December 2025

Bell Institutional

ECONOMIC OUTLOOK

The University of Michigan Consumer Sentiment Index, around since the late 1940s, is intended to measure consumer attitudes about personal finances, general business conditions and market prices. The history of this index goes back to 1978 on my Bloomberg terminal, and over that time, the lowest point recorded was 50 in June 2022 and coincided with a 9% inflation rate. The most recent reading, released on November 21, was 51 – the second lowest reading since 1978, despite a widely hailed drop in inflation. What's the deal?

My read is that inflation remains the issue. As economists note the drop in inflation from 9% three years ago to 3% today, they fail to translate what this actually means for consumers. An item (let's say a cordless drill set) that cost $100 in June 2020 would have risen to $105.40 a year later if the annual inflation rate (5.4% at the time) were applied to the initial cost. Over the following year, the inflation rate rose to 9%, meaning that the drill set cost $114.89. By June 2023, there were cheers when inflation declined to 3% - but prices for the consumer went still higher, and the drill set was now priced at $118.33. The inflation rate in June 2024 was still 3% and cheered as stable, but the price of our cordless drill had climbed to $121.89. Finally, as some celebrated the decline in the annual inflation rate to 2.7% as of June 2025, consumers would have to pay $125.17 for the same cordless drill set they might have purchased for $100 five years ago.

From the consumer's perspective, there has been very little to celebrate about inflation.

By the numbers, average income earned is 23.5% higher than 5 years ago. As measured by the consumer price index (CPI), inflation is 25.1% higher than 5 years ago. Rent is 27.8% higher, and the price of a house is 55% higher (the house cost analysis in our September Outlook suggested much of this cost increase may be self-imposed by expectations about what a house needs to be these days). In short, costs outpaced incomes.

The current inflation rate is above the Federal Reserve's 2% target, with little indication that it is headed lower. Reducing the fed fund rate in December risks putting upward pressure on inflation. On the other hand, jobs are getting harder to come by, and the unemployment rate is rising. Reducing the fed fund rate could help create more jobs. >>>

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This is the paradox faced by the Federal Reserve. Should they leave the fed fund rate where it is to help get inflation under control, but risk rising unemployment? Or should they reduce rates to potentially keep unemployment from growing, but risk rising inflation?

In *Star Trek II: The Wrath of Kahn*, Spock adapts a quote from philosopher Jeremy Bentham in saying, “The needs of the many outweigh the needs of the few.” From this perspective, the Fed would look to keep rates unchanged, since everyone is affected by rising inflation – and relatively few are affected by rising unemployment. Neither rising inflation nor rising unemployment is a good outcome, but the Fed’s decision on December 10 will tilt the table one way or the other.

We will be here to evaluate the impact and incorporate it into our modeling and portfolio management decisions.

Thank you very much for your business and confidence in Bell.

Greg Sweeney is the Chief Investment and Economic Strategist at Bell Institutional Investment Management. He guides the investment strategy, and this outlook is his perspective on the latest market trends and what they could mean for investors. Any views, strategies or products discussed in this article may not be appropriate or suitable for all individuals and are subject to risks.