

How a K-Shaped Economy Affects Opportunities in Asset Based Finance

With resilience concentrated among wealthier households, investors should prioritize quality and structure across consumer-lin

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favor high quality, seniority, vintage quality, and flexibility across collateral types rather than uncritical enthusiasm for the asset class or blanket caution.

Not all U.S. consumers are experiencing today’s economy the same way. Wealthier households continue to benefit from rising asset prices and solid earnings growth, while lower-income families are still absorbing the effects of years of elevated costs and tighter lending standards.

For investors navigating consumer-related credit and other household-linked investments, particularly within asset-based finance (ABF), this uneven economic backdrop – and how it’s evolving – matters. Today’s economic landscape has led us to favor select higher quality investments backed by consumers with strong balance sheets over subprime exposures and other areas of potential weakness.

ABF – a subset of private lending where investments are backed by specific collateral – also

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Figure 1: Household net worth has risen as a percentage of disposable personal income

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households, meanwhile, remain financially secure but may be more exposed to emerging risks associated with AI-driven disruption in white-collar employment.

An open question is whether AI ultimately narrows or widens these divides. Thus far, labor-market disruption has been concentrated in entry-level professional and technology-oriented occupations, while job growth in specialty trade construction has accelerated.

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Source: Intex as of 02 June 2026

As seen in subprime auto loan asset backed securities (ABS), a meaningful share of the increase in subprime consumer delinquencies over the past several years traces back to underwriting quality within specific 2022–2024 vintages – loans originated when competition for volume was

intense – rather than a broader decline in borrower credit quality. Underwriting has since tightened, and outside of subprime, performance has been comparatively stable.

It’s worth considering whether today’s subprime weakness is a leading indicator of broader stress to come, or whether any broader stress would require an exogenous catalyst – a genuine labor-market shock, or an abrupt end to the AI capital-expenditure cycle – to materialize.

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PIMCO prefers to focus on the upper part of the K-shaped economy rather than the entirety of the consumer credit landscape. We favor specific, high-quality pockets where access to differentiated credit research and consumer data can unlock advantages for investors.

Prime and super-prime borrowers continue to perform well, with broadly stable-to-improving credit trends. Following the 2023 regional bank failures, many banks became more selective in

consumer lending, creating financing gaps even among higher-quality borrowers. Spreads in this segment remain wider than historical fundamentals would indicate, largely due to the diminished footprint of banks.

With pressure concentrated in lower-income, payment-sensitive cohorts, we prefer to avoid subprime consumer credit, limiting exposure to the weakest borrowers.

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