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Meredith Whitney famously called the 2008 financial crisis. Here's the new problem with the U.S. economy, she says© Meredity Whitney
Nearly two decades ago, financial analyst Meredith Whitney earned the moniker as the "Oracle of Wall Street" for her bearish views on banks ahead of the global financial crisis.

Featured in "The Big Short" book on that crisis, author Michael Lewis likened her to E.F. Hutton at the time — she talked, people listened — though she got no mention in the movie by the same name.

The CEO and founder of the Meredith Whitney Advisory Group has been spotting trouble on the horizon again, saying the U.S. faces a "bifurcated economy" driven by the high-end consumer. Note

In a Tuesday interview with MarketWatch, Whitney stood by a prediction she made earlier this year, that over 50% of U.S. households – many living paycheck to paycheck – faced a second recession of losing jobs, after one in 2022-2023 when stimulus checks ended.

Note "To me, the weakest portion of the U.S. economy, which employs over 20% of U.S. workers, is hospitality and leisure," she said. Those that jobs pay under $60,000, may see the biggest hits when jobs numbers worsen.

"I think employment is going to be a really big pickle," Whitney said, adding that stagflation — rising jobless numbers and sticky inflation — is a "real possibility." That's as college graduates are having an incredibly difficult time in getting first jobs, just as student debt payments resume, which she notes is straining multiple generations.

Whitney turned bullish on dollar stores like Dollar General and Dollar Tree late last year, "thinking the worst was over," but moved away from that view in May. "I think the dollar stores are going to be challenged -– we'll see in a couple of weeks when they report -– because their customer base will be the most economically challenged," she said.

She now prefers "higher-end retailers" like Home Depot Lowe's and Walmart Those companies "don't scream 'high end,' but we argue that the fact that more of their customers are homeowners, and homeowners and the high end are the only households with a financial safety net, is significant," Whitney told clients in a separate note.

Note

Whether or not consumers continue to spend comes down to home ownership, according to Whitney, who said homeowners increasingly began to tap into their home equity a little over a year ago, reversing a 17-year cycle of declining equity-home loans.

"So from a peak of around $700 billion, that went down closer to $250 billion to $240 billion and that's now increasing. And home equity is actually the fastest growing loan category of any consumer-loan product," with credit cards, student and auto loans flat, she said.

She's bullish on companies in that space of home equity, personal loans and cash-out refinances. Those include Rocket SoFi Technologies and Affirm Holdings — those stocks have doubled or more this year.

That's as the housing market itself is headed for its worst market in decades, in terms of activity, Whitney, said backing up a prediction she made a month ago. "Existing-home sales are tracking under 4 million on an annualized basis and that's the worst in over 25 years. Buyers are looking for steep discounts and sellers are not willing to make those discounts," she said.

Note

The trouble is that an estimated 60% of homes are owned by those over 55, who aren't selling, partly as lower-cost downsizing options are limited, she said. "So either these folks have no mortgage or a small mortgage and the capital gains that they have to take and the costs that are required to move are prohibitive," she said, adding that boomers may not be as wealthy as many think.

Stuck with limited alternatives, they are tapping tapping into equity in their homes, accounting for 41% of total home equity debt, she said..

Note

That, of course is counterintuitive because individuals tend to get more conservative with money as they age, but are now struggling with increasing costs of owning a home – property insurance has risen well north of 60% over the past five years, she noted.

"Given the fact that 60% of homes are owned by seniors, that is the clear issue with affordable housing, because there's just an inventory lock," said Whitney.