DEMOGRAPHICS & CULTURE

Why I see opportunity in the mass market

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As a kid growing up in Lawrence, Kansas, I started a lawn mowing business to earn extra money while attending school. The experience taught me the importance of hard work, the value of a dollar, and how to live within my means.

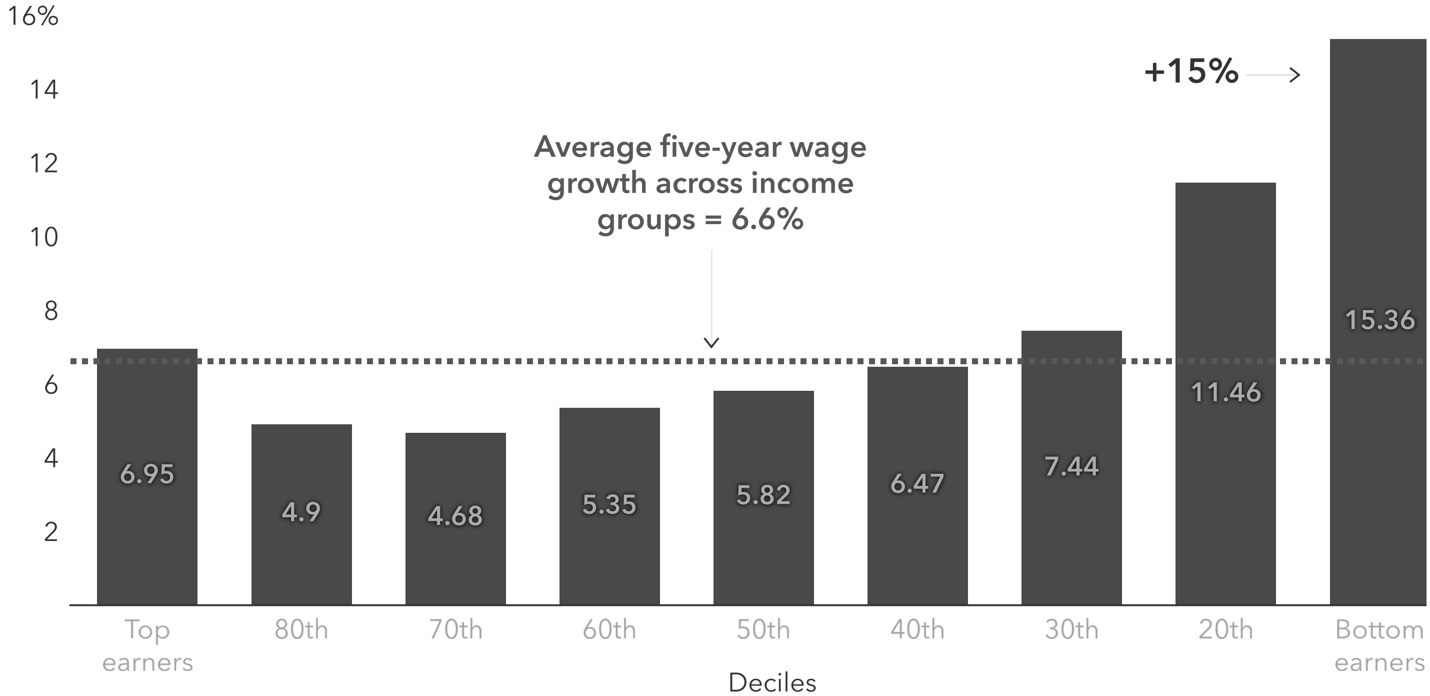
Fast-forward three decades and I see significant opportunity investing in companies that cater to mass-market consumers, including folks struggling to make every dollar count. This investment theme may not sound as exciting as artificial intelligence or the latest biotech breakthrough, but I think it could be just as rewarding for those who, like me, prefer to invest in companies that make products they use every day.

Feedback

In my view, this is a long-term investment opportunity. That said, there are four recent developments that I think are generating some powerful tailwinds.

Low-income workers see strong wage growth

Real hourly wage growth by income decile, 2019-2024



Source: Capital Group, Economic Policy Institute, U.S. Census Bureau. As of December 31, 2024.

1. Working-class wages are moving higher

The most important shift is rising wages for working-class Americans. Since the COVID-19 pandemic, low-income employees have enjoyed the largest wage increases, by far, compared to any other income group, including the highest earners.

As companies struggled to find employees during and after the pandemic, U.S. workers in the lowes income category — earning an average wage of $14.26 an hour — saw a 15% increase in pay from 2019 to 2024. That's more than double the average five-year wage growth among all other income groups. And, yes, these numbers are adjusted for inflation, which hit a 40-year high of 9.1% in the summer of 2022. In other words, these pay hikes were sorely needed.

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Of course, this doesn't mean that low-wage workers are suddenly riding high on the economic spectrum. For decades they've gotten the short end of the stick, actually losing ground on an inflation-adjusted basis. There is still a huge wealth gap between the richest and poorest Americans. But it does mean that low-wage workers now have more discretionary income, and where they spend that money plays an important factor in the health of the U.S. economy.

We saw evidence of that last week in the U.S. gross domestic product (GDP) report. During the se quarter of 2025, the U.S. economy grew by 3% on an annualized basis, largely due to strong consumer spending. Although hiring has slowed this summer and the U.S. unemployment rate has ticked up in recent months, it remains low by historical standards at 4.2%. That's a tight labor market by any measure, which bodes well for future wage growth.

2. Tax policy is providing support

In the massive tax-and-spending bill approved by Congress and signed by President Trump last month, income taxes were lowered or eliminated in several areas. That included the “no tax on tips” deduction, which could boost the incomes of hotel and restaurant workers, who often fall into the lowest wage categories.

Looking ahead, I expect federal income taxes to remain low for middle- and low-income Americans. But I do believe, at some point, taxes on the wealthy will rise as lawmakers attempt to deal with record-high budget deficits and a long-term debt burden now approaching $37 trillion. I know this is a counter-consensus view, but my belief is that the top 5% of earners will eventually have to shoulder a higher tax burden if the U.S. is ever going to find a solution to its growing debt crisis.

U.S. income taxes have moved downward for decades

Highest and lowest U.S. income tax rates, 1925-2025

Source: Capital Group, Federal Reserve Board, Internal Revenue Service. As of July 31, 2025.

3. Minimum wage is on the rise

At the state level, minimum wage increases are also helping to boost the finances of working-class Americans. This year, 21 states are in the process of implementing minimum wage hikes. By 2027 nearly half the U.S. population will live in states with a minimum wage of $15 or more. To be sure, making minimum wage aren’t getting rich, but rank-and-file employees are making progress after many years of stagnant wage growth.

I am also hopeful that the ongoing “reshoring” trend — returning some manufacturing activity to the U.S. — will create more jobs for Americans in the semiconductor, pharmaceutical and industrial sectors.

The U.S. probably won't be returning to its days as a manufacturing powerhouse, but even a modest increase in manufacturing-related jobs could have a big impact, putting additional upward pressure on wages.

Taken together, I think these developments will improve overall economic conditions for the workforce, and this shift will have significant investment implications.

4. Mass-market companies are rising to the occasion

There are many publicly traded companies that cater to mass-market consumers, including some that make an effort to serve customers living on a tight budget. The companies that may be best positioned to benefit from this investment theme, in my view, are those selling products and services that get the job done and remain affordable for budget-minded folks.

In the consumer staples sector, Dollar General is one example of a company that illustrates this investment theme. The Tennessee-based retailer operates more than 19,000 extreme discount stores in the U.S. and Mexico, where it sells an array of private label goods. Although it doesn't always have the lowest prices when compared to larger rivals such as Costco and Walmart, Dollar General tends to serve more rural, lower income communities. It sells a range of consumer products at reasonable prices and maintains a loyal customer base, particularly in areas that are neglected by the retail giants.

In the consumer discretionary sector, Yum! Brands is a Kentucky-based company that owns well-knov fast food restaurants such as KFC, Pizza Hut and Taco Bell. Avoiding any judgment on healthy food choices, these iconic brands offer enjoyable meals at decent prices, including frequent discounts for customers who use their smartphone apps.

Valuations matter

Why haven't I mentioned Walmart, you might ask? I am a value investor at heart. Walmart's shares — trading at 42 times earnings — are just too expensive for my value-oriented investment style. It's a similar story at Costco. Both are solid companies, in my view, but I care about valuations and am not willing to pay premium prices when I see potentially better opportunities elsewhere.

Speaking of other places, there are numerous expressions of this investment theme outside the U.S. as well. Jumbo is a deep-discount retailer based in Greece that specializes in toys, baby-related items and other specialty goods. Jumbo operates 86 stores in Greece, Bulgaria, Cyprus and Romania. The company managed to survive a decade-long Greek recession with its goal of "making parents heroes" by enabling them to buy toys for their kids at low prices. Now that the Greek economy is recoveri Jumbo may benefit from rising incomes, lower unemployment and a brighter economic outlook.

Finally, let's not forget about lawn care. Given my childhood expertise in this area, The Toro Company comes to mind. The Minnesota-based manufacturer is known for making reliable lawn mowers, mostly sold through large retailers such as Home Depot and Lowe's. Toro doesn't always offer the cheapest prices, but it does build rugged mowers that can last many years, making up for the price differential with longevity. I once calculated the price of such a mowing machine at 25 cents per lawn, which is not too bad for a teenager charging five dollars for a small lawn and 20 for a large one.

Coming from a working-class background, my investment views are shaped by the environment I grew up in. I still wear Wrangler jeans. I shop at dollar stores. And I take my kids to Taco Bell (once in a while). I am rooting for this group of people to prosper, and I am expressing that conviction in my portfolios. I believe the working class is the heartbeat of the American economy and, if they succeed, we all succeed.

Read important disclosures

***Matt Hochstetler** is an equity portfolio manager with 20 years of investment industry experience (as of 12/31/2024). He holds an MBA from Harvard and a bachelor's degree in international finance and economics from Georgetown University.*
