OMNIGENCE
ASSET MANAGEMENT

The Socioeconomic Barbell:

Middle-Class Compression, Pension Fragility, and the Case for Real Assets

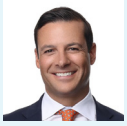
March 2026

EXECUTIVE SUMMARY:

The defining economic narrative of the developed world is not recession, nor even inflation. It is the structural compression of the middle class and the bifurcation of society into a barbell distribution: a growing cohort of asset-rich households at one end, a widening pool of economically precarious households at the other, and a shrinking center that once formed the backbone of consumer demand, tax revenue, and democratic stability.

This is not a new phenomenon, but it has accelerated. Across the OECD, the share of households earning between 75% and 200% of median income fell from 64% in the mid-1980s to 61% by the mid-2010s. In the United States, the share of adults in middle-income households declined from 61% in 1971 to approximately 50% by 2023, while the middle class's share of aggregate income fell from 62% to 42% over the same period. The pattern is repeated, with local variations, across every G7 economy.

Stephen Johnston
Director
sjohnston@omnigenceam.com



Matt Barr
Director
mbarr@omnigenceam.com

Keenan Viney
Data Scientist
kviney@omnigenceam.com

What has changed is the interaction between this structural trend and the post-pandemic macroeconomic environment. The return of persistent inflation, the normalizations of interest rates after a decade of financial repression, and the simultaneous deterioration of sovereign fiscal positions have created a feedback loop in which middle-class compression is both a cause and a consequence of broader economic instability. Households squeezed out of asset ownership by rising housing costs and stagnant real wages become dependent on transfer payments, which expand fiscal deficits, which drive sovereign borrowing costs higher, which in turn constrain the public investment and social spending that once sustained middle-class living standards.

> In 1971, 61% of American adults were middle class. By 2023, barely 50% remained—and their share of national income fell from 62% to 42%.

This paper examines the mechanics of middle-class compression across the G7, the pension funding crisis that both reflects and amplifies it, and the investment implications for portfolios positioned in a world where the socioeconomic barbell is the dominant structural feature of developed economies.

THE ANATOMY OF COMPRESSION:

The middle class is not disappearing so much as it is being pulled apart. Understanding the investment implications requires disaggregating the drivers.

Income polarization is the most visible dimension. In the United States, real median household income grew approximately 8.5% on an inflation-adjusted basis between 2000 and 2024, while median home prices rose over 56% in real terms over the same period. The divergence between labor income growth and asset price appreciation has been the primary engine of wealth stratification across the developed world. Those who owned assets before the era of quantitative easing and zero interest rates saw their net worth multiply; those who did not have watched the entry cost of the asset-owning class rise beyond reach.

Labor market polarization reinforces this dynamic. The hollowing out of middle-skill, middle-wage employment, accelerated by automation and artificial intelligence, has produced a barbell in the labor market itself: growth in high-skill, high-compensation roles at one end and low-skill, low-wage service employment at the other, with the secure, benefits-carrying manufacturing and administrative positions that once defined middle-class work steadily eroding. The OECD has documented that middle-skilled jobs as a share of total employment have declined in virtually every member country since the 1990s.

> Approximately 75% of U.S. households cannot afford a median-priced new home in 2025. For households earning USD 100,000, the share of affordable listings has collapsed from 65% to 37% since 2019.

Housing affordability has become the most politically salient expression of the compression. In the United States, approximately 75% of households cannot afford a median-priced new home as of 2025, according to the National Association of Home

Builders. Households earning USD 100,000 annually can now afford only 37% of listed properties, down from 65% in 2019. Across the G7, price-to-income ratios have risen to levels that effectively exclude median-income households from ownership in major metropolitan areas: ratios exceed 8x in cities including Sydney, Vancouver, London, and multiple Californian metros.

Table 1: Middle-Class Share of Population (Selected G7 Economies)

Country	Mid-1980s	Mid-2010s	Latest Estimate
United States	61%	51%	~50% (2023)
United Kingdom	65%	60%	~58% (est.)
Germany	64%	61%	~60% (2022)
Canada	63%	58%	~56% (est.)
OECD Average	64%	61%	~59% (est.)

Sources: OECD (2019), Under Pressure: The Squeezed Middle Class; Pew Research Center; national statistical agencies. Middle class defined as 75–200% of median national income. Latest estimates are approximate where official OECD data has not been updated.

The geographic dimension is equally important. Middle-class compression is most severe in global cities and metropolitan centers where knowledge-economy employment concentrates. The resulting spatial inequality creates a self-reinforcing cycle: high-income households bid up urban asset prices, which pushes middle-income households to peripheral areas with lower-quality public services and longer commutes, which in turn reduces their capacity to accumulate wealth and invest in human capital.

THE PENSION FUNDING CRISIS: A MIRROR AND AN AMPLIFIER

The pension funding gap across the developed world is both a reflection of middle-class compression and a mechanism through which it is amplified. The fundamental arithmetic is straightforward: pension systems were designed for economies with broad middle-class participation, stable employment, predictable career trajectories, and favourable demographic ratios. None of these conditions obtains any longer.

In the United States, state and local public pension systems carried approximately USD 1.3 trillion in unfunded liabilities as of fiscal year 2024, according to the Equable Institute. When measured using market-value discount rates rather than the optimistic assumed rates of return that most plans employ, Stanford University's Hoover Institution estimates the true shortfall at closer to USD 5.1 trillion, implying an actual funded ratio below 50%. The gap between reported and market-value funded status represents one of the largest unacknowledged fiscal risks in the American economy.

The United Kingdom faces a parallel challenge. Public sector pension liabilities stand at approximately GBP 2.6 trillion, equivalent to roughly 100% of GDP. Unlike funded pension schemes, the majority of UK public sector pensions are unfunded pay-as-you-go arrangements, meaning current retiree payments are financed from current tax revenue. As the ratio of retirees to working-age taxpayers deteriorates, the fiscal burden on the shrinking middle accelerates.

> The true U.S. public pension shortfall is not the USD 1.3 trillion reported by plans. At market-value discount rates, Stanford estimates the gap at USD 5.1 trillion—an actual funded ratio below 50%.

Across the G7, the pattern is consistent. Ageing populations are expanding the numerator of the dependency ratio while labor market polarization and middle-class compression are degrading the quality of the denominator. A workforce increasingly composed of gig workers, part-time employees, and contract laborers contributes less to both social insurance systems and private pension accumulation than the stable, full-time, benefits-carrying employment that pension actuaries assumed when designing contribution rates and benefit structures.

Table 2: Pension Funding Gaps (Selected Economies)			
Country	**Reported Gap**	**Market-Value Gap (est.)**	**Key Driver**
United States (state/local)	~USD 1.3 trillion	~USD 5.1 trillion	Optimistic discount rates
United Kingdom (public)	— (unfunded)	~GBP 2.6 trillion	Pay-as-you-go structure
Canada (CPP + provincial)	Fully funded (CPP)	Provincial gaps vary	CPP reformed; provincial exposure
Japan (GPIF + public)	Structural surplus	Demographic pressure	Shrinking contributor base
Germany (statutory)	— (unfunded)	Implicit: ~EUR 4–5 trillion	Demographic dependency ratio

Sources: Equable Institute (2025); Stanford/Hoover Institution; UK Whole of Government Accounts; OECD Pensions at a Glance (2023). Market-value estimates use risk-free discount rates where available.

The feedback loop between pension fragility and middle-class compression operates through multiple channels. First, rising pension costs crowd out other public expenditure. In the United States, pension contribution rates for state and local employers have nearly doubled since 2007, consuming budget capacity that might otherwise fund education, infrastructure, or healthcare, the very public goods that sustain middle-class living standards. Second, pension shortfalls are ultimately borne by taxpayers, a burden that falls disproportionately on the middle class, which lacks the tax optimization strategies available to higher-income households. Third, the shift from defined-benefit to defined-contribution pension structures has transferred longevity and investment risk from institutions to individuals, many of whom lack the financial literacy, income stability, or time horizon to manage that risk effectively.

THE FISCAL DOOM LOOP:

Middle-class compression does not occur in a fiscal vacuum. It interacts with sovereign debt dynamics in ways that create self-reinforcing deterioration.

The mechanism is straightforward. A shrinking middle class generates less tax revenue per capita, both because median incomes stagnate and because lower-income households consume a higher share of income, leaving less taxable surplus. Simultaneously, the households pushed below the middle-class threshold require greater transfer payments: housing subsidies, healthcare support, food assistance, and unemployment insurance. The fiscal consequence is a structural widening of the deficit, which must be financed through sovereign borrowing.

This borrowing, in a world of normalized interest rates, carries a cost that did not exist during the era of zero rates and quantitative easing. U.S. federal interest payments surpassed USD 1 trillion in fiscal year 2025, exceeding defense spending for the first time. In the United Kingdom, debt interest payments consumed GBP 89 billion in fiscal year 2023–24. Across the G7, debt service costs are rising at precisely the moment when the revenue base is eroding and expenditure demands are increasing.

> U.S. federal interest payments surpassed USD 1 trillion in 2025—exceeding defense spending for the first time. The fiscal doom loop has arrived.

The doom loop closes when rising sovereign borrowing costs feed back into the real economy through higher mortgage rates, tighter credit conditions, and reduced fiscal capacity for countercyclical policy. Households already on the margin of middle-class status are pushed further down the income distribution, generating additional fiscal costs and further eroding the tax base. The loop is particularly vicious in economies with high household debt-to-income ratios, including Canada, Australia, and the United Kingdom, where even modest rate increases produce outsized effects on disposable income.

Table 3: G7 Sovereign Debt Dynamics			
Country	**Gross Debt/GDP (2024)**	**Interest/Revenue**	**Structural Deficit**
United States	~123%	~16%	~6.5% of GDP
Japan	~237%	~8% (suppressed)	~5% of GDP
Italy	~137%	~8%	~4% of GDP
United Kingdom	~104%	~9%	~4.5% of GDP
France	~113%	~4%	~5% of GDP
Canada	~106%	~7%	~1.5% of GDP
Germany	~64%	~2%	~2% of GDP

Sources: IMF Fiscal Monitor (October 2025); OECD Economic Outlook; national treasury departments. Figures are approximate and reflect general government where available.

DEMOGRAPHICS: THE INESCAPABLE HEADWIND

Every dimension of the socioeconomic barbell is amplified by demographics. The G7 collectively faces a dependency ratio trajectory that makes the current fiscal arithmetic unsustainable without either dramatic productivity growth or fundamental restructuring of social contracts.

Japan, the most advanced case, has an old-age dependency ratio of approximately 50%, meaning there are roughly two working-age adults for every person over 65. Italy is on a similar trajectory, with a ratio approaching 40%. Germany, absent continued high immigration, will see its working-age population decline by approximately 7 million by 2035. Even the United States, with comparatively favourable demographics, faces an old-age dependency ratio projected to rise from 28% to approximately 38% by 2040.

The interaction between demographics and middle-class compression is particularly corrosive. Younger cohorts, who should be entering the middle class and forming the base of the tax-paying, asset-accumulating population, are instead facing higher housing costs, greater educational debt burdens, less stable employment, and lower pension coverage than their predecessors. The OECD has documented that millennials are significantly less likely than baby boomers to be in the middle-income bracket at the same age. This generational dimension means that the socioeconomic barbell is not merely a snapshot of current conditions but a structural trajectory that will deepen over time as compressed cohorts age into retirement with inadequate savings.

> Japan has two working-age adults for every retiree. Italy is converging on the same ratio. Germany's working-age population will shrink by 7 million by 2035. The denominator of the pension equation is collapsing.

The pension implications are direct. Defined-benefit plans depend on a growing base of contributors to fund a stable pool of retirees. When the contributor base shrinks and the income distribution polarises, contribution revenue stagnates while obligations compound. Defined-contribution plans, which now dominate the private sector, depend on individual savings rates, which are lowest among the very households being squeezed out of the middle class. The result is a future retiree population with a barbell distribution mirroring the labor market: a cohort with adequate retirement assets alongside a much larger cohort with profoundly inadequate savings.

INVESTMENT IMPLICATIONS: POSITIONING FOR THE BARBELL

The socioeconomic barbell is not merely a social phenomenon. It is a structural feature of the macroeconomic environment with direct implications for asset allocation, risk management, and portfolio construction.

Higher structural inflation: Middle-class compression, paradoxically, is inflationary in the medium term. The fiscal response to social distress, whether through transfer payments, minimum wage increases, housing subsidies, or pension top-ups, expands government spending at a time when revenue growth is constrained. The resulting deficits, monetised or otherwise, sustain inflationary pressure above the 2% targets that central banks maintained during the era of globalisation-driven disinflation. Portfolios constructed on the assumption that inflation will return to pre-pandemic norms face a structural repricing risk.

Elevated sovereign risk premia: The doom loop described in Section 3 implies that term premia in sovereign bond markets will remain elevated relative to the post-2008 era. The era of artificially suppressed yields, maintained by central bank purchases and Japanese capital exports, is ending. Investors demanding compensation for fiscal risk, demographic risk, and political risk will keep long-duration sovereign bonds under structural pressure. This has direct implications for any asset class valued as a spread over the risk-free rate.

Real asset outperformance: In a regime of persistent above-target inflation, fiscal dominance, and financial repression, real assets, those with intrinsic productive value and pricing power, offer structural advantages. Farmland, infrastructure, and real estate with pricing power benefit from inflation pass-through, supply constraints, and income streams that are either explicitly or implicitly indexed to nominal growth. The historical evidence from comparable periods, including the 1970s stagflation and the post-war fiscal consolidation era, consistently shows real assets outperforming financial assets on a risk-adjusted basis.

Consumption bifurcation as a sector signal: The barbell in household income produces a barbell in consumption patterns. Luxury goods and discount retailers outperform; mid-market businesses face margin compression. This pattern, already visible in the relative performance of companies such as LVMH.

Table 4: Asset Class Positioning in a Barbell Economy

Asset Class	Structural Tailwind	Structural Headwind
Farmland / real assets	Inflation hedge; supply-constrained; income-producing	Liquidity constraints; regulatory risk
Infrastructure (essential)	Indexed cash flows; monopolistic positioning	Political risk; rate sensitivity on entry
Private credit (LMM)	Demand from underserved segments; illiquidity premium	Credit deterioration in downturn
Long-duration sovereign bonds	None in current regime	Fiscal supply; inflation; repatriation (Japan)
Mid-market consumer equities	None structural	Margin compression; demand erosion
Luxury / discount equities	Barbell consumption pattern	Valuation risk at luxury end

Source: Omnigence analysis. Assessments reflect structural positioning over a 5–10 year horizon and are not short-term forecasts.

THE POLICY RESPONSE AND ITS LIMITS:

Governments are not unaware of the compression. The policy responses, however, are constrained by the very fiscal dynamics that the barbell creates.

Housing affordability interventions, whether supply-side (zoning reform, construction subsidies) or demand-side (first-time buyer grants, shared equity schemes), have uniformly failed to reverse the long-term trend in price-to-income ratios across the G7. The fundamental constraint is that housing has been financialized: it serves simultaneously as shelter, as a savings vehicle, as collateral for household borrowing, and as a store of intergenerational wealth. Any policy that reduces housing prices threatens the balance sheets of the asset-owning class, the banking sector, and the fiscal position of governments that depend on property-related tax revenue.

Pension reform faces analogous constraints. Raising contribution rates burdens employers and employees already under pressure. Reducing benefits is politically toxic and, for public plans, often constitutionally constrained. Raising the retirement age is demographically rational but electorally difficult in ageing societies where retirees constitute a growing share of the voting population. The result is incrementalism: marginal adjustments to contribution rates and benefit formulas that are inadequate to close the structural funding gap.

The most likely policy trajectory is therefore financial repression: maintaining real interest rates below the rate of economic growth and inflation, allowing government debt burdens to erode in real terms at the expense of savers and fixed-income

investors. This is the path of least political resistance, and it is the path that most directly favors real assets over financial assets in portfolio construction.

CONCLUSION

The socioeconomic barbell is not a transient phenomenon that will be resolved by the next business cycle. It is a structural feature of developed economies, driven by the convergence of labor market polarization, asset price inflation, demographic deterioration, and sovereign fiscal stress. Its investment implications are equally structural.

> The barbell economy is self-reinforcing: the policy tools needed to reverse middle-class compression are constrained by the fiscal dynamics that compression itself creates.

Portfolios designed for a world with a broad, stable middle class, characterized by steady consumption, growth, manageable sovereign debt, and low inflation, face a fundamental repricing risk. The transition to a barbell economy favours real assets with pricing power, private strategies targeting underserved market segments, and short-duration positioning in fixed income. It penalizes long-duration sovereign exposure, mid-market consumer plays, and any strategy predicated on a return to the macroeconomic conditions of the 2010s.

Toronto Office:
TD Canada Trust Tower, 161 Bay St.
27th Floor, P.O. Box 508
Toronto, ON, M5J 2S1

Calgary Office:
Suite 300, 4954 Richard Road SW
Calgary, AB, T3E 6L1

Montréal Office:
3 Place Ville Marie, Suite 3190
Montréal, QC H3B 2E3
www.omnigenceam.com