THOUGHTS FROM THE FRONTLINE

Revisiting Muddle Through

By John Mauldin | September 05, 2026

It's Labor Day weekend, and my goal with this letter will be to not interrupt your long weekend too much. But there are some things that are happening that are important. My basic thesis for quite some time has been that we are in a Muddle Through Economy, which I've always meant that to me the GDP will grow slightly south of 2% over time. For 25 years, that has been the case. Is it time to revisit the Muddle Through world? Let's look at some of the data and try to get a feel for what the next few months and even quarters looks like.

A Solid Labor Report*

On its face, the BLS labor report today was quite solid. There are a few minor caveats that should be noted, but overall this was the best report we've seen in some time.

Quoting from Barry Habib at MBS Highway (source Morning Update) from his morning update:

> "The Bureau of Labor Statistics (BLS) released its August jobs report, showing 162,000 jobs were created, well above estimates of 58,000. Adding to the strong report were positive revisions to the previous two months totaling 55,000. Notably, July was revised from a negative -23,000 20 positive +21,000, accounting for most of the revision.
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> "While today's BLS report was strong across the board, it does not jive with the other labor market reports from ADP and Revelio. BLS includes government, so in order to compare apples to apples, we have to look at the BS private payroll figure, which was +127,000. That compares with +38,080 p.m. post 37,000 in Revelio - clearly some big disparities.
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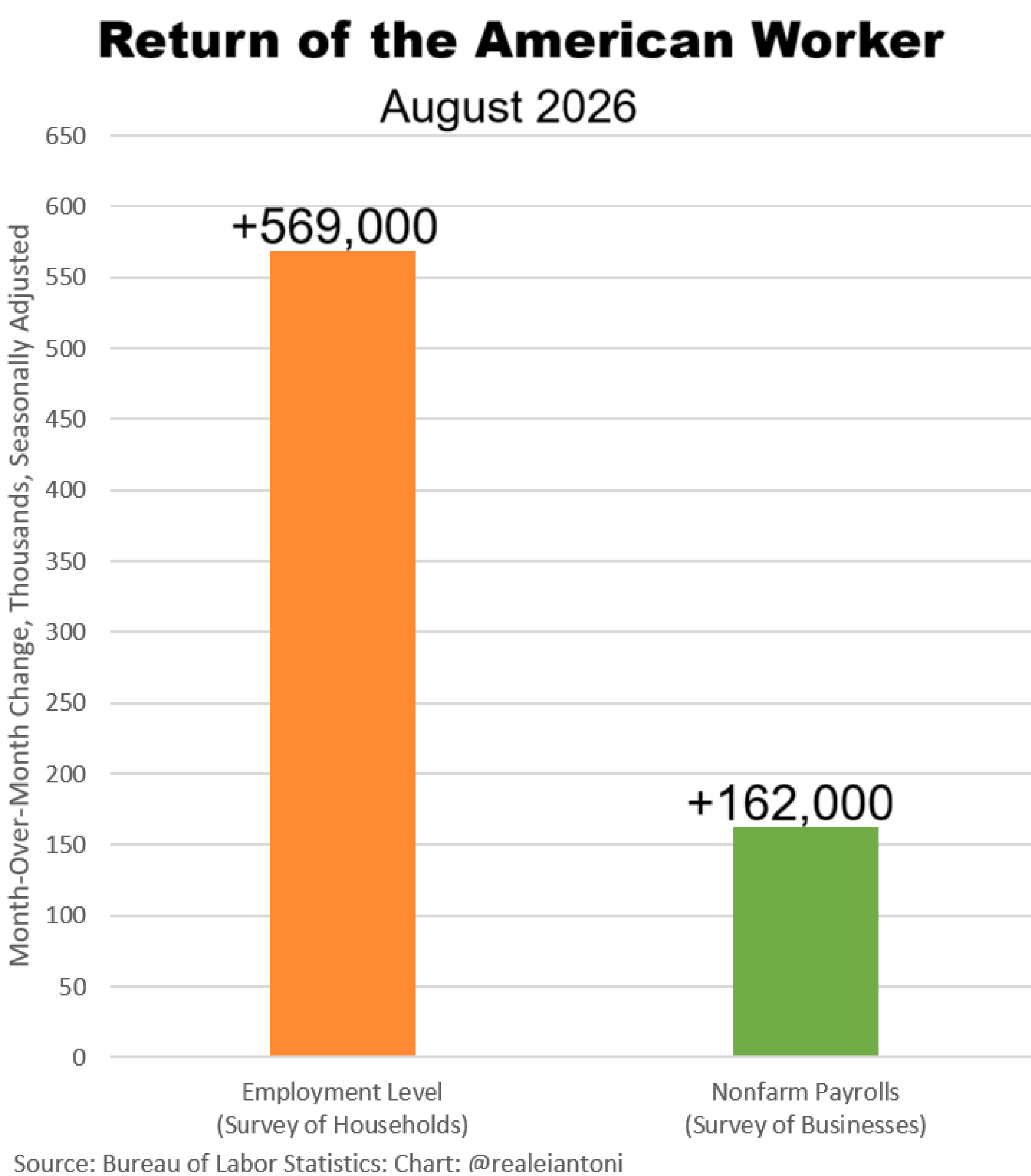
> "Additionally, the BLS said there were 74,000 jobs created from the birth/death model, which tries to capture small business job growth that compares with zero job growth in small businesses in ADP."

While most of the press and markets focus on the establishment survey, there were things in the household survey that were outstanding. From my friend [Steve Moore](#):

> "But the big number that jumps off the page is the return of the American worker. After many months of troubling declines in the workforce (one million missing workers) from the peak last year, in August we saw a complete reversal. According to the household survey, 683,000 more workers entered the workforce and 569,000 of them found jobs and started earning a paycheck. The labor force participation rate rose. Data center construction is one of the major drivers of new employment."



This is a most welcome outcome. And with unemployment at only 4.1%, that bodes well. At some point we will get some serious analysis of how the large influx of illegal immigrants messed with the jobs numbers and now with both government and self-deportations, the number of workers in the US is dropping and it's clearly, at least for this past month, finally showing up in the participation rate. That participation rate has been making a lot of us very concerned.

Beige Book Blahs

Peter Boockvar does an outstanding job of summarizing the Federal Reserve Beige Book, which is a look at the business climate in the 12 Federal Reserve districts. There were some good parts, but a lot of it was just "blah." Kind of a perfect description of Muddle Through. First some good parts:

> "While we know data center CapEx is massive, the upper income spender is robustly spending and the US government is flowing $2 trillion of more money into the economy than it's taking in via taxes," this is the flipside:
>
> "…the net economic result still seems around 1.5-2% (of GDP) when listening to the Fed's Beige Book describe it: "Economic activity increased modestly since early July. Ten of the twelve Federal Reserve Districts reported growth in the slight to moderate range; two Districts reported no change. The labor market sounded blah, "Employment rose very slightly overall, with three Districts showing modest gains in employment, four reporting slight gains, and five Districts experiencing no change."

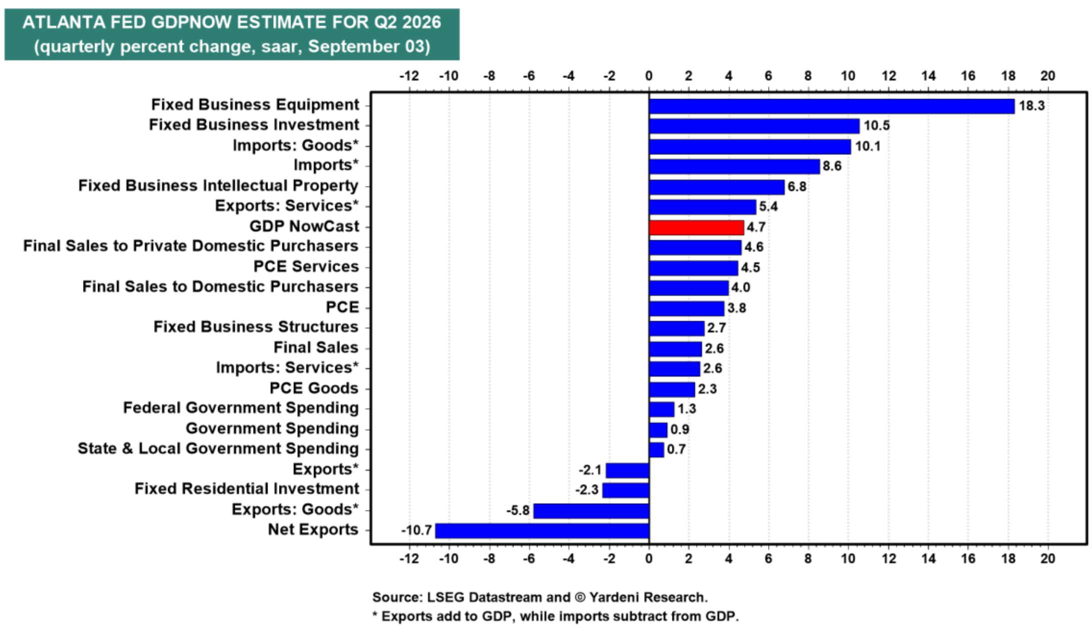
That's the overall economic climate in the US. But then when you listen to or read the corporate earnings reports, it seems like a different world. One company after another is simply blowing their earnings out. The stock market is within a hair of its all-time highs as I write this morning. Yes, you can find sectors within the market that are struggling. But overall, investors shouldn't have much to complain about.

I pay a lot of attention to the funding of pension funds. I have written about underfunded pension funds in the past with some degree of concern. The data I'm looking at now (with some stupid state decision-making exceptions) shows that a rising market has cured a lot of those under-funded problems.

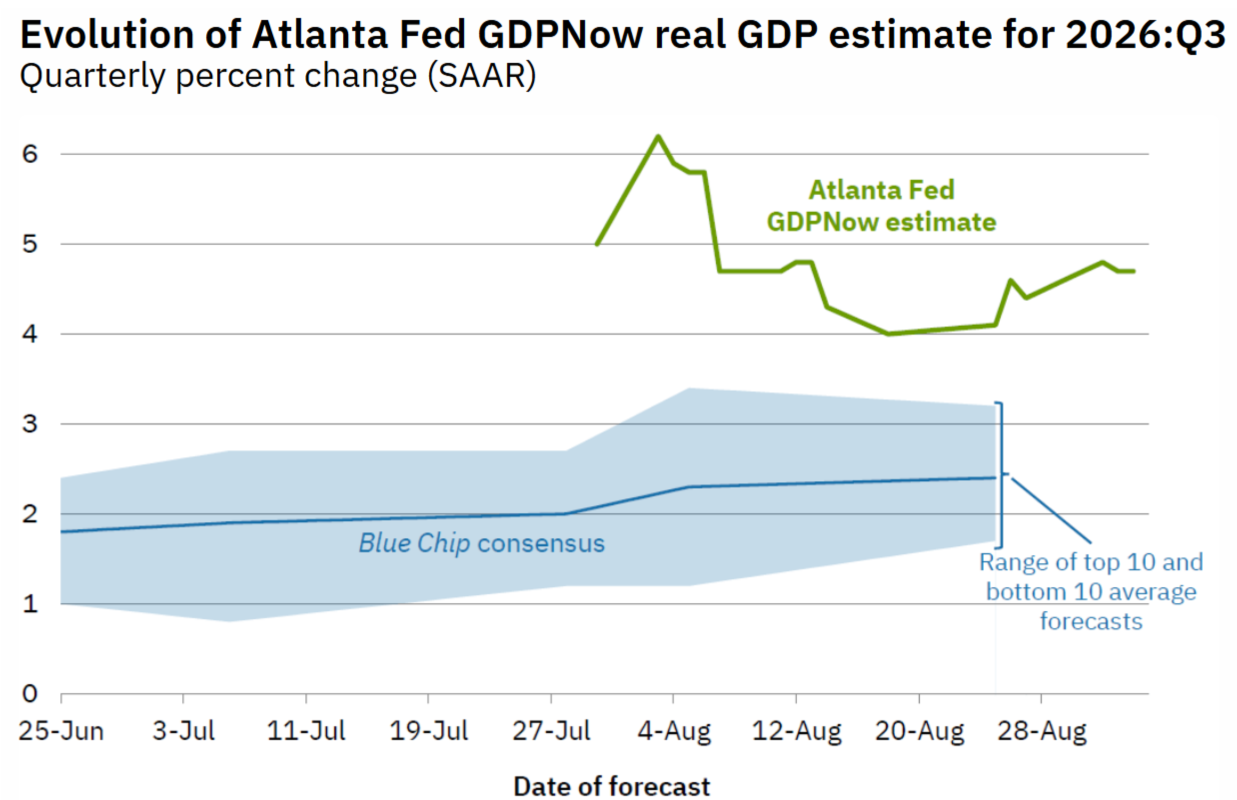
The Bullish Argument

For quite some time, we've been able to go to [Dr. Ed Yardeni]() for the bullish argument on stocks and the economy. He wrote last night:

> "Earnings are strong because the economy is booming. The Atlanta Fed's GDPNow model is projecting real GDP growth of 4.7% (saar) in Q3 (chart). Consumer spending is expected to rise 3.8%, while AI-driven business investment remains strong, with equipment spending projected to increase 18.3% and intellectual property investment 6.8%. Final sales to private domestic purchasers are running at 4.6%."



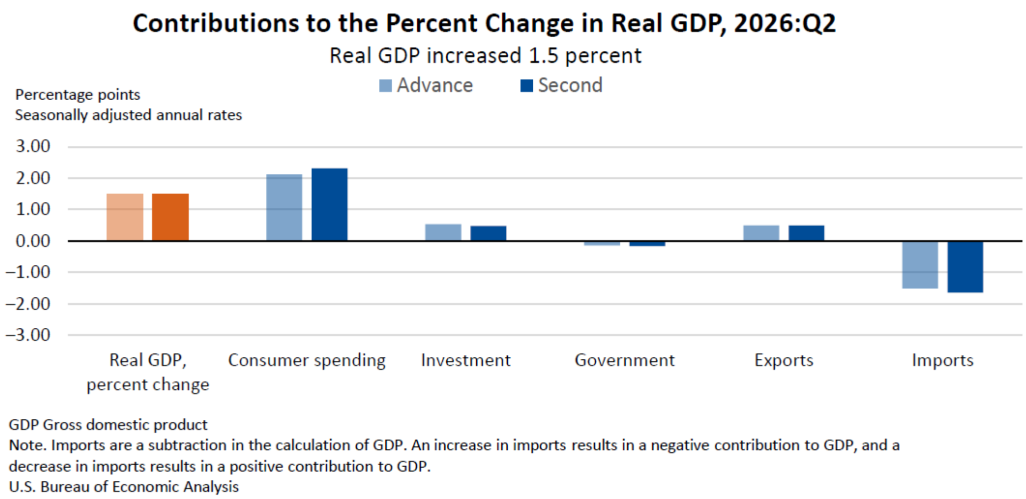
Ed mentioned the Atlanta Fed GDPNow, which gets revised almost once a week as new data comes in. Notice the difference between the blue-chip economist assessments and the Atlanta Fed. That is not unusual, and sometimes it can be the other way when the consensus is more bullish than the Atlanta Fed. But this is widespread.



Source: [GDPNow - Federal Reserve Bank of Atlanta]

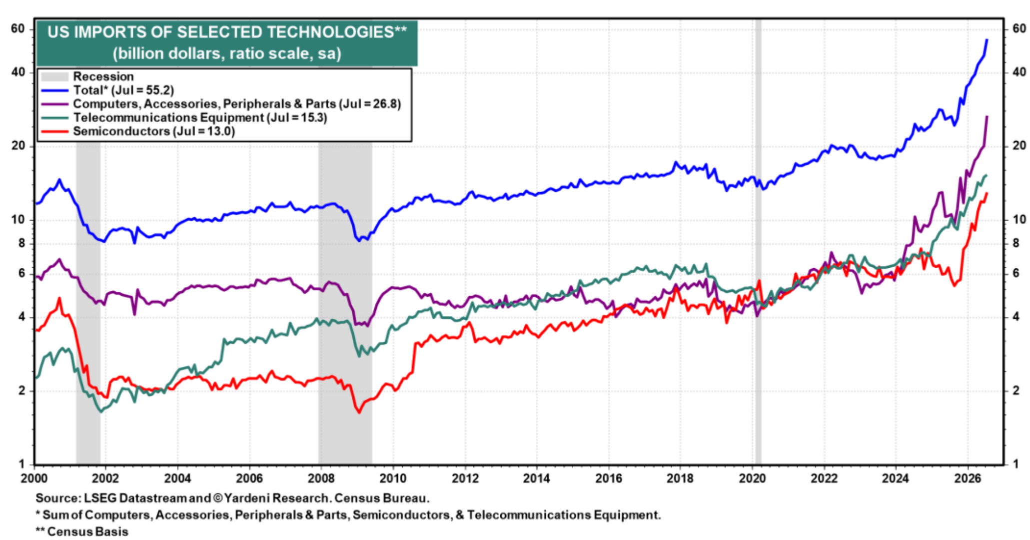
Trade Deficits and GDP

In the mathematics of figuring out how much the economy grows, exports increase GDP and imports decrease GDP. In the second quarter, the BEA estimated that the US grew 1.5%. It would have been comfortably in the high 2%'s, except that imports were roughly 1.3%.



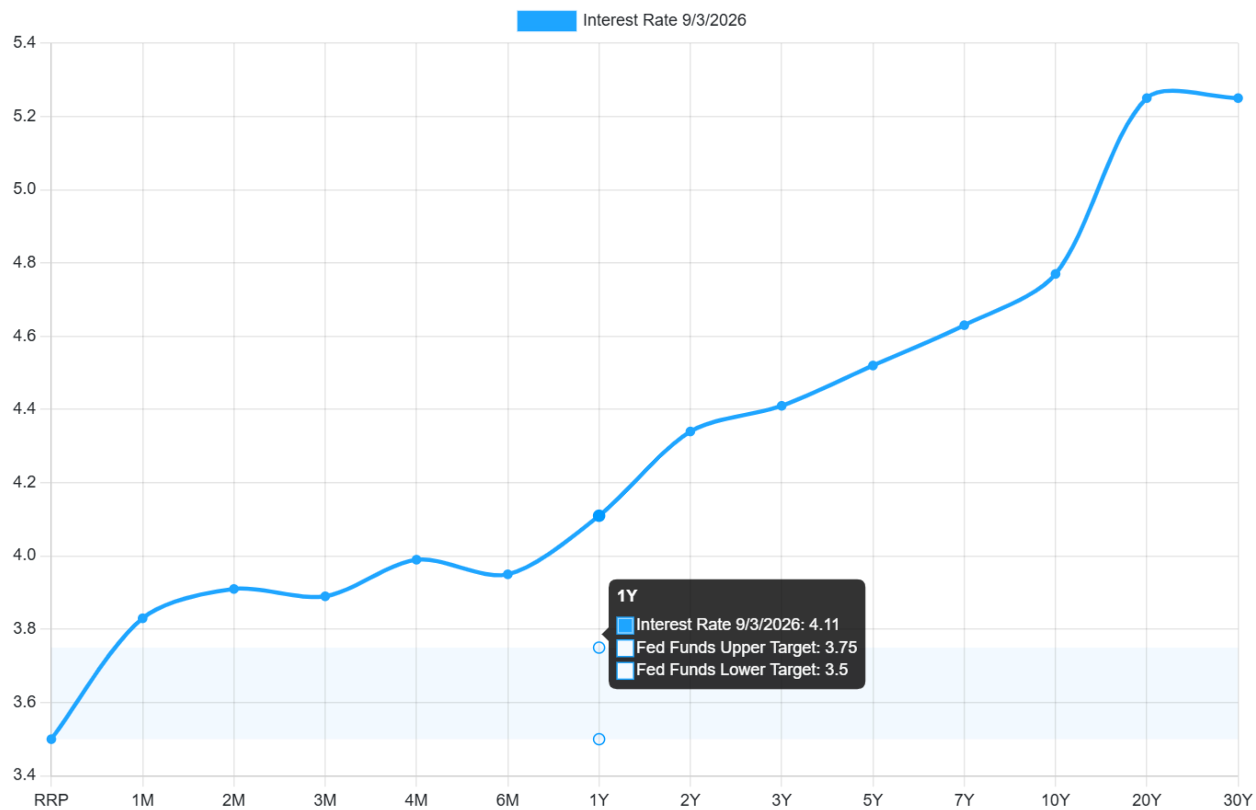
Source: [*Bureau of Economic Analysis, U.S. Department of Commerce*]

Ed Yardeni points out that much of the trade deficit has widened as US imports of computer hardware, components, and accessories soar amid the AI building boom (chart below). In the chart, notice how each of the individual AI data center components is literally showing enormous increases over the last year. Data centers giveth and data centers taketh away.



A Few Thoughts on Interest Rates

Let's start with the chart below. This is as steep a yield curve as we have seen for some time.



Source: US Treasury Yield Curve

Long-term government interest rates are rising all over the world and not just in the US. So are mortgage rates. Even Japan has long term rates at close to 3% and they are signaling they will raise rates, which will help their currency stabilize.

We got a relatively hawkish Jackson Hole speech from Kevin Warsh. The odds of a rate increase in the September meeting rose slightly, after the BLS labor report. But it is still only in the 60% range.

My personal opinion is that Warsh would clearly like to raise rates at the September meeting, but I don't know if he has the votes. Unless we get a shockingly low CPI next week, I still think he will have a bias to raise rates.

The problem is what I have talked about for quite some time. Do you really want to be seen as raising rates, and signaling the beginning of a rate hike cycle, immediately in front of an election, general or midterm? Typically, that's just not done.

After the midterm, I think we will be seeing rates increase. I don't see how Warsh raises rates in front of the midterm election with a 7-5 or an 8-4 vote. There needs to be some more consensus in an election year at a minimum yes or. Will we get it? This will say a lot about how much of a consensus builder Kevin Warsh is.

Seriously, the economy is growing about the same as it has from the last two decades: a nice, solid Muddle Through. The great fly in the ointment is inflation.

As I have repeatedly said, inflation was triggered by monetary policy under Powell, but I think the response now is geared toward fiscal policy.

I read that Andrew Ross Sorkin said rising rates mean that investors are worried about getting their money back from the US government. I would give a caveat in there that no serious bond investor is worried about whether they will get a dollar back for their bond investments from the US government. What they are legitimately worried about is what that dollar will be worth? Inflation at 3.9% can erode a lot of value.

Ultimately, the bond market and U.S. Congress spending is going to collide, with what could be explosive results.

In the meantime, enjoy your Labor Day weekend.

New York, DC, The Cleveland Clinic and More

I will be in New York Tuesday evening for meetings all day Wednesday and then fly back to San Juan Thursday. I know I will be in DC November 10. I will be in Cleveland on October 11 for Nancy and Mike Roizen's shared 80th birthday party.

I want to thank so many readers for their very kind words about my daughter Abbi. I was really impressed with the neurosurgeon (Dr. Gene Barnett) and his team that will be handling Abbi's upcoming brain surgery on November 5. We have as good a team as we could have. The surgery is very difficult in that the benign tumor is growing and located in the center of her brain. A combination of multiple MRI real-time scans, AI and robotics allows them to do these surgeries. Literally, the AI says take this cell and not that cell. We are in such a phenomenal world that this surgery is even available. Five years ago? The prognosis would've been much worse.

It was a rather somber week for me, as the funeral I attended caused a lot of reflection. I will turn 77 next month. Even as we get more good news on the longevity front, it's a race that I want to win, and I know a lot of you do too.

At the barbecue party at Joe Lonsdale's, I talked to several Republican activists who were not as optimistic as I would've thought about the possibility of Ken Paxton being elected Senator from Texas. He is going to need to raise a lot more money. With control of the Senate being in the balance, it seems a lot of Republican donors are very angry that John Cornyn is not on the ballot. I understand as the senator is my friend.

That being said, I'm going to stick to my long-held tradition and not make that many comments about politics as I know my readers are all over the board, and you read me for the economics and finance, not politics.

And with that, I will hit the send button. You enjoy your Labor Day weekend, hopefully with family and friends.

Your getting ready for the gym,

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