WESTEND Advisors
A VICTORY CAPITAL® INVESTMENT FRANCHISE

Economic and Market Commentary

October 29, 2026

Macro Drives Markets. WestEnd Knows Macro.

The WestEnd Macro Spotlight:

Laboring Over Consumption

While moderate U.S. job growth paired against stagnating workforce growth is keeping headline unemployment low, this labor market dynamic offers limited support for consumption growth. Seeing risk to other consumption drivers, we continue to underweight U.S. consumer exposure.

SUMMARY

- Despite low unemployment, muted job and wage gains have weighed on personal income growth and its contribution to consumption growth.
- Factors beyond the labor market that have helped sustain expansionary consumption trends—such as declining savings, fiscal stimulus, and a wealth effect—may be less impactful going forward.
- We see an underweight of U.S. consumer exposure as warranted, in aggregate, though our positioning reflects sector-specific nuances.

LABOR MARKET BALANCED BUT SOFT

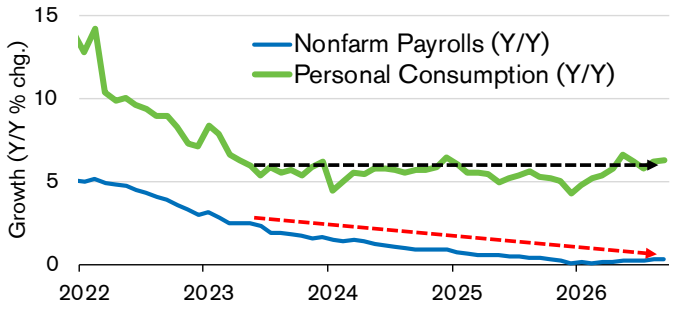
Many factors—from wealth effects to inflation—can influence consumption patterns, but growth of personal income, which is closely tied to worker compensation, makes the labor market a key pillar of sustained consumption growth. Currently, we see a fairly balanced labor market, but it seems unlikely to invigorate consumer spending.

Payroll growth trends remain anemic by historical standards, but the same is true of labor force growth, so less job creation is needed to absorb new labor supply. The Bureau of Labor Statistics (BLS) reports nonfarm payrolls grew by an average of 115k per month from 1990 through 2025, including recessions, while the average monthly gain is just 68k year-to-date through September. The separate BLS Household Survey, which is used to calculate the unemployment rate, showed the number of people employed in the U.S. only rose by 55k *in total* from January to September, though a 203k-person decline in the civilian labor force over the same period helped push the unemployment rate down a tenth of a point to 4.2%. Thus, while most people actively seeking work seem to have it, employment growth is not doing much to push up aggregate income.

This so-called "low hire, low fire" labor market also seems to be limiting wage growth. Average hourly earnings growth for private employees has slowed materially in the past few years, from a post-pandemic peak of 5.9% year-over-year in early 2022 to just 3.0% year-over-year in September. While this growth rate is still near highs reached in the 2010s expansion, gains then were generally accelerating and outpacing headline CPI inflation. Recent hourly earnings growth has continued to trend down and, for the past six months, has failed to keep up with CPI amid elevated energy prices.

That said, personal consumption growth has remained healthy this year, even after adjusting for elevated inflation, and we still see job growth providing modest support for late-cycle economic growth. However, overall labor market conditions and other factors lead us to question the risk/return profile of consumer-facing industries.

Exhibit 1: Consumption Growth Steady with Less Job Growth



Source: BLS, BEA, WestEnd Advisors

OTHER SPENDING FUEL MAY UNDERWHELM

While payrolls and wages may have contributed less to consumption growth in recent years than is typical, a lower personal savings rate, temporary One Big Beautiful Bill Act stimulus, and a significant wealth effect have helped fuel continued consumer spending growth. Consumers have been spending more and more of their income, which has essentially made up for slower wage and job growth.

The personal savings rate fell from 7.2% at the start of 2024 to just 3.8% in September. For lower-income households, a declining savings rate may reflect financial stress, as rising prices for food, gasoline, and other necessities eat up an increasing portion of their paycheck, rather than an affirmative choice to spend more. For middle- and upper-income consumers who make up the bulk of discretionary consumer spending, however, we believe a wealth effect

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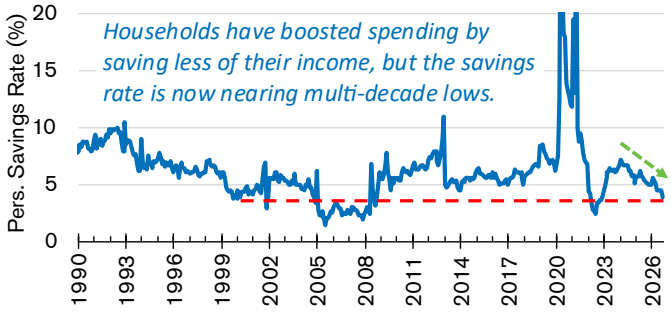
may also have been at play. These consumers are more likely to have benefited from the double-digit stock market gains in each of the last three years, along with continued (though recently more modest) home price appreciation. In our view, this growing wealth likely increased higher-end consumers' propensity to spend, even in the face of periods of economic uncertainty and market volatility.

With the savings rate below typical levels, there seems to be little room for consumers, especially at the lower-income end, to increase spending through continued reductions in savings. For higher earners and higher-net-worth consumers, the impact of the wealth effect is more difficult to anticipate, but continued market volatility, perceived economic uncertainty, and rising borrowing costs may all present headwinds that could limit its potential impact going forward.

Exhibit 2: Less Room to Boost Spending from Income



Source: BEA, WestEnd Advisors

Interestingly, much of the stock market gains in recent years that we believe are contributing to the wealth effect have been tied to the AI boom and tech capex buildout. In addition to supporting stock prices, tech-related investment in equipment and software has been making an outsized contribution to real GDP since the start of 2025, helping offset modestly slower growth trends in personal consumption. AI and tech-related investment have also supported a recent spike in corporate profits growth, but not a commensurate boost to household income that could help sustain consumption growth, in our view.

To be clear, our analysis does not lead us to expect an imminent downturn in consumption. Rather, we see headwinds that may limit upside for consumption growth from its recent trend, which is already more typical of a balanced economic expansion than of the narrow, investment-driven economic growth we have experienced recently.

EXPRESSING CONSUMER CAUTION

From a portfolio perspective, our views on current labor market and consumption trends lead us to underweight U.S. consumer exposure in aggregate. We are avoiding the large-cap U.S. Consumer Staples sector across portfolios, as we see significant risk from shifting consumption patterns among lower-income households facing higher gas prices and other inflation pressures, tied in part to geopolitical disruptions. Certain Consumer Staples industries also face headwinds to volume growth after several years of outsized price gains, and margin expansion could remain challenging, particularly if costs for inputs such as packaging and agricultural commodities move higher. Meanwhile, the sector's earnings growth is expected to be about 7% in 2027, less than half that of the S&P 500, yet its valuation is currently in line with the index.

Despite potential consumer headwinds, we do retain measured large-cap U.S. Consumer Discretionary exposure. This is partly tied to the resilience of higher-end consumers who tend to drive discretionary consumption. It also reflects the composition of the sector, as some of its largest components include exposure to less consumer-oriented themes, including data centers and cloud infrastructure.

We continue to watch for macroeconomic shifts that could alter our view, such as a resumption of disinflation that lifts real incomes or a slowing in tech-related capex, but on balance, we see greater opportunity outside of the consumer. Compared to Consumer Staples, we see more attractive risk/return profiles in other late-phase, defensive sectors, like Health Care; and within mid-phase sectors, we believe more direct exposure to AI and tech capex themes is appropriate, given our macroeconomic outlook and typical 6-to-18-month investment horizon.

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