

Capital in Transition:

Demographics, Public Markets, and the Institutional Allocation Shift

August 2025



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Abstract

The authors review the demographic landscape and asset allocation trends of U.S. investors, especially the Baby Boomer generation. They explore how an aging population is reflected in capital markets. Evolving retirement savings management underscores the importance of diversified portfolio strategies. Growing adoption of private market exposure and incorporating a wider range of asset classes within institutional policies are happening during an historic period of demographic challenges.

The Economic Ripples of an Aging Society

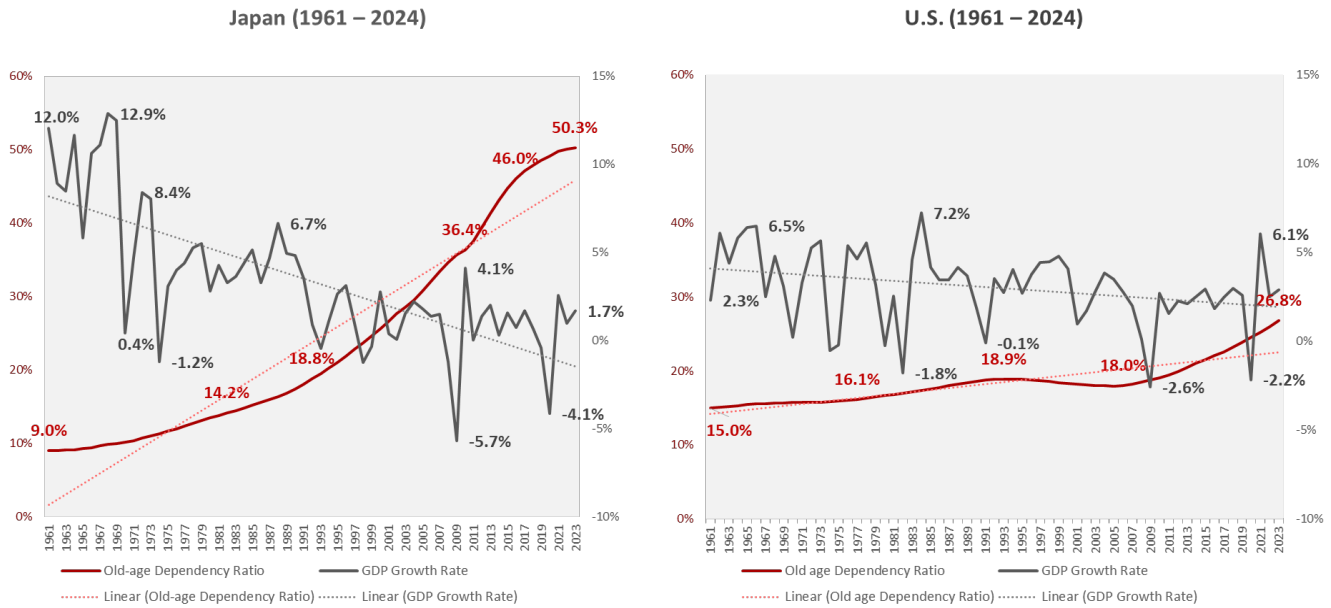
Over half of Baby Boomers (born from 1946 to 1964) have now reached retirement age. As of 2024, about one in five Americans are over the age of 65, and the old age dependency ratio was 27.9%. The old-age dependency ratio measures the number of people aged 65 and older relative to those in the working-age population (15 to 64), indicating the potential burden on workers to support retirees. In other words, there are now fewer than four working-age Americans supporting one senior citizen.

The changes in a country's demographics impact its economy in ways beyond labor shortages and the heavy burden for social security. Aged countries normally have slower productivity growth, less innovation, changes in consumption, and pressures potentially harming housing, education, and technology. Declining investment in human capital development and an aging labor force may marginalize a country in the global supply chain.

However, the U.S. remains the youngest country among major developed nations, due in part to the inflow of over one million immigrants per year. Are we insulated against the economically slowing effects of an aging society?

Japan had its GDP growth rate drop to around a 1% level as its dependency ratio reached 30% in 2010. Japan's GDP, as a share of the world economy, has slumped to 4% from 18% in 1995 when it held a younger population. Elsewhere, a comparison between two of the largest emerging market nations shows that even for countries with large population bases, an aging population could create substantial pressure on economic growth. China's annual GDP growth rate remained strong from 1990 to 2008, when its dependency ratio was around 11%. However, 30 years of one child policy boosted this ratio to 22.5% in 2022, while GDP growth slowed. On the other hand, India's GDP growth rate has held relatively steady, between 4% to 8% over six decades, while its population grew but remained more age-balanced, holding its dependency ratio typically at or below 10%.

Old-age Dependency Ratio and GDP Growth Rate (65+/15 to 64, %)



Source: Federal Reserve Bank of St. Louis

Figure 1

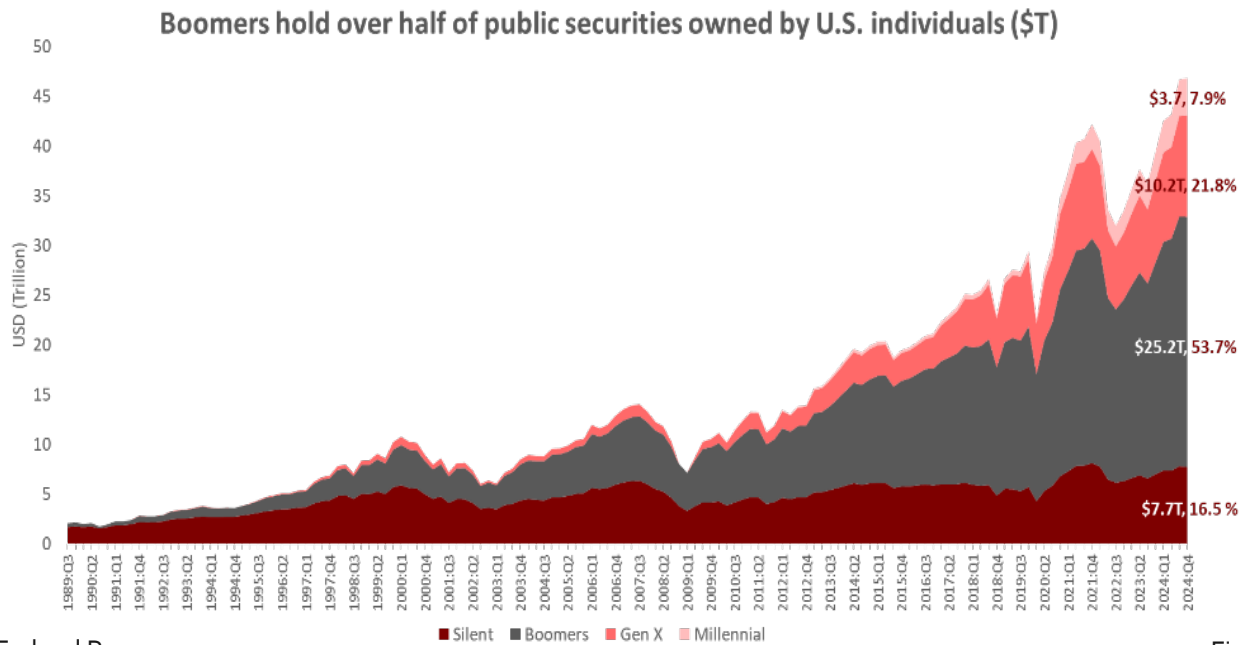
Asset Allocation Implications: Will Boomer Wealth Shift from Equities?

Social and economic changes in an aging society take years to create material impacts, with demographers and economists presenting projections and signaling alerts along the way. However, for the U.S. capital markets, there exists an urgent issue involving a key group of investors: Boomers are retiring.

Data from the Federal Reserve Bank showed that as of 2024, Boomers hold \$25.2 trillion worth of corporate equities and mutual fund shares (53.7% of all U.S. citizens' holding of the asset class). To give the readers a sense of the scale of Boomers' wealth, as of April 4th, 2025, the total capitalization of the U.S. stock market stood at \$52 trillion, and the total capitalization of the global stock market was \$128 trillion at the end of 2024. Boomers have been holding over half of U.S. public securities held by individuals since 2008. The value of their holdings have quadrupled in past 20 years, during which time the cohort's earnings peaked, and they became the wealthiest generation of all time. The accumulation of Boomers' wealth coincided with the 1990s tech boom, increases in consumer spending, corporate expansions, the rise of globalization, and further extension of U.S. soft power overseas. The evolution of retirement investing, especially the introduction of 401(k)s, and advancement of the financial services industry fueled Boomers' appetite to pour their money into the public markets and thus demographically boosted the U.S. capital market over the past two decades. The weight of the U.S. stock market's value, as a share of the MSCI World Index, increased from 48% in 2009 to 71% by end of 2024.

Modern portfolio theory promotes that investors will adjust their asset allocation in coordination with their life stage and demands for capital. Families with younger earners could afford to allocate more assets toward riskier investments such as equities, while families preparing for retirement would be expected to reallocate portfolios toward safer assets and capital preservation. The demand for reallocating savings portfolios are so substantial

that target-date funds were designed to serve this purpose. Theoretically, in the past decade, over 40 million Boomers should have been transferring wealth from risk-seeking assets to risk-averse assets to fund retirement. Given the size of public securities held by this generation, will the demographically driven reallocation process cause systematic selling pressure on the U.S. stock market?



Source: Federal Reserve

Figure 2

Concerns over the “Boomers’ sell” started in the 2000s as the Boomers started to approach retirement. However, this broadly expected headwind hasn’t seemed to cause any weakening of the U.S. stock market over the past 15 years, as the S&P 500 index increased 470% coming out of the Great Financial Crisis. It seems that one main reason for the diminished demographic impacts lies in the wealth skewness among U.S. investors. Fed data show that the top 1% wealthiest families in the U.S. own 50% of public securities held by individuals, and the top 10% wealthiest own 87%. The richest investors have little need to liquidate stocks to prepare for retirement because only one third of their wealth are stored in stocks and mutual funds. As we experience generational change, will the prospective wealth transfer among generations actually enhance the stability of public markets?

Vanguard’s retirement platform (37% market share in 2023) provides snapshots of the behaviors of its millions of participants in its publication, *How America Saves*. According to the report, in 2024, defined contribution plan participants age 60 to 64 hold 60% of their savings in equity, compared with 52% and 45% for the age group of 65-69 and over 70. These participants have been holding onto more equities for longer over the latest 15 years.

We explore a number of reasons for the Boomers’ stickiness to holding stocks:

1. **Inertia:** When not forced to actively change allocation, many investors do not. Markets are complex, and some investors feel they lack knowledge and confidence to shift toward other asset classes, such as private market assets. This highlights one of the appeals for the use of target-date funds, which allocate more to income-oriented assets at later stages of the glide path.

2. Psychology: The strong emotions of fear and greed act as a pendulum, traditionally causing inexperienced investors to sell in bad times, or buy near market tops. Boomers' experiences have been forged in extraordinary times of crisis and market volatility, perhaps creating a generation uniquely conditioned to weather financial storms. Having lived through at least six major bear markets since the 1970s, Boomers may have developed risk calibration to emotionally contextualize short-term losses against long-term gains. Perhaps their restraint results from hard-won experience - having witnessed every S&P 500 decline since 1973 ultimately reverse itself, with the average bear market recovering fully within 33 months.
3. The zero-rate trap: For nearly fifteen years, the Fed's loose monetary policy created a paradox for retirement planning. For example, real returns on 10-year Treasuries averaged negative 0.4% from 2010-2020. The S&P 500's dividend yield consistently outpaced Treasury rates. Investors saw "returnless risk" in fixed income, forcing even conservative Boomers to maintain higher equity exposures.
4. Longer-life expectancy: Demographic shifts have stretched the traditional retirement timeline in ways that fundamentally alter wealth transfer dynamics. With 26% of Boomers now working past age 65 — more than double the rate seen in the 1980s (11% in 1987) —the generation's transition from asset accumulation to distribution has slowed dramatically. Simultaneously, increasing life expectancies have forced a reevaluation of drawdown strategies, with many retirees maintaining growth-oriented portfolios to hedge against longevity risks. This delayed spending phase coincides with an intergenerational wealth transfer that now functions more as a gradual relay than a sudden baton pass. As the Silent generation assets flow to Boomers, and Boomer assets eventually pass to Gen Xers and Millennials, the market experiences continuous reinvestment rather than discrete liquidation events. Millennials, now the largest generation in the U.S., are entering a long period of peak earning years, and can absorb inherited assets while simultaneously deploying new capital. This appears to provide a demographic offset to blunt the potential "Boomer sell" pressure.

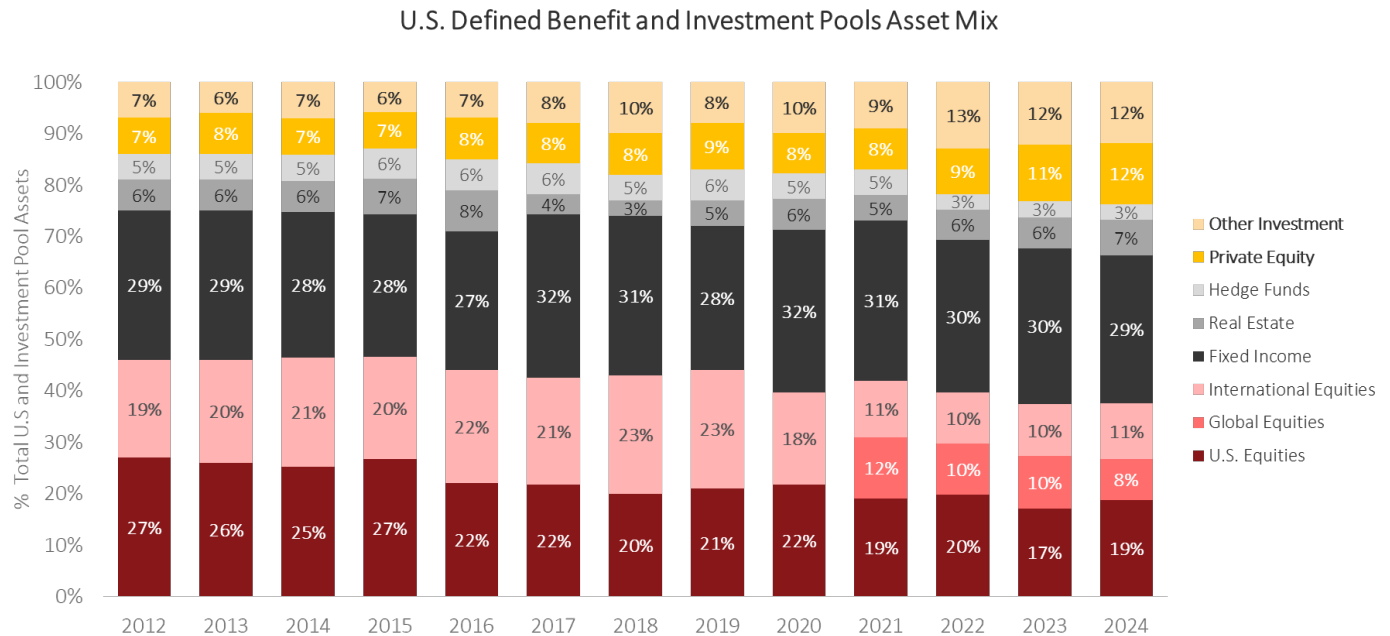
Institutional Reallocation: Diversification beyond Equities

The increasing adoption of professionally managed accounts is changing the landscape of the retirement savings industry and asset class dynamics in the U.S. capital market. 64% of DC plan contribution dollars were invested in target-date funds in 2024. We next examine how professionally managed lineups in target-date funds may impact other asset classes, beyond public market equities.

Near all-time highs, a relatively expensive stock market gives institutional advisors reasons to amplify diversification. The P/E ratio of the S&P 500 Index (23.3x) and Russell 1000 Index (23.1x) in the first half of 2025 exceed their average levels over the past 20 years.

Data show having a number of other asset classes is gaining popularity among institutional investors. The 2024 Coalition Greenwich survey of U.S. Institutional Investor Research and Consultant Short-Lists showed that 38% of U.S. defined benefit plan and investment pool assets are invested in equities, down from 46% in 2012. Private equity and other alternatives take up 12% and 22% of total assets, higher from 7% and 18% in 2012. Noticeably,

private debt now accounts for 4% of institutional assets by end of 2024, but was not counted separately a decade ago.



Source: Coalition Greenwich

Figure 3

Some structural changes are also happening. The Department of Labor, during President Trump’s first term, issued an Information Letter in June 2020 to allow private equity investments to be included in retirement-oriented holdings such as target-date funds and balanced funds. In August 2025, President Trump signed an executive order that called for federal guidance on adding private investments and other “alternative assets,” such as crypto currency to 401(k) plans, which potentially opens up 90 million U.S. defined contribution plan participants’ retirement accounts to the \$13 trillion private investment industry. Private funds received a record \$120 billion inflow in 2024. Further diversification into private investment in DC plan accounts may amplify the private market inflows in the longer term. However the dynamics favoring less traditional assets may expand over time, and across generational change.

Conclusion

The aging of the Baby Boomer generation represents a significant demographic shift impacting U.S. capital markets and the asset allocation of investors. While Boomers hold a substantial share of equities, their retirement is not expected to trigger a sharp selloff, largely due to wealth concentration among the richest investors and the extended working and spending horizons of many retirees. Moreover, demographic offsets such as steady immigration and the financial ascent of Millennials may help absorb wealth transfers without market disruption. Increasingly, institutional investors and retirement plans are embracing diversification beyond traditional equities, allocating more to private equity, private debt, and alternative assets. Regulatory changes and the growing adoption of target-date funds further accelerate this trend, reshaping the retirement savings landscape. This evolution towards broader asset diversification across generations may foster greater market stability and resilience, positioning U.S. capital markets to better navigate the economic ripples of an aging society.

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