Chart of the Week

January 12, 2026

K-Shaped Conundrum

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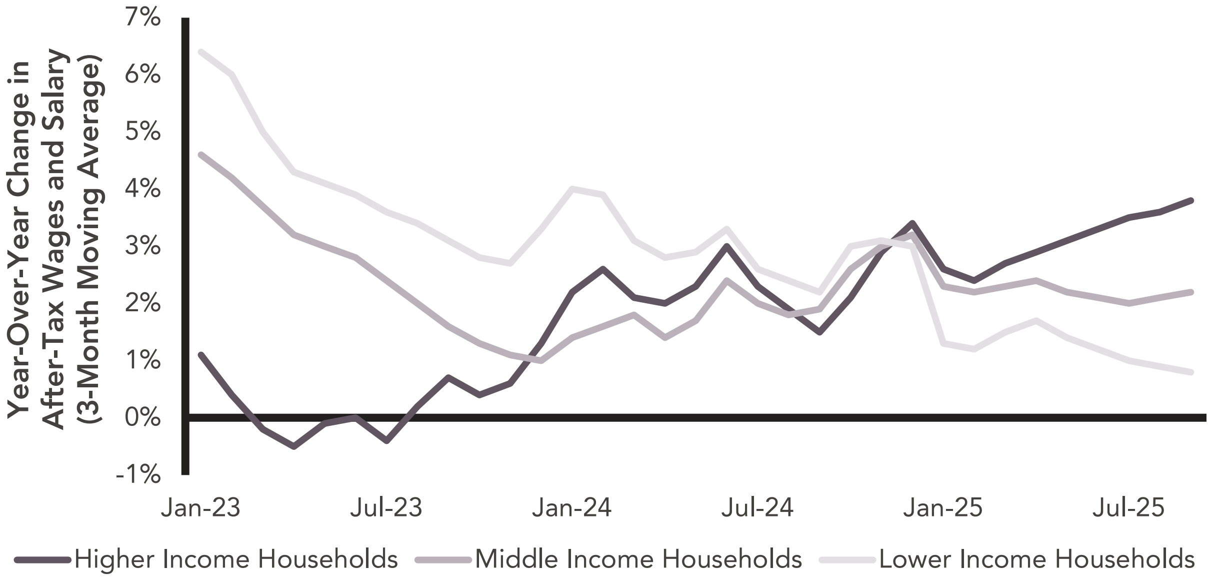
The U.S. economy avoided recession in 2025, but growth was largely driven by wealthy consumers as lower-income households weakened



Source: The Wall Street Journal, Bank of America as of September 30, 2025 (most recently available)

Macroeconomic forecasting is challenging in the best of times and proved downright impossible in 2025, which saw high levels of geopolitical instability and policy uncertainty. Many economists were cautiously optimistic about the state of the global economy at the start of last year, only to revise growth forecasts sharply downward after President Trump's tariff announcements in April. By summer, markets and economists alike were still largely convinced that a recession was imminent, but this anticipated downturn did not materialize. On the contrary, high-level GDP and consumer spending data for 2025 suggest stable (albeit slowing) economic growth. Despite steady headline figures, however, concerns remain surrounding potential softening of the domestic labor market and slowing real-wage growth. As illustrated by the chart above, these effects are distributed unevenly across income brackets, with wages rising by 3.8% for the highest-earning households over the last year, compared to only 0.8% for lower-earning households. Consumption for lower-income households has also declined in recent time, with a Moody's survey estimating that the top 10% wealthiest U.S. households now account for roughly half of all consumer spending. Equity market performance has exacerbated this inequality, as wealthier individuals tend to have a larger percentage of their net worth invested in financial assets.

Economic bifurcation, often referred to as a "K-shaped economy," explains why strong GDP growth can occur in tandem with deteriorating consumer confidence. This dynamic has also challenged policymakers, as institutions

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like the Federal Reserve have been tasked in recent years with both cooling inflation and preventing further labor market deterioration. Moreover, as lower-income households struggle to finance essential purchases, it is possible that future GDP growth will be contingent on wealthier households spending at current or higher rates. It follows that an event that leads to a pullback in spending (e.g., an equity market downturn) could be detrimental to overall growth. While predicting the trajectory of the economy is certainly a challenge, understanding these dynamics offers some insight into the indicators to monitor in 2026.

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