

K-Shaped Economy: Riding the Upward Branch

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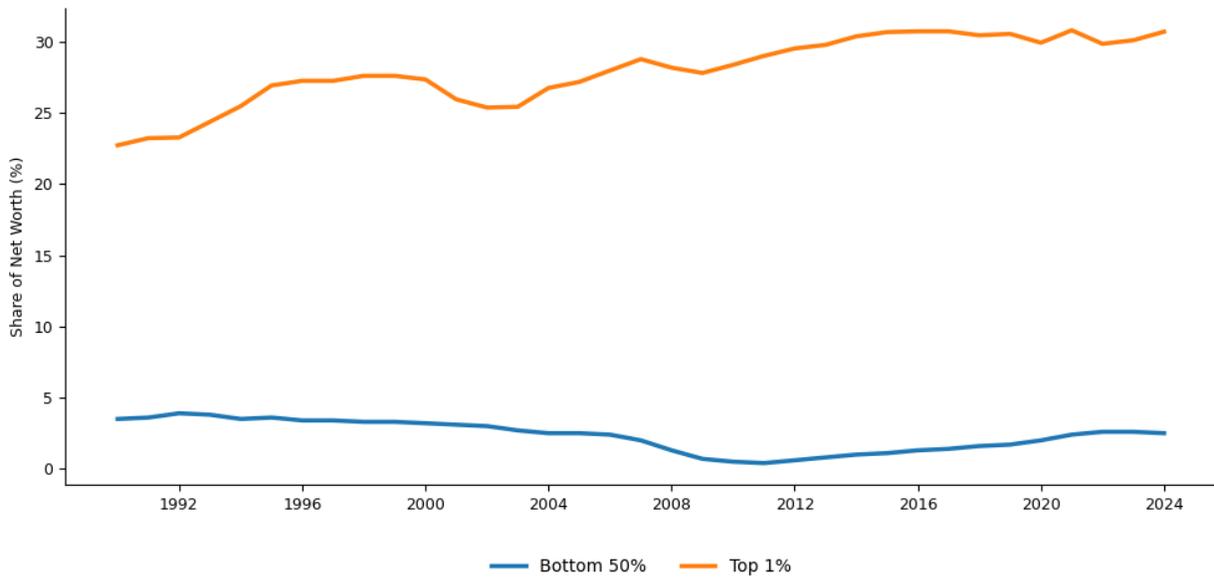
New World Investment Research by Amir Khamidullin

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- ◆ Top 1% now hold ~31% of net worth; the bottom 5% hold ~4%. Wage growth continues to favor the highest quartile, while middle- and lower-income groups face stagnation and rising cost pressures.
- ◆ Low-income households bear disproportionate burden from electricity cost surges due to AI data centers, tariffs, and higher prices in essentials (medical, food). High-income consumers maintain robust discretionary spending, including premium travel and lodging.
- ◆ Aggregate consumption masks widening income segmentation: higher-income households drive premium demand, while lower-income households exhibit price sensitivity, reduced volumes, and substitution constraints.
- ◆ S&P 500 and corporate profits concentrated in AI/tech (“Magnificent 7”), while traditional sectors (housing, cyclical industries) underperform. Investment flows favor information-processing and tech capex over residential or industrial structures.
- ◆ Defaults and spreads remain low, but strength is concentrated in high-quality issuers. HY returns uneven across sectors, highlighting the need for selective investment approaches.
- ◆ Market concentration limits diversification. Investors should favor selective exposure to outperforming sectors, high-quality credits, and discretionary firms targeting affluent households. Broader economic growth (~2% in 2026) will be driven by government spending and hyperscaler-led investments, leaving other sectors at risk of stagnation.
- ◆ K-shaped dynamics reinforce structural divergence in income, consumption, corporate earnings, and credit performance. Strategic selection, not broad-based allocation, is key to capturing growth and managing risk.

A K-shaped economy refers to a circumstance in which different consumer segments and industries grow at drastically different rates, creating a divergence like the letter “K”. Such an economy will see a high-income earner accumulating more wealth over time, while those at the lower end of the income spectrum find it increasingly difficult to afford essential goods and services.

Figure 1: US Wealth Distribution Skewed Greater Towards Top 1% Over Time

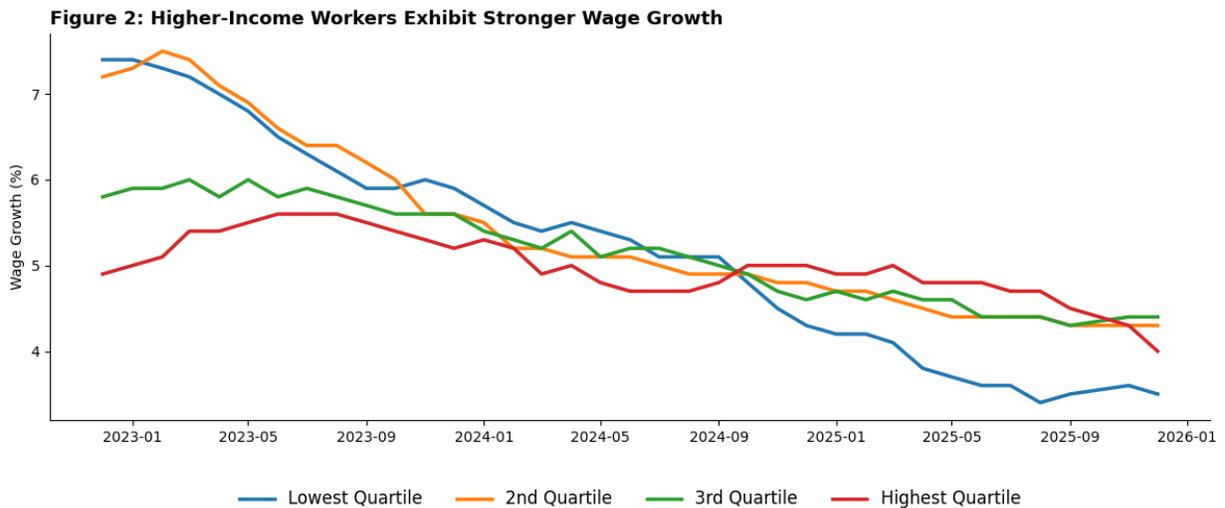


Source: FRED. Bottom 50% (WFRBSB50215); Top 1% (WFRBST01134).
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Over the past four decades, the share of net worth held by the top 1% increased from 23% to 31%, while the bottom 5% account for just about 4% net worth holdings. This factor alone provides important implications for the general economy and financial market. Therefore, this outlook will assess the extent to which the U.S. economy became K-shaped from various perspectives (incomes, consumption, investment, earnings) and provide implications for the financial markets as well as economic growth.

1: The United States Shows Strong Signs of a Bifurcated Economic Environment at the Consumer Level And...

The lowest quartile of wage distribution in the US experienced a 3.5% wage growth year-over-year through December 2025 compared to about 4.3% rate in December 2024. High-income workers saw their wages rise by roughly 4.1% year-over-year in December 2025 with consistent outperformance in growth dynamics over all workers in other wage groups since September 2024. Figure 2 demonstrates that the opposite trend prevailed before September 2024 where highest wage earners trailed the rest.



Source: Current Population Survey, Bureau of Labor Statistics, Federal Reserve Bank of Atlanta. The data are 12 month moving averages of monthly median wage growth for each average wage quartile (also 1st and 2nd half). Wage computed on an hourly basis.
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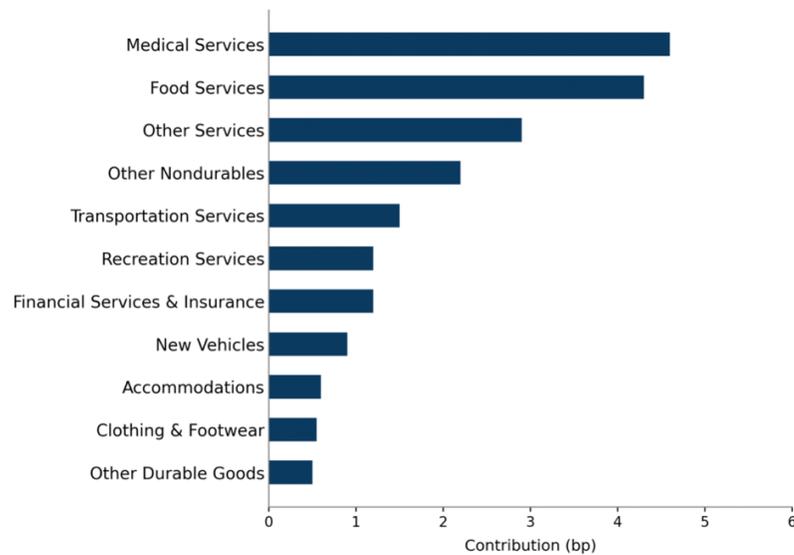
The recent employment report [data](#) from Bank of America Institute supports these dynamics: after tax wage growth for high-income households was around 2% greater than that of lower-income households. BofA warned that the more crucial finding lies in middle-income group. The bank’s research institute found that the middle-income households’ after-tax wage growth was 0.4 pp below its second half 2025 average, implying that any sustained and structural decline in middle-income wage growth might provide headwinds for consumer spending. Although wage growth has slowed across all income quartiles, the

highest quartile has continued to post relatively stronger gains in recent months, pointing to a gradual re-widening of wage differentials after a period of compression.

The estimated surge in electricity prices due to the buildout of AI datacenters and other related infrastructures is set to hurt low-income households the most as electricity costs take a greater proportion of their income. Estimates by Goldman Sachs Global Investment Research suggest that consumer electricity inflation will stick around 6% in 2026-2027 before decelerating to about 3% in 2028 on lower natural gas prices. However, although capital spent on infrastructure for data centers primarily benefits the data centers themselves rather than consumers, households, and non-AI businesses are expected to bear from about a third to an even half of the total excess capex costs required to service data centers. The government already intervened with policies to guard families and non-AI firms from these costs, but the effectiveness will be limited due to complexities in calculating and tracking the cost distributions.

Figure 3: Electricity Prices Are Set to Rise Further With Unequal Distribution Across Sectors

Top Core PCE Component Contributions to Real Income Loss From Higher Power Prices



Source: Goldman Sachs Global Investment Research, New World Investment Research by Amir Khamidullin (amirkh.com)

The more important factor is the impact of electricity prices on inflation. The same analysis by Goldman Sachs estimated the contribution to core Personal Consumption Expenditures (PCE) prices by industries from higher electricity costs. Figure 3 illustrates that ‘Medical

Services’ along with ‘Food Services’ account for the greatest increases in PCE prices. This reinforces the argument for low-income households suffering the most from AI buildout through higher electricity prices, especially in essential areas such as medicine and food. While AI might provide with broader macroeconomic improvement, the impacts are yet to be seen. However, a soar in prices is already taking places and expected to continue, meaning that low-income households will continue to experience downward pressure on real incomes, while high-income earners will be largely unaffected, rather they might see themselves benefit from capital gains since they are generally more exposed to financial markets and assets.

Absorption of ‘Liberation Day’ tariffs also highlights potential divergence in how different income groups see their living standards and purchasing powers. Despite the claims that tariffs will empower American consumers and business, the recent data points out that U.S. firms and consumers continue to bear a major part of the burden resulting from tariffs imposed in 2025 (Figure 4). Effectively tariff now act as a consumption tax on imported goods. Therefore, since lower-income consumers spend a larger share of income on tradable goods (appliances, clothing, households items) with lower savings and little opportunities for substitution - because US imports most of its consumer, capital and industrial goods, it is very likely the real income effect for lower-income groups will be more pronounced, leaving them even more vulnerable to changes in wages and prices.

Figure 4: U.S. Consumers and Businesses Carry Most Of The Tariffs Burden

Average by 2025 Period	Tariff Incidence On Foreign Exporters (%)	Tariff Incidence On U.S. Importers (%)
January - August	6	94
September - October	8	92
November	14	86

Source: Liberty Streets Economics, New World Investment Research by Amir Khamidullin (amirkh.com)

This suppression dynamic in low-income households' spending power is further supported by the most recent Black Friday and Thanksgiving [data](#). Adobe Analytics reported that U.S. shoppers spent \$6.4 billion on Thanksgiving Day and \$11.8 billion online on Black Friday. Both are all-time highs and well above last year's levels. However, separate data from Salesforce, showed that order volumes declined by roughly 1% year over year while average selling prices increased 7%, suggesting that the rise in total spending was driven primarily by higher prices rather than stronger consumer demand. In other words, consumers bought fewer items in this holiday season but paid a higher average price. More importantly, the [October 2025 Beige Book](#) - Federal Reserve System publication about economic conditions across the 12 Federal Reserve Districts – directly states that lower- and middle-income households are increasingly price-sensitive, actively searching for discounts amid persistent inflation and elevated economic uncertainty. Meanwhile, higher-income consumers continued to support strong demand for premium travel and lodging. Credit card data from Citigroup shows that expenditures on Citi-branded cards, which are typically used by customers with higher credit scores, have increased for four straight quarters, whereas spending on retailer-issued cards, which generally serve lower-credit-score borrowers, has declined during the same period.

Figure 5: Premium Airline Cabins Exhibit Solid Growth in Demand, While Demand For Economy Class Remains Stagnant

Cabin Class	2025 YoY Growth Estimates	2026 Projected Growth	Key Drivers
First Class	11% to 13%	4.5%	High-net-worth "experience" spending; limited supply leading to high yields; «Bleisure»* upgrades.
Business Class	8% to 9.5%	4.9%	Rebound in corporate travel budgets (+5%); resurgence of mid-week business trips; hybrid work flexibility.
Economy Class	-0.6% to -1.8%	1.2%	Price sensitivity among middle-income flyers; competition from Low-Cost Carriers (LCCs); impact of 2025 inflation.
Overall Market	2.1%	3.0%	Major events (FIFA World Cup); stabilization of fuel prices; recovery from the late-2025 domestic slump.

Source: New World Investment Research by Amir Khamidullin (amirkh.com)

The data and estimation were compiled based on the author's analysis of the following sources: IATA January 2026 Report, Morgan Stanley 2026 Corporate Travel Outlook, Air Monitor 2026 Report, Delta Airlines Financial Statements, American Airlines Financial Statements, Global Business Travel Association 2026 Business Travel Forecast, Airlines for America State of US Aviation November 2026 Update, FAA Aerospace Forecast 2025–2045

*Bleisure travelers - individuals who combine remote work with leisure trips and are willing to pay for upgrades.

The demand for air travel among different cabin classes reinforces the K-shaped nature of

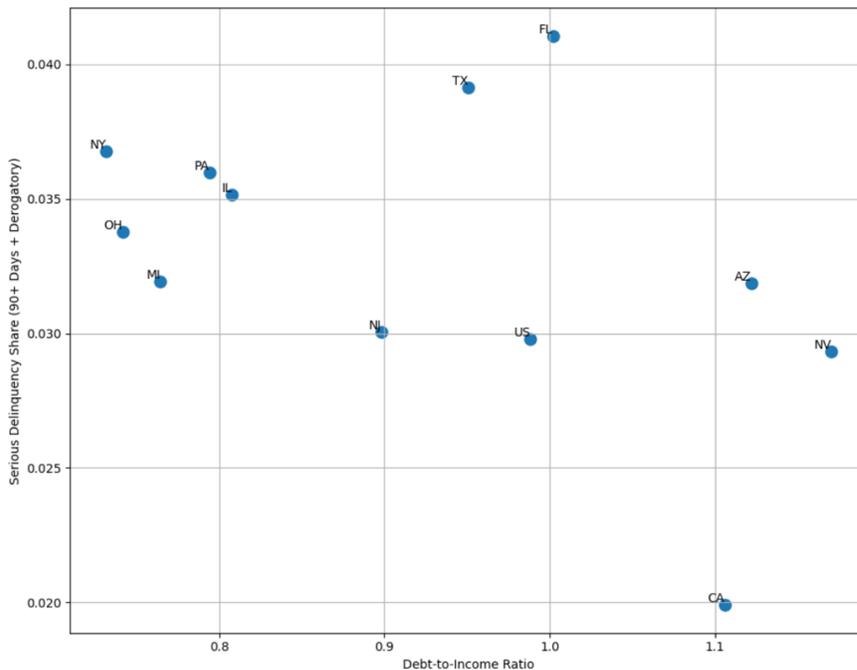
spending in the economy. In 2025, First and Business Class expand at 8–13% YoY versus flat to negative growth in Economy, despite total market growth of only ~2%, indicating that higher-income households and corporate travelers are sustaining discretionary “experience” spending even as price-sensitive consumers retrench. This divergence suggests that aggregate demand growth masks widening income-based segmentation, with airlines increasingly reliant on premium yield expansion rather than broad-based volume growth.

The bottom line is that the data point to real purchasing power eroding at the bottom and stabilizing at the top with widening income differentials and making aggregate consumption growth increasingly reliant on affluent households.

2: ...At The Corporate And Debt Market Level...

Apart from consumers, credit markets, investments and firms also experience the pervasiveness of the bifurcated economy. The S&P 500 is now being driven mostly by the AI story, with the 10 biggest stocks now making up 41% of the index’s market capitalization. Based on Apollo estimates, profit margins for the Magnificent 7 have been revised up over the last year, whereas the opposite has happened in the S&P 493. Moreover, spending on data centers has surged for years. While the pace has eased somewhat, growth remains robust, especially when set against other building categories, where construction activity has slowed since 2023 and turned negative throughout 2025. The same divergence is presented in real private fixed investment. While residential investment plunged sharply in 2022–2023 and remains weak, spending on information processing equipment has surged to around 20% year-over-year by 2025. This divergence suggests capital is rotating away from housing and traditional structures toward technology-driven investment, likely reflecting AI- and digital-infrastructure-led capex growth.

Figure 6: States with Higher Total Debt-to-Income Ratios (CA, NY) Outperform Low-Debt States (MI, OH) in Repayment Rates

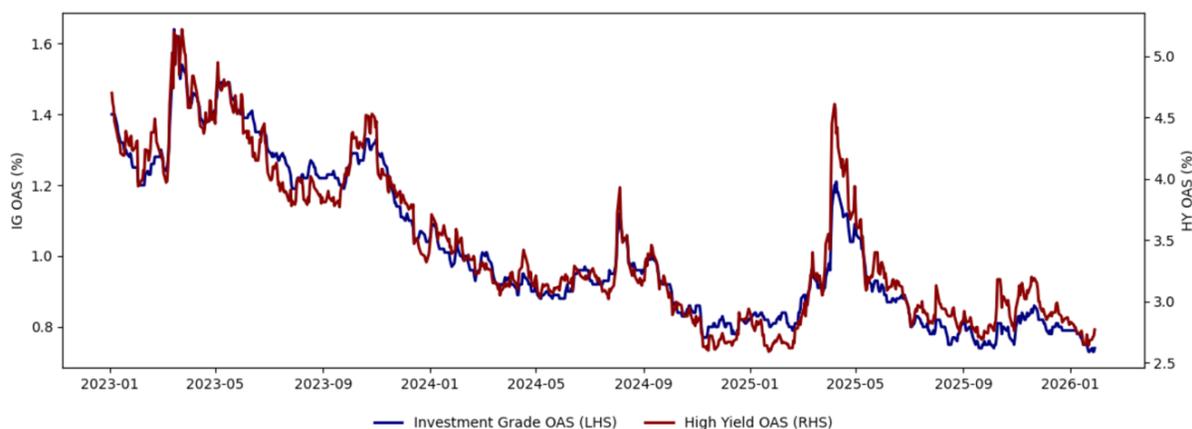


Source: Bureau of Labor Statistics (BLS), New York Fed Consumer Credit Panel/Equifax, New World Investment Research by Amir Khamidullin (amirkh.com)
 Serious Delinquency Share is calculated as a delinquencies of 90+ days and derogatory divided by the total debt.

Figure 6 illustrates that delinquency rates are generally lower for states with higher debt-to-income rate while those rates are higher for states that exhibit lower indebtedness levels relative to income. While this factor alone doesn't give clear implications of households' ability to repay debt across the economy, it can be concluded that states like California and New Jersey are characterized by high leverage, but also high stability. The bottom branch of states like Texas and Florida is defined by lower leverage but high instability. Even modest debt becomes a crisis point due to income fragility and a lack of financial buffer. Ultimately, wealth, productivity, and leverage are positioned in selected states that use debt to propel further growth and investment.

Changing perspective from households' debt to a corporate credit market, the data further supports that growth and resilience are narrowly placed with a need for selective picking. Based on the Apollo analysis, in the corporate sector, leveraged credit saw a significant drop in default activity in 2025. Total defaults and liability management actions amounted to \$67.8 billion, marking a 19% decline from the previous year and remaining well below 2023 figures. This overall decrease was driven by an approximately 40% fall in distressed exchanges, which more than offset an around 30% rise in payment defaults.

Figure 7: US Credit Spreads Have Compressed Since 2023

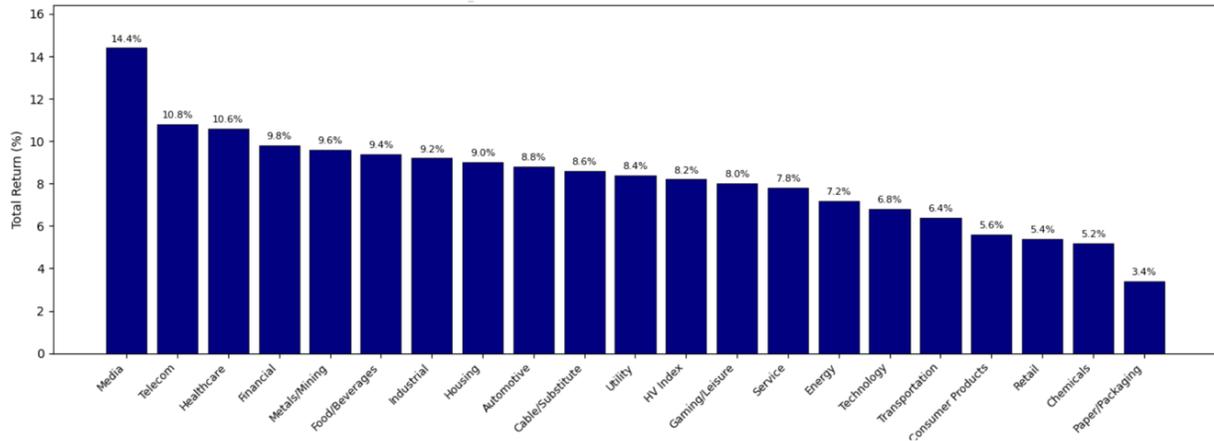


Source: FRED, New World Investment Research by Amir Khamidullin (amirkh.com)
OAS is the extra yield a bond offers over a risk-free Treasury, after removing the value of embedded options.

Moreover, option adjusted credit spreads have compressed to extremely low levels for both investment grade and junk bonds (Figure 7). While this indicates a robust corporate market

for credit, the strength is still limited to a selected number of issuers. Over the past year, weaker CCC-rated issuers have experienced worsening leverage and interest coverage ratios, whereas stronger single-B and BB borrowers have generally improved, supported by more stable cash flows and stronger balance-sheet management.

Figure 8: High Yield Bond Performance Across Sectors In 2025



Source: Apollo, JPMorgan, New World Investment Research by Amir Khamidullin (amirkh.com)
Data as of December 2025.

Performance within the HY Index was also highly uneven across sectors. Although the index rose about 8% through mid-December, returns differed significantly as investors exercised greater selectivity. Media outperformed, climbing over 14% thanks to strong M&A activity, while more cyclical and tariff-sensitive sectors like chemicals and packaging underperformed, posting gains below 5%.

The economy is sharply bifurcated - AI and tech-driven firms are thriving, driving S&P 500 gains and technology investment, while traditional sectors like housing and cyclical industries lag. Credit markets and corporate defaults are generally stable, but strength is concentrated in select high-quality issuers, and investor returns are increasingly uneven across sectors.

3: ...Which Has Implications For Investments And Economic Growth

As growth becomes more concentrated and the gap between 'leaders' and 'laggards' is widening, investors should become even more cautious and move further away from broader themes and benchmarks. S&P 500 along with other major benchmark indices no longer offer the diversification they once did as markets become overly concentrated with only a few outperforming equities. Furthermore, K-shaped dynamics reinforce increased vulnerability of the U.S. economy and stock markets to sudden repricing and changes in earnings estimations, meaning that diversification towards other asset classes or markets is reasonable. This is already evident in surge of EM stocks and other non-US equities.

The K-shape narrative will continue to drive markets and the economy in 2026. The lagged effects of tariffs, higher energy costs and lower consumer sentiment will likely drag down real disposable incomes for many households in the lower wage distribution quartiles, meaning that consumer discretionary firms might see their sales coming down. Firms producing goods and services, targeting high net worth individuals, are set experience a rise in revenues. The economic growth, which is currently projected at about 1.7% - 2.6% for 2026, is likely to come from U.S. government fiscal spending and investments from hyperscalers as well as related industries. Other industries, however, are likely to stagnate and lag.

For those looking to invest in credit, this divergence is not a red flag; rather, it is the very process that creates favorable investment opportunities. This environment is not characterized by panic selling or systemic distress, but by deliberate selection. In the realm of credit, when the market is driven by choice, it consistently works to the advantage of the buyer.

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