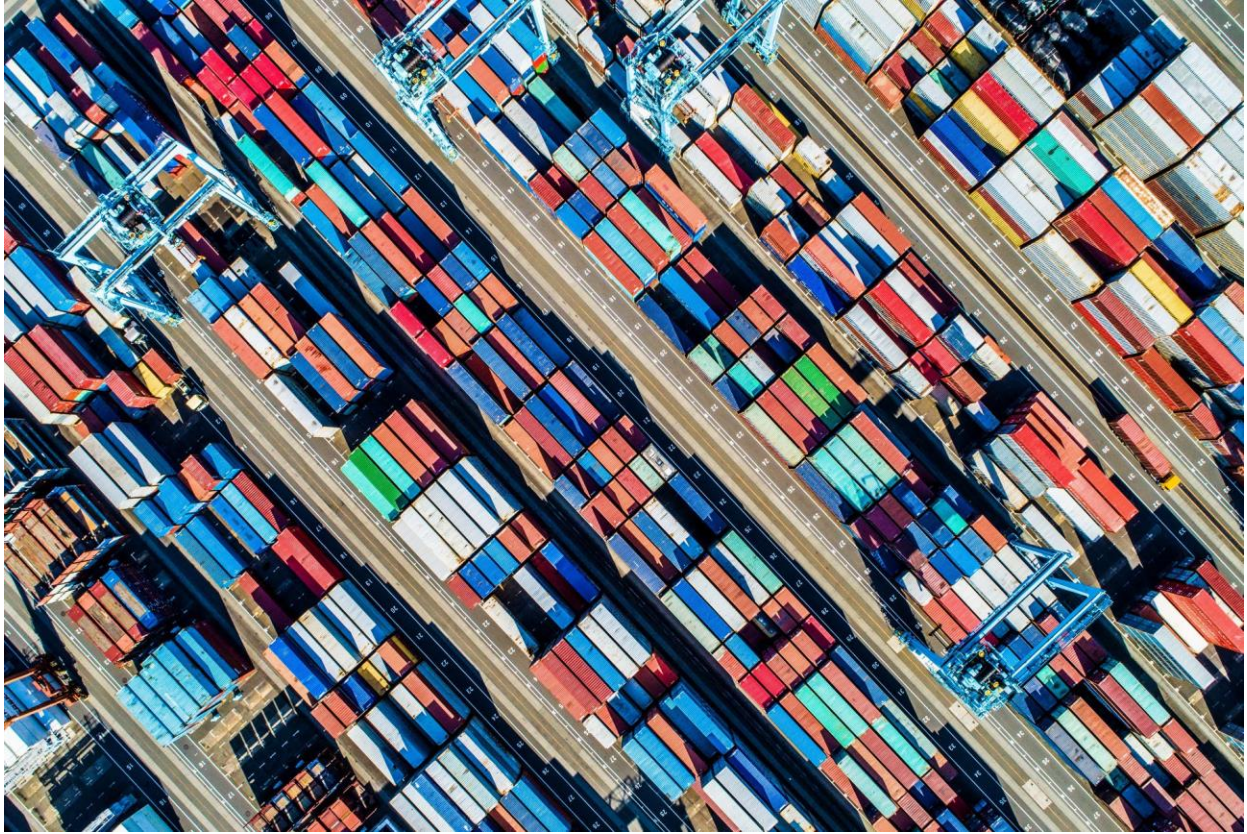




CAPWEALTH

Have We Built an Economy That We Cannot Afford?

An Affordability Whitepaper

July 2026

CapWealth Group | Franklin, Tennessee

Why We Are Publishing Now

For the better part of two years, CapWealth has been studying a question that sits beneath nearly every client conversation, every planning engagement, and every headline about the American economy: have we built an economy that we cannot afford? We began assembling this research in earnest in 2024, tracking the slow erosion of household purchasing power against the accelerating arithmetic of the national balance sheet. We deliberately chose not to publish then. The data pointed toward a conclusion, but the conclusion had not yet been tested.

It has now been tested. Over the past twelve months, the American economy absorbed a genuine external shock — an energy-price surge born of geopolitical conflict — with household savings depleted, consumer debt at record levels, and a federal government whose interest expense already exceeded its defense budget. The results are visible in the data: consumer sentiment at the lowest level ever recorded, delinquency rates on auto loans at all-time highs, credit card delinquencies near financial-crisis levels, and inflation reaccelerating past 4% for the first time in three years. The stress test we worried about in the abstract arrived in fact.

Vermont Royster, the longtime editor of the Wall Street Journal, observed that sitting by the seashore it can be hard to tell which way the tide is running — only with the passage of time does the ebb or flow become clear. We waited for the tide to declare itself. It has. What follows is the product of two years of study: a data-driven examination of the affordability crisis now reaching across the entire wealth spectrum, the fiscal constraints that limit the traditional policy response, and what we believe families, policymakers, and investors should do about it.

CapWealth Group is an SEC-registered investment advisory firm managing approximately \$2.1 billion in assets. We have focused for years on these challenges through the lens of the working families who support our everyday lives — and, increasingly, through the lens of affluent households discovering that wealth no longer insulates them. American consumers are owed fair prices relative to their wages, abundant workforce housing, and the promise of a strong economy for future generations. This paper is our contribution to that conversation.

Executive Summary

This whitepaper addresses the components of the United States economy contributing to an affordability crisis across the wealth spectrum, and identifies, through data-driven analysis, the variables the public and private sectors must address to avoid deeper economic damage. Six findings organize the paper:

1. The fiscal cushion is gone. As of June 2026 the gross national debt stands at \$39.2 trillion and is growing at roughly \$8 billion per day.¹ The Congressional Budget Office projects a \$1.9 trillion deficit for fiscal year 2026 and debt held by the public rising from 101% of GDP today to 120% by 2036 — surpassing the World War II record within four years — and 175% of GDP over thirty years.² Net interest, already larger than the defense budget, is projected to double from \$1.0 trillion to \$2.1 trillion by 2036.² In past cycles the Federal Reserve and Congress bailed out the consumer. The capacity to do so again is sharply diminished.

2. Inflation has returned — and consumers never recovered from the last round.

Headline CPI rose 4.2% in the year through May 2026, the largest twelve-month increase since April 2023, driven by a 23.5% surge in energy prices following the conflict with Iran.³ Gasoline averages roughly \$4.50 per gallon nationally, up from about \$3.14 a year ago.⁴ This shock landed on households that had never regained pre-pandemic purchasing power: real wage growth remains below cumulative price growth since early 2021, and grocery, insurance, and housing costs remain structurally elevated.

3. Household balance sheets are cracking at the edges. Total household debt reached a record \$18.8 trillion in the first quarter of 2026.⁵ Credit card delinquency is at a sixteen-year high, auto loan delinquency at the highest level the New York Fed has ever recorded, and student loan delinquency at its worst since before the pandemic payment pause.^{5,6} The New York Fed's own researchers now describe a 'K-shaped' economy — stable at the top, deteriorating at the bottom.⁷

4. The contagion has reached the affluent. Households earning \$100,000 or more — once insulated from economic volatility — face their own affordability squeeze through home insurance premiums up more than 50% in five years, maintenance costs up over 120%, private tuition inflation, and mortgage payments on a median home of roughly \$3,100 per month versus \$1,700 in early 2020.^{8,9} Consumer sentiment hit 49.8 in April 2026 — an all-time low, beneath even the depths of 2008.¹⁰

5. Housing remains the epicenter. Median new and existing home prices both sit above \$400,000; a family earning the national median income of \$106,800 must devote 32% of income to the mortgage on a median-priced home, and a low-income family 65%.¹¹ Existing home prices are up 54% since 2020 and stand at nearly five times median income, versus the ratio of roughly three that prevailed in the 1990s.⁸ The nationwide shortage is approximately 1.2 million units.¹²

6. Corporate America faces its own maturity wall. Nearly \$936 billion of commercial real estate loans mature in 2026 — the peak year — after two years of extensions pushed the problem forward. Office delinquency in the CMBS market reached a record 12.34% in January 2026, and more than 900 banks still carry CRE exposure above 300% of capital.¹³

The paper closes with four illustrative household case studies spanning the income spectrum, a discussion of the policy choices ahead, and the investment principles we believe follow from this environment.

The Recent Challenge

Discussions with clients, academic experts, and industry colleagues reveal growing concern over the combined impact of a government burdened by rising debt and working-class consumers facing higher costs — pressure that is propagating steadily up the income ladder.

The anxiety shows up first in the indicators of everyday life. A growing number of Americans now use buy-now-pay-later loans to purchase groceries, and more are paying those bills late.¹⁴ Costco's leadership has observed members becoming notably more selective with spending and shifting toward food at home over food away. Kellogg's chief executive suggested in 2024 that cereal for dinner was increasingly on trend for a consumer under pressure — a small detail that captures a large phenomenon. Walmart has attributed roughly two-thirds of its market-share gains to high-income shoppers trading down.¹⁵

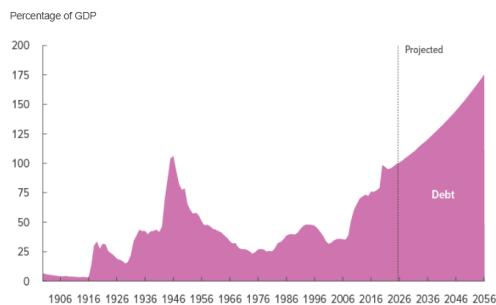
Even with growing angst, consumers will not eat less, and will not forgo the annual vacation if they can avoid it. But the indicators show that something has to give — and in the past twelve months, it began to. In prior cycles, the Federal Reserve and Congress stood ready to rescue the consumer. With a rapidly rising debt load and structural deficits near \$2 trillion, the scope for rescue has narrowed dramatically.

On one side: families stretched beyond their incomes. On the other: a government stretched beyond historically reasonable standards. Something must give.

Reaching the Limit: How Much More Can Families and the Economy Take?

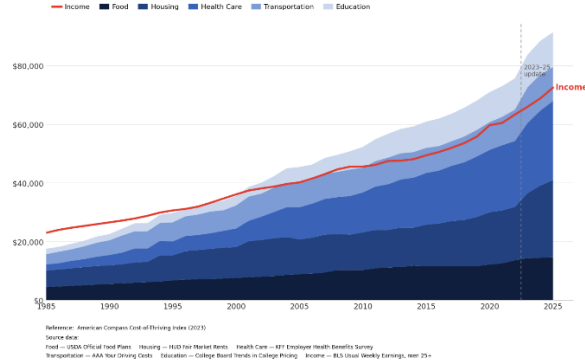
Federal Debt Held by the Public

Debt held by the public rises each year of the projection period, from 101 percent of GDP this year to 120 percent in 2036—higher than at any point in the nation's history. Over the following two decades, growing deficits push federal debt to 175 percent of GDP.



Left: Federal Debt Held by the Public vs. GDP, rebuilt on CBO's February 2026 baseline (101% of GDP in 2026, rising to 120% by 2036 and 175% by 2056). Right: original 2025-vintage family-cost panel, not yet refreshed to current BLS data.

Major costs for a middle-class family of four vs. median male income (nominal dollars)

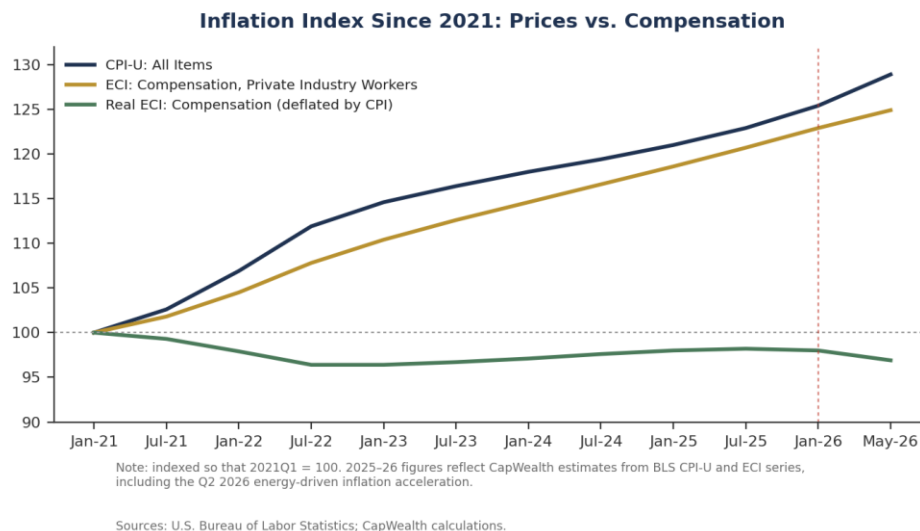


Inflation — the Tax on the American Consumer

Inflation has deteriorated the purchasing power of the average American, and the moderation of 2023–2025 never meant relief. When inflation slows, prices merely rise more slowly; they do not fall. Families have therefore spent four years living with a permanently higher cost structure — groceries up over 80% since 2000 against real wage growth of roughly 23%, with education and housing costs up far more.¹⁶

Then, in 2026, inflation stopped moderating. Headline CPI accelerated for a third consecutive month to 4.2% year-over-year in May 2026 — the highest since April 2023 — as energy costs jumped 23.5% following the conflict with Iran, with gasoline up 40.5% and fuel oil up nearly 59%.³ Core inflation, at 2.9%, is at its own multi-quarter high.³ Food prices rose 3.1% over the year, with the pressure point shifting from eggs to beef: a cyclical contraction of the cattle herd has pushed farm-level cattle prices up nearly 17% year-over-year, with wholesale beef projected to rise roughly 9% in 2026.¹⁷

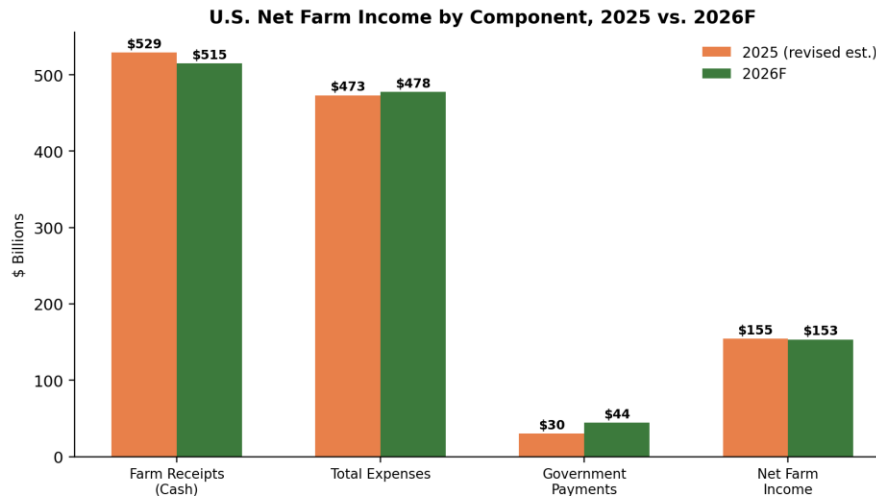
The perception gap that defined the post-pandemic period persists. Consumers hear that wages are rising faster than prices; they do not feel it, because the statement is true only at the margin. Cumulative real wage growth remains below cumulative price growth since early 2021, and Employment Cost Index data adjusted for inflation show compensation has yet to return to its pre-pandemic trend. Traditionally, inflation was the 'hidden tax' on the American consumer. The post-pandemic surge moved that tax to the forefront of the consumer's mind — and research now finds inflation has become a statistically significant determinant of consumer sentiment in a way it was not before the pandemic. The 2026 energy shock has re-levied the tax on households that never finished paying the last assessment.



Inflation Index Since 2021: prices vs. compensation, extended through May 2026. Source: BLS; CapWealth estimates.

Cost of Living & the National Debt

From physicians to farmers, affluent and working-class families alike report that their bank accounts are not keeping up. A WalletHub survey found 65% of bank customers felt this way — and the feeling is corroborated by the data. The American Farm Bureau has documented inflation-adjusted declines in net farm income even as farm expenses rise. At the higher end of the income spectrum, Doximity's physician compensation research finds that real physician income has hardly budged in seven years, and the American Medical Association calculates that Medicare physician payment, adjusted for inflation, has declined 29% since 2001.¹⁸



Source: USDA Economic Research Service, Farm Sector Income Forecast (Feb. 2026). 2025 figures reflect USDA's downward revision from the September 2025 estimate.

U.S. Net Farm Income by Component, 2025 vs. 2026F. Source: USDA ERS, Farm Sector Income Forecast (February 2026).

Meanwhile, the government's own cost of living has exploded. The average interest rate on total marketable federal debt is 3.39% as of May 2026 — versus 1.49% five years ago — and gross national debt stands at \$39.2 trillion, up \$2.99 trillion in a single year.¹ On the current trajectory the debt will cross \$40 trillion by roughly September 2026.¹ The CBO projects the fiscal 2026 deficit at \$1.9 trillion, or 5.8% of GDP, against a fifty-year average of 3.8% — and projects deficits widening to 6.7% of GDP by 2036 even under full-employment assumptions.² Net interest outlays, already exceeding national defense spending, double from \$1.0 trillion in 2026 to \$2.1 trillion by 2036, rising from 3.3% to 4.6% of GDP.²

Debt held by the public reaches 101% of GDP this year, surpasses the 1946 record of 106% by 2030, hits 120% by 2036, and 175% over thirty years.² The Social Security Old-Age and Survivors Insurance trust fund is now projected to be exhausted in 2032 — a year earlier than previously estimated.² These are not abstractions: they are the arithmetic that forecloses the traditional consumer rescue. The nation's fiscal trajectory means future generations will bear the weight of current-day excesses unless action is taken now — and it means that when the next shock arrives, as one just did, the consumer increasingly stands alone.

The Fiscal Fork of 2025–2026

Since we began this study, Washington made its choices, and they cut in both directions. The 2025 reconciliation act permanently extended the 2017 tax provisions and increased defense and homeland-security spending; CBO estimates it adds \$4.7 trillion to deficits over 2026–2035 after macroeconomic and debt-service effects.² Sharply higher tariffs work the other way, reducing projected deficits by roughly \$3.0 trillion — though a Supreme Court ruling striking down a portion of the tariff authority injects real uncertainty into that offset — while reduced immigration adds another \$0.5 trillion to deficits.^{2,19}

The net effect: CBO now projects \$1.4 trillion more borrowing over the coming decade than it did a year earlier, with stronger near-term growth (2.2% real GDP in 2026) fading to 1.8% thereafter as the stimulus wanes.^{2,20} Ten-year Treasury yields are projected to rise, not fall, through the decade.²⁰ For the family budgets at the center of this paper, the policy mix delivers modest near-term tax relief

funded by borrowing, paired with tariff-driven price pressure on goods — a combination that does little to repair the underlying affordability gap and leaves even less fiscal room for the future.

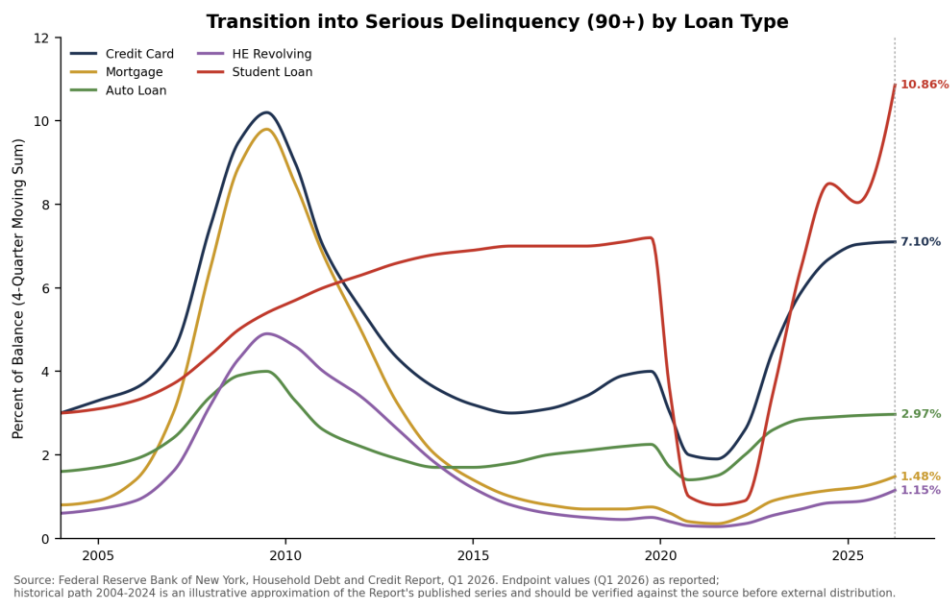
Excessive Consumer Spending — an Economy Built on Debt

Consumer spending has long been the cornerstone of the U.S. economy; the question is whether the current pattern of consumption is sustainable when so much of it is financed. Despite persistently elevated prices, Americans have continued to spend at remarkable rates on travel, dining, sporting events, and entertainment — a resilience that confounded economists who anticipated retrenchment. Analysts attribute the behavior to post-pandemic demand recovery and a broader cultural tilt toward immediate gratification: as one senior industry analyst put it, many consumers concluded that you only live once. Among Generation Z, only about half consider retirement savings a priority, and social media has become a benchmark for financial success, fueling aspirational spending driven by comparison rather than planning.

But the spending has been financed rather than earned. Total household debt reached a record \$18.8 trillion in the first quarter of 2026, with mortgage balances at \$13.19 trillion and auto loans at \$1.69 trillion — both all-time highs.⁵ And the strain is now unmistakable. Credit card delinquency stands at 13.1%, the highest in sixteen years and near levels last seen at the height of the 2008 crisis.⁶ Auto loan delinquency is the highest the New York Fed has ever recorded.⁶ Student loan delinquency surged to 10.3% as pandemic-era forbearance ended and millions of loans returned to credit reports.⁵ Roughly 4.8% of all outstanding household debt is now in some stage of delinquency.⁵

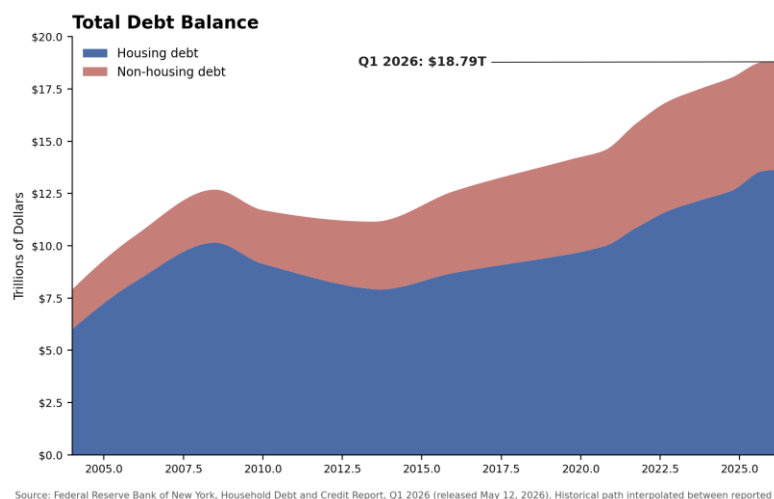
The auto loan story remains the clearest illustration of the cost spiral. Between January 2017 and January 2020 the average monthly auto payment rose \$40, from \$430 to \$470; between January 2020 and January 2023 it surged \$130, to \$600 — an increase that hit borrowers across the credit spectrum, not just subprime.²¹ Notably, delinquencies are rising among prime and super-prime borrowers who dominate retail vehicle financing — the borrowers with the lowest expected probability of default. When the prime consumer, who has been propping up the economy, begins to slip, the foundation itself is in question.

New York Fed researchers now describe the result plainly: a K-shaped economy, in which Americans in aggregate appear stable while weakness concentrates in lower-income households — visible in delinquency rates and in spending data showing low-income families cutting gasoline consumption under the 2026 price shock even as high-income households maintained spending.⁷ Slightly more than half of consumers now report carrying credit card balances to cover essential expenses — a sign that, for many households, higher balances reflect wages and savings failing to keep pace with essentials rather than economic optimism.²²



Transition into Serious Delinquency (90+) by Loan Type. Endpoint values (Q1 2026) sourced from the NY Fed's official one-page summary; historical path is an illustrative reconstruction of the Report's published series.

Note: the student loan line's drop to near-zero and flat run from 2020–2024 reflects the COVID-era payment pause and forbearance, not improved repayment — delinquency cannot occur when no payment is due. It rose again once normal reporting resumed in late 2024.



Total Household Debt Balance, housing vs. non-housing debt, through Q1 2026 (\$18.79T total). Source: Federal Reserve Bank of New York.

Flow into Serious Delinquency (90+ Days), Q1 2025 vs. Q1 2026

Category	Q1 2025	Q1 2026
Mortgage Debt	1.22%	1.48%
Home Equity Line of Credit	0.88%	1.15%
Student Loan Debt	8.04%	10.86%
Auto Loan Debt	2.94%	2.97%
Credit Card Debt	7.04%	7.10%

Category	Q1 2025	Q1 2026
Other	5.44%	5.16%
ALL	2.45%	2.83%

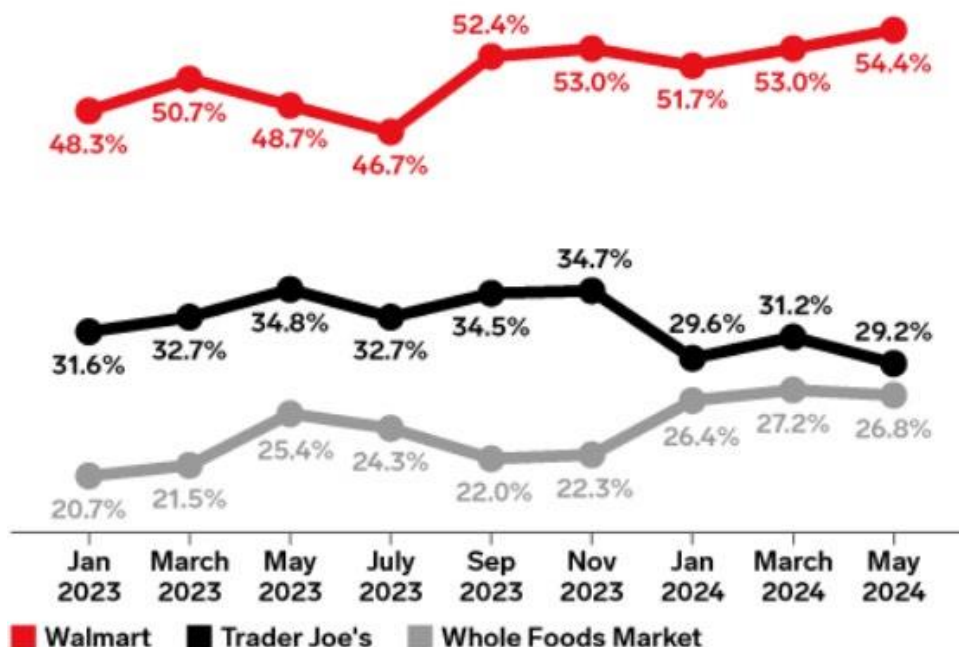
Source: Federal Reserve Bank of New York, "Household Debt and Credit Developments as of Q1 2026," released May 12, 2026. Rates are annualized shares of balances newly transitioning into 90+ day delinquency. Note the credit-score metric underlying the broader report changed from Equifax Risk Score 3.0 to VantageScore 4.0 beginning Q1 2026.

Cost-of-Living Contagion

Financial strain is not isolated to lower- and middle-income families; it is spreading upward. Cost-of-living contagion — rooted in the struggles of lower- and middle-income earners — is now acutely felt by households earning \$100,000 or more, a cohort once insulated from economic volatility. The Wall Street Journal has documented that households earning over \$250,000, the top tenth of earners, now account for nearly half of all consumer spending — a record in data going back to 1989 — and Moody's Analytics' Mark Zandi has cautioned against counting on spending driven by record stock prices to sustain long-term growth.²³

The mechanism is partly psychological. Evan Horowitz, executive director of the Center for State Policy Analysis at Tufts University, describes a self-fulfilling dynamic in which people who feel they are doing worse pull back before they actually are doing worse, weakening the local economies around them and producing the very outcome they feared. With consumer sentiment at 49.8 in April 2026 — below any reading from 2008 or the pandemic — the feeling is now the worst on record.¹⁰

The arithmetic is also real. Home insurance costs have jumped more than 50% nationwide in five years; for owners in luxury coastal markets that translates to tens of thousands of dollars annually, and in some cases the choice between self-insuring and heavily subsidized deductibles.⁹ Home maintenance spending rose 122% from 2019 to 2023.²⁴ The monthly payment on a median-priced home reached roughly \$3,100 by late 2025, versus \$1,700 in early 2020, requiring household income above \$120,000 where \$66,000 once sufficed.⁸ Private tuition continues to climb even as some Ivy League institutions extend free tuition to families earning up to \$200,000. As affluent households trim non-essentials, the businesses that serve them — restaurants, retail, services — face declining revenue and rising labor costs simultaneously. The contagion has become pervasive across categories.



Families with \$100k+ Income: Market Share Gain, Walmart vs. Trader Joe's vs. Whole Foods Market (2023–2024). Source: company filings; CapWealth analysis. This series is proprietary to CapWealth's original analysis; a 2025–26 update was not available as of publication.

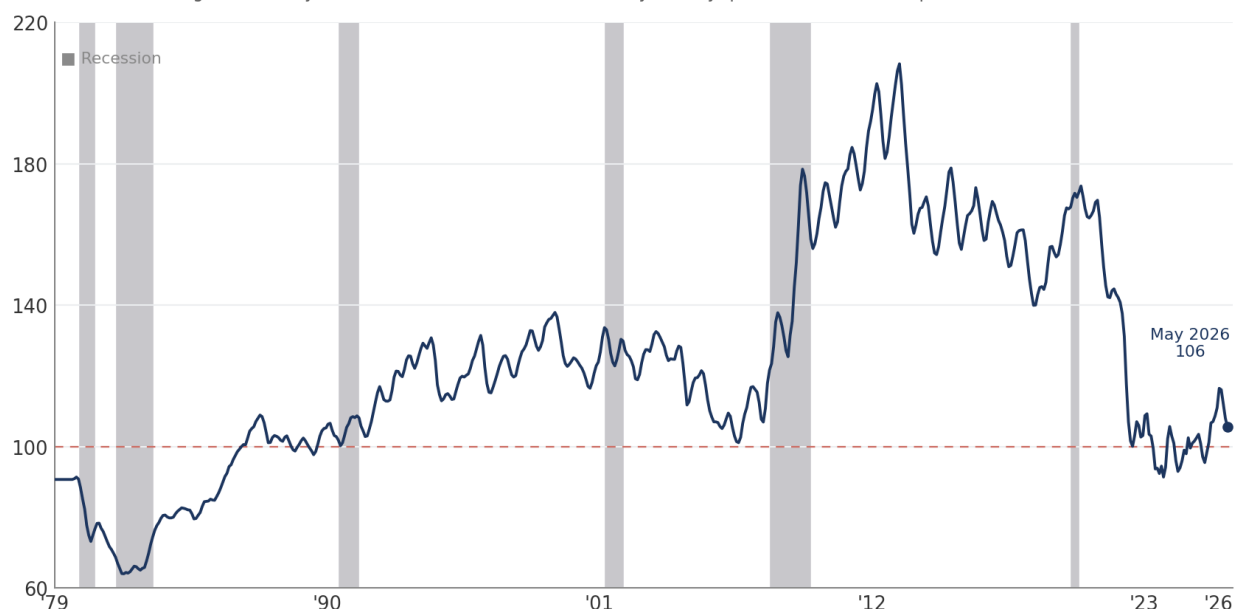
Housing: a Challenge for High- and Low-Income Earners Alike

For the past two decades housing costs have outpaced income growth, and policy experts broadly agree the root cause is a long-run supply shortage — approximately 1.2 million units by current estimates — driven substantially by restrictive local land-use rules that favor expensive homes on large lots.¹² In 2000 the median home price was roughly four times median household income; today existing home prices are up 54% just since 2020 and stand near five times median income, against the ratio of three that prevailed through the 1990s.⁸

The current market has settled into an uneasy equilibrium: prices have stopped surging but refuse to fall. Median new and existing home prices in the first quarter of 2026 were nearly identical, at \$403,200 and \$404,300 respectively — the historical new-home premium has vanished as builders cut size and price to meet the market while lean resale inventory props up existing-home values.^{11,25} Mortgage rates near 6.2% keep the payment math punishing: a family earning the national median income of \$106,800 needs 32% of income for the mortgage on a median-priced home; a family earning half the median needs 65%.¹¹ In seven major metros the typical family is severely cost-burdened, devoting more than half of income to housing. The number of listings affordable to households earning \$75,000 or less is down 60% from 2019 levels.⁸

HOUSING AFFORDABILITY STILL WELL BELOW COVID-ERA HIGHS

National Housing Affordability Index · 100 = median-income family exactly qualifies for a median-priced home



Sources: National Association of Realtors (Housing Affordability Index, Fixed); recession dates via NBER. Pre-2023 history digitized from the published chart. Note: 2023–2026 from NAR/FRED monthly data (Mar–Aug 2024 interpolated). FRED carries only the trailing 13 months of the NAR index under license.

National Housing Affordability Index, extended through March 2026 (113.7). Source: NAR Housing Affordability Index; original 1979–2023 path per NAR/NAHB-Wells Fargo.

That index has recovered from its 2023 trough as mortgage rates eased — it measures whether the median-income family earns enough to qualify for financing, and a reading above 100 means they now do. It should not be read as affordability having been resolved: the NAHB figures above, which measure the share of income actually consumed by the payment, still show a typical family spending 32% of income on housing and a low-income family 65%. Qualifying for a mortgage and comfortably affording one are different thresholds, and the gap between them is where much of the contagion described in this paper lives.

The consequences run up and down the income ladder. As the Progress & Poverty Institute has put it, the people who make communities run — teachers, police officers, facility workers — can no longer afford to live where they work. Meanwhile Florida lawmakers weigh property-tax cuts to relieve monthly payment burdens, with the Tax Foundation noting a groundswell of opposition to property taxes generally. And for the wealthy, insurance and maintenance — not acquisition — have become the binding constraints on homeownership.

One development merits particular attention from anyone watching mortgage affordability: rates fell measurably following the announcement of \$200 billion in mortgage-backed-securities buybacks connected to the government-sponsored enterprises.¹² As Washington moves toward resolving the status of Fannie Mae and Freddie Mac, the structure of that resolution — and its effect on guarantee fees and mortgage spreads — may prove one of the most consequential and least discussed affordability levers available to policymakers. We intend to address the GSE question at length in a companion piece.

The Stress Test Arrives

For two years this research asked a hypothetical: what happens when an economy with depleted savings, record consumer debt, and no fiscal slack absorbs its next shock? In the spring of 2026 the hypothetical expired. The conflict with Iran sent energy prices up 23.5% year-over-year by May, gasoline to roughly \$4.50 per gallon, and headline inflation back above 4% — the third consecutive monthly acceleration.^{3,4}

The early evidence confirms the K-shape. High-income households maintained spending through the shock; low-income households cut gasoline consumption outright and reported intensified financial strain.⁷ Consumer sentiment collapsed to an all-time low.¹⁰ Delinquency rates that were already at cycle highs before the shock now have a new accelerant, and the Federal Reserve faces the least comfortable version of its mandate: rising prices and deteriorating household finances at the same time, with the fiscal authority \$39 trillion in debt beside it.

We do not offer this as catastrophism. The labor market has remained resilient, prime borrowers are strained but largely performing, and extensions and modifications continue to soften the commercial real estate reckoning. Our point is narrower and, we believe, more useful: the margin for error that American households and their government once enjoyed has been spent. The affordability crisis is no longer a forecast. It is the operating environment.

Four Households, One Squeeze: Case Studies

The following illustrative case studies trace the affordability challenge across the income spectrum, from the upper-middle class to the ultra-wealthy. Budget figures are illustrative composites constructed from BLS Consumer Expenditure Survey patterns, NAR and NAHB housing data, CoreLogic insurance data, and Federal Reserve household-debt statistics; they are intended to typify, not to describe any client of the firm.²⁶

Case Study 1 — The Upper-Middle-Class Family: \$150,000

A dual-income household with two children earning \$150,000 annually. Despite an income well above the national median, rising housing, grocery, energy, and insurance costs steadily erode their capacity to save.

Category	Monthly Amount
Income (after-tax)	\$9,500
Housing (mortgage, \$450k home)	\$2,800
Groceries	\$1,250
Auto (payments, insurance, fuel)	\$1,550
Education (fees, extracurriculars)	\$600
Insurance (health, home)	\$1,050
Utilities and miscellaneous	\$850
Savings and retirement	\$700
Total expenses	\$8,800

Category	Monthly Amount
Discretionary income	\$700

Housing consumes nearly 30% of after-tax income, above the recommended threshold. The 2026 fuel shock added roughly \$100–150 per month across the two-car budget, and auto insurance continues to compound. Grocery costs, up more than 80% since 2000 against real wage growth of roughly 23%, force the trading-down behavior documented across the majority of U.S. consumers. With discretionary income thinned, an emergency lands on the credit card — where balances now carry the delinquency profile described earlier in this paper.

Case Study 2 — The High Earners: \$400,000

A family of four in the top decile of earners, whose lifestyle — private schooling, premium housing, travel — is increasingly strained by the same forces, expressed at larger scale.

Category	Monthly Amount
Income (after-tax)	\$23,000
Housing + utilities (mortgage, \$1.2mm home)	\$7,500
Groceries and dining	\$2,100
Auto (payments, insurance, fuel)	\$2,650
Education (fees, extracurriculars)	\$4,000
Insurance (health, home)	\$2,100
Travel and leisure	\$2,500
Savings and retirement	\$2,000
Total expenses	\$22,850
Discretionary income	\$150

This household embodies the statistic that top-decile earners now drive nearly half of consumer spending — and the fragility beneath it. Their balance sheet leans on asset prices; their budget leans on continuity. Insurance up 50% in five years, maintenance up 122%, tuition compounding, and a fuel shock at the margin leave essentially no slack. Zandi's warning applies directly: spending sustained by record asset prices is not a durable growth engine, and a household budgeted to the last \$150 has no shock absorber that is not a liability.

Case Study 3 — The Two-Home Retiree: \$120,000 Fixed

A retiree drawing \$120,000 from pensions, Social Security, and investments, owning a primary residence and a Florida vacation property.

Category	Monthly Amount
Income (after-tax)	\$8,500
Primary home (taxes + insurance)	\$1,550
Florida home (mortgage + taxes + insurance)	\$4,200
Healthcare	\$1,250
Groceries and dining	\$820
Auto	\$650

Category	Monthly Amount
Travel and leisure	\$1,000
Utilities and miscellaneous	\$620
Total expenses	\$10,090
Discretionary income	-\$1,590

The Florida property is the pressure point: hurricane-zone insurance premiums, up more than 50% nationally and far more in coastal markets, plus surging maintenance, have widened this household's monthly shortfall meaningfully in two years. Healthcare consumes a growing share as inflation-adjusted Medicare physician payment declines push more costs out of pocket. The shortfall is funded by portfolio withdrawals — precisely when sequence-of-returns risk matters most. Selling the Florida home is the obvious lever, yet the same supply constraints described above limit attractive downsizing options. The retiree on fixed income is the purest expression of the affordability squeeze: costs float, income does not.

Case Study 4 — The Ultra-Wealthy Couple: \$3,000,000

A high-net-worth couple with \$3 million in annual income and \$7.5 million in investable assets, multiple properties, and significant philanthropic commitments.

Category	Monthly Amount
Income (after-tax)	\$150,000
Primary home (taxes + maintenance)	\$10,500
Vacation home (mortgage + taxes + insurance)	\$16,000
Private education (grandchildren + donations)	\$20,000
Travel and leisure	\$30,000
Auto	\$5,200
Insurance	\$5,300
Philanthropy and investments	\$60,000
Total expenses	\$147,000
Discretionary income	\$3,000

Even here, the contagion registers — through asset maintenance, coastal insurance markets where coverage is scarce at any price, and social expectations that make philanthropy and education feel non-discretionary. Their heavier exposure is indirect: reliance on investment income vulnerable to the commercial real estate revaluation and equity volatility this paper describes, and a fiscal trajectory that points toward higher taxation of top earners. Their reduced spending on non-essentials ripples through the service industries that depend on them — which is how contagion, having climbed the income ladder, comes back down it.

Where We Go From Here

Diagnosis without prescription is commentary. We close with what we believe should follow — for policymakers, and for the families and endowments we serve.

For Policymakers

First, attack the housing shortage at its source: land-use and permitting reform that allows supply to meet demand, paired with workforce-housing incentives, will do more for affordability than any demand-side subsidy, which in a supply-constrained market simply raises prices. Second, treat the resolution of the government-sponsored enterprises as an affordability instrument, not merely a privatization event — the structure chosen will flow directly into mortgage spreads and monthly payments. Third, confront the entitlement arithmetic before the 2032 trust-fund exhaustion forces a disorderly answer. Fourth, recognize that every year of \$2 trillion deficits at full employment spends the ammunition the country will want in the next recession. The window in which these choices can be made deliberately, rather than under duress, is closing.

For Investors and Families

We have entered the end of the low-cost-of-capital era and returned to a normal interest-rate environment. Venture funding has cooled, IPO markets have thinned, and easy liquidity for growing corporations has become scarce. In this environment we believe companies with clean balance sheets, durable free cash flow, and pricing power will once again distinguish themselves — while leverage-dependent business models, and asset classes still marked to a zero-rate world, remain vulnerable to revaluation. For households, the lessons of the case studies generalize: build the shock absorber before the shock; treat insurance, maintenance, and carrying costs as first-order variables in any property decision; and be skeptical of budgets — personal or national — that balance only if nothing goes wrong. CapWealth addresses these challenges through custom planning and investment management designed to support present financial needs while preserving legacy for the families and endowments we serve.

Timothy J. Pagliara

Chairman, Chief Investment Officer

Andrew O'Connor, CFA

Director of Research

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Important Disclosures

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