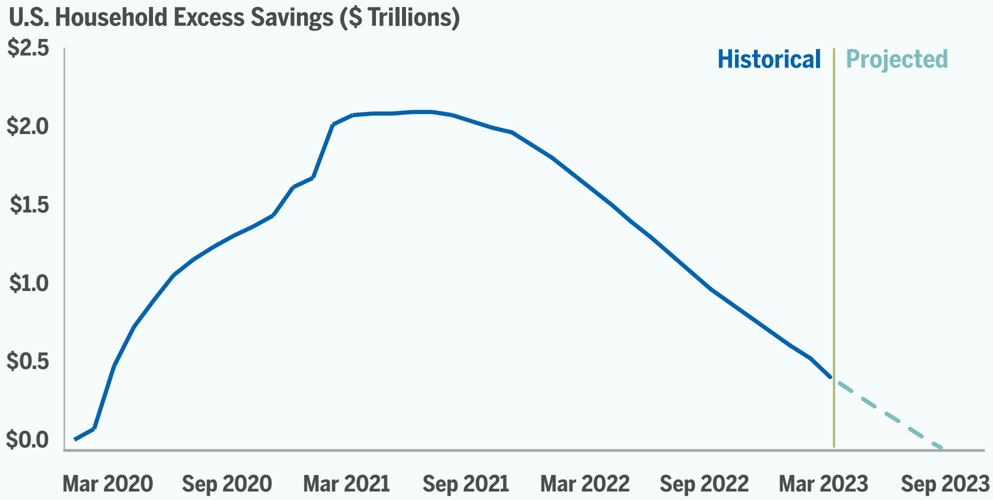
ALGER

Alger On the Money

Piggy Bank Running Low?

During the pandemic, many Americans increased their savings as a result of massive fiscal stimulus, combined with store closures, quarantines, and social distancing. Now that the extraordinary government assistance is behind us and people have resumed spending on travel, dining, and entertainment, are those savings drying up? If so, what could this mean for investors and the overall economy?

Dwindling Savings



Source: Data from March 2020 through April 2023 from the Bureau of Economic Analysis ("BEA"). Projections after April 2023 are Alger estimates, utilizing BEA historical data. Chart projections used a monthly decline of -8%, reflecting the average trend since the peak of excess savings in 10/31/21 through 4/30/23.

- The total U.S. fiscal stimulus between 2020 and 2021 was approximately $5 trillion, including direct payments to families, expanded unemployment benefits, and loans and grants to businesses. With many areas of the economy closed to consumers, household personal savings grew approximately $2.1 trillion more than the pre-pandemic trend – referred to as "excess savings", according to research from the Federal Reserve Bank of San Francisco.
- This pool of excess savings has likely been propping up consumer spending, which outpaced household income growth in 2021 and 2022. However, higher spending growth relative to income has drained the excess savings by $1.6 trillion since its peak, according to the Federal Reserve Bank of San Francisco. Accordingly, the remaining $500 billion in excess savings may be exhausted by the end of this year, in our view.
- We believe the net result is that consumer spending is likely to moderate over the next 12 months. This dynamic could become a headwind for companies reliant on economic growth to drive their business forward, such as specialty retail and home improvement companies, in our view. However, we believe market-share gaining companies less exposed to cyclical end-markets, such as health care - where spending on drugs or genetic testing is less discretionary - may fare better.

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The Bureau of Economic Analysis (BEA) is a U.S. government agency that provides statistical information about the nation's economy, including data on economic growth, regional development, and international trade and investment.

Chart projections should be considered speculation and not definitive predictions, as future economic conditions are inherently uncertain.

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