

Winter 2026

Worried about affordability? Rather than bore you by unpacking inflation-adjusted purchasing power, what if we told you there's a way, one that's been used by other countries in the past, to make eggs four cents (USD) per dozen and gas three cents (USD) per gallon? To the wayback machine...

In 1959, the *New York Times* ran a piece announcing that France had begun an operation to “slim down the French franc to an elegant, svelte silhouette 1/100th of its former bloated inflated self.” Essentially, the government would be lopping off two zeros from the nominal amounts on its currency—a process known as redenomination. So, for example, the old 500-franc note would become a new 5-franc note.

The move wasn't just a flight of fancy for President de Gaulle. Years of inflation had made the French franc inconvenient. The French needed huge amounts for everyday items. The change in currency aimed to simplify these everyday transactions. But there was a very deliberate psychological impact: the “nouveau franc” felt more substantial and helped restore people's confidence in the currency, and it made prices seem less outrageous. Now, a new Peugeot ran you just 8,000 francs rather than 800,000 francs. How can consumers not get excited about suddenly saving over a quarter million francs on a new car?

But the Peugeot didn't, of course, become more “affordable,” to use today's political buzzword. If Pierre, say, was making 8 million francs a year before the redenomination, the car still cost a tenth of his salary afterward. Affordability, it turns out, is not about prices alone. It's about prices relative to income. And that's what makes it tricky to define. How those things are measured varies depending on how they are perceived by the audience. And making financial decisions based on perception is rarely wise.

To wit, the *Economist* magazine's *Free Exchange* column recently reminded us of what Irving Fisher, the famed American economist, called the “money illusion”—people's tendency to react to the number on the price tag or pay stub and not what their money will buy. The nominal value of the dollar (or whatever currency) overshadows the fact that its real value is constantly changing. Years later, in 1986, behavioral economists Daniel Kahneman and Richard Thaler found that workers preferred a 5% wage increase in a world with 12% inflation to a 7% wage cut with no inflation, even though the two scenarios leave them with the same purchasing power.

We do consider affordability. After all, the strength of an economy is rooted in affordability—households being able to meet their expenses and have a little left over for savings. We see affordability through a different lens, as a pie made up of many slices. For us, it's fundamentally about whether people can sustain household expenses over time. Which means the most relative metric isn't the level of prices, but the relationship between how much people spend and how much they bring in. In housing, for example, this means our focus is on mortgage payments rather than home prices.

This comment is intended for informational purposes only. The information is gathered from what is believed to be reliable sources, but we cannot guarantee its accuracy. Any reproduction, distribution, or other use of this presentation without the prior written consent of One Capital Management is prohibited. Advisory services are offered through One Capital Management, LLC, an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. © 2026 One Capital Management, LLC

Payment-to-income ratios, debt service burdens, and delinquency trends don't make for great clickbait, political ads, or bumper stickers, but those are some of the things we pay close attention to. As long as those indicators remain contained, markets tend to view affordability pressures as manageable, even if the pressures are increasingly being felt in individual households.

Currently, those affordability metrics say that U.S. and Canadian households are in better shape than the media or politicians would have you believe. Yes, debt-to-income ratios climbed steadily in the U.S. and in Canada up to the Global Financial Crisis of 2007-2008, then diverged, with U.S. households reducing debt-to-income, while it continued to increase for Canadian households until 2023 before starting to slightly decline since.

Our preferred measure of financial health of a household is the debt-service ratio—how much monthly income a household spends to service and pay off debt. The lower the ratio the better: a lower ratio allows households to spend on other goods and services, and hopefully, savings and investment. While debt-to-income ratios rose significantly over the past several decades, the debt-service ratio remains closer to late-1990s norms of about 11% in the U.S. and 14% in Canada.

Denying that prices for basic needs like groceries, energy, and rent have risen is foolish, as many politicians are discovering. The issue of affordability is not, of course, a hoax. Many people are having difficulty making ends meet. But, as investors, we seek to look at affordability analytically. We're not focusing solely on how much more expensive things have become relative to the past. We're bringing many other crucial things into the equation—changes in interest rates, household composition, and, yes, finally, inflation-adjusted purchasing power, to name a few. We look at how affordability impacts household consumption—the lifeblood of economic activity. At this time, the data tells us that household incomes, in aggregate, continue to support their spending habits.

Wishing you a happy, healthy, and prosperous 2026.