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INVESTMENT STRATEGY

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AlphaCurrents: The Economy Explained

Making It to the Middle Class in America

Sarah Wolfe
Investment Strategist
Sarah.Wolfe@morganstanley.com

Ask Americans what it means to “make it,” and the answers rarely begin with a salary.

Instead, they describe milestones: owning a home, building a family, taking a vacation, saving enough to retire, paying bills without constant stress and still having money left over. For generations, these were the hallmarks of the American middle class—not just income, but financial security.

Today, that status feels increasingly out of reach. Even households earning middle-class incomes often say they do not feel financially secure. They worry about buying a home, paying for childcare, saving for retirement, managing debt and keeping up with everyday costs.

This disconnect is one of today’s defining economic paradoxes.

By many objective measures, Americans are better off than previous generations after inflation. Household incomes and net worth have risen, and the share of adults living in upper-income households is larger today than in the early 1970s. Yet survey after survey shows widespread financial anxiety, including among households traditionally considered middle class.

How can both be true?

The answer lies in the definition of the middle class. Economists continue to measure it primarily by income, but households increasingly define it by financial security.

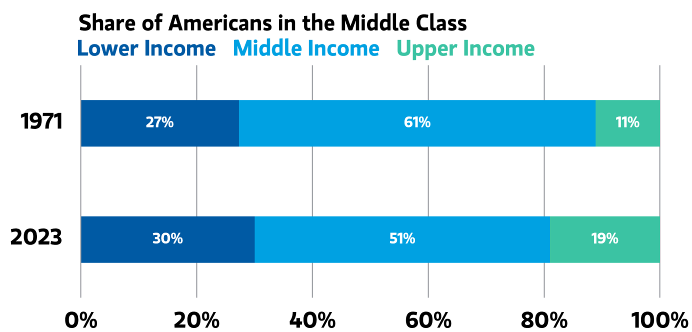
That difference helps explain why housing affordability, retirement preparedness, childcare costs, consumer debt and wealth inequality have become central economic and political issues. The middle class has not disappeared, but the threshold for feeling middle class has moved higher.

Defining the Middle Class

The Pew Research Center classifies middle-income households as those earning between two-thirds and twice the median household income, adjusted for household size and local cost of living. Based on national median household pre-tax income of roughly $84,000 in 2024, that translates to approximately $55,000–$168,000 annually.

By that definition, about half of American adults belong to the middle class. Although this share has declined from 61% in 1971, the middle class remains the country's largest income group (see Exhibit 1). The decline has not been driven solely by households moving into the lower-income bracket; more households now sit at both ends of the income distribution.

Exhibit 1: The Middle Class Has Shrunk



Source: Pew Research Center, Morgan Stanley Wealth Management Global Investment Office as of May 31, 2024

What Does the Average Household Look Like?

Another way to think about the middle class is consumer units, or households, near the middle of the income distribution—the 40th to 60th percentiles.

According to the Bureau of Labor Statistics' Consumer Expenditure Survey, households in the middle-income quintile earn on average $74,000 in pre-tax income and $67,000 in after-tax income annually.[1] The typical household has 2.5 people and 1.4 earners. It spends approximately $65,500 per year—including about $9,000 on food, $4,100 on cars and $1,600 on clothing—leaving implied annual savings of about $1,100.

Roughly 62% own their homes, while the remaining 38% rent. Among homeowners, the average home is worth approximately $247,000; among renters, average rent is around $1,300 per month. The Federal Reserve's Survey of Consumer Finances estimates median household net worth of $171,000 for the middle percentiles as of 2022, with housing representing the largest asset. For many households, the home is the primary vehicle for wealth creation. Home equity often becomes the foundation of the household balance sheet, supporting retirement security, access to credit and intergenerational wealth transfer.

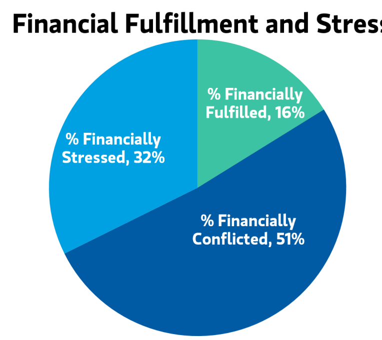
This helps explain why renters and first-time buyers may feel much further from middle-class security than their income alone suggests. Income measures current cash flow; homeownership often determines whether that cash flow becomes long-term wealth.

Why the Numbers and the Feeling Diverge

Middle-income households are better off in real terms than in 1971. Yet many Americans do not feel better off.

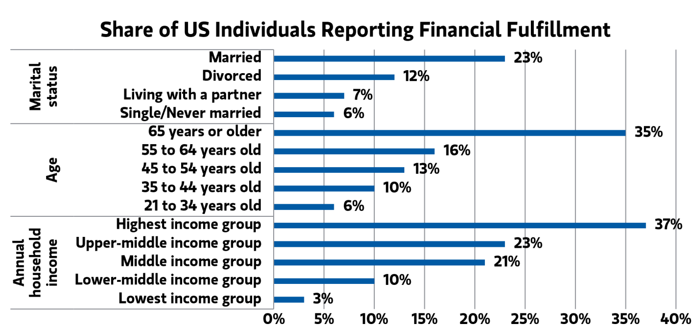
A June 2025 Gallup poll found that only 16% of US adults feel financially fulfilled, meaning their finances actively support the life they want. Meanwhile, 32% report consistent financial stress, including difficulty meeting obligations, making tradeoffs and feeling a lack of control (see Exhibit 2). Financial insecurity is more prevalent among younger and unmarried individuals who don't have the financial cushion that comes with a dual-earning household (see Exhibit 3).

Exhibit 2: Most Households Experience Financial Stress



Source: Gallup, Morgan Stanley Wealth Management Global Investment Office as of June 2, 2026

Exhibit 3: Financial Stress Felt Even Among the Highest-Income Groups



Source: Gallup, Morgan Stanley Wealth Management Global Investment Office as of June 2, 2026

The responses are revealing. When people describe financial fulfillment, they rarely begin with luxury. They talk about freedom to pursue passions, to make a better life for themselves and their families, and to withstand unforeseen events. If financially fulfilled, respondents often point to experiences, relationships and meaningful activities.

Viewed in that way, financial fulfillment is less about maximizing income than minimizing uncertainty. This distinction is essential. Income measures what comes in each year, while financial security depends on accumulated wealth, debt burdens, fixed costs, family obligations, housing status and confidence that today's standard of living can be sustained tomorrow.

That is why two households with the same income can have very different financial realities. One may own a home, have a fixed mortgage rate, hold retirement assets and have family support. The other may rent, carry student loans, pay for childcare and have limited emergency savings. Both may be middle class by income, but only one may feel secure.

The Middle Class Is More About the Balance Sheet

For much of the 20th century, earning a middle-class income often meant living a middle-class life: a home, children, a car, occasional vacations and a secure retirement. The key shift over the past several decades is that income alone is less likely to be enough to meet these goals.

Today, households increasingly judge whether they have "made it" not just by what they earn but also what they own and how resilient they are. Financial assets like a home, retirement savings, an emergency fund, college savings and investment accounts, along with manageable debt, provide optionality, allowing households to absorb job losses, medical expenses, higher interest rates, market downturns or family emergencies without dramatically changing their standard of living.

In other words, income pays bills, but wealth provides resilience.

This is why the middle class increasingly looks less like a single income group and more like a financial-security spectrum. At one end are households with stable incomes, assets, savings and manageable debt. At the other are households with similar incomes but limited wealth, high fixed costs and little margin.

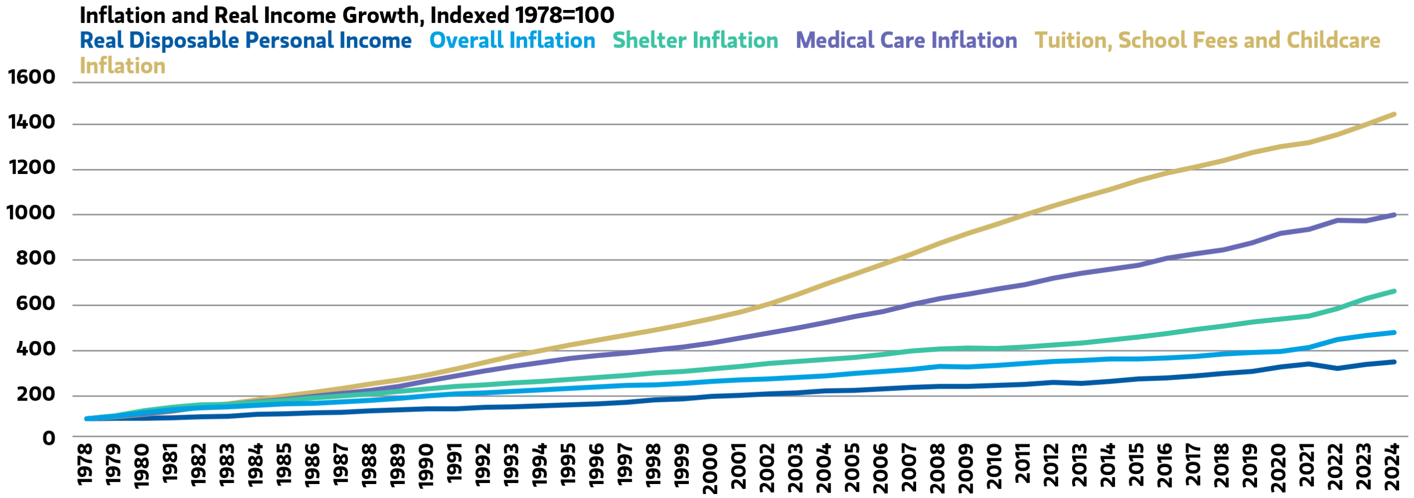
In this sense, the middle class has shifted from an income concept to a balance-sheet concept, raising the bar for "making it."

The Changing Cost of Making It

As the bar has risen, so too has the cost: The big-ticket items that have historically defined middle-class status—homeownership, childcare, higher education, health care and retirement security—have grown more expensive relative to income and the broader inflation basket.

Shelter inflation has risen roughly 6.6 times since 1978, compared with an approximately 4.8-fold increase in broader consumer prices over the same period. Childcare costs have followed an even steeper trajectory, rising 14 times, and health care costs are up 10 times (see Exhibit 4). Childcare is now literally the second mortgage: The cost of childcare for two children exceeds average mortgage payments in 45 states and rent in 49 states, as we discuss in our March 19, 2026 report, "[The SHEconomy: A Structural Shift in Economic Power]".

Exhibit 4: Middle-Class Costs Have Risen Faster than Broader Inflation and Wages



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Morgan Stanley Wealth Management Global Investment Office as of July 8, 2026

The cost of entering the middle class has thus risen faster than the incomes of many households trying to get there.

Headline inflation captures the average price of a representative consumption basket. Households, however, do not experience the middle class through an average basket. They experience it through their financial milestones: a downpayment, a mortgage payment, a daycare bill, a college tuition payment, an emergency fund and a retirement account.

When the cost of achieving the most important milestones rises faster than wages, households can earn middle-class incomes without feeling middle-class security.

The effect is especially acute for younger households and first-time homebuyers. If the primary path to wealth creation runs through homeownership, then households that bought homes when prices and mortgage rates were lower start with a large advantage. As discussed in our May 14, 2026 "Economy Explained" on the first-time homebuyer squeeze, households trying to buy today face a bigger downpayment hurdle, higher monthly payments and a more uncertain path to building equity.

The same logic applies to childcare and education. These are often necessary inputs to labor-force participation and upward mobility. When they become more expensive, they reduce the income available for savings and asset accumulation.

The result is that many households are spending more not simply to maintain a middle-class lifestyle, but to enter it.

The Goalposts Keep Moving

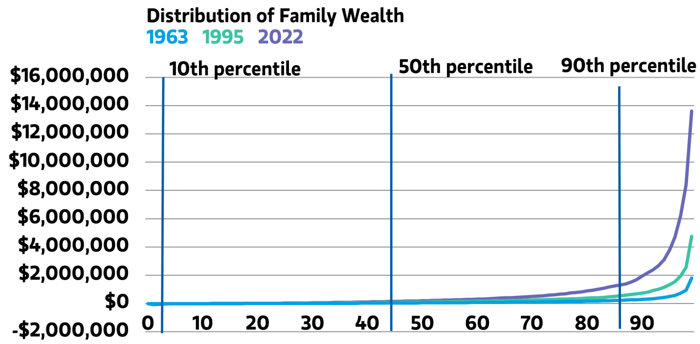
Middle-income households feel like they are falling behind for another important reason: The benchmark has changed.

People do not evaluate financial success in isolation. They compare themselves with neighbors, coworkers, family members, peers and the lifestyles they see online. When the top of the distribution pulls away, the reference point for "making it" shifts upward.

This is where inequality matters.

In 1963, the top 1% held approximately $1.8 million in wealth, compared with roughly $55,000 for the median household—a gap of about 33 times. By 2022, the top 1% held approximately $13.6 million, compared with about $193,000 for the middle 50%. The gap had widened to roughly 70 times (see Exhibit 5).

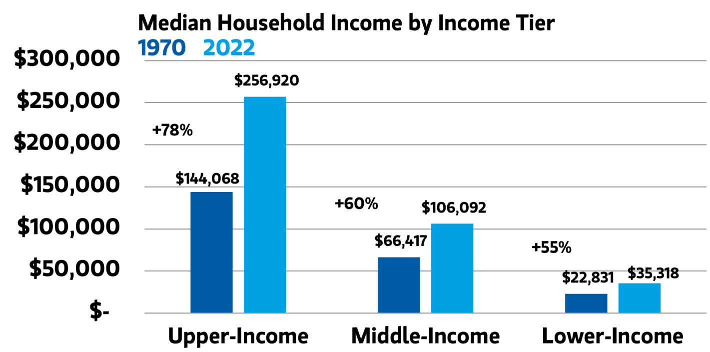
Exhibit 5: Wealth Inequality Has Risen Significantly



Source: Urban Institute, Survey of Consumer Finances, Morgan Stanley Wealth Management Global Investment Office as of Oct. 18, 2023

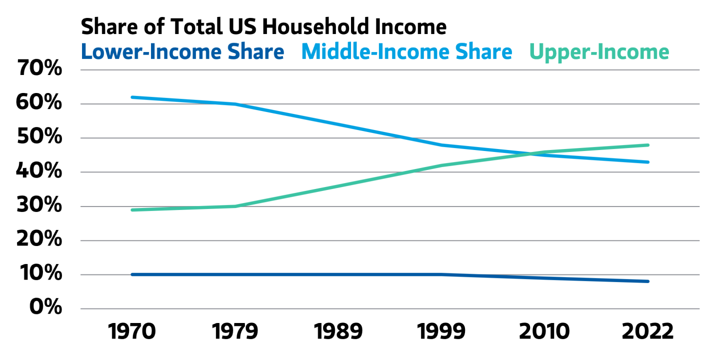
Income gains show a similar, though less extreme, pattern. From 1970 to 2022, real income for upper-income households increased by 78%, compared with 60% for middle-income households and 55% for lower-income households (see Exhibit 6). As a result, the middle-class share of US household income has plunged over the last half-century (see Exhibit 7).

Exhibit 6: Upper-Income Households Have Experienced Stronger Income Growth



Source: Census Bureau's Current Population Survey, Morgan Stanley Wealth Management Global Investment Office as of July 6, 2026

Exhibit 7: Middle-Income Households Have Seen Their Share Decline



Source: Census Bureau's Current Population Survey, Morgan Stanley Wealth Management Global Investment Office as of July 6, 2026

With the distance between the middle and the top widening, the promise of upward mobility feels weaker. Even if the median household is better off in absolute terms, it may feel worse off because the visible markers of success have moved further away.

The widening wealth gap changes access to housing, education, risk-taking and intergenerational support. Families with assets can help children with downpayments, absorb income disruptions, pay for education and invest earlier. Families without assets face higher borrowing needs, greater vulnerability and fewer opportunities to compound wealth.

That is how inequality can reshape the middle-class experience even when median incomes are rising.

What It Takes to Make It Today

A household earning $100,000 but renting in an expensive city, paying for childcare, carrying student loans and lacking emergency savings may feel less secure than a lower-earning homeowner with a fixed mortgage and meaningful retirement assets.

This is why the middle class increasingly depends on four pillars:

1. stable income: enough cash flow to cover recurring expenses without relying on debt
2. affordable fixed costs: especially housing, childcare, health care and transportation
3. asset ownership: home equity, retirement savings and financial investments that can compound over time
4. financial resilience: emergency savings, manageable debt and the ability to absorb shocks

The more of these pillars a household has, the more likely it is to feel middle class; the fewer it has, the more fragile that status becomes.

This framework also explains why the middle class feels so different across geographies and generations. A middle-class income in a low-cost metro area can support savings and homeownership; the same income in a high-cost metro area may barely cover rent, childcare and transportation.

Similarly, older households that bought homes before the post-COVID housing reset may feel much more secure than younger households earning similar incomes. The difference is not just income; it is timing, asset ownership and accumulated wealth.

The bar to make it to the middle class is higher today, and it feels higher too. That is one of today's defining household-finance paradoxes: Many Americans still qualify as middle class, but fewer feel they have made it.

Notes

[1] Median household income, which was referenced earlier, is higher than the average income for the third quintile consumer units due to definitional differences.

Disclosure Section

For index, indicator and survey definitions referenced in this report please visit the following: https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions

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