

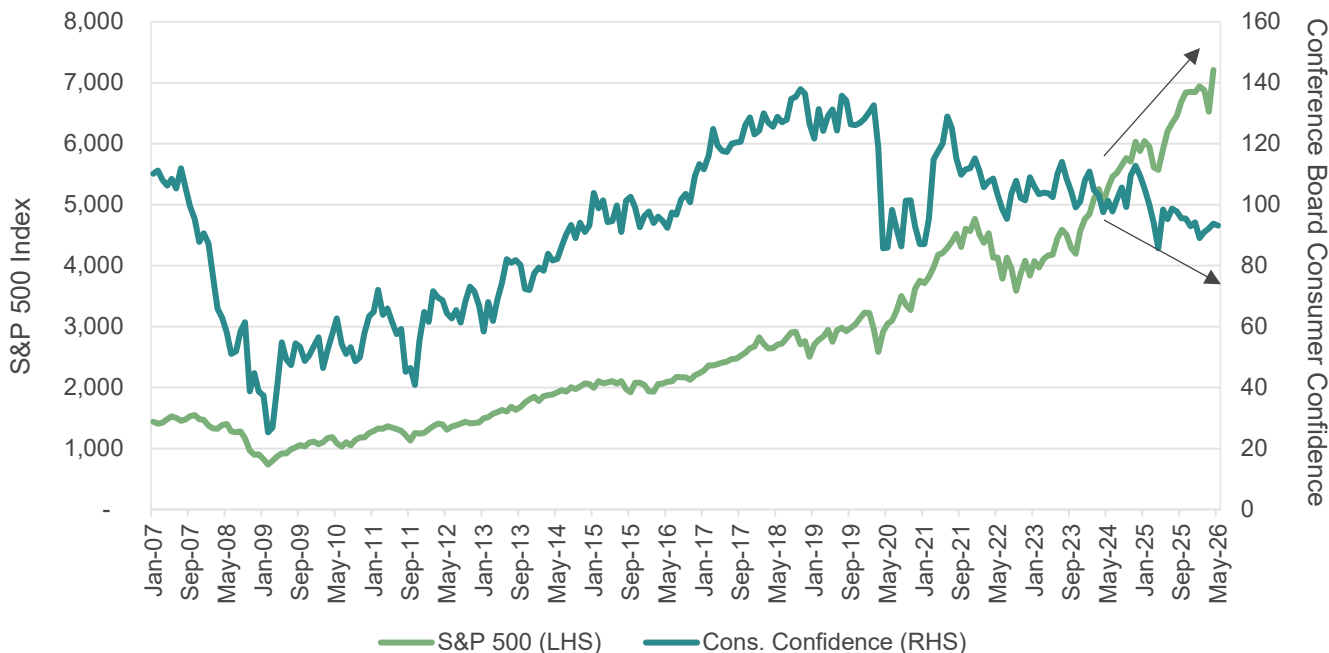
The Sterling Capital VAULT

The U.S. Consumer



Much ink has been spilled since the COVID-19 pandemic about the “K-shaped economy” or the “K-shaped consumer” to describe the divergence between various groups of consumers (higher-income versus lower-income earners, homeowners versus renters, and so on). Ultimately, the concept is meant to distill a complex economic landscape down to its core drivers. While U.S. equities continue to power ahead to new all-time highs, consumer confidence is at its lowest level since the depths of the pandemic.

The K-Shaped Consumer, Visualized



Perhaps a better analogy for the state of the consumer is “a rising tide doesn’t lift every boat.” At the aggregate level, we believe U.S. consumption has been stable over the past several years, despite generational inflation, unprecedented trade policy volatility, and now a burgeoning energy supply chain crunch causing immediate pain at the gas pump. While higher-income earners are navigating the current environment, there is clear evidence that lower-income cohorts are taking on water. This ebb and flow of U.S. consumer health comes to life through a traditional financial statement analysis. Let’s dive in.

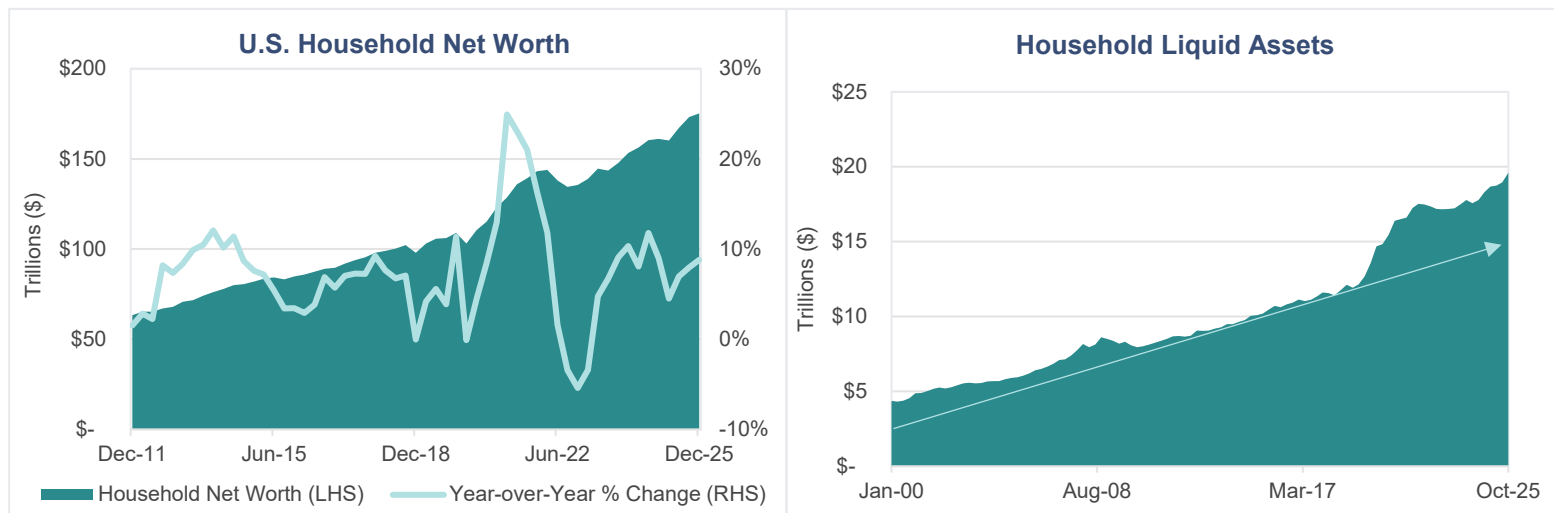
The Balance Sheet

Through the lens of the balance sheet, the U.S. consumer is in a strong position on average compared to recent history. At the highest level, household net worth has grown at an annualized rate of 8.2% since the end of 2019 through the end of 2025 for a cumulative gain of 61%, largely driven by equity market returns and home price gains for homeowners. Meanwhile, households’ liquidity positions (defined by cash, bank deposits, and money market account balances) has soared since the pandemic with a cumulative 44.5% through 4Q25 compared to a total increase in the Consumer Price Index (CPI) of 26.1%.

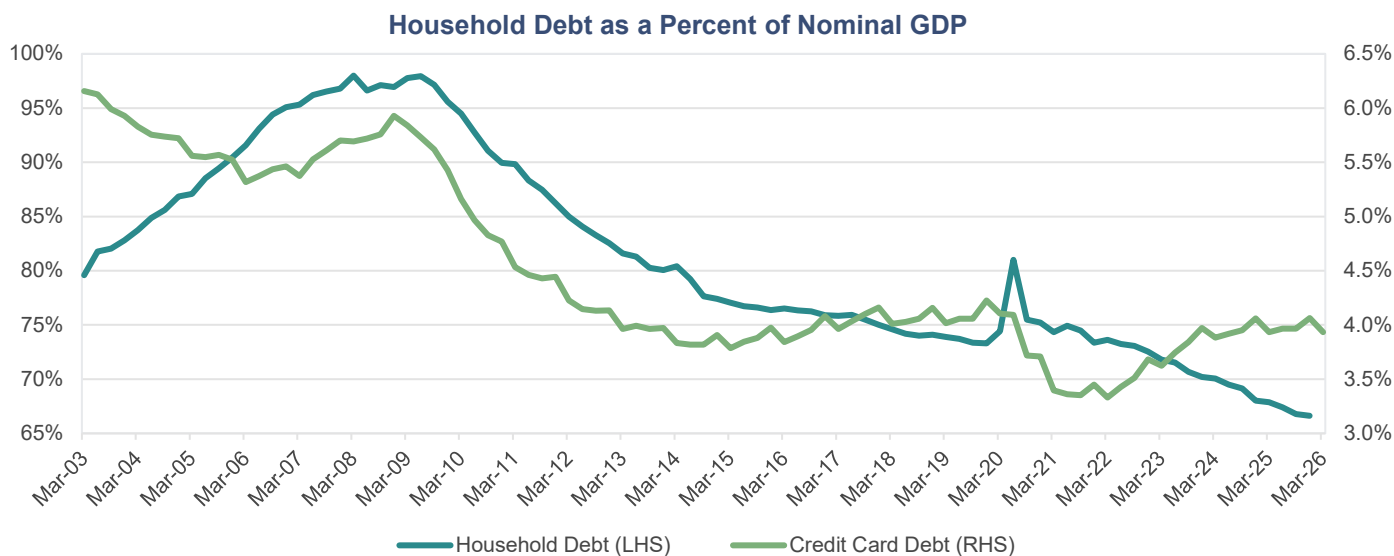
LHS/RHS: left hand side/right hand side. Chart sources: Standard & Poor's; Conference Board. Data is as of 05.29.2026. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees these methods will be successful. This information must be read in conjunction with the definitions and disclosures on the last page.

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Meanwhile, from a leverage perspective, households appear to manage their debt load well. Many borrowers capitalized on record low interest rates in 2020 and 2021 to refinance debt near all-time low mortgage rates, substantially reducing monthly debt service payments. While the current average 30-year fixed mortgage rate is approximately 6.5%, nearly 70% of borrowers have an outstanding mortgage rate below 5%. Furthermore, despite alarming headlines about credit card debt reaching all-time highs in the past year, when looking at total credit card debt as a percent of nominal gross domestic product (GDP), we find that current levels are consistent with pre-pandemic trends.



The Income Statement

In contrast to the steady improvement shown on the balance sheet, the U.S. consumer's income statement has followed a volatile and episodic path in recent years. A fiscal stimulus-fueled spending bonanza in 2020 and 2021 was curtailed by an aggressive reset of monetary policy in 2022, a year in which the Federal Reserve (Fed) delivered 425 basis points (bps) of interest rate hikes in an effort to tame inflation. The subsequent and sustained recovery of retail sales data across 2023-2025 surprised many macroeconomists; shouldn't top-end fed funds at 5.50%, the Fed's ultimate terminal rate in the hiking cycle, have been more restrictive? Let's unpack the consumer's income statement.

Top LHS chart source: Federal Reserve. Data is as of 12.31.2025. Top RHS chart source: Federal Reserve Economic Data. Data is as of October 2025. Bottom chart source: Federal Reserve. Data is as of 03.31.2026. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees these methods will be successful. This information must be read in conjunction with the definitions and disclosures on the last page.

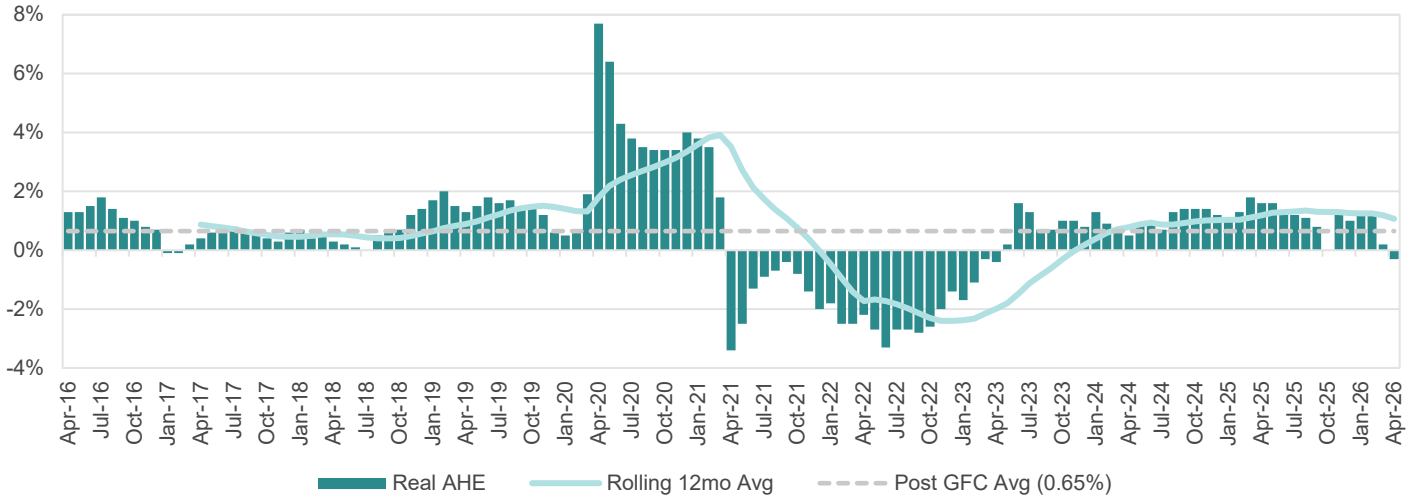
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In general, consumer spending is supported by wages and investment income, and real average hourly earnings (AHE) is a solid measure of wage growth in an inflationary environment. While the pandemic skews the metric due to compositional issues (i.e., workers leaving and then re-entering the workforce in 2020 and 2021), it is clear in the chart below that real AHE supported consumption in 2023-2025, making the recent decline pattern troubling, particularly when viewed in combination with the recent softness in real retail sales.

Real Average Hourly Earnings



The Federal Reserve Bank of Atlanta’s wage growth tracker below adds useful context, showing a continued disinflationary trend dating back to the peak in mid-2022. As labor supply came back online post-pandemic, wage growth also retreated, in contrast to the pandemic era when workers had unusual bargaining power and many corporations chased talent. Over the last year, a low quits rate and more subdued hiring have created low-hire, low-fire job market conditions that contributed to wage growth stagnation. Perhaps an underappreciated element at play is the significant jumps in large language model (LLM) performance in the beginning of 2026, which may introduce a valid concern that workers in a service-based economy (such as the U.S. economy) could structurally lose wage pricing power. On the flip side, the artificial intelligence (AI) infrastructure buildout itself has created a large demand for workers in skilled trades.

Atlanta Fed Wage Growth Tracker



GFC: global financial crisis. Top chart source: Bureau of Labor Statistics. Data is as of April 2026. Bottom chart source: Federal Reserve Bank of Atlanta. Data is as of 04.01.2026 The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees these methods will be successful. This information must be read in conjunction with the definitions and disclosures on the last page.

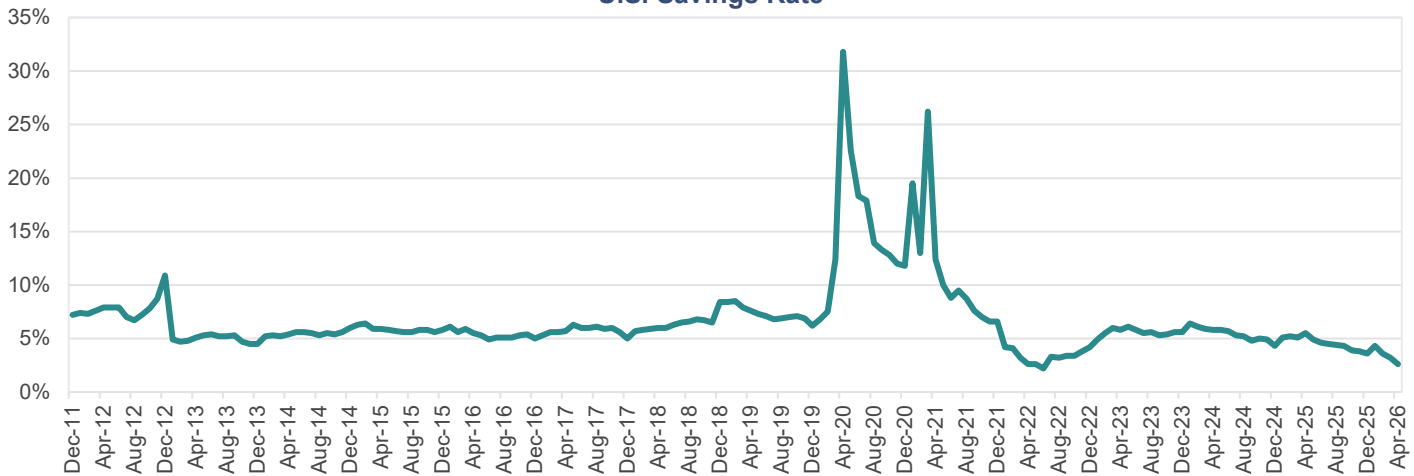
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Savings rate data further validates the case for a weakening consumer. The current reading in the chart below, 2.6%, is one of the lowest monthly observations in the entire post-war dataset. A more positive read may be that the savings rate is falling below 3% due to the wealth effect. While the more affluent U.S. consumer cohort may have investments and housing assets to tap, in the context of an ongoing energy price shock and rising credit card delinquency data, the savings rate is a potential cautionary sign.

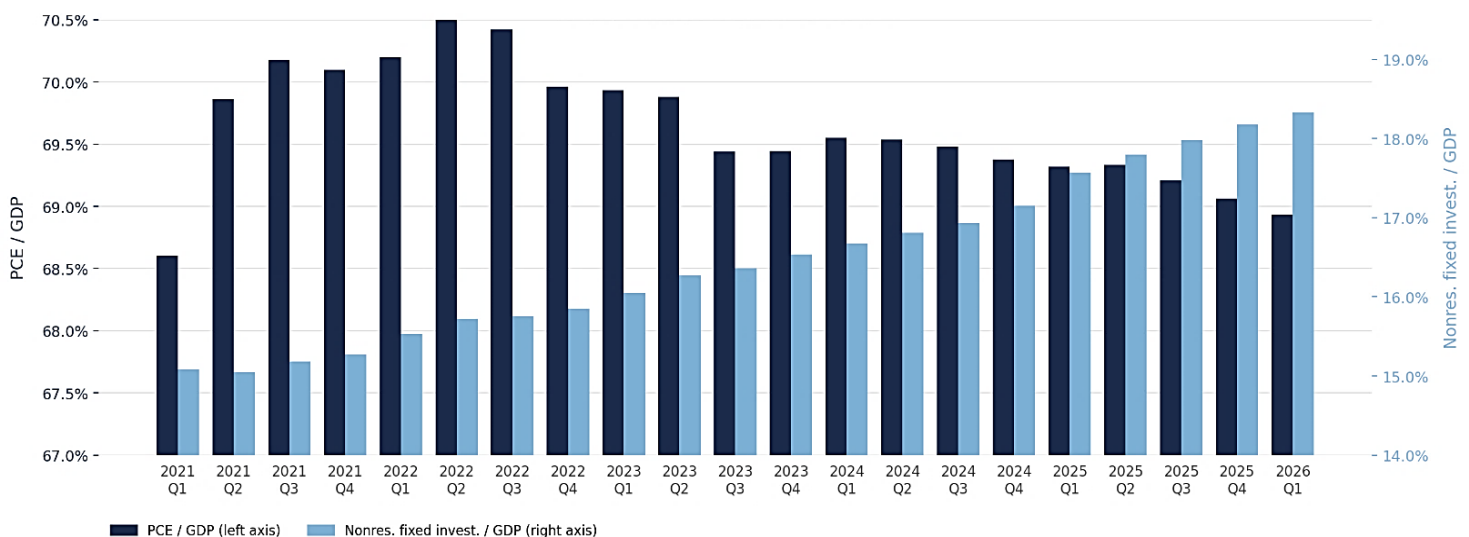
U.S. Savings Rate



Our View

As equity markets continue to reach new heights, led not by U.S. households but rather by AI capital expenditures (capex), the tension between the U.S. consumer's balance sheet and income statement paints a highly dynamic and nuanced picture. While investors may take comfort in U.S. household balance sheet strength, emerging trends of weaker real income and a slowdown in real spending function as a warning sign. The rising importance of AI capex as a driver of economic growth over the consumer only fuels concerns that households are unevenly participating in the ongoing economic expansion, creating fragility. This study also underscores the dilemma currently facing the Fed and the disproportionate impacts of tightening monetary policy.

PCE vs. Nonresidential Fixed Investment as a % of Real GDP



PCE: personal consumption expenditures. Top chart source: Bureau of Economic Analysis. Data is as of 04.30.2026. Bottom chart source: U.S. Bureau of Economic Analysis. Data is as of 03.31.2026. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees these methods will be successful. This information must be read in conjunction with the definitions and disclosures on the last page.

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Performance is compared to an index; however, the volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

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The **S&P 500® Index** is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P® Composite includes 500 of the largest stocks (in terms of stock market value) in the United States; prior to March 1957 it consisted of 90 of the largest stocks.

The **Consumer Confidence Index (CCI)**, published by The Conference Board, is a leading economic indicator that measures how optimistic or pessimistic American consumers are about the economy.

Technical Terms: the technical terms below are sourced from Investopedia.

Capital expenditures (CapEx) are funds companies use to acquire, upgrade, or maintain physical assets like buildings, technology, or equipment, with the goal of increasing operational scope or future economic benefits.

The **Consumer Price Index (CPI)** presents the percentage change in prices that consumers pay for goods and services.

The **fed funds rate** serves as a key monetary policy tool used by the Federal Reserve to influence liquidity and guide economic stability through its impact on short-term interest rates and lending practices.

The **2008 global financial crisis (GFC)** was the most severe economic downturn since the Great Depression, triggered by the collapse of the U.S. housing market and unregulated subprime mortgage lending.

Gross Domestic Product (GDP) quantifies the overall economic activity and strength of a country by calculating the monetary value of all finished goods and services produced within its borders in a specific timeframe.

Large language models (LLMs) are a category of deep learning models trained on immense amounts of data, making them capable of understanding and generating natural language and other types of content to perform a wide range of tasks.

Personal consumption expenditures (PCE) is the value of goods and services purchased by or for U.S. consumers.

The **quits rate** is the percentage of the total workforce that voluntarily leaves their employment during a given month.