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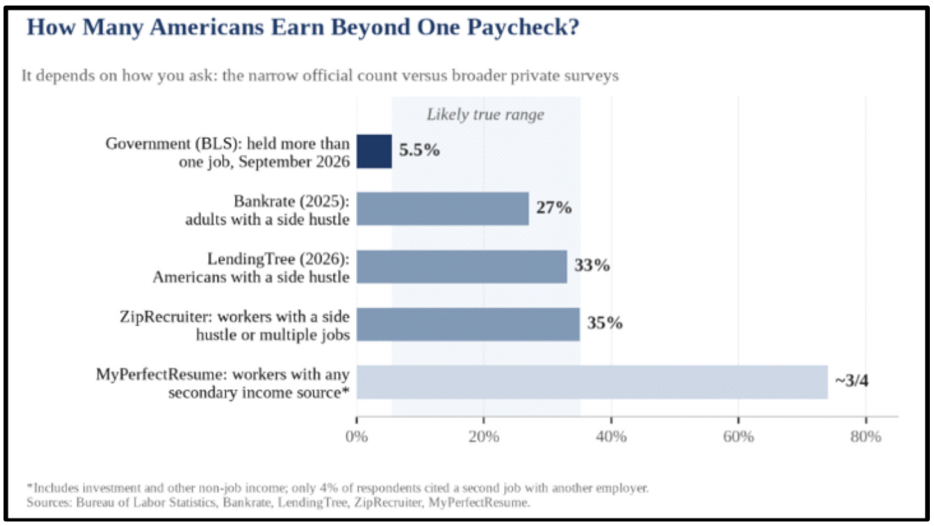
WORKING HARDER SAVING LESS

Our letters tend to focus on the forces that move the bond market from one quarter to the next: Fed policy, Treasury yields, and credit spreads. This month we want to step back and take a closer look at the one part of the economy that underpins nearly all of it: the American consumer. Household spending accounts for roughly two-thirds of US economic activity. Consumers' ability to keep spending in the face of persistent inflation and rising interest rates goes a long way toward explaining why the economy has run hotter than almost anyone expected this year, and why the Fed has felt compelled to start raising rates again.

The puzzle is easy to state. Inflation has proved stubborn: the Fed's preferred measure, the PCE price index, rose 3.6% over the year through September, and 3.1% excluding food and energy. After adjusting for taxes and those higher prices, Americans' disposable income fell 0.3% in September, after no growth in August. Yet consumers kept spending: inflation-adjusted outlays jumped 0.5% in August and held that gain in September. How are households keeping up? The answer, we think, is that they are working harder, saving less, and stretching, though not yet breaking.

The Gig Economy

One of the more striking developments of the past few years is how many Americans have taken on additional work. Anecdotal evidence isn't hard to find: the teacher who drives for a rideshare service on weekends, the nurse who picks up extra shifts at a second hospital, the accountant who freelances on the side. The more interesting question is how widespread this really is, and the answer depends a great deal on whom you ask.



The official government measure says it is fairly modest. According to the Bureau of Labor Statistics (BLS), about 9.0 million Americans held more than one job in September, or 5.5% of everyone employed. That rate has climbed since the spring, when it bottomed at 5.1%–5.2%, though it remains below the 5.7% reached in late 2025 and the record of 6.5% set in 1996.

Private surveys paint a very different picture. LendingTree's 2026 survey found that 33% of Americans have a "side hustle," and ZipRecruiter found that 35% of employed workers have a side hustle or hold multiple jobs. The broadest measure comes from the career site MyPerfectResume, which found that nearly three-quarters of workers rely on at least one secondary source of income. Even the private surveys disagree with one another: Bankrate's 2025 survey put the share of adults with a side hustle at just 27%.

Which number is right? In a sense, all of them. The BLS asks a narrow question: during a specific week, did you work for pay at more than one job? That definition misses much of what Americans actually do to earn extra money, such as selling goods online, occasional freelance or consulting work, renting out a room, or driving for a delivery app a few nights a month. The private surveys, on the other hand, cast a very wide net; some count investment income or a single month of side earnings. In the MyPerfectResume survey, for instance, only 4% of respondents said their secondary income came from a second job with a different employer. The truth lies somewhere between the government's 5% and the surveys' one-third or more, and the official statistics almost certainly understate how many Americans are working beyond a single paycheck.

Interestingly, the private surveys show participation easing from its 2022 peak: LendingTree's figure has fallen from 44% in 2022 to 33% today. Its analysts attribute this to a K-shaped economy, in which many Americans need every extra dollar they can find while others are doing well enough to do without it. We return to that split below.

What matters more than the precise number is the reason behind it. For many people, side work has long been a choice: a way to pursue a passion, build a business, or save toward a goal. For many others, it is now a necessity. In LendingTree's 2026 survey, 61% of side hustlers said their life would be unaffordable without that income, and nearly a third said they do it to keep up with everyday expenses. For these families, the second paycheck isn't extra money; it's part of the budget.

Stretching, Not Breaking

Extra work is only one of the ways households have adapted. The other is saving less. The personal saving rate, the share of after-tax income that households don't spend, fell to 3.8% in September from 4.0% in August, its lowest level since October 2022. In plain terms, consumers have been spending more than their incomes are growing and making up the difference by setting less aside.

Consumer borrowing tells a more reassuring story than the headlines might suggest. Total household debt stood at $18.8 trillion at the end

of the second quarter, essentially unchanged from the first quarter, and the share of debt in some stage of delinquency actually edged down to 4.7%. Credit card balances continue to grow, reaching $1.26 trillion, but researchers at the New York Fed found that the pace at which balances are falling into delinquency, while elevated, has been largely stable since 2024. Banks have kept lending standards tight, particularly for borrowers with weaker credit. Demand for credit card loans has picked up, but banks point to rising prices as a key reason: households appear to be borrowing to keep pace, not to splurge.

There is an important nuance hidden in these aggregate figures: there isn't really one American consumer, but at least two. Households with meaningful savings, investments, and fixed-rate mortgages have fared quite well in this environment. Many locked in mortgage rates far below today's 7%-plus levels, stock market gains have lifted their wealth, and cash and high-quality bonds once again pay a meaningful income. For these households, higher interest rates have been, on balance, a benefit. Households without those cushions, including renters, younger workers, and lower or single-income families, bear the full brunt of higher prices for food, fuel, and housing, along with higher borrowing costs. Much of the strength in the aggregate spending data likely comes from the first group, while the second group is the one picking up extra shifts. This is the hallmark of the K-shaped economy.

It's also worth remembering that inflation is cumulative. Even if price increases slow from here, prices themselves won't go back down. A family whose grocery and fuel bills are meaningfully higher than they were five years ago doesn't feel relief when inflation drops from 3.6% to 2.5%; it simply feels the pain growing a bit more slowly.

Voters Weigh In

This month's midterm elections made that point as clearly as any economic report. Whatever one makes of the results, voters across the political spectrum sent a consistent message about their household finances. In the AP Voter Poll, a survey of roughly 100,000 midterm voters, about nine in ten said the cost of living was a "crucial" or "major" factor in their vote for Congress. NBC News' exit poll found that the economy topped voters' list of issues, with 39% calling it the most important issue facing the country, and 85% or more said they were concerned about the cost of groceries, gas, utilities, and healthcare. This was also the second straight national election in which most voters said inflation was a hardship for them.

The polling also echoes the split we described above. About six in ten voters with household incomes under $50,000 said the cost of living was crucial to their vote, compared with about half of those earning more. In other words, the households doing the most to stretch their budgets said so at the ballot box.

For bond investors, the direction of attention in Washington matters more than the politics. Before the election, about eight in ten registered voters, including large majorities of both Republicans and Democrats, said lowering the cost of living should be one of the highest priorities for the next Congress. We expect affordability to remain front and center as the new Congress takes shape. Proposals aimed at easing household costs, whether through tax changes, spending, or other measures, could affect federal borrowing, Treasury supply, and inflation itself. We don't take sides in these debates, and it's far too early to know what, if anything, will be enacted. But we'll be watching closely for policies that could change the outlook for interest rates and the bond market.

What it Means for the Bond Market

Why does any of this matter to bond investors? Because the consumer sits at the center of the Fed's decision-making. A household sector that continues to spend at a healthy clip, even if it's working overtime to do so, keeps demand strong and makes it harder for inflation to return to the Fed's 2% target. That is part of why the Fed raised rates in September, its first increase since 2023, and why most policymakers projected at least one more hike this year. At its October 27th–28th meeting, the Fed held its policy rate steady at 3.75%–4.00%, though two officials dissented in favor of another increase. The October CPI report, released November 10th, strengthened the case for further tightening. Headline prices rose 0.4% and core prices 0.3% for the month, both above expectations, marking the third straight month of core inflation at 0.3% or higher. Shortly after the release, futures markets priced in a stronger likelihood of a quarter-point hike at the Fed's December meeting. In the near term, a resilient consumer and persistent price pressures argue for interest rates staying higher for longer.

But resilience built on extra hours and a shrinking savings cushion is a different kind of resilience than one built on rising real wages. Many of the shock absorbers households would normally rely on in a downturn are already in use. Higher interest rates have historically worked with a lag, so the labor market could still soften. If it does, second jobs and side gigs are often the first hours to disappear, and households with little savings have less room to adjust. In that scenario, consumer spending could slow more abruptly than today's data suggests, and the Fed could find itself shifting back toward easier policy sooner than markets now expect. That is not our base case. The labor market remains stable, corporate earnings are growing rapidly, and the economy grew at a 3.4% annual rate in the third quarter, well above trend. But it is a risk worth keeping in view, and it is one reason we believe today's high bond yields offer valuable protection in addition to attractive income.

Looking Ahead

The American consumer has been written off many times over the past few years and has defied the skeptics nearly every time. We aren't inclined to bet against that track record now. But how that resilience is being achieved matters as much as the resilience itself. More work, less saving, and careful borrowing tell us that many households are absorbing persistent inflation through effort rather than through rising prosperity, a reality voters made plain at the polls this month. That kind of resilience is admirable, but it isn't costless, and it isn't unlimited.

For the bond market, the question in the months ahead isn't simply whether consumers keep spending, but how long they can keep stretching to do so. The answer will help shape the path of inflation, the Fed's next moves, and ultimately the level of interest rates. We'll be watching the data closely and look forward to sharing our perspective as this chapter unfolds. As always, thank you for your confidence in our team.

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