



IMPACT OF THE K-SHAPED ECONOMY ON FIXED INCOME INVESTORS



LAURA L. MAYFIELD

Vice President
Senior Portfolio Manager
Securitized Products

The state of the U.S. consumer has become a tale of two very different stories. On one side, the high-income consumer appears fundamentally solid. Rising stock and home prices, combined with steady income growth, have fueled a strong "wealth effect," and these consumers have been the primary drivers of economic growth over the past few years. Conversely, lower-income households are under pressure as excess savings have largely dried up and wage growth has fallen behind that of higher earners. This divergence—often described as a "K-shaped" economy—has drawn attention from both Wall Street and Main Street, given that personal consumption accounts for nearly 70% of GDP.

Despite solid aggregate consumption data, consumer sentiment remains historically weak. Much of that pessimism stems from the large share of Americans who fall into the more financially strained category. Only about the top 10% of income earners own equities, meaning most households haven't benefited from rising asset prices. Many of these consumers don't own a home and instead have faced higher housing costs through rising rents, alongside elevated prices for groceries, cars, and other essentials. Access to credit has also dried up for these borrowers, widening the spending gap between the two consumer groups.

This bifurcation is also evident within consumer-oriented securitization markets. Subprime auto asset-backed securities (ABS)—pools of auto loans to lower-credit-quality borrowers (FICO below 620)—have seen delinquencies and losses rise meaningfully over the past few years. Interestingly, while delinquency rates now exceed those seen during the Global Financial Crisis, loss rates remain roughly in line with 2019 levels. This suggests borrowers are doing everything possible to avoid losing their vehicles even after missing payments—a sign of limited savings and very little margin for unexpected costs.

Also within the subprime auto space, issuer performance has diverged. Some issuers have proven adept at underwriting in this environment, effectively pricing and modeling expected losses—albeit at higher nominal levels. Other issuers, however, have struggled to manage loss rates within expectations despite progressively tightening credit standards over the past two to three years. This K-shaped trajectory in the market's perception of issuers has driven wider spread tiering across the sector.

Bifurcation itself is not new, but it continues to permeate both the macroeconomic landscape and the investment environment. While we expect consumer spending to pick up in 2026 and support economic growth, this underlying divergence reinforces the importance of careful credit selection. For investors, it underscores why active management remains critical—particularly within securitized products, where dispersion among issuers and borrowers can be pronounced.

Chart sources: Federal Reserve Bank of Atlanta and Macrobond.

Nominal Wage Growth by Wage Level



Laura L. Mayfield
Vice President, Senior Portfolio Manager, Securitized Products
Fort Washington Investment Advisors, Inc.

Blake Stanislaw, CFA
Client Portfolio Manager, Fixed Income
Fort Washington Investment Advisors, Inc.

READ THE FULL ARTICLE

<https://www.westernsouthern.com/fortwashington/insights/monthly-market-pulse-december-2025>

ABOUT THE AUTHOR

Laura L. Mayfield

Vice President, Senior Portfolio Manager, Securitized Products

Laura is Vice President, Senior Portfolio Manager for Fort Washington's Securitized products. She joined the firm in 2007 and served as a Marketing Coordinator for Fort Washington until 2010. Laura received a BA in Marketing and Spanish from Olivet Nazarene University and an MBA from Xavier University.

VISIT OUR WEBSITE

<https://www.westernsouthern.com/fortwashington>

CONTACT

contactus@fortwashington.com

This publication has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy, or investment product. Opinions expressed in this commentary reflect subjective judgments of the author based on the current market conditions at the time of writing and are subject to change without notice. Information and statistics contained herein have been obtained from sources believed to be reliable but are not guaranteed to be accurate or complete.

©2025 Fort Washington Investment Advisors, Inc.



**Fort Washington
Investment Advisors, Inc.**

A member of Western & Southern Financial Group

▼ **Uncompromised Focus®**