Insights and Observations: First Quarter 2025

According to the U.S. Census Bureau, people 65 years of age and older, and living alone, made up 11% of all households in 2020. That is up from 9% in 2010. According to Pew Research, about half of women and 29% of men 65 and above are unpartnered.

Those figures are expected to rise in the future according to Pew, as approximately 38% of the population between the ages of 25-54 were unpartnered in 2019 … up from 29% in 1990.

Challenges are mounting for retirees as the government safety net is in flux and costs mount for health services and long-term care. It can be even tougher for single retirees, whether it's managing household finances, dealing with health issues, or warding off loneliness – a risk factor for physical and mental health.

Contributing to lower marriage rates are greater economic opportunities for women and less societal pressure to marry, social scientists say.

Elizabeth O'Brien – Barron's 3/21/25

In 2002, China's shipyards were responsible for 8% of global commercial tonnage. Last year, China delivered 53% of all global tonnage, according to Clarksons Research. Ships built in the U.S. accounted for just 0.1% of all global commercial tonnage last year.

It is estimated that China incentivized companies to build shipyards by offering subsidies totaling about $91 billion between 2006 and 2013. As a result, China added more than 30 new shipyards annually between 2006 and 2008. During that same period, Japan and South Korea, the world's top ship building nations, averaged about one new shipyard annually. According to the U.S. Navy, China now possesses 232 times the shipbuilding capacity of the U.S.

> **With so many goods in the U.S. imported from overseas, that means Chinese-made ships are essential to keeping American store shelves well-stocked … The World War II commercial fleet that supplied American forces in the Pacific with reinforcements, weaponry and food is a distant memory.**
>
> **Stu Woo – WSJ 3/14/25**

Nearly 5% of 401k account holders took early withdrawals last year. That is a record high, according to Vanguard Group, which administers these accounts for nearly five million participants.

The IRS allows withdrawals for hardship-related reasons. About 35% of distributions were used to avoid foreclosure or eviction, while 16% were used to purchase or repair a home. The median withdrawal was $2,200.

> **The 401k has become a rainy-day fund because more employers are automatically enrolling their workers, including people that otherwise have little savings. Congress has also made it easier to use retirement savings for emergencies.**
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> **Americans are facing conflicting economic forces. Unemployment is low and workers' earnings are rising, pushing more money into retirement accounts. But consumer confidence is declining, and the prices of groceries are still rising swiftly. More people are falling behind on their auto loans and credit-card payments.**
>
> **Anne Tergesen – WSJ 3/5/25**

Last year, the average 401k balance reached a record $148,153. Approximately 13% of participants have outstanding 401k loans.

According to Moody's Analytics, the top 10% of earners now account for 49.7% of all spending. They accounted for about 36% three decades ago. During the 12 months ended September 2024, these high earners increased spending by 12%, while working-class and middle-class households reduced their spending over the same period.

Moody's research concluded that 80% of earners spend 25% more than they did just four years earlier, barely outpacing price increases of 21% over that same period. On the other hand, the top 10% spend 58% more … helped certainly by rising stock prices and escalating home values.

Mark Zandi, Moody's chief economist, estimates that about one-third of U.S. gross domestic product can be attributed to spending by the top 10% of earners.

> **While rising asset prices are extolled as a sign of a good economy, they also are widening the gap between those who own property and stocks, and those that don't … All this means is that economic growth is unusually reliant on rich Americans continuing to shell out.**
>
> **Rachel Louise Ensign – WSJ 2/23/25**

U.S. annual defense spending was $1.107 trillion in 2024, according to the Bureau of Economic Analysis. Federal expenditures on interest payments were $1.124 trillion during the same period. As a percentage of economic output (GDP), defense spending and interest payments measured 2.9% and 3.1%, respectively. Between 1962 and 1989, U.S. defense spending averaged 6.4% of GDP … debt service only 1.8% of GDP.

Any great power that spends more on debt service than on defense risks ceasing to be a great power. The fact that the U.S. is currently projected to spend a rising share of its GDP on interest payments and a falling share on defense means that American power is much more fiscally constrained than most people realize.

Finally, the U.S. today is encumbered with an expensive welfare system designed for a society with a higher fertility rate and lower life expectancy. Entitlement programs such as Social Security and Medicare are now the biggest items of federal expenditures. They will only become more expensive as the population ages.

Niall Ferguson, Sr. Fellow-Hoover Institute – WSJ 2/21/25

Due to lower rates of immigration and fertility, the Congressional Budget Office (CBO) projects lower population growth in the U.S. over the next three decades. Deaths are currently expected to exceed births by 2033, seven years earlier than estimates made just one year ago. Overall, the CBO projects the population to grow by 6.3% over the next three decades instead of 10.5%.

> **As a result, the population is likely to be older and smaller in 2054 than previously expected. That would have important implications for everything from economic growth to fiscal policy.**
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> **The outlook shows how even small demographic changes from one year to the next can add up over several decades to meaningfully alter the makeup of the U.S. population.**
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> **Paul Kiernan – WSJ 1/14/25**

China's population fell for the third straight year, as deaths continue to outpace births. Births rose to 9.54 million from 9.02 million in 2023, according to the National Bureau of Statistics. Still, births remain well below the 16 million births in 2015, the final year of China's one-child policy.

Overall, China's total population stands at 1.408 billion … just less than 2023's level of 1.41 billion. Also, consider the following:

- In 2010, only 13% of the population was age 60 or older. That group now makes up 22% of the population
- In 2022, deaths exceeded births for the first time.
- In the 2020 census, people aged 80 or older represented 2.5% of the population. By the end of this year, it will reach 5% … by 2050 it is expected to reach 10% of the population.

- Diseases such as Alzheimer’s, heart disease and cancer are becoming major concerns.
- Efforts to encourage births have failed, as China’s economic malaise is making young people hesitant to marry and have kids.

> **China, with virtually no immigration, is stuck on a path of population decline, as deaths outpacing births becomes a new reality. The U.N. expects China’s population to drop to 639 million, less than half of what it is now, by the end of the century.**
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> **Liyan Qi – WSJ 1/16/25**

Let’s review some interesting historical statistics:

- At the beginning of the prior century, U.S. stocks accounted for 14% of world stock values. By the year 2000, the U.S represented 49% of global equity valuations.
- The U.S. dominance has continued, currently reaching 64% of the world’s stock market value, and 73% of developed markets.
- The U.K. went from 24% of global stock market value in 1900 to only 3% today.
- Back in 1989, Japan dominated the world equity markets, representing 40% of the total value … even higher than the 29% U.S. value. Japan currently represents only 6% of the world’s total stock market valuation.

- U.S. stocks had annualized returns of 9.7% over the past century and a quarter … or 6.6% after inflation. That would have turned a dollar into $2,911.
- Most individual stocks, however, underperform the broad markets. A recent study showed that 57% of U.S. stocks had lifetime returns that were worse than Treasury bills. In fact, the net gain for the total U.S. stock market over the past century can be explained by just 4% of stocks.

> **That's the real reason to hold a big basket of stocks, like an index fund. It isn't to dilute the damage from your losers. Most of them will be losers. It's to cast the net wide enough to snag the winners.**
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> **Jack Hough – Barron's 3/7/25**

Having a decent knowledge of the historic performance for various investment asset classes can be very helpful … and quite humbling. Both stocks and bonds have had their moments, thankfully more good than bad.

Bonds, for example, are known for their ability to "stabilize" portfolio performance. But from 1945 to 1981, bonds lost 21% of their purchasing power over what must have been an agonizing 36 years.

Today's marketplace brings persistent inflation and high stock values. On top of that, the world economies are all awash in debt. Hard to believe, but the U.S. is considered the "cleanest shirt in the hamper" when it comes to sovereign debt levels.

So, let's stay humble with regard to the economic backdrop, making sure your portfolio is nicely diversified. Having some cash set aside for emergencies also never hurts.

Tax season is almost over, and the weather is getting warmer. Have a happy and healthy spring, and as always, thanks for your support.

Daniel G. Corrigan, CPA/PFS, CFP®