Yardeni Research

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Morning Briefing

The Gen-Shaped Economy

Check out the accompanying chart collection.

Executive Summary: It's an economic curiosity of our times: The US economy is undeniably strong, in fact remarkably resilient in the face of recent headwinds. Yet it's in the midst of an affordability crisis that has hit Gen Zers and other lower-income folks especially hard. Even so, consumer spending is brisk, and Dr Ed expects it to remain so. What's going on? The paradoxes can be explained largely by one distortive phenomenon: The largest generation in history is retiring and spending substantial nest eggs accumulated over decades of work. … Also: Dr Ed reviews "Goodbye June" (+).

YRI Weekly Webcast. Join Dr Ed's live webcast with Q&A on Mondays at 11 a.m., EST. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

US Economy I: Still Roaring Despite Affordability Crisis. Since the start of the Roaring 2020s, the US economy has demonstrated its resilience repeatedly. It was hit by a two-month recession during the pandemic lockdown in early 2020. It recovered quickly and continued to grow through 2025 (*Fig. 1*). After the lockdown was lifted, social distancing restrictions constrained consumer spending on services, whereas demand for goods soared (*Fig. 2* and *Fig. 3*). That caused supply-chain disruptions, which led to a spike in consumer price inflation, especially for durable goods, in 2021 and 2022 (*Fig. 4*). The Fed responded by hiking the federal funds rate from 0.25% in early 2022 to 5.50% in mid-2023 (*Fig. 5*). The significant tightening of monetary policy led to a mini financial crisis in March 2023 but no credit crunch or recession.

The US economy continued to grow last year despite Trump's Tariff Turmoil. Real GDP declined 0.6% (saar) y/y in Q1-2025 but rebounded significantly in Q2 and Q3, rising by 3.8% and 4.3%, respectively (*Fig. 6*). This was particularly impressive given the concurrent slowdown in payroll employment growth (*Fig. 7*).

The economy's resilience is attributable primarily to robust consumer spending despite widespread concerns that rising prices have squeezed the purchasing power of lower-income consumers. As a result, many economists have warned that the so-called "K-shaped" economy isn't sustainable. How can the economy continue to grow if more households are confronting an "affordability crisis"? Surely, it cannot do so supported just by the spending of higher-income households.

Indeed, real disposable personal income has been flat over the past five months through September (*Fig. 8*). Despite that, retail sales continued to grow at a solid pace through the end of last year, according to the Redbook Retail Sales Index (*Fig. 9*). Real consumer spending per household rose to a record high of $124,600 during Q3 (*Fig. 10*).

US Economy II: OBBBA Refunds & Tariff Relief to the Rescue. Last November's election upsets (for Republicans) in New York City, New Jersey, and Virginia accentuated and politicized the affordability crisis as the odds of the Republicans' holding onto the House in the coming mid-term elections were halved from 40% to 20% (*Fig. 11*). The Trump administration is scrambling to convince Americans that help is already on the way.

Administration officials have been touting the "One Big Beautiful Bill Act" (OBBBA), passed in July 2025, as a fiscal program that will stimulate the economy in 2026 primarily through a massive wave of tax refunds and renewed business incentives. Because the bill passed mid-year but made many tax cuts retroactive to January 1, 2025, most workers haven't seen the benefits in their weekly paychecks. Instead, these benefits will arrive as lump-sum payments when Americans file their taxes in early 2026.

The OBBBA allows workers to deduct up to $25,000 in tip income. There's a deduction of up to $12,500 (single) or $25,000 (joint) for overtime pay. A new deduction allows write-offs of up to $10,000 in interest on loans for personal-use vehicles. There's an additional means-tested $6,000 deduction for individuals and $12,000 for couples over age 65. This provision was sold as "eliminating taxes on Social Security." The Congressional Budget Office estimated that OBBBA will boost real GDP growth by 0.4ppt in 2026 from 1.8% to 2.2%. We think it might be more like a 0.8ppt boost.

Treasury Secretary Scott Bessent said refunds will be "gigantic" because few workers adjusted their withholding amounts after the OBBBA cuts were enacted mid-year. Internal Revenue Service chief Frank Bisignano said Americans will receive the biggest refunds ever seen in 2026. Treasury officials say many Americans could receive $1,000-$2,000 in additional refunds depending on income and eligibility for new deductions.

The Trump administration is also rolling back some tariffs to ease the affordability crisis. In mid-November, Trump signed an executive order removing tariffs on a range of food imports—including coffee, bananas, and beef—explicitly framed as a response to the affordability crisis.

On December 31, the White House postponed major tariff increases on upholstered furniture (that tariff was set to rise from 25% to 30%) and kitchen cabinets and vanities (set to rise from 25% to 50%). The delay pushes these hikes out to 2027, citing affordability concerns and ongoing negotiations.

US Economy III: Boomers & Their Descendants. Melissa and I believe that a better way to understand the resilience of the consumer is to focus on what we call the "gen-shaped" economy. The economy has been significantly impacted by the 76 million Baby Boomers born between 1946 and 1964 (*Fig. 12*). They will turn 62 to 80 years old this year. The oldest of them turned 65 in 2011 (*Fig. 13*). Since then, the number of seniors who are not in the labor force increased by 17 million. Most of them have retired, and more Baby Boomers will be retiring this year and in coming years.

Such a surge of retirees has economic consequences that explain why consumer spending should remain resilient. Here are some of them:

(1) Disposable income may grow more slowly than in the past or remain flat. That's because retiring Baby Boomers will no longer earn any wages and salaries. They undoubtedly earned much more than new entrants into the labor force.

(2) The personal saving rate is likely to fall as the Baby Boomers continue to retire (*Fig. 14*). We are assuming that their consumer spending will remain robust even as they no longer get a paycheck. If so, then the national personal saving rate could turn negative in coming years.

(3) The main reason we expect that Baby Boomers will be spending lots of money in their retirement years is that they've accumulated a record $85.4 trillion in net worth (*Fig. 15*). That's about half of total household net worth. Not surprisingly, there is an inverse correlation between the ratio of net worth to disposable personal income and the personal saving rate (*Fig. 16*).

(4) Many of the low-income consumers who are struggling financially are in the Gen Z cohort, who are the children of the Baby Boomers and the Gen X cohort (born from 1965 to

1980). The Gen Z cohort includes 57 million people who will be 16-29 years old this year. They are having trouble finding jobs because the unemployment rate for 20- to 24-year-olds is 8.3%, up from 5.5% in April 2023 (*Fig. 17*). Many have graduated from colleges with majors that don't match the requirements of the jobs that are available. In recent years, many companies have frozen their headcounts while they determine whether AI technologies can be used to boost the productivity of their current workforce. The Gen Z cohort also has lots of student and credit card debt.

Of course, as they grow older, Gen Zers' incomes and net worth will increase. For now, many of them are receiving some financial assistance from their Baby Boom (and Gen X) parents.

(5) A July 2024 *study* by Bank of America reported that "46% of Gen Zers (ages 18 - 27) rely on financial assistance from parents. In addition, 52% of those surveyed said they don't make enough money to live the life they want and cite the cost of living as a top barrier to financial success. Many said they are delaying milestones and are not on track to buy a home (50%), save for retirement (46%), or start investing (40%) within the next five years—even though they are working toward those goals."

A January 2024 Pew Research Center *study* reported, "Overall, 44% of adults ages 18 to 34 who have a living parent say they received financial help from their parents in the past 12 months. This ranges from 30% among those ages 30 to 34 to 68% among adults younger than 25."

Movie. "Goodbye June" (+) is a 2025 movie about a dysfunctional family that comes together and heals emotional wounds. The good natured matriarch, played by Helen Mirren, is diagnosed with terminal cancer and has only a few days to live before Christmas. She has a mostly drunk husband and four emotionally struggling adult children. Kate Winslet plays one of the daughters, who is successful but has issues with one of her sisters and with her own life. It's a "hospital for the holidays" film because most of the drama occurs in a hospital. The cast is top-notch. And it's a feel-good-about-yourself movie if your family isn't as dysfunctional. (See our movie reviews *archive*.)

Strategy Indicators

Global Stock Markets (US$ Performance) (*link*): The US MSCI index rose 16.3% in 2025 and finished the year just 1.0% below its December 24 record high. The AC World ex-US outperformed with a 29.2% gain for the year to a record high. The AC World ex-US has been hitting new record highs since May 14—the first time it's had such a long streak of successive record highs since June 15, 2021. EM Latin America was the best performing region in 2025, with a gain of 46.2%, followed by EMU (37.0%), Europe (31.9), EM (30.6), EM Asia (29.9), and the AC World ex-US. EMEA (27.0) was the worst regional performer, followed by EAFE (27.9). The Korea MSCI index, with a gain of 96.6%, performed the best among country indexes in 2025, beating those of Spain (77.5), South Africa (72.7), Mexico (49.6), Brazil (39.9), and Taiwan (36.2). The India MSCI index was 2025's worst performer, albeit with a gain of 3.0%, followed by Australia (10.9), the US (16.3), Japan (22.1), France (25.1), and China (28.0).

US Stock Indexes (*link*): All of the 48 major US stock indexes that we follow rose during 2025. The S&P 500 Growth index was the best performer, with a gain of 21.4%, ahead of Nasdaq Composite (20.4%), Nasdaq 100 (20.2), S&P 100 SuperCap (18.8), Russell 1000 Growth (16.9), and the S&P Industrials Composite (16.9). The S&P 600 SmallCap Equal Weighted index was the worst performer, albeit with a gain of 2.8%, followed by S&P 600 SmallCap Growth (4.0), S&P 600 SmallCap (4.2), S&P 600 SmallCap Value (4.7), and Nasdaq Industrials (5.1).

S&P 500 Sectors Performance (*link*): Ten of the S&P 500's 11 sectors rose y/y in 2025, but just three sectors outperformed the S&P 500's 16.4% gain. That's down from a 23.3% gain in 2024 when four sectors beat the index. Communication Services was the best performing sector, with a gain of 32.4%, followed by Information Technology (23.3%) and Industrials (17.7). Real Estate was the worst performing sector in 2025, with a decline of 0.4%, followed by Consumer Staples (1.3), Energy (5.0), Consumer Discretionary (5.3), Materials (8.4), Health Care (12.5), Utilities (12.7), and Financials (13.3).

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