

## Not Just Post-Millennials: Opportunities from the Ascent of Generation Z

---

*“My dear graduates, let me be frank, the best years are very much ahead of you. And they can be whatever you want them to be ... You’re going to continue to evolve in unforeseen ways. What defines you now will be mere shades and hues of a more vibrant you over the next five, 10, 50 years. Honestly, I can’t think of anything more liberating than that, knowing that life will look differently than you think it will.”*

~ Actress Octavia Spencer, Commencement Speech for Kent State University Class of 2017

We are coming up on the tail end of another graduation season, with another set of young adults going into the world – to strive and to build, to work and to spend. This will be the first half of a series about the youngest generation of adults, focusing on their generalized approach toward money matters and what companies are poised to benefit from them.

This year’s high-school graduates fall just past the midpoint of the birth years that demographers use to define Generation Z (1997–2010). More than half of Gen Z are now legally adults. The generation ranges in age from 13 to 26.

Demographics are destiny – that’s what our Head of Research, Tom Lee, constantly repeats as a mantra. This forms part of the foundation for his perennially outperforming [Granny Shots](#) stock list. Demographics are why Lee looks for companies involved in AI and automation, and demographics are why Lee looks for companies poised to benefit from the rise of Millennials.

The Pew Research Center defines Millennials as people born between 1981 and 1996. That means the oldest Millennials are now in their 40s, entering their peak earnings years. They will remain influential for decades to come. But Gen Z is the future. Over the next two decades, they will follow in the footsteps of their predecessors, growing their income and spending power. With a size comparable to that of Millennials, Gen Z is about to play an increasingly prominent role in driving the U.S. and global economies.

Gen Z differs from previous generations in one key respect: its members wield more influence on their parents (typically Generation X) than previous generations did with their parents. Between their growing impact on the market and their already significant influence on Generation X, it makes sense to examine what our youngest adults think, how they might change society (hopefully for the better), and which companies are poised to benefit.

***“Give me a child until he is 7, and I will show you the man.” ~ Aristotle***

People change throughout their lives, but many thought patterns and instincts are formed in youth. So what experiences shaped Gen Z when they were children? Regarding views on money and spending, most of Gen Z have early memories of their parents dealing with the Global Financial Crisis – job losses, budgetary constraints, and even loss of homes. At a young age, the members of Gen Z were made keenly aware that economic security was by no means a guarantee and that good times could be transitory.

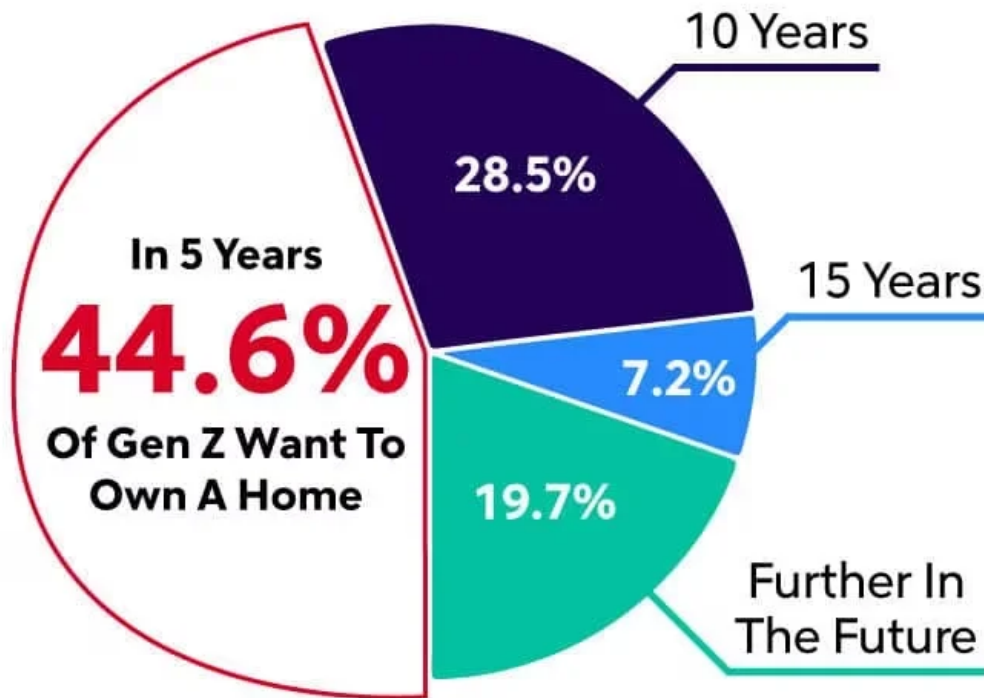
As they entered their teen years, they also saw the prosperity that followed the GFC, entering their high school and university years with a sense of optimism. That optimism crashed into the global pandemic, then skidded on a global surge in inflation.

Caution is advised when making blanket statements about an entire generation – especially one that, depending on the cutoff years used, might match Millennials in size while exceeding it significantly in diversity. Nevertheless, it is reasonable to anticipate that Gen Z is entering adulthood with contradictory mindsets – guarded and insecure about the future, yet simultaneously willing to spend on personal enjoyment and satisfaction.

On the one hand, Gen Zers tend to have a long-term view of their financial futures. They strive to be financially disciplined, determined to achieve their ambitious goals. About 54% of this generation already holds some investments, whether through traditional instruments such as mutual funds, ETFs, and stocks, or digital assets such as cryptocurrencies and NFTs. This actually puts them ahead of Boomers (43%) and nearly at par with their Gen X parents.

Zoomers are also ahead of earlier generations when it comes to home ownership. According to Redfin (\$RDFN), 30% of Zoomers are already homeowners by age 25 – which puts them ahead of Millennials and Xers at that age (28% and 27%, respectively). Rocket Homes (\$RKT) research shows that nearly 45% plan to buy a house in the next five years, and another 28.5% plan to do so within 10 years.

# When Do Gen Zers Plan To Buy Their Own Home?



Source: Rocket Homes® Research

One thing improving their chances: many Zoomers continue to live with their parents even after completing school – 48%, a level not seen since the early 1940s during the Great Depression. Much of that might have been due to the pandemic, but a significant number chose this option specifically to save money for a down payment on a house.

Some of Gen Z's other spending tendencies enhance the potential benefits of this kind of decision-making. This cohort has adopted some sensible views on shopping, often favoring Big Box stores that older generations might have viewed as uncool. It's no accident that Walmart (\$WMT) is one of the most popular brands for this demographic, just ahead of Target (\$TGT).

Coincidentally, Walmart and Target are also poised to take advantage of this potential surge in new homeowners – customers likely to have just bought older houses that need to be fixed and furnished. More specialized retailers could also benefit, such as DIY chain Home Depot (\$HD) and home-furnishings retailer Wayfair (\$W).

Yet it is not all grit and pragmatism with the Zoomers. There is no evidence that this cohort is particularly interested in the lifestyle of an ascetic monk. As noted in a previous *Signal From Noise*, Gen Zers still have a taste for [luxury](#) – an appreciation for life’s finer things that they developed at a precocious average age of 15. (In comparison, the average Millennial was between 18 and 20 the first time they bought a luxury brand.)

One obvious question arises: Just how are Zoomers able to afford expensive luxury items at such a young age? A number of explanations come to mind. First, recall that many adult Zoomers still live with their parents. Discretionary funds swell when living rent-free, and it is unrealistic to expect them to put all of those savings toward a down payment for a house.

A second reason is the growing number of online second-hand luxury marketplaces. The Realreal (\$REAL) is just one of numerous companies vying to do their part to bring expensive purses, designer shoes, and haute couture closer within reach.

And a third way in which Gen Z – even those in the lower income brackets – can afford all of this is by going into debt. Admittedly, this is not conducive to their goals of imminent home ownership and financial security, but like their elders, the members of Gen Z are full of human contradictions.

One obvious source of spending is credit cards. The 2009 Credit Card Accountability Responsibility and Disclosure Act (CARD Act) restricted on-campus marketing of credit cards to college students, but cards remain a popular and easy way for young adults to spend – and go into debt. Gen Z saw the biggest percentage increase in credit-card debt in 2022 – nearly 6%.

## Average credit card debt among Credit Karma members by generation

Generation	Average credit card debt March–May 2022	Average card debt Oct.–Dec. 2022	Percent change in credit card debt
<b>Generation Z</b>	\$2,626	\$2,781	5.90%
<b>Millennial</b>	\$5,632	\$5,898	4.72%
<b>Generation X</b>	\$7,977	\$8,266	3.62%
<b>Baby boomers</b>	\$7,310	\$7,464	2.11%
<b>Silent</b>	\$5,601	\$5,649	0.86%

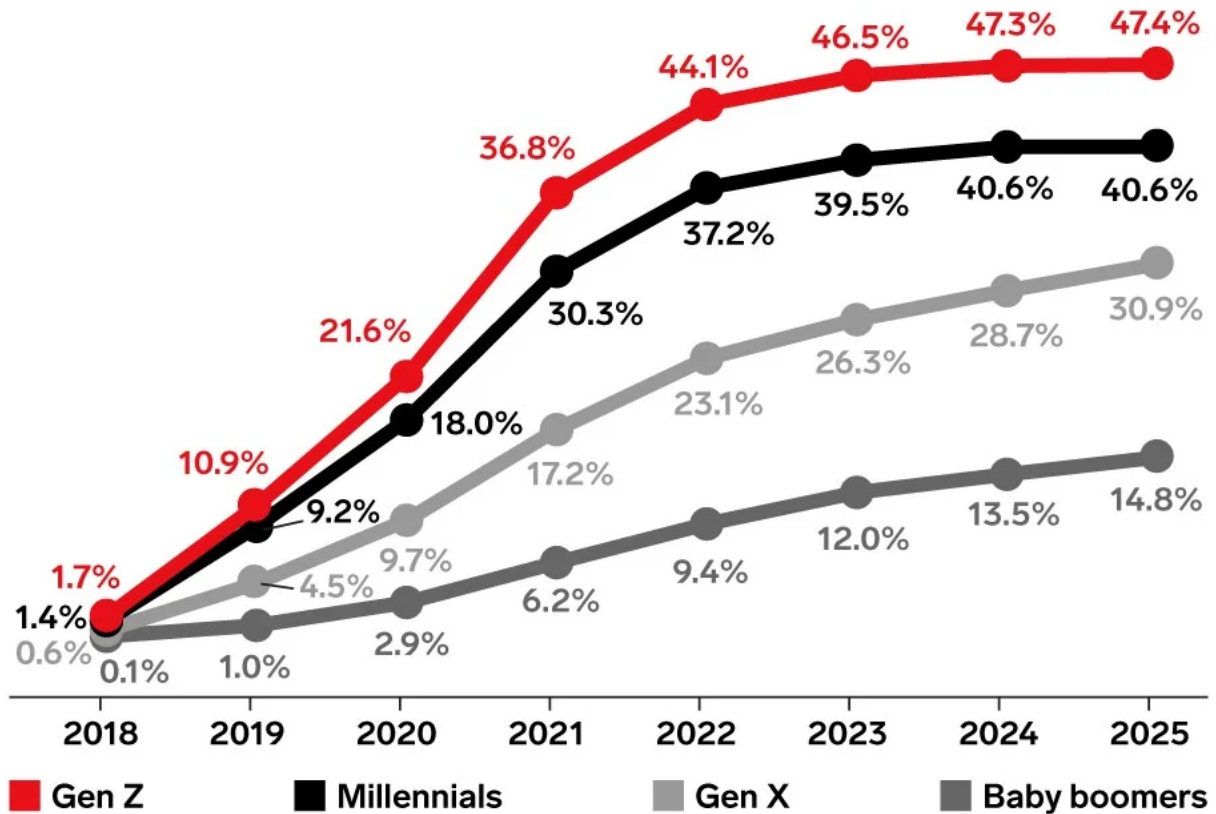
Source: Credit Karma

But it is not just about credit cards. Gen Z is the most enthusiastic adopter of recently introduced Buy Now Pay Later (BNPL) options, partly because their less rigorous credit checks and looser requirements are more accessible to customers with imperfect or less established credit histories.

Nearly 48% of this cohort have made at least one purchase using BNPL in the past year, and that number is only expected to grow. Fintech companies such as Paypal (\$PYPL) and Block (\$SQ) have been eager to meet this demand. However, the market has so much potential that even less obvious players such as Granny Shot Apple (\$AAPL) have also joined in.

## US Buy Now, Pay Later (BNPL) User Penetration, by Generation, 2018-2025

% of digital buyers in each group



Note: internet users who have accessed a BNPL account digitally and have made a payment toward a purchase at least once in the past year; includes purchases of goods and services; Gen Z are individuals born between 1997 and 2012; millennials are individuals born between 1981 and 1996; Gen X are individuals born between 1965 and 1980; baby boomers are individuals born between 1946 and 1964  
 Source: eMarketer, May 2021

267143

eMarketer | InsiderIntelligence.com

### Final thoughts



By dint of their youth, size, and potential, Gen Z is poised to make its mark on the world. Just like every other generation, members of this cohort will face various challenges – some not of their making, and some that arise from their tendencies and choices. The companies mentioned above have the intent and potential to benefit from both, but it must be stressed that no investment decision should be made solely on the basis of one thematic idea. Despite their potential, some of the names in this piece have struggled recently and might well continue to do so. We recommend that readers use these suggestions only as a starting point for further research.

Next month, we will look at this generation's lifestyle tastes and preferences, diving a little deeper into how they decide what to spend money on, and which companies seem able to provide what they desire.

In the meantime, we encourage you to explore our full [Signal From Noise library](#), where you'll find ideas about investing to benefit from the growing demand for [luxury goods](#) and the need for solutions to the ever-increasing [global water crisis](#). You will also find interviews with respected investors and bestselling authors [Morgan Housel](#) and [Robert Hagstrom](#).

*Your feedback is welcome and appreciated. What do you want to see more of in this column? Let us know. We read everything our members send and make every effort to write back. Thank you.*



---

## Disclosures

---

This research is for the clients of FS Insight only. FSI Subscription entitles the subscriber to 1 user, research cannot be shared or redistributed. For additional information, please contact your sales representative or FS Insight at fsinsight.com.

### Conflicts of Interest

This research contains the views, opinions and recommendations of FS Insight. At the time of publication of this report, FS Insight does not know of, or have reason to know of any material conflicts of interest.

### General Disclosures

FS Insight is an independent research company and is not a registered investment advisor and is not acting as a broker dealer under any federal or state securities laws.

FS Insight is a member of IRC Securities' Research Prime Services Platform. IRC Securities is a FINRA registered broker-dealer that is focused on supporting the independent research industry. Certain personnel of FS Insight (i.e. Research Analysts) are registered representatives of IRC Securities, a FINRA member firm registered as a broker-dealer with the Securities and Exchange Commission and certain state securities regulators. As registered representatives and independent contractors of IRC Securities, such personnel may receive commissions paid to or shared with IRC Securities for transactions placed by FS Insight clients directly with IRC Securities or with securities firms that may share commissions with IRC Securities in accordance with applicable SEC and FINRA requirements. IRC Securities does not distribute the research of FS Insight, which is available to select institutional clients that have engaged FS Insight.

As registered representatives of IRC Securities our analysts must follow IRC Securities' Written Supervisory Procedures. Notable compliance policies include (1) prohibition of insider trading or the facilitation thereof, (2) maintaining client confidentiality, (3) archival of electronic communications, and (4) appropriate use of electronic communications, amongst other compliance related policies.

FS Insight does not have the same conflicts that traditional sell-side research organizations have because FS Insight (1) does not conduct any investment banking activities, and (2) does not manage any investment funds.

This communication is issued by FS Insight and/or affiliates of FS Insight. This is not a personal recommendation, nor an offer to buy or sell nor a solicitation to buy or sell any securities, investment products or other financial instruments or services. This material is distributed for general informational and educational purposes only and is not intended to constitute legal, tax, accounting or investment advice. The statements in this document shall not be considered as an objective or independent explanation of the matters. Please note that this document (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject





to any prohibition on dealing ahead of the dissemination or publication of investment research. Intended for recipient only and not for further distribution without the consent of FS Insight.

This research is for the clients of FS Insight only. Additional information is available upon request. Information has been obtained from sources believed to be reliable, but FS Insight does not warrant its completeness or accuracy except with respect to any disclosures relative to FS Insight and the analyst's involvement (if any) with any of the subject companies of the research. All pricing is as of the market close for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, risk tolerance, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies. The recipient of this report must make its own independent decision regarding any securities or financial instruments mentioned herein. Except in circumstances where FS Insight expressly agrees otherwise in writing, FS Insight is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice, including within the meaning of Section 15B of the Securities Exchange Act of 1934. All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client website, [fsinsight.com](https://fsinsight.com). Not all research content is redistributed to our clients or made available to third-party aggregators or the media. Please contact your sales representative if you would like to receive any of our research publications.

**Copyright © 2023 FS Insight LLC. All rights reserved. No part of this material may be reprinted, sold or redistributed without the prior written consent of FS Insight LLC.**