2–3% annually amid inflation, exacerbating the "felt worse" perception beyond what Wilson quantifies. Future data, such as September's jobs report, will test this transition; if revisions continue negative, it could validate skeptics viewing August as prelude to stagflation rather than recovery.

Overall, the article succeeds in demystifying economic dissonance, backed by Wilson's data-driven insights and corroborated by official reports. It serves as a compelling case for why intuition often outpaces aggregates in a fragmented economy, though readers should monitor Fed actions and tariff effects for the projected "strong finish" into 2026.

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