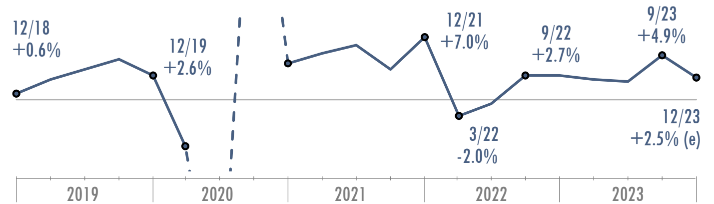
Bellwether
CONSULTING

Your Quarterly Update on the Financial Markets
December 31, 2023

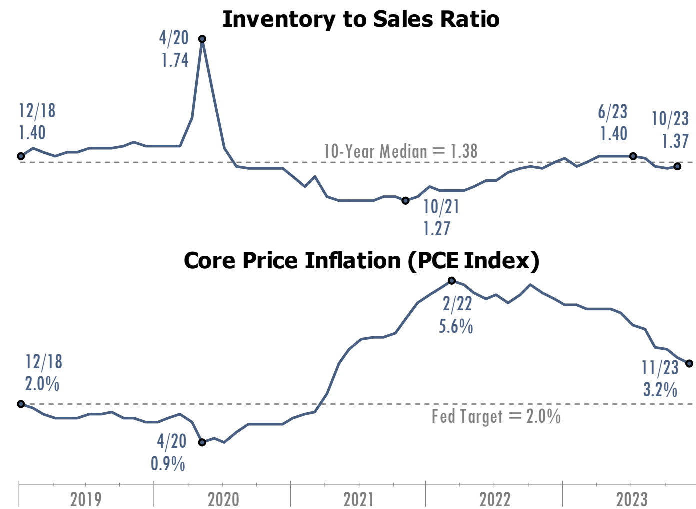
MARKET Recap

The US Economy: "Riding the Brakes"

The US economy grew at a 4.9% annualized pace in real terms for Q3, revised to be right in line with the Atlanta Fed's GDPNow model we discussed last quarter. The surge in growth was driven by personal consumption expenditures for goods and services, rising private inventories, government spending, and private infrastructure investment. A notoriously volatile component of GDP, inventories added 1.27% to the pace, accounting for a fourth of the quarter's bump.



In contrast, inventories subtracted 2.22% from Q1 growth. Purchasing managers always try to anticipate changes in the business cycle, but so far growth in inventories has remained in line with sales, driven by strong consumer spending. While inventory ratios have not grown back to elevated levels seen just before the COVID disruption, as of October they were right in line with the 10-year median. Based on normalization of inventory spending alone, one would expect a more modest growth pace in Q4. However, consumer spending and other leading indicators have cooled off, driving that same Atlanta Fed Nowcast model to forecast a 2.5% growth pace for Q4.



On December 13th the Fed expressed a relatively rosy view of economic conditions, with slower growth and continued progress on inflation projected for 2024. Of note, the Fed believes labor conditions have eased, and that strong job creation is now being accompanied by an increase in the labor supply through immigration and workforce participation.

While they expect to trim the Fed Funds Rate to 4.6% by the end of 2024, monetary policy will remain restrictive, with ongoing balance sheet reductions (quantitative tightening) and interest rates above the 2.5% expected long-run rate through 2026. Riding the brakes should, in their view, be sufficient to bring inflation all the way back to their 2% target and keep it there, hopefully without tipping the economy into recession. However, Chairman Powell was keen to stress that the new easing cycle could prove short-lived if inflation were to resurge.

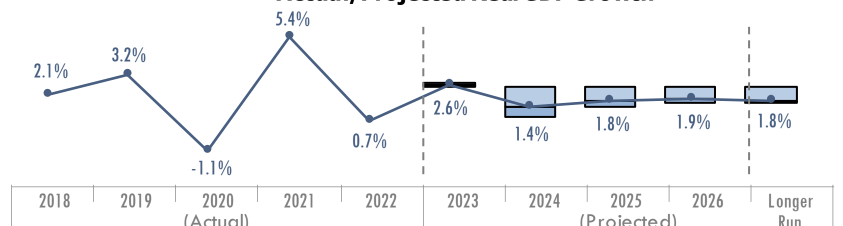
Looking at the range of survey responses, there is considerable variance as to appropriate policy for 2024 and 2025, with the top and bottom projections for the Fed Funds rate differing by 1.5% for 2024 and 2.0% for 2025.

For the long run expectations converge to a 2.5% policy rate, with a few respondents slightly lower, but with 6 of 18 respondents more than 25 basis points higher. That includes 3 outliers with long-term appropriate policy rates of 3.5% or more. There is a similar upward "tail" for long-term expected growth.

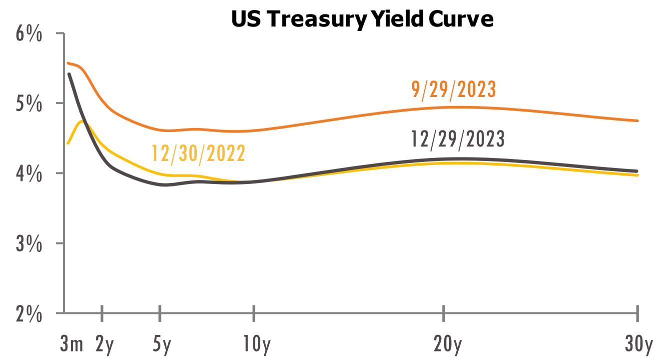
There is very little doubt as to the direction of short-term rates, but the speed of future Fed action remains quite uncertain.

12/23 Survey of Fed Board Members & Bank Presidents

	Median				Range			
	2024	2025	2026	Longer Run	2024	2025	2026	Longer Run
Change in Real GDP	1.4	1.8	1.9	1.8	0.8-2.5	1.4-2.5	1.6-2.5	1.6-2.5
Unemployment	4.1	4.1	4.1	4.1	3.9-4.5	3.8-4.7	3.8-4.7	3.5-4.3
PCE Inflation	2.4	2.1	2.0	2.0	2.1-2.7	2.0-2.5	2.0-2.3	n/a
Fed Funds Rate	4.6	3.6	2.9	2.5	3.9-5.4	2.4-5.4	2.4-4.9	2.4-3.8



The US Bond Market



Higher long-term yields proved unsustainable in the face of muted inflation prints for October and November combined with a rosy economic outlook. Fed critics who had been quite vocal through most of 2023 conveniently lost their voices, or maybe they were just drowned out by investors rejoicing as both equity and bond markets closed out the year in triumph. Even the long government bond index ended solidly in positive territory despite a near double-digit YTD loss as of Q3. The back end of the yield curve returned to where it started the year. Short term rates are a full percentage point higher but slope down quite steeply up to the 2-year key rate. However, market technicians should be cautious in prescribing any ill omen to this sharp front-end inversion.

Just last quarter, investors remained focused on how much more tightening might be in store. Now, Fed Funds futures are pricing 50 bps of rate cuts by the time the FOMC concludes their May 1, 2024 meeting, and a near-certainty that the overnight rate will be at least 25 bps lower. That does not leave much time for the Fed to wait and see. Monetary policy is powerful but it is also slow to impact the economy, ranging roughly half a year to two years between action and result.

US Bond Indices - Total Returns

Bloomberg Idx	4Q23	2023
Aggregate	6.82%	5.53%
Short Gov't	1.89%	4.66%
Interm. Gov't	3.97%	4.30%
Long Gov't	12.69%	3.11%
TIPS	4.71%	3.90%
Municipal	7.89%	6.40%
Interm. Credit	5.60%	6.94%
Long Credit	13.71%	10.73%
High Yield	7.16%	13.44%
(**CS**) Lev. Loan	2.85%	13.04%
MBS	7.48%	5.05%

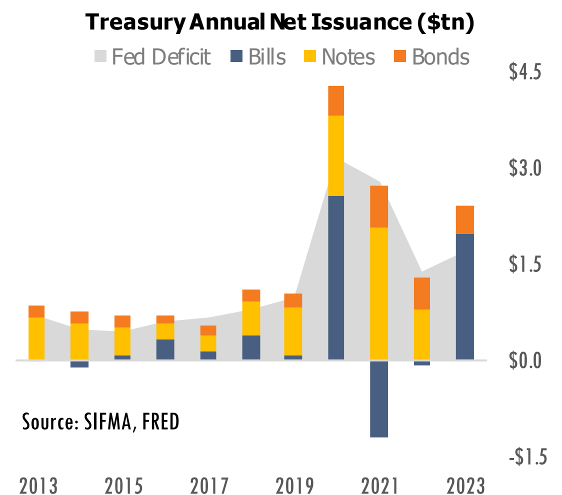
Long-time Fed-watchers must be questioning why futures imply that rates will end 2024 in the range of 350 to 400 bps, at least 150 bps lower than they stand today. This is even sharper than the Treasury yield curve suggests; the 1-year key rate settled at a yield of 4.79%. If rates start the year at 5 ⅜% and end at 4 ⅛%, then 4 ¾% would be the resulting basic 1-year yield assumption. The Fed's recent dot plot projects an even more gradual step down in overnight rates, ending 2024 firmly in the range of 425 to 500 bps minus a few outliers, mainly to the upside. Although unforeseen events or data could pressure the Fed to cut more aggressively than they are communicating, inflation is still very much on Chairman Powell's mind.

High yield spreads widened 50 bps in October but contracted 120 bps during November and December to end the year about 30 bps above the post-2008 low. Though every fixed income sector performed well for the quarter and the year, long duration was the winning trade for Q4 and long credit risk for the whole of 2023.

In 2023, the Treasury issued $22.7 trillion in new bonds, just over the 2020 record of $21.0 trillion. Rampant government spending during the pandemic has yet to be reined in and is also unlikely to be offset with tax increases. Consequently, the Treasury's auctions of notes and bonds are set to further increase in 2024 by more than 20% from 2023's offering sizes, on average. The Treasury may be nearing a tipping point into a feedback cycle where US debt-to-GDP swells, demand decreases, and the cost of financing the Federal debt rises. Credit rating agencies S&P and Fitch have already knocked the US Federal government down a notch from their respective highest credit qualities; Moody's has taken no action, yet.

Like dumping trash into the ocean, there was a long-standing assumption that the market would consistently absorb Treasury debt, regardless of the supply. However, recent Treasury auctions have challenged this view, particularly with the sale of a combined $108 billion of 3-year, 10-year, and 30-year bonds, along with $213 billion of shorter-term bills.

The most recent 30-year auction received a tepid response, affecting other market segments and raising concerns about the potential impact on government borrowing costs and the overall economy. Demand for the dollar is down and large institutions have been notably shedding their Treasury holdings. Key foreign investors, traditionally steady buyers of US debt, are reducing their positions. Japan, the largest foreign holder of US debt, reduced its holdings by 6% from January through August; China's stockpile reportedly fell by 14% in the same period. Treasury net issuance of notes and bonds is set to increase as a large volume of bills mature in 2024. While Treasury debt remains a safe haven, demand may not keep up [FT].



The US Stock Market

The US stock market had a strong close to 2023, with most major index returns in the double digits for both the quarter and the year. Even with the Fed continuing its rate hikes into the summer and regular predictions that a recession was just weeks away, the economy repeatedly defied expectations and, except for Q3, US stocks proved to be resilient as well. Toward the end of Q4, expectations for future rate cuts finally seemed justified, and the stock market responded enthusiastically.

US Stock Indices - Total Returns					
Largecaps	**4Q23**	**2023**	**Midcaps**	**4Q23**	**2023**
S&P 500	11.69%	26.29%	S&P Midcap 400	11.67%	16.44%
Russell 1000	11.96%	26.53%	Russell Midcap	12.82%	17.23%
Growth	14.16%	42.68%	Growth	14.55%	25.87%
Value	9.50%	11.46%	Value	12.11%	12.71%
Broad Markets			**Smallcaps**		
S&P 1500	11.78%	25.47%	S&P Smallcap 600	15.12%	16.05%
Russell 3000	12.07%	25.96%	Russell 2000	14.03%	16.93%
Growth	14.09%	41.21%	Growth	12.75%	18.66%
Value	9.83%	11.66%	Value	15.26%	14.65%

The rotation from growth to value in the small cap space that began last quarter continued into Q4. Financials, a classic value sector, was a top performer in both the Russell 2000 and the S&P SmallCap 600. However, growth outstripped value in large and mid caps. As noted in previous issues of our newsletter, growth stocks are more attractive to investors when they anticipate falling interest rates as the present value of future earnings (a.k.a. the "growth" they are seeking) increases.

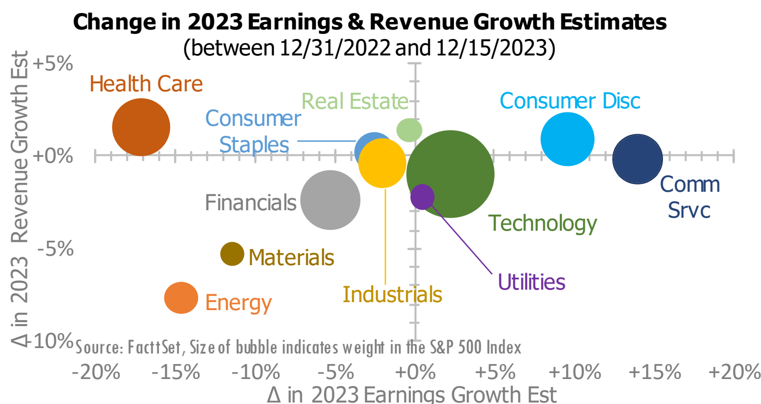
S&P 500 Sector Components Total Returns		
Sector	**4Q23**	**2023**
Real Estate	18.83%	12.36%
Info Tech.	17.17%	57.84%
Financials	14.03%	12.15%
Industrials	13.05%	18.13%
Consumer Discr.	12.42%	42.41%
Comm. Services	10.95%	55.80%
Materials	9.69%	12.55%
Utilities	8.56%	-7.08%
Health Care	6.41%	2.06%
Consumer Stpls	5.54%	0.52%
Energy	-6.94%	-1.33%

Some of the largest returns in Q4, and for 2023 as a whole, were posted by much smaller companies. In the financials sector, a run-up in crypto-currency firms in anticipation of SEC approval of bitcoin ETFs drove returns in firms like Cleanspark to 190% for Q4 and in Cipher Mining to 637% for the year. Marathon Digital Holdings and Riot Platforms were other top-returners. In small-cap biotech, firms like Immunogen, BridgeBio Pharma, MoonLake Immuno-therapeutics, and Soleno Therapeutics posted returns up to 87% for Q4 and 1,933% for the year. In the consumer discretionary space, Carvana was a standout with a Q4 return of 26% and a full-year return of 1,017%.

In a reversal from Q3, energy significantly trailed all other sectors. While oil production cuts by OPEC+ and a resulting increase in oil prices buoyed the sector last quarter, a step up in US production and China's weakening economy sent crude prices back down, taking energy sector performance with them in Q4. The real estate sector benefitted from expectations for lower interest rates. Heavily dependent on borrowing, falling interest rates reduce costs for REITs in addition to making their dividends more attractive to investors than bond yields. A late-quarter decline in mortgage rates along with continued tight inventory pushed performance of home builder stocks, which mostly reside in the mid- and small-cap consumer discretionary sectors, to outstrip the broader market. Toll Brothers returned 39% in Q4 and 108% for the year.

Magnificent 7 - Total Returns		
Comm Services	**4Q23**	**2023**
Alphabet (Cl A)	6.75%	58.32%
Meta Platforms	17.90%	194.13%
Consumer Disc		
Amazon.com	19.52%	80.88%
Tesla	-0.70%	101.72%
Info Tech		
Apple Inc	12.59%	48.91%
Microsoft	19.33%	57.96%
NVIDIA Corp	13.86%	238.98%

It was a challenging year for actively managed strategies. The spread in performance between the best and worst sectors was once again over 20% in Q4 and almost 65% for the full year. Performance in the Magnificent Seven overshadowed the rest of the market, but their increasing size made it difficult for managers of diversified strategies to hold them at market weight, much less to overweight them. While these firms seemed to move in lock-step for the first half of the year, they diverged for a second time in Q4, with Tesla and Alphabet underperforming the broad market. However, all seven firms posted stellar returns for the year, accounting for most of the 2023 return in the S&P 500.



The 2023 impact of Magnificent 7 is perhaps most evident by comparing the change in expectations for the S&P 500 constituents over the year. Estimates for 2023 earnings growth in S&P 500 companies saw a sizable drop over the course of the year in the health care, energy, and materials sectors while they improved notably in the communication services sector and, to a lesser extent, in the consumer discretionary sector. Estimates for 2023 earnings growth in S&P 500 companies on an aggregate basis fell to 0.6% YoY at the close of Q4 from 1.1% YoY at the beginning of the quarter. The 10-year average annual earnings growth rate is 8.4% [FactSet].

International Markets

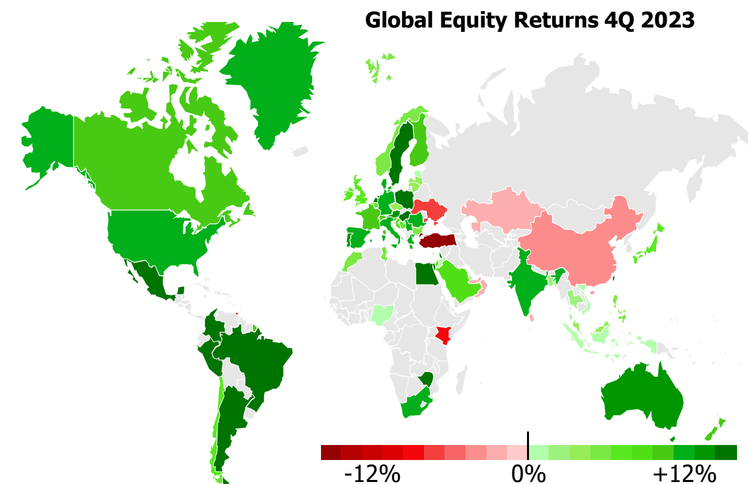
Global markets rallied strongly to finish the year as the specter of inflation began to wane, albeit with expectations that it would remain above most central bank targets. According to the Conference Board, growth has surprised to the upside with global real GDP projected to grow by 3.2% in 2023 driven in part by better-than-expected momentum from a number of emerging markets.

Unhedged Foreign Markets Indices - Total Returns					
MSCI Stocks	**4Q23**	**2023**	**Bloomberg Bonds**	**4Q23**	**2023**
ACWI ex-US	9.75%	15.62%	Global Aggregate	8.10%	5.72%
EAFE (Developed)	10.42%	18.24%	Pan-Euro	11.52%	11.26%
Emerging Markets	7.86%	9.83%	Asian-Pacific	6.37%	-0.93%
Europe	11.05%	19.89%	Eurodollar	4.01%	6.14%
Japan	8.19%	20.32%	Euro-Yen	6.50%	-4.84%
China	-4.22%	-11.20%	Other Currencies	10.52%	23.13%
Latin America	17.55%	32.71%			

Asia

China's third-quarter GDP expanded by 1.3%, a much faster pace than the second quarter's downward revised 0.5% growth. November data was mixed. It showed that consumers continue to spend more freely. Retail sales jumped more than expected to 10.1% from 5.5% YoY in September. Spending on activities such as eating out, going to the movies, and traveling drove a revival in growth earlier this year and continues to do so. Industrial output accelerated its gains to 6.6% from 4.5% in the last quarter, but factory activity fell deeper into contraction as domestic and foreign orders dried up. Manufacturing PMI has been declining since September. The non-manufacturing PMI, which includes services and construction, has been declining since March, with a one-time jump in September.

A deepening downturn in the property sector, which accounts for nearly a quarter of economic output, also continues to pose a big challenge due to defaults. In December, China South City Holdings, a state-backed developer, warned that it did not have the funds to pay interest on its overseas debt, and investors agreed to restructuring in order to stave off default. Labor market conditions appear to be stabilizing, as the unemployment rate has remained steady at 5.0% for the third consecutive month. However, youth unemployment continues to be a sore spot. In June, it hit a record of 21.3%. Since then, the government stopped publishing the figures.



Consumer prices declined 0.5% in November compared with a year earlier, steeper than October's 0.2% fall. The weak inflation figures add to signals suggesting that the economy is losing momentum again after modest interest rate cuts and other small stimulus steps drove a pickup in growth in the third quarter. Since most of the data point to a weak close to the year, top leaders announced more support is coming for the economy, with pledges of new fiscal stimulus and supportive central bank policy in the months ahead.

During 2023, the CSI 300 index peaked in February and has been declining since then. It realized a -7.00% return for the quarter and -11.38% for the year. Chinese stocks were the worst performers in Asia this year, also lagging a bulk of their global peers as a post-COVID economic rebound largely failed to materialize. A persistent debt crisis in the property sector, slowing consumer spending, and declining international demand for Chinese exports chipped away at the world's second-largest economy this year. Beijing also maintained a largely conservative approach to rolling out more stimulus measures, which further dented sentiment towards Chinese markets.

Japan's economy contracted in Q3, snapping 2 consecutive quarters of expansion as soft consumption and exports combined to crimp growth and hamstring the central bank's efforts to phase out its monetary stimulus amid rising inflation. Data shows inflation affecting household spending and adding to the impact being felt by manufacturers from slowing global demand including in China. GDP in the world's third-largest economy contracted 2.1% in Q3, according to government data, a much larger declined than the median forecast of a 0.6% fall.

Americas

Canada's real GDP decreased by 0.3%, impacted by a drop in exports (especially refined petroleum products) and slower inventory growth. This decline was mitigated by an increase in housing investment, driven by a surge in apartment construction and higher government spending. The BoC maintained its overnight lending rate at 5%, a level unchanged since July, following earlier increases. This steady rate, the highest since 2001, was in response to weakening inflation and

concerns about reduced consumer demand. The October Monetary Policy Report indicated that high interest rates were working to control inflation, which was projected to remain around 3.5% until mid-2024.

Interest Rates				
	1Q23	Peak	4Q23	
Canada	4.50%	5.00%	5.00%	⬆
Mexico	11.25%	11.25%	11.25%	—
Brazil	13.75%	13.75%	11.75%	⬇
Argentina	78.00%	133.00%	100.00%	⬆⬆

Mexico's economy outperformed expectations, growing 1.1% in Q3 and achieving a 3.3% annual growth rate. This surge was led by an increase in primary sectors like agriculture and mining, alongside growth in manufacturing and a rise in services. Factors fueling this growth included heightened industrial activity due to nearshoring, infrastructure spending, improved labor market conditions, declining inflation, and rising public and private investment.

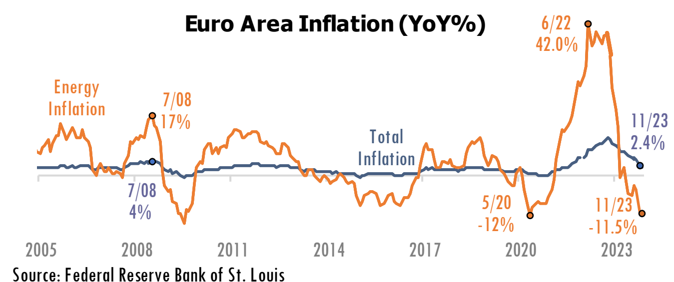
The Brazilian economy got off to a faster-than-expected start, supporting recent upgrades to full-year GDP growth forecasts. The economy realized slight growth, outperforming predictions of a 0.2% decrease, despite facing high interest rates and a notable 3.3% downturn in the agricultural sector. The industrial and service sectors each recorded a 0.6% increase, though this represented a deceleration from the previous quarter's growth. Initially, the central bank had set a high benchmark interest rate of 13.75% in July to manage inflationary pressures. However, with the annual inflation rate subsequently dropping to 4.82%, just above the bank's target of 4.75%, the central bank altered its monetary policy. This shift led to a series of half-point reductions in interest rates, culminating in a rate of 11.75% at the latest meeting.

Argentina's economy contracted by 0.80% in Q3, entering a recession and experiencing a severe slowdown from the previous quarter. Confronted with soaring inflation and widespread poverty, President Javier Milei's government implemented economic strategies, including devaluing the peso by 50% and reducing subsidies for energy and transport to regain economic stability. Inflation rates rose steadily: 8.3% in October, climbing to 12.8% in November, and were projected to reach around 30% by December, potentially driving the yearly inflation rate over 200%. Economy Minister Luis Caputo confirmed this uptick in December's inflation, while markets reacted positively but cautiously to the government's measures.

Europe

The Euro Area entered the fourth quarter on weak economic footing. However, price pressures continued to ease in the region. Eurozone inflation stood below 3% in October for the first time in over 2 years. Declining inflationary pressures allowed the ECB to keep its deposit rate unchanged at 4% at its late October meeting. Declining levels of consumer and business confidence in the region have increased the likelihood of the Euro Area contracting again in Q4, falling into a technical recession. Subdued economic activity and rapidly falling inflation have led to speculation that the bank may move to cut rates sooner than Q3 2024.

Preliminary estimates showed the Eurozone Composite PMI fell to 47.0 in December, down from November's 47.6 and below the market consensus of 48.0. This latest reading marked the seventh consecutive monthly reduction in business activity across the bloc, with manufacturing output falling for a ninth consecutive month and services activity contracting at the third-steepest pace since the early 2021 lockdowns. New orders declined for a seventh straight month, and backlogs of work also experienced a sharp drop, falling for the seventeenth time in the past 18 months. Employment declined for a second consecutive month as companies adjusted capacity in response to weakened demand.



Source: Federal Reserve Bank of St. Louis

According to the EU's 2023 Autumn Economic Forecast, real GDP is expected to contract toward year-end after having barely grown over the first three quarters. High, though declining, inflation and tighter monetary policy had a greater-than-expected impact. GDP growth is projected to be 0.6% in both the EU and euro area, 0.2 percentage points lower than the EU's summer forecast. A robust labor market, wage growth and continued easing of inflation are expected to help economic growth gradually pick up as consumption recovers in 2024.

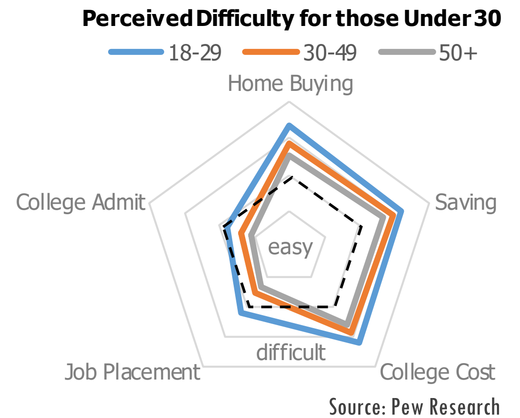
Inflation continues to trend downward from its 10.6% peak a year ago to its lowest level since July 2021. The sharp fall in energy prices, which drove moderation in 2022 and into this year, gave way to a broader-based decrease across all categories beyond energy and food. Headline inflation is expected to decrease from 6.5% in 2023 to 3.5% in 2024 and 2.4% in 2025.

European bond yields rose toward the end of 2023, rising off multi-month lows and tracking increases seen in US Treasury yields after weak demand at the final 7-year auction. The 10-year German Bund yield rose 9 basis points to 2.02% while 10-year gilt yields rose 10.5 basis points to 3.58%. However, decreases in yield appear likely in 2024 as slowing inflation and weaker growth should allow central banks to lower interest rates.

Focus On: Financial Security Under 30

Adulting is hard. And, it is getting more difficult every year for those looking to buy their first house, pay off college debt, and save for retirement. How much harder? That depends on who you ask.

Those over age 50 surveyed by Pew Research recognized it has become increasingly difficult for those under 30 to obtain financial security along these fronts. However, they also believed college admittance and job placement have become easier, balancing out the burden of ballooning debt. In contrast, those under 30 viewed their career challenges as equal to those of previous generations and their debt challenges as much worse.

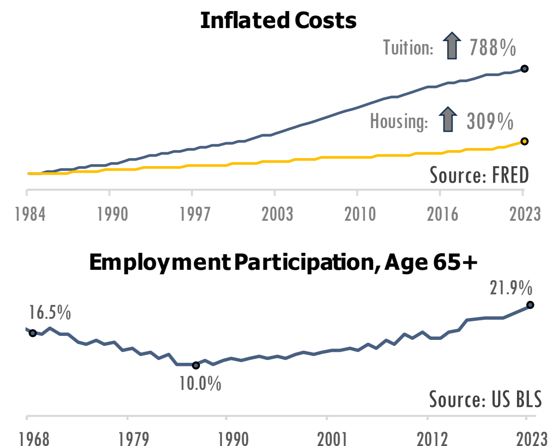


The youth may be ignorant or dismissive of the challenges Baby Boomers, Gen X, and older Millennials overcame to achieve financial security. Yet, those under 30 do face tremendous hurdles that were much smaller or non-existent generations ago. Consequently, "soft saving" has become an emerging trend among younger workers who reject "hustle culture" and the traditional path to retirement. The reality of these challenges requires a response from plan sponsors.

The "Soft-Saver" Generation

Thanks to inflation, everything seems expensive these days. Student loans, already substantial burdens, are now multiplied by high interest rates. Homeownership, once a cornerstone of retirement stability, now seems like a distant dream for many. Everything from cars, to food, to travel and entertainment seems to require financial sacrifice or abstention. Balancing immediate needs with future financial security has become challenging for most and impossible for some.

Gen Z views the comfortable retirement enjoyed by the Silent Generation as an aberration, not an expectation. For many younger workers, saving the oft-recommended 15% of gross income is neither feasible nor worth the sacrifice. Instead, they see more appeal in a soft lifestyle where spending on near-term indulgences rather than retirement is permissible and full-time work extends past 65 or winds down gradually.



A "soft life" is one that embraces comfort and low stress. Rather than focus on traditional measures of success – wealth and status, soft living ascribes value to personal growth and development. Gen Z is more recognizing of the physical, mental, and emotional sacrifices of living to work and appreciates a work/life balance that skews toward life. Thanks to the pandemic, older generations are starting to place more value on work/life balance as well. However, is Gen Z too soft?

Social Influencers and Rising Extremism

Like previous generations, Gen Z is the target of a lot of criticism from older folk. Part of this is progressive shifts in culture. However, much of it is the natural naivete that eventually cedes to experience and a fully-developed pre-frontal cortex.

Today's impressionable under-30s grapple with navigating an investment world where the loudest voices are made so by their sensationalism rather than their expertise. Crowd-sourced influencers often provide a misguided or incomplete picture. The meme stock craze highlights the need for a solid understanding of investment principles. Younger investors are particularly susceptible to chasing returns. Those caught up in meme stocks or NFTs got burned. Peak-to-trough losses exceeded 80% in many cases as social influencers advised holding onto the overvalued assets with "diamond hands."

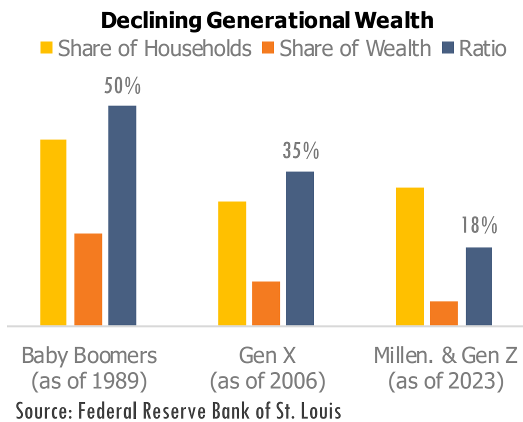
Robo-advisors and savings calculators are more reliable resources for financial planning, but too basic to produce a thoughtful long-term financial strategy. Gen Z is capable and accepting of help and resources to improve their investment acumen. However, it can be a challenge to get the right resources through everything else competing for attention. Arguably some self-described risk-averse young investors have made their portfolios much riskier by eschewing mainstream stocks in favor of penny stocks, stock options, levered ETFs, cryptocurrencies, precious metals, farmland, art, wine, watches and sneakers.

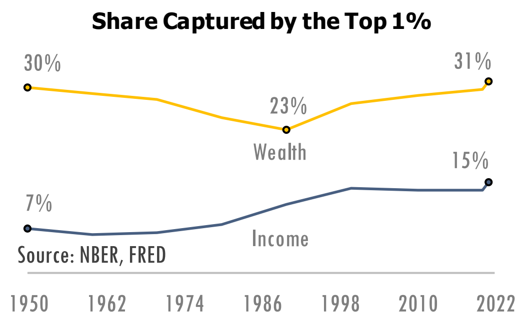
Social media is culpable for stoking extremism, insulating, and concentrating fringe views in an echo chamber. Concentrated investment risk-taking is one manifestation. The online community of "involuntary celibates" provides a darker illustration of the dangers of the disaffected disengaging. The incel community has a track record of misogyny, violence, and racism. Tens of thousands, possibly more, males under 30 count themselves as part of this online community. Naama Kates,

journalist/producer of a podcast on incels, said in 2021, "Overwhelmingly a lot of them are just lonely…and don't feel like they have a strong social group. And just with other aspects of purpose in life, a lot of them just aren't happy." A much larger cohort of young Americans are more quietly struggling with and failing to meet life milestones their parents enjoyed.

75 Years of Economic Prosperity

In 1950, a 28-year-old public high school teacher in an affluent suburb was more likely than not to comfortably support a respectable lifestyle for their entire family. They would have likely received a free college education, a government-subsidized mortgage, terrific benefits, and have already accumulated some savings. Today, that person would be lucky to find an affordable rental to share with a roommate while they struggle to repay their undergraduate debt, under-insure themselves, earn a master's degree, and make ends meet with a side-hustle.





There are many reasons why this is so. First, the starting point of 1950 was choice – aside from the roaring 20s, the previous decades of the 20th century were marked by war, famine, and hardship. The post-WWII global economic boom (1945-1973) began one of the greatest economic expansions, fueled by technological innovations like the television and infrastructure investments like the US highway system. Second, though the US has remained a powerhouse of economic prosperity, the share of wealth captured by younger generations declined as wealth disparities grew. Baby boomers in 1989 owned 21% of US wealth and comprised 42% of US households. Millennials in 2023 own one-quarter the share but constitute three-quarters the population. Third, instead of increased productivity leading to excess free time, it spurred consumption. In 1930, the average house was 1,129 square feet; it peaked in 2015 at 2,678. We are not basking in a standard 15-hour workweek, as Keynes predicted, we just have more stuff.

The decades 1950-1980 promised a greater distribution of wealth. The concentration of wealth has since moved higher and higher, eclipsing the Rockefeller and Carnegie days. Government policies enacted by politicians pandering to older wealthier voters have helped spur this. In 1950, Social Security taxes comprised less than 5% of Federal tax receipts and corporate income taxes close to 30%. Now, they are respectively 25% and 11%. The 2017 tax cuts favored high income earners and dramatically reduced corporate tax liabilities. Tax cuts and spending increases have ballooned the federal debt, effectively raising taxes on future generations of taxpayers.

Some progress has been made. 50 years ago, white men with no college education outearned women and minorities with advanced degrees. That gap has narrowed, but the gap between high school and college graduates' income has widened from 16% to 75%. Social upward mobility has improved as economic upward mobility has declined. While it is commendable that race, religion, and gender less forcefully dictate financial security in the US today, parental wealth is possibly the strongest determinant for higher educational attainment and the benefits it bestows [Karagiannaki].

The Heights of Consumerism

The US no longer cares to tighten its belt in times of peace and economic prosperity. This is true of the US government and consumer. The bar of success has been raised ever higher for 75 years. TV sitcoms no longer attempt to depict lifestyles of the lower middle class. They showcase the ultra-wealthy or have baristas live in multi-million-dollar apartments. As social media replaces your coworker and neighbor with celebrities, landing a secure job seems unimpressive compared to owning a private island.

Lauren Greenfield captured this, writing for the Daily Beast: "The economist Juliet Schor tells us that unlike the old days, when we compared ourselves to the family next door, who were a little more successful than us, we now compare ourselves to the celebrities with whom we spend more time than our actual neighbors. Keeping up with the Joneses has become Keeping up with the Kardashians, and the American Dream has morphed from an attainable goal, the result of hard work, to a fantasy way of life characterized by self-indulgence, celebrity, and narcissism." While the costs of necessities and the bar of education have risen, so has the quality of life improved.

Employers to the Rescue

Those under 30 face a unique set of challenges to attaining financial security. However, many prior generations overcame periods of equal or greater hardship. Today's younger employees are ensnared in unfavorable circumstances, but much of it may be temporary. Economies and markets are cyclical, and Generation Z will live through many more cycles. Although younger workers today may not have an advantageous starting point, plan sponsors can help set them up for long-term success by offering productive social, educational, and financial resources.

Financial education, plan design, and mentorship can be an effective toolset to keeping workers under 30 engaged in striving for financial security. Through these avenues, plan sponsors can promote employee retention, early contributions to retirement savings, and appropriate investment allocations. While most plan sponsors already give thoughtful attention to these facets, they may need updating to be effective with employees that have not only experienced a different world in their formative years, but may be entering a very different working world from the pre-pandemic office.

Engaging Younger Employees

Financial Education
- Tailored webinars
- Gamified educational resources
- Holistic financial wellness (student debt, housing)
- Transparent communication

Plan Design
- Automatic enrollment and escalation
- Employer matching contributions
- Vesting that rewards stability but is within reach

Mentorship
- Positive, real role modeling
- Peer mentoring to expand social ties
- Reverse mentoring to elevate concerns

Employers should implement targeted financial education designed for younger employees. These programs could cover basics of retirement planning, investments, and the power of early contributions. Providing accessible and engaging content, via webinars, workshops, or interactive online modules would help younger participants overwhelmed by myriad financial choices. Building on the tech-fluency of younger workers, employers can successfully leverage gamified apps and websites to engage this cohort. Accessible mobile apps, intuitive online interfaces, and interactive tools could also help and engage older employees in monitoring and managing their 401(k) accounts.

To be successful these resources need targeted information and realistic numbers young employees can trust and believe are relevant to their experience and outlook. For example, should young workers assume Social Security will provide a retirement safety net or disappear? The truth is likely somewhere in between. It should provide some safety net but it is uncertain what level of purchasing power Social Security checks will afford retirees decades from now.

Education tailored to young workers should also incorporate the financial goals most common to those under 30: affording a comfortable place to live and paying off student debt. Although rates are rising on student debt, many younger employees are paying interest rates low enough to classify as "good debt." Subsidized undergraduate loans for the 2020-2021 school year are being charged only 2.75%. Instead of encouraging early paydowns on these, plan sponsors should be encouraging contributions into tax-advantaged investments that have historically well outpaced these interest rates. Plan design can help with this and SECURE 2.0 introduces provisions that assist plan sponsors in implementing automatic enrollment and auto-escalation features in their retirement plans. These measures are designed to improve long-term retirement savings outcomes for workers, particularly those under 30.

Employers will find that younger workers are receptive to authentic trustworthy campaigns, particularly seamless mobile experiences or face-to-face interactions. (Yes, video calls count as face-to-face.) Mentorship programs became popular well before the pandemic and for good reason. These programs are win-win for companies and employees. 68% of Millennials who stay at the same company for more than 5 years have a mentor compared to 32% for those that do not [Deloitte]. Having a mentor is associated with a 23-percentage-point bump in job satisfaction among Millennials and Gen Z workers – a critical feat when 72% of Gen Z employees say they are looking to leave their current position within a year [CNBC].

At Caterpillar, mentorship is as much about soft skills, company culture, and work-life balance as it is about networking with coworkers and expanding skillsets. It is important for young workers to anchor their expectations, financial and otherwise, to reality instead of fabricated Instagram veneers of lifestyles not even achievable for the top 0.1%. Not everything has to be exciting or envious to be fulfilling and successful; this is especially true of retirement savings.

Bellwether Consulting LLC
PO Box 31, Millburn, NJ 07041
www.bellwetherconsulting.net
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