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FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

Three years of relief on \$1.6T in student loans will soon be reversing course as the pause on federal student loan payments will officially be lifted next month. The highly politicized topic has garnered significant chatter as of late, but sifting through the headlines and looking at the numbers raises a fair question: What type of economic impact will the resumption of these payments have?

Concerns around the resumption of student loan payments and the potential drags on the economy come with good reason. Student loan debt is the third largest liability for American households, and the renewal of payments comes at a time when personal savings rates are at their lowest point since the early 2000s, and consumer credit card debt has reached its highest point on record. This landscape has led many to believe that the payments, which will equate to almost \$200B annually, will cut the growth in personal consumption expenditures in half and prove to be a significant obstacle for the U.S. economy. While these factors are considerable, assessing who is on the hook for these payments is also important. Over 40% of student loans are held by the highest-income quintile in the U.S., and the top two quintiles account for almost 70%¹. Additionally, about a third of borrowers owe less than \$10,000, and over half owe less than \$20,000². Who holds the debt is an essential factor to consider when assessing the potential impact here. As shown, there is plenty to suggest that the economy can absorb the resumption of payments, specifically, the disproportionate ownership of student loan debt by the highest earners who are better positioned to make these payments relative to others.

The bottom line is that while the resumption of payments will not be a net positive for the U.S. economy, it's not likely to be detrimental either. Yes, less money in the pocket of consumers means less fuel for the economic engine. Still, given the distribution of individuals who hold this debt, it's not likely to be as significant of a drag on the bottom line as some have indicated. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don't hesitate to give our office a call.

¹ Ned Davis Research

² Ned Davis Research

With My Best Regards,

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