First to Market

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UNWRAPPING THE SUSTAINABILITY OF THE K-SHAPED ECONOMY

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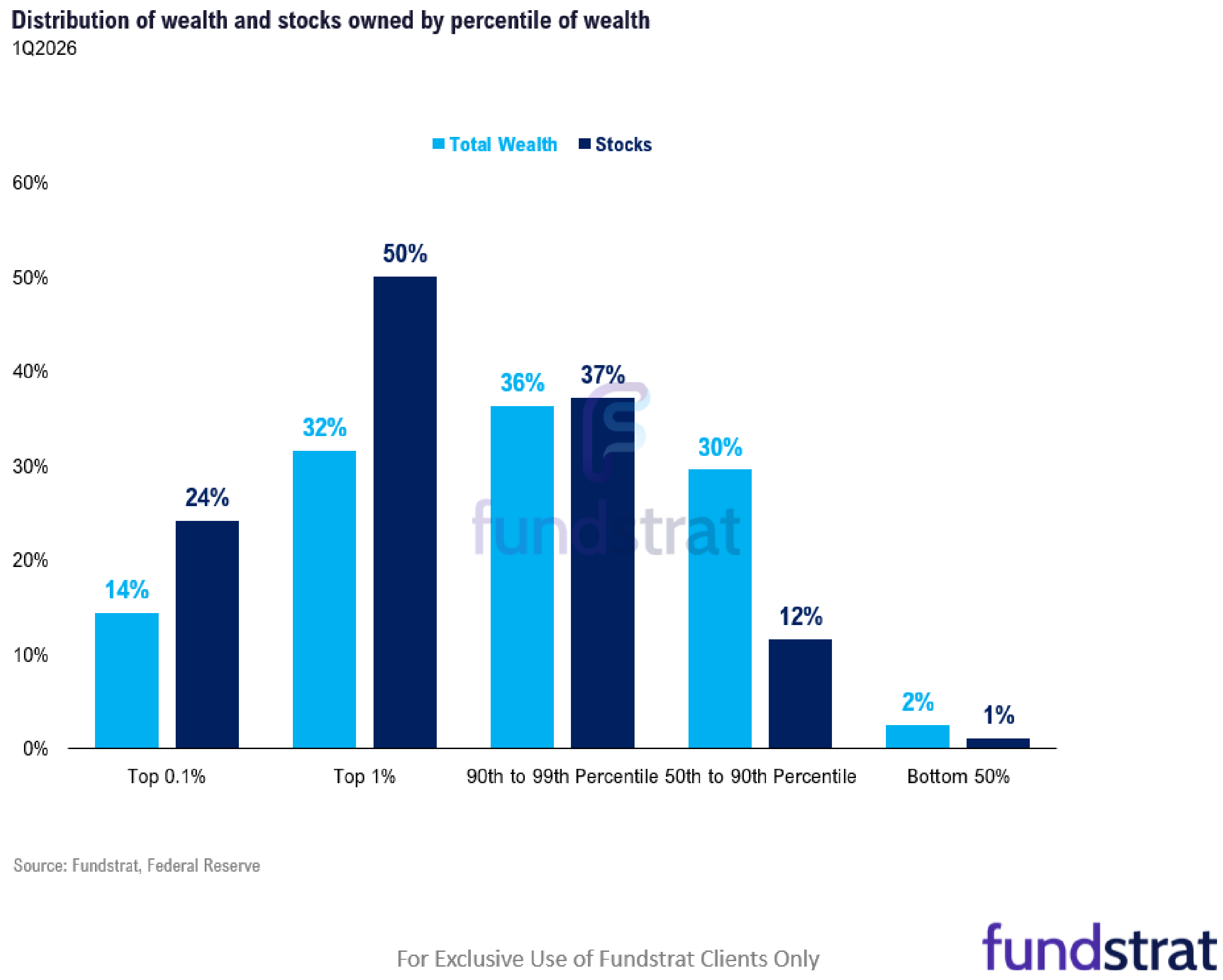
"A true friend is one soul in two bodies." — Aristotle

Chart of the Day



Good morning!

A K-shaped economy is concerning, but signs suggest that it could continue to widen and yet still might not necessarily be the demise of America.

That sounds counterintuitive, so let me explain. The top earners drive consumer spending, and what drives their spending is how the stock market is faring, also known as the wealth effect. As the chances of another global financial crisis are low (not to be confused with zero), it means that the K-shaped economy by itself isn't a cause for grave concern.

The K-shaped economy can be best described as an uneven recovery where the higher-income class thrives, while the lower-income one gets squeezed. Right after the pandemic, the gap narrowed some, as workers at the bottom were able to command higher wages, but since then, it has diverged again partially because of tightening monetary conditions.

The economy has chugged along despite that because strong spending at the top has masked the weakness below.

Spending by the top 10%, for example, grew 62% between the third quarter of 2020 and third quarter of 2025, according to Moody's Analytics. Consumer spending is the biggest driver of economic growth, so at first glance, the Moody's data suggests this is a fragile K-shaped economy.

Historic gains in the stock market complicate the picture further. Any misstep in stocks could mean that the economy goes along with it, and those at the top have the greatest control. The top 1% by socio-economic status held 32% of the U.S. wealth in the first quarter but 50% of the stocks, whereas the bottom 50% owned 2% of the wealth and 1% of stocks.

Here's what is missing from that argument, though. Most investors and economists don't expect a repeat of the global financial crisis because the Federal Reserve and the government will likely step in to stop the contagion. Of course, there might still be pain, but it's not the consensus view that it'll be as bad as the previous recessions. Investors have also been trained to buy the dip over the past five years, meaning that stocks will most likely avoid a pullback of that intensity.

Another factor to consider is that it's arguably more stable for the economy to be driven by the top earners via the stock market rather than the labor market and interest rates, which can be more volatile. Consumers' expectations that U.S. stock prices will be higher 12 months from now increased to 41%, the highest level since 2021 when the New York Fed began the series.

So as unfortunate as it is, the lower-income group could theoretically continue to keep getting crushed in the near-term without causing the economy to blink.

An analysis of K-shaped economies going back to the Gilded Age shows that the lower-income groups typically try to play catch up when there's economic stability, but it's not enough. After the 2008 crisis, stock and home prices remained elevated so the gap narrowed but it never closed. Covid-19 initially helped, but then the gap started widening again.

On the bright side, the current K-shaped economy isn't as bad as the one seen during the 1920s, when instead of farmers catching up to the booming cities, everyone got dragged down into the Great Depression.

Economic data summary: In lieu of economic data summary, here's a photo of the interns at the New York Stock Exchange for the first time. They had a great time and took tons of photos!

Share your thoughts

What do you make of the K-shaped economy? Click here to send us your response.

✍Here's what a reader commented ✍

Q: What do you make of Meta’s potential plans?

A: Meta has shown repeatedly that when you ignore common sense bad things happen. Fortunately, after enough financial pain and related stock decline they seem to come to their senses. Renting out AI related space will likely lead to economic recovery but when? My guess is 9 months before we see META common stock rising again.

Catch up with Fundstrat

We discuss how the severe decline in momentum is overdone and points to a likely bottom. The FOMC is surprisingly dovish, at least that is our takeaway, and we discuss some of those clues.

Technical

WTI crude's minor bounce on Wednesday's ceasefire headlines likely proves short-lived, and a technical decline to test $58–$62 looks likely over the next month.

Crypto

Today’s price action was shaping up to be another encouraging session for crypto. Overnight weakness largely reflected a continuation of the selloff across technology, with memory, semiconductor, and data center names coming under renewed pressure.

News We're Following

Breaking News

- ‘A Slow-Rolling Disaster’: Inside the Implosion of the Platner Campaign NYT

Markets and economy

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- Tobacco Stocks Are Coming in From the Cold WSJ
- Fed officials were split on direction of interest rates at last meeting, minutes show CNBC
- Wall Street’s boutiques bet on star bankers. Now they’re stuck with the bill FT
- A warning for the U.S. dollar: The historic bond-market buffer that protected the currency is fading. MW

Business

- Meet SK Hynix, the trillion-dollar South Korean chipmaker debuting on U.S. markets CNBC
- PepsiCo earnings miss estimates as North American consumers tighten their budgets CNBC

Politics/U.S.

- The Red Flag That Led to Graham Platner’s Implosion Was Hiding in Plain Sight WSJ
- Trump announces long-shot bid to get Supreme Court to rehear birthright citizenship case CNBC

Overseas

- China Weighs Limits on the AI Models American Companies Love WSJ
- French commissioner pushes for ‘Buy European’ in public procurement FT

Of Interest

- An Impending IPO Boom Has Sparked FOMO Among San Francisco Home Buyers WSJ
- He Earns $33 an Hour as a Costco Cashier. Now He’s a Millionaire. WSJ

Overnight

S&P Futures	+8 ▲ point(s) (+0.11% ▲)

overnight range:	-12 ▼ to +29 ▲ point(s)

APAC

Nikkei	+1.38% ▲
Topix	+0.35% ▲
China SHCOMP	+1.65% ▲
Hang Seng	-0.70% ▼
Korea	+0.62% ▲
Singapore	+1.20% ▲
Australia	-0.26% ▼
India	+0.35% ▲
Taiwan	-0.83% ▼

Europe

Stoxx	50 +0.50% ▲
Stoxx	600 +0.16% ▲
FTSE	100 -0.76% ▼
DAX	+0.09% ▲
CAC	40 +0.20% ▲
Italy	+0.71% ▲
IBEX	+0.92% ▲

FX

Dollar Index (DXY)	0.00% to 100.99
EUR/USD	+0.10% ▲ to 1.1428
GBP/USD	+0.17% ▲ to 1.3412

GBP/USD	+0.17% ▲ to 1.3412
USD/JPY	+0.10% ▲ to 162.42
USD/CNY	+0.18% ▲ to 6.7938
USD/CNH	+0.12% ▲ to 6.7979
USD/CHF	+0.16% ▲ to 0.8072
USD/CAD	-0.06% ▼ to 1.4181
AUD/USD	+0.09% ▲ to 0.6936

UST Term Structure

2Y-3M Spread narrowed	-1.9bps ▼ to 38.0bps
10Y-2Y Spread widened	2.1bps to 37.8bps
30Y-10Y Spread widened	1.1bps to 50.1bps

USD HY OaS

All Sectors	+4.3bps ▲ to 295bps
All Sectors ex-Energy	+2.7bps ▲ 287bps
Cons Disc	+17.3bps ▲ to 431bps
Indu	+2.7bps ▲ to 223bps
Tech	-5.7bps ▼ to 217bps
Comm Srvcs	+1.8bps ▲ to 285bps
Materials	+0.3bps ▲ to 259bps
Energy	+2.0bps ▲ to 266bps
Fin Snr	+1.8bps ▲ to 194bps
Fin Sub	+2.4bps ▲ to 302bps
Cons Staples	-0.7bps ▼ to 450bps
Healthcare	+3.9bps ▲ to 301bps

Healthcare	[illegible]
Utes	+1.4bps ▲ to 203bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
7/9	10:00 AM	Jun Existing Home Sales	4.2	4.17
7/9	10:00 AM	Jun Existing Home Sales m/m	1	3.22
7/14	6:00 AM	Jun Small Biz Optimisum	95.5	95.3
7/14	8:30 AM	Jun CPI m/m	-0.1	0.5
7/14	8:30 AM	Jun Core CPI m/m	0.3	0.2
7/14	8:30 AM	Jun CPI y/y	3.9	4.2
7/14	8:30 AM	Jun Core CPI y/y	2.9	2.9
7/14	4:00 PM	May Net TIC Flows	n/a	26.08
7/15	8:30 AM	Jun PPI m/m	0	1.1
7/15	8:30 AM	Jun Core PPI m/m	0.4	0.4

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