

Special Commentary — July 29, 2025

## Spirits Stirring: ASI Shows Signs of Life

### Summary

- The Animal Spirits Index (ASI) returned to positive territory in June (0.09) after three consecutive months of negative readings.
- Every component contributed positively to the index in June, with the exception of the Consumer Confidence Index.
- Economic policy uncertainty weighed heavily on the ASI in Q2, and we expect it to further shake consumer sentiment in coming months.

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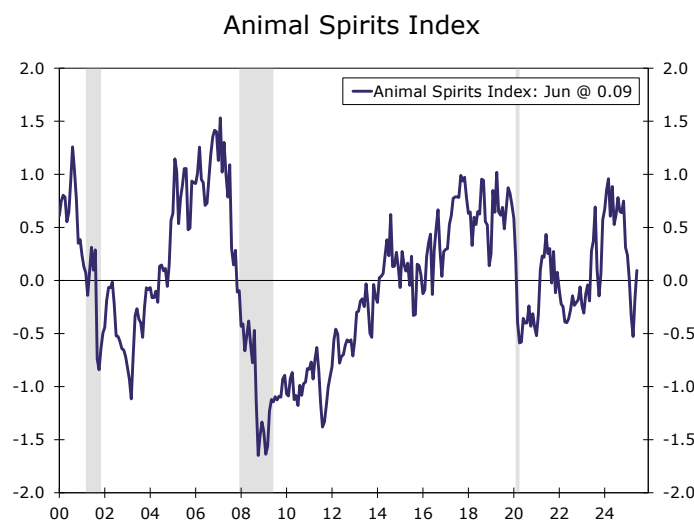
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## A Quiet Turn Upward

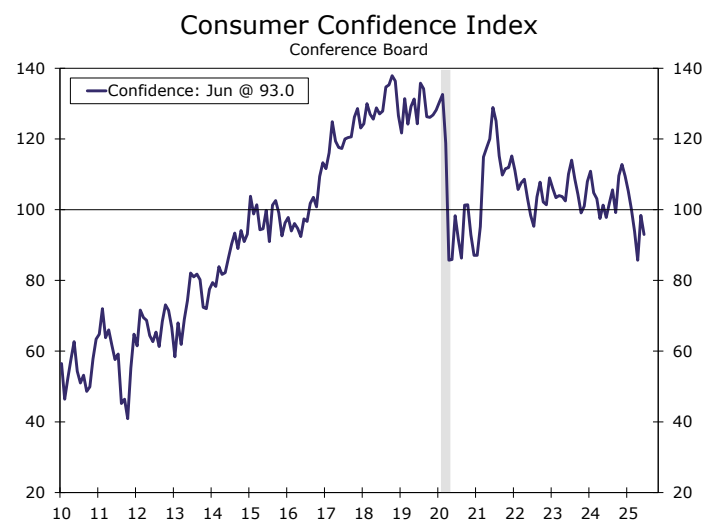
After three consecutive months of negative readings, the Animal Spirits Index (ASI) returned to the positive, rising to 0.09 in June. Previous reports detail the index methodology, but on a basic level, an index value above zero indicates optimism, and a value below zero suggests pessimism. Though June saw some relief, the ASI remained depressed for much of Q2, hitting its lowest value since 2021. The second quarter saw heightened economic uncertainty, which escalated in April over the announcement of "reciprocal" tariffs.

The ASI consists of five indicators: the S&P 500 Index, the Conference Board's Consumer Confidence Index, the yield curve (the spread between the 10-year and three-month Treasury yields), the VIX Index and the Economic Policy Uncertainty Index. The policy uncertainty and VIX indices inversely affect the ASI. That is, a rise in uncertainty or volatility decreases the index, while a fall increases the index, all else equal.

Every component—apart from the Consumer Confidence Index—made an additive contribution to the ASI index in June. In the bond market, the yield spread on the 10-year and 3-month Treasuries remained in positive territory, narrowing slightly from 18 bps to 15 bps in June. The S&P 500 Index also experienced positive momentum, rising roughly 294 bps in June to a new peak. Meanwhile, stock market volatility has eased, with the VIX Index falling to 16.7 in June from 24.7 in April.



Source: Wells Fargo Economics



Source: The Conference Board and Wells Fargo Economics

The Consumer Confidence Index fell to 93 in June—its second lowest reading in the past four years. After cratering in the wake of the Liberation Day tariff announcements in April, consumer confidence has retraced some of its lost ground, but still remains depressed. Specifically, consumers remain worried about the effects of tariffs and their impact on prices and the economy as a whole. That said, the Economic Policy Uncertainty Index provided some relief in June, falling roughly 205 points over the quarter after reaching a record high in April.

Despite the slight uptick in ASI this past month, the economy has started to cool, as seen by the overall slower pace of activity. Payroll growth has softened, while inflation has picked up slightly. Additionally, trade policy remains highly uncertain. As of this writing, the United States has signaled that many countries could face higher tariffs starting on August 1 unless trade agreements can be reached. All in all, we believe current conditions will lead the FOMC to keep the target range unchanged at 4.25%-4.50% at the conclusion of tomorrow's policy meeting. But we forecast that the Committee will cut rates by 25 bps at its next meeting on September 17, followed by two more similar reductions on October 29 and December 10. We readily acknowledge that the risks to our outlook are skewed toward the Fed waiting longer to ease policy than we currently forecast. The FOMC's decisions in the coming months will depend crucially on the path of inflation. Until then, elevated uncertainty will likely continue to weigh on the ASI.

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