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Feeling good about the economy

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A few months ago, with the market surging, Rick Wichmann watched his investment portfolio balloon in value. The 67-year-old retired consultant sold his Toyota and leased a new Tesla. After one of the air-conditioning units in his Brookline, Mass., home broke, he decided to replace the whole property's HVAC system this fall at a cost of $72,000. When stocks fell last week, he spoke to his financial adviser, who added some options to protect against declines. But Wichmann is staying in the market and doesn't plan to cut back on spending.

"I'm fairly bullish about the economy," Wichmann said.

Many Americans who own stocks are feeling good about their finances, with a market that's continually shrugged off economic concerns and pushed major indexes to record highs. They have seen stocks dive through the dot-com bust, financial crisis and onset of the pandemic—only to recover and keep going up. Even after a big selloff following President Trump's tariff announcements in April, and a smaller dip last week, the S&P 500 is up more than 14% so far this year. Gains in 30 top artificial intelligence-related stocks alone have added $5 trillion to household wealth across the country in the past year, according to an October JPMorgan Chase report.

Investors' rosy feelings about having a lot more money—at least on paper—are powering spending on restaurant meals, business-class airline tickets, home improvement and more, keeping the broader economy humming.

It's a very different story for everyone else. Americans with large investment portfolios feel markedly better about the economy than those who don't own stocks, according to the University of Michigan sentiment index. Sentiment among people who don't own stocks is at the lowest level on a three-month moving average since the university began tracking it in 1998.

This all makes the economy especially vulnerable to a stock market swoon. Gains in AI stocks are behind much of the market's gains this year, so any downturn in that sector could reverberate through consumer spending across the country. Huge sums of money are being spent building out data centers to support AI companies, raising questions about a bubble. Note

The phenomenon of people spending more when assets they own go up in value is known as the "wealth effect." For many people, especially well-off ones, the phenomenon is more psychological. While some people might sell their stocks to directly fund big purchases, other gains might be tied up in retirement funds or homes. Depending on market conditions, the gains could disappear in a moment. But looking at their portfolio makes people feel good about the state of their finances and the economy more broadly, so they're more willing to spend more.

Note

Economists have long found that people increase their spending when they gain wealth. For every $1,000 that their stock portfolio goes up, they might spend $35 to $50 more than they would have otherwise, according to research.
The wealth effect from gains in those 30 top AI stocks alone accounts for about 16% of the increase in consumer spending in the past year, JPMorgan Chase economists estimate.
"The stock market gains are providing an important boost to the economy," said Karen Dynan, a Harvard professor and former chief economist at the Treasury Department. "It's one of the reasons we've seen consumer spending hold up pretty well this year in the face of what people thought were going to be significant headwinds."

Note

Note wow!

Americans gained more than $63 trillion dollars in wealth from the first quarter of 2020 through the second quarter of 2025, according to the Federal Reserve. Real-estate wealth rose more than 61% during that span, while wealth from stocks and mutual funds went up 127%.
In years after the pandemic hit, lower- and middle-income households benefited from government stimulus payments and gains in home values meant the wealth effect was spread across income groups. Even though people across the income spectrum opened accounts at Robinhood Markets and similar outfits, the market's big gains are largely benefiting the top 20% of earners, who own 87% of all stocks and mutual funds, according to the Fed. Note
Consumer spending, adjusted for inflation, is expected to rise about 2% in the fourth quarter from the year earlier, according to Oxford Economics lead U.S. economist Bernard Yaros. He projects that nearly three-quarters of that increase is from the wealth effect. Note Note
Scott Hyde II has long directed most of his nonretirement savings to his S&P 500 fund. (The index has grown 77% over the past three years.) After watching his earnings shoot up, the 36-year-old decided to withdraw $50,000 in February and $65,000 in September. He decided on the total because it would improve his quality of life without fully depleting the account.
With the first $22,817, he bought a 1999 Porsche 911 Carrera 4 to add to his collection of "four and a half" cars (the half is his grandparents' 1988 Cadillac Coupe DeVille that he's rebuilding). He plans to put the rest of the money toward the down payment for a house.
Note
"It felt pretty nice to buy a dream car almost entirely from market appreciation," said Hyde, who runs a small scientific instrument distribution business in Houston.
Note
The wealthiest keep spending robustly at a time when the job market is shaky and inflation is persistent, feeding a dynamic that is pushing the economy in two directions.

One corporate earnings report after another has reflected this split-screen economy in recent weeks. Delta Air Lines said well-off travelers keep paying up for premium tickets, while revenue from economy tickets fell. Colgate-Palmolive CEO Noel Wallace said on the company's earnings call that people are buying fewer value and midrange products, while higher-end brands are "growing very, very nicely."

Note

Customers across income groups cut back on eating at Chipotle Mexican Grill earlier this year. Since then, "the gap has widened, with low- to middle-income guests further reducing frequency," Chipotle CEO Scott Boatwright told investors. Those customers are eating at home instead, he said.

Consumer sentiment tanked across income groups in the spring after President Trump announced widespread tariffs. The S&P 500 dropped more than 12%. But the market recouped its losses in about a month and the worst-case scenarios with tariffs failed to materialize. A massive AI boom has since powered indexes to new highs.

Still, while people who own stocks feel better about the economy than they did back in April, they feel worse than they did at the beginning of the year. They are concerned about the job market and inflation coming back, but the market's gains give them a buffer both financially and psychologically against negative economic news, said Joanne Hsu, the director of the University of Michigan sentiment survey.

Note

Those who don't own stocks are squarely focused on the economy's negatives. "The fact that the stock market's soaring doesn't make any difference to them at all," Hsu said.

Wichmann, who recently leased the Tesla, retired in March, right before Trump's "Liberation Day" tariffs and the big selloff that followed. Watching the market, he felt nervous that his money would support him in the years ahead.

But the market bounced back quickly and his financial adviser walked him through a model that showed him his money will almost certainly last if he lives until his late 90s.

"The tariffs didn't have the impact that I expected [them] to have on inflation. It just hasn't transpired," Wichmann said. He leased his new car for $515 a month to take advantage of a tax credit, and plans to buy it when the lease is over.

Retirees, who often live off of their portfolios, are especially sensitive to market fluctuations. The growing population of older Americans could mean the wealth effect is a bigger factor than in the past, said Yaros of Oxford Economics.

Bill and Sheelah Black have tailored their spending to their investment portfolio's performance since retiring to New Orleans 10 years ago. In recent months, that has meant spending around $400 a week on dinners at some of the city's most upscale restaurants.

"From the point of view of enjoying New Orleans, that's I think where there is a very clear differentiation between how much we enjoy, and what we enjoy, and where the market stands," said Bill, who is 79 and writes thrillers now that he's retired from book publishing.

Instead of their normal road trip back East in the summer, they splurged on flights and a rental car. They also rented their own lodging in Rye, N.Y., rather than staying with friends.

"Sooner or later, we're not going to be trading at 40 times," said Bill, referring to the stock market's lofty valuation. The couple is planning trips to Spain, Egypt and Scotland in the next year or so.

Zack Hendlin's portfolio is disproportionately made up of technology shares after a 15-year career at LinkedIn and Meta where he was paid partly in company shares

Hendlin and his wife scoured Facebook Marketplace in the spring for used furniture for their Burlingame, Calif., patio. After not finding anything they liked, they ended up sticking with their folding lawn chairs until last month, when a sustained stock upswing gave them the confidence to splurge on a Costco set for about $2,000.

That same mindset, Hendlin said, has applied to everything from other home improvement projects to vacations and meals out. They finished a roughly $3,000 project to add french doors to their living room to create an office space insulated from the shrieks of their almost-2-year-old. The couple recently went out for a $280 sushi birthday dinner. The week before, they were on vacation in Spain.

Hendlin, who runs an AI startup, has sold a small amount of stock to help pay for it all. But the key difference has been the feeling of watching his shares swell.

"The run-up in tech stocks has allowed me to worry less," Hendlin said. "It's sort of a pressure release valve from the daily financial stresses that every family faces." Market gains also make him more comfortable living as a startup founder earning much less than he did at his big-tech product manager roles, he said.

Retired telecommunications executive Mark Feighner, 77, put money into S&P 500 index funds when the market fell earlier this year. He also bought stock in Nvidia, Broadcom, GE Vernova and Marvell Technology as a way to bet on the AI boom. Pensions cover most of Feighner's costs, but the Dallas-area resident turns to his investments to fund extras.

He's spending a bit more these days. He and his wife bought two new leather couches for their family lake house that attract less fur from their two dogs. He upped his charitable donations to his local chapter of Big Brothers Big Sisters of America, which he funds with appreciated stock.

After watching stocks go up and up over the years, he's not worried about a downturn. He is just starting to use ChatGPT but is confident AI will transform the economy in a good way.

"I feel more optimistic today than I have in my life," he said.

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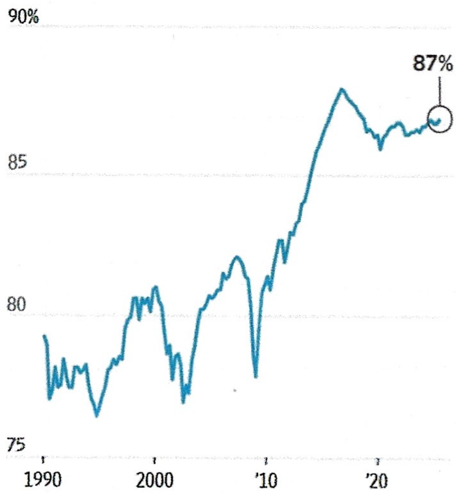
Percentage of stocks and mutual funds held by the top 20% of earners



Source: Federal Reserve