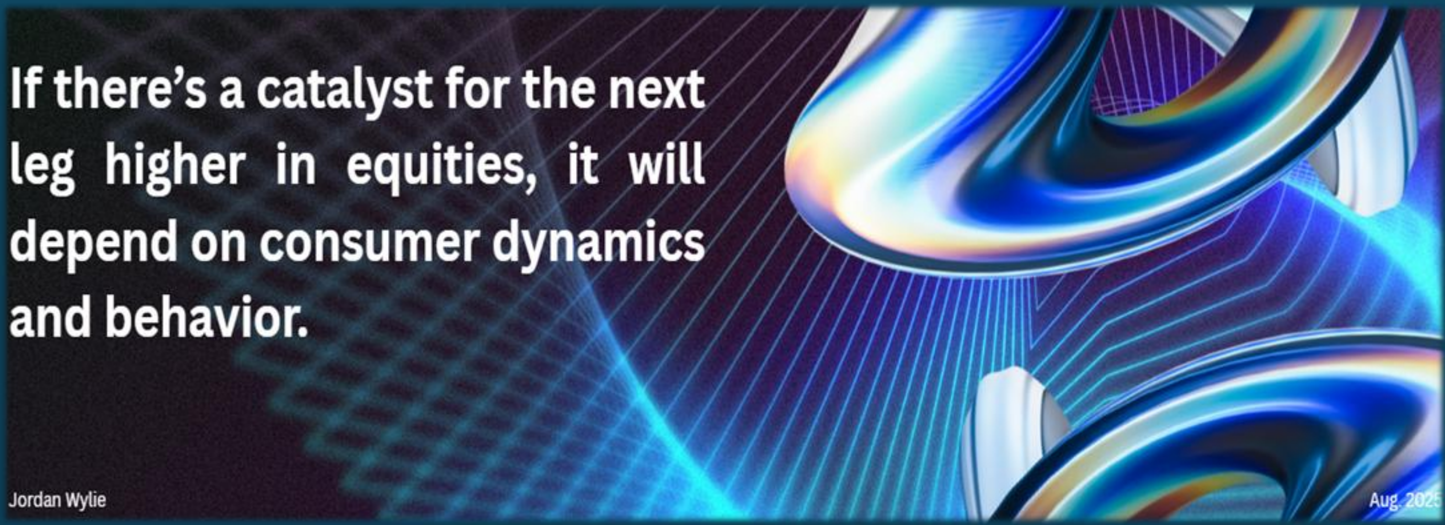

Report Purpose:

For a majority of 2023 to present, market leadership has been concentrated in large-cap technology companies, whose performance is largely detached from day-to-day consumer spending. Over the past two weeks we have seen that dynamic begin to shift. As monetary policy tilts toward easing and money rotates out of a concentrated selection of mega-cap tech, small and mid-cap firms—whose performance is more directly tied to consumer demand—are positioned to lead the next phase of equity market growth.

As the significance of consumer spending increases, the ability to build a full holistic picture of the current consumers priorities and behaviors becomes essential to understanding the case for a future leg up in equities and more broadly the economy. Recent macro-data suggests that the consumers outlook on the economy is generally improving from lows earlier this year while behaviors surrounding spending suggests selectiveness and early "belt tightening". In conjunction with this backdrop, Q2 corporate earnings offer the most direct lens into how households are adjusting spending habits and how different consumer behaviors are playing out among different consumer classes of different preferences.

This report aims to help build an understanding of the current consumer through an analysis of macroeconomic data pertaining to the consumer as well as 2025 Q2 earnings results from a handful of consumer discretionary firms that offer insight into a range of consumer purchases from non-essentials to more disciplined and necessary transactions.

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Macro-lens, Consumer Confidence (July Release)

From The Conference Board:

"The Conference Board Consumer Confidence Index® improved by 2.0 points in July to 97.2 (1985=100), from 95.2 in June (revised up by 2.2 points). The Present Situation Index—based on consumers' assessment of current business and labor market conditions—fell 1.5 points to 131.5. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—rose 4.5 points to 74.4. But expectations remained below the threshold of 80 that typically signals a recession ahead for the sixth consecutive month. The cutoff date for preliminary results was July 20, 2025. July's modest gain in confidence was driven by consumers over 35 years old and shared across all income groups except those earning the least (with household annual income below $15K). By partisan affiliation, confidence improved in July among Republican consumers and was stable for Democrats and Independents."

Overall Consumer Confidence metrics across the three measurable indexes (Consumer Confidence Index, Present Situation Index, Expectations Index) indicate that in comparison to the data in June, the collective picture of confidence in the economy has improved for the consumer. From a more focused perspective**, the data implies that the consumer remains weary of the economy as is but has gained confidence in their short-term outlook**—although the short-term outlook picture is still below a numeric threshold in which economists have historically found indicative of an impeding recession. The growth in confidence reported was a collective effort from all levels of income except for households with an annual income below $15k and most of the results were driven by consumers of +35 years of age.

Write in responses indicated **tariffs remained at the forefront of consumers expectations and were mostly associated with concerns that they would lead to higher prices.** From an inflationary data side of the picture, much to the surprise of most economists upward price pressures have not been fully reflected in consumer price data despite being prevalent in cost data from the producer side, indicating that for the moment most price pressures are being absorbed by the producer and not being fully transposed to the costs that consumers actually pay "off the shelve." Also, included in write in responses; **references to high prices and inflation rose in July, even though consumers' average 12-month inflation expectations eased slightly to 5.8%,** down from 5.9% in June and a peak of 7% in April.

Purchasing plans for large purchases such as cars and homes declined in July. Consumers' plans for purchasing other big-ticket items were mixed, while plans to buy electronic goods ticked up slightly. Consumers' intentions to purchase services ahead weakened for a second month, with almost all services categories declining. Dining out remained number one among spending intentions in services. However, dining out was also one of the categories seeing the largest decline in spending intentions in July, along with transportation and lodging related to personal travel.

Macro-lens, Consumer Confidence (Aug. Release)

Graphics from The Conference Board provided on pg. 12-14

From The Conference Board:

"The Conference Board Consumer Confidence Index® fell by 1.3 points in August to 97.4 (1985=100), down from 98.7 in July (revised up by 1.5 points). The Present Situation Index—based on consumers' assessment of current business and labor market conditions—fell by 1.6 points to 131.2. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—decreased by 1.2 points to 74.8. Expectations remained below the threshold of 80 that typically signals a recession ahead. The cutoff date for preliminary results was August 20, 2025. Among demographic groups, confidence fell for consumers under 35 years old, was stable for consumers aged 35 to 55, and rose for consumers over 55. The evolution of confidence by income groups was mixed, with no clear pattern emerging. By partisan affiliation, confidence weakened in August among both Republicans and Democrats but was little changed for Independents."

Overall Consumer Confidence metrics across the three measurable indexes (Consumer Confidence Index, Present Situation Index, Expectations Index) indicate that from the more positive collection of data in July, the collective picture of confidence in the economy has deteriorated slightly. From a focused perspective, **the data implies that the weary consumer lost some confidence in their short-term outlook** and that short-term outlook picture is still below the numeric threshold in which economists have historically found indicative of an impending recession. The changes in confidence reported was not a collective effort as in July, confidence only remained stable or increased for the bucket of individuals aged 35 or older.

Write in responses **indicated tariffs, as in July, remained at the forefront of consumers expectations and were increasingly associated with concerns of higher prices. References to high prices and inflation, including food and groceries, rose in August.** Consumers' average 12-month inflation expectations picked up after three consecutive months of easing and reached 6.2% in August—up from the 5.7% in July but still below the April peak of 7.0%. Importantly, there was also a rise in mentions of jobs and employment, even though these remained relatively low on the list of themes consumers wrote on.

Purchasing plans for large purchases such as cars and homes increased in August after the July decline. Consumers' plans to buy big-ticket items slightly declined, with a lot of variation from one item to the next. Largest increases in buying intentions were for washers and dryers, while the largest declines were in TVs and tablets. Consumers' intentions to purchase more services ahead improved, but the increases were concentrated in a few, mostly non-discretionary categories such as financial services and car and home maintenance. Dining out and entertainment were down. Vacation intentions fell again after July.

Macro-lens, Retail Sales Data (July)

Graphics from Trading Economics provided on pg. 15

From U.S. Census Bureau:

Retail sales in the US increased 0.5% month-over-month in July 2025, in line with market expectations and following an upwardly revised 0.9% rise in June. The largest increases were seen in sales at motor vehicle & parts dealers (1.6%) and furniture & home furn. stores (1.4%). Other gains were seen in sales at sporting goods, hobby, musical instrument, & bookstores (0.8%), non-store retailers (0.8%), clothing & clothing accessories stores (0.7%) and gasoline stations (0.7%). On the other hand, sales fell at miscellaneous store retailers (-1.7%), building material & garden eq. & supplies dealers (-1%), and electronics & appliance stores (-0.6%). Meanwhile, sales excluding food services, auto dealers, building materials stores and gasoline stations, which are used to calculate GDP, were up 0.5%, following an upwardly revised 0.8% increase and above expectations of 0.4%

Big picture, the U.S. consumer collectively increased their retail purchases compared to the previous month following upward revisions to data collected in the previous month. Consumers picked up in purchases of moderate expense categories of largely deferable products. Smaller ticket items also picked up while “miscellaneous store retailers” saw a pull back. Sales of items more difficult to defer were up sharply compared to May. **The Data points to a consumer that looks resilient but selective: still willing to spend on big ticket and deferable items but at the cost of making cuts to more miscellaneous and generally smaller cost items.** This pattern suggests households are balancing confidence in income stability with awareness of tighter financial conditions. The mix points to a consumer that isn’t signaling recessionary behavior yet but is shifting spending priorities rather than expanding them broadly.

Corporate Q2 2025 Earnings Takeaways

Cava

Cava's demographic has historically centered on urban, health-focused professionals drawn to fast-casual dining and digital ordering. In Q2, revenue of $278.2 million came in below expectations, though EPS of $0.16 slightly beat. Metrics related to growth and the top line came in higher, but such metrics were largely attributable to the growth in the number of locations in operation. The key figure of this quarter was same-store sales: growth slowed to just 2.1%, down sharply from earlier quarters. This deceleration prompted management to cut full-year comp guidance to 4–6% from 6–8%. Management described consumers as "navigating a fog," with evidence that value-driven competition and early caution are trimming discretionary lunch purchases. For Cava, slowing same-store sales signal that even higher-income consumers are beginning to rationalize small-ticket discretionary habits—cutting back on $20 lunches is one of the most feasible areas to begin with.

Sweetgreen

Sweetgreen has long catered to a niche urban demographic willing to pay premium prices for "healthy" mostly green meals, making it even more vulnerable to consumer price sensitivity than its comparable Cava. Q2 results underscored that vulnerability. Same-store sales declined 7.6%, a sharp deterioration that outweighed modest revenue growth of 0.5% (to $185.6 million). Losses deepened to $23.2 million from $14.5 million a year earlier. Management cut full-year guidance, now expecting same-store sales declines of 4–6%. Executives announced changes to address the pullback, including larger protein portions, loyalty discounts, and menu simplification. While Cava is leaning on unit growth, Sweetgreen is directly recalibrating its offering to restore value. Still, the steep drop in existing store sales shows how quickly premium discretionary categories are falling out of favor as consumers begin tightening at the margins.

Home Depot

Home Depot has historically leaned toward professional contractors and higher-ticket household projects. In Q2, revenue of $45.28 billion and EPS of $4.68 both narrowly missed estimates. More importantly, same-store sales growth was flat to slightly negative, weighed down by large-ticket categories like kitchen and bath remodels. Smaller discretionary items, such as grills, performed better. Management attributed weaker same store sales in major projects to higher borrowing costs, with many consumers and firms choosing to delay rather than cancel remodels. Most analysts covering the report concurred that a likely September rate cut could reinvigorate these categories. Home Depot's stagnant comparable same store sales reflect the "pause button" effect of high rates on debt-financed purchases.

Lowe's

Lowe's, traditionally more exposed to "do-it-yourself" customers than other peers in the sector, has seen steadier comparable same store sales performance compared to Home Depot. In Q2, same-store sales rose 1.1% year-over-year, beating expectations and supporting stronger-than-anticipated revenue. Management raised full-year revenue guidance to $84.5–85.5 billion and lifted adjusted EPS to $12.20–12.45. Management acknowledged more selective consumer behavior but noted that DIY projects continue to support same store growth. The announced $8.8 billion acquisition of Foundation Building Materials highlights its push into the professional segment, aiming to diversify. The modest same store growth here contrasts with Home Depot's flat results, underscoring that consumers are still spending on smaller, manageable projects while delaying debt-heavy remodels.

Walmart

Walmart's diverse base spans lower-income households and higher-income shoppers trading down. In Q2, U.S. same-store sales grew 4.6% year-over-year, beating expectations, driven by grocery and health categories. E-commerce sales jumped 25%. Despite this strength, adjusted EPS fell short due to tariff- and cost-related margin pressure. Management emphasized Walmart's ability to balance selective price increases with cost absorption, keeping value central to its offering. The strong comparable same store sales show that consumers remain willing to spend but are gravitating toward value and convenience. Walmart's performance demonstrates resilience in essentials and the continued importance of omnichannel retail.

Target

Target historically served middle-income, brand-conscious consumers seeking a balance of price and style. In Q2, EPS beat expectations, but comparable-store sales fell 1.9%, including a 3.2% decline in-store, partially offset by digital growth. Management maintained guidance for a low-single-digit sales decline. Wall Street's concerns went beyond comparable same store sales: the internal CEO appointment reinforced fears that the company is not adapting quickly enough to shifting consumer priorities. With comparable same store sales declining, Target appears squeezed between Walmart's value leadership and specialty retailers' differentiation. Its negative same store sales trend reflects how mid-market discretionary models that struggle to focus on value first are struggling most in today's environment.

Looking Ahead: DraftKings and DoorDash

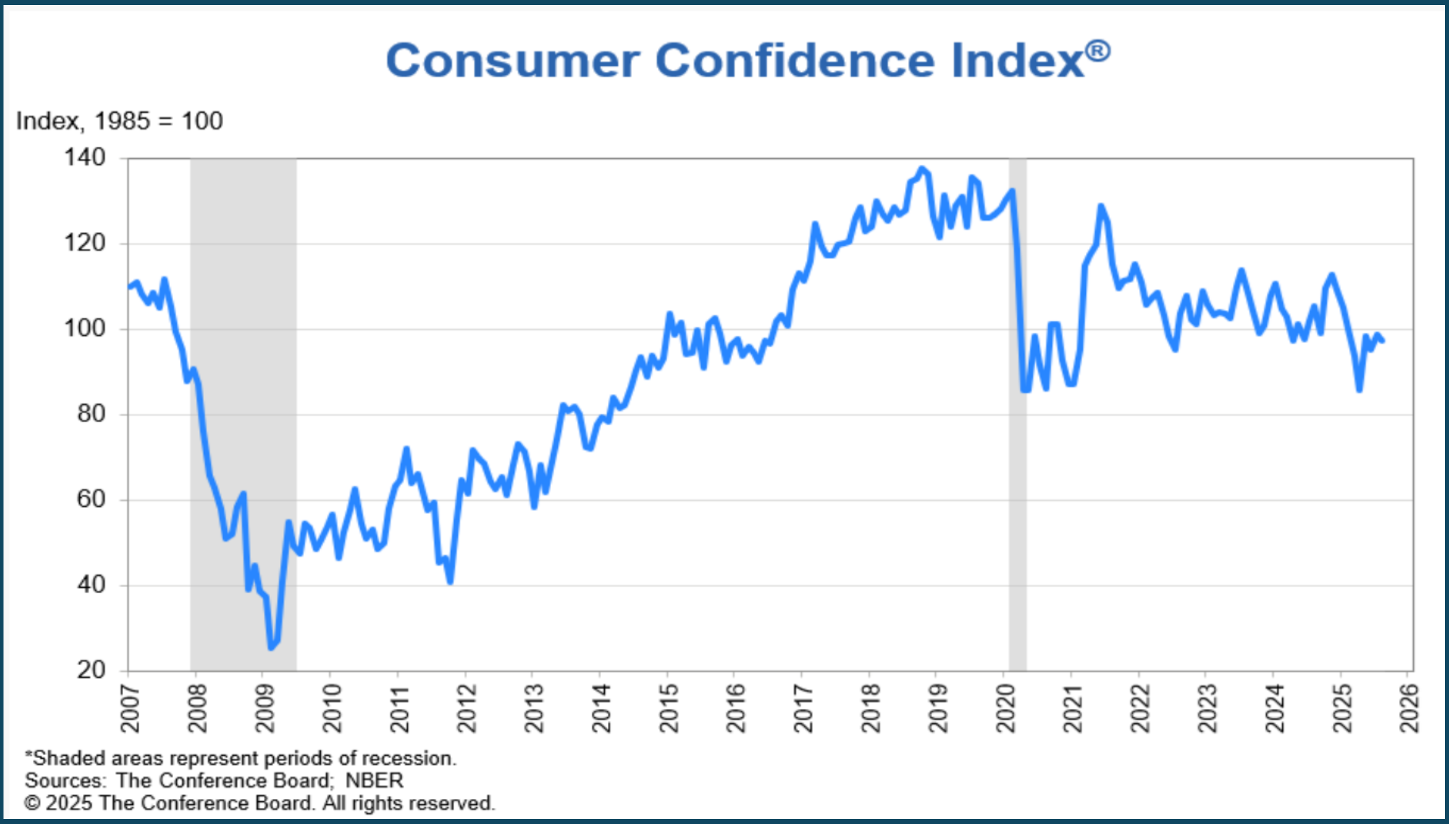
Upon release, Q2 earnings reports from DraftKings and DoorDash will provide further insight into the extent of early belt tightening from consumers as well as additional perspective of the consumers prioritization of convenience and value. DraftKings earnings would also shed light on how phycological pulls to non-essential spending are holding up during a time in which the consumer has already shown signs of pulling back on non-essentials in other areas. Entertainment spending often holds psychological value even in cautious environments. DoorDash offers to show how much the consumer values convenience in the current environment, while in depth metric analysis such as backing out estimates of the percentage of order totals allocated to tips offers to expand upon the same notion of “belt tightening” that may contribute to why consumers choose to pull back on “$20 salads” but not on larger purchases of the same relative fundamental non-essential categorization and/or deferability.

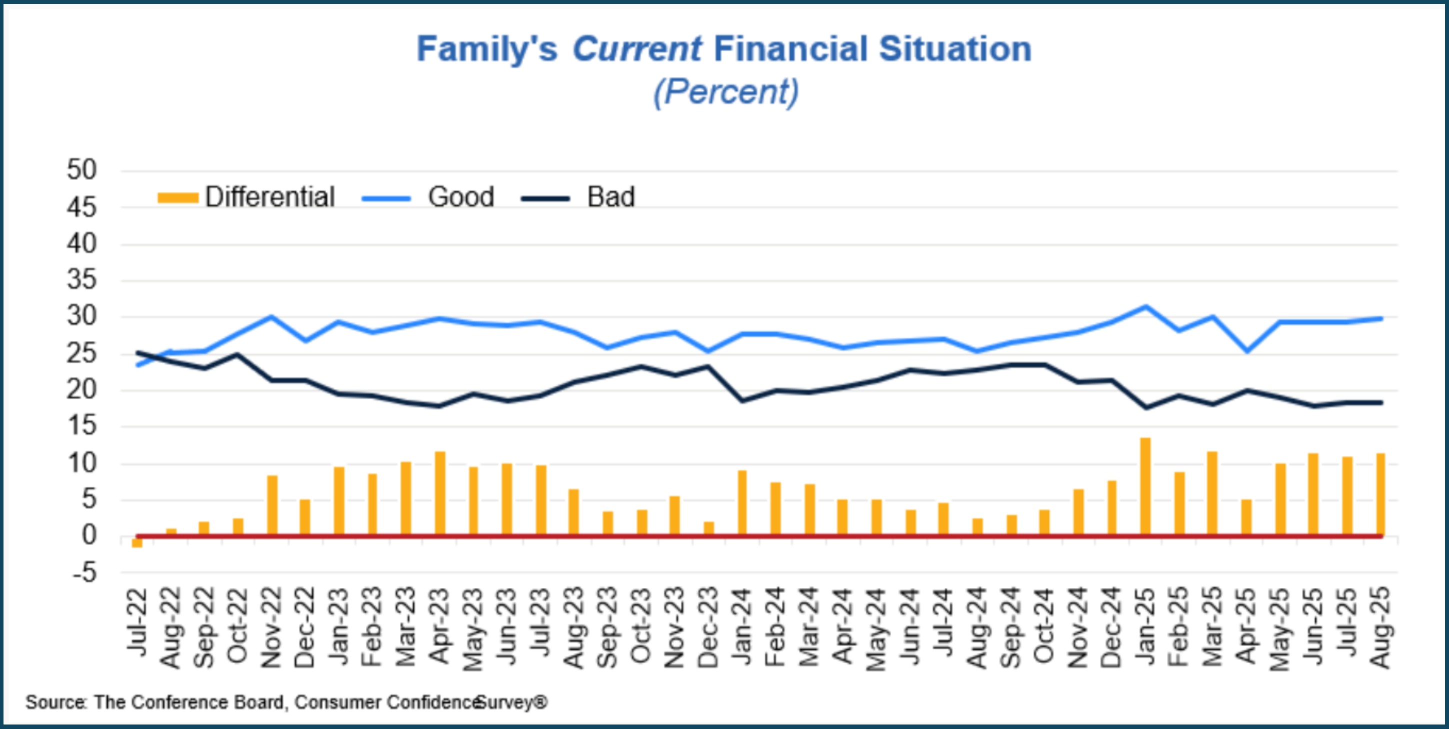
Holistic Picture Takeaway

The Q2 earnings season underscores that while consumers remain resilient, they are increasingly selective in how they allocate spending. Premium fast-casual dining is seeing early pushback, while the largest of debt-financed projects are being deferred until financing costs decline. At the same time, essentials, value, and convenience remain strong, as demonstrated by Walmart's performance and Lowe's selective gains. Inflationary pressures are building at the producer level but have not yet fully translated to consumers, while anticipated rate cuts may revive postponed spending. While market participation broadens as we have seen in the past two weeks and leadership rotates from large-cap tech into consumer-sensitive small- and mid-cap names, for investors, understanding consumer resilience and priorities—value, convenience, and confidence—is essential to anticipating the next leg of market growth.

The broad consumer picture remains resilient, though cracks are visible beneath the surface. Shifts in preferences and values, pullbacks in low-cost non-essentials, caution expressed in Consumer Expectations surveys, and deferred purchases tied to interest rate speculation all point to underlying strain. Yet, "strain" on the consumer has broadly been present since the pandemic era of 2020. Since that period, consumers are routinely conditioned to accept higher prices and lower value while still maintaining spending—even through the most significant inflationary period since the 1970s. Their resilience has consistently supported corporate profits and GDP growth – reinforcing the notion that slowing consumer demand is difficult, even under considerable pressure.

Graphics (Consumer Confidence)





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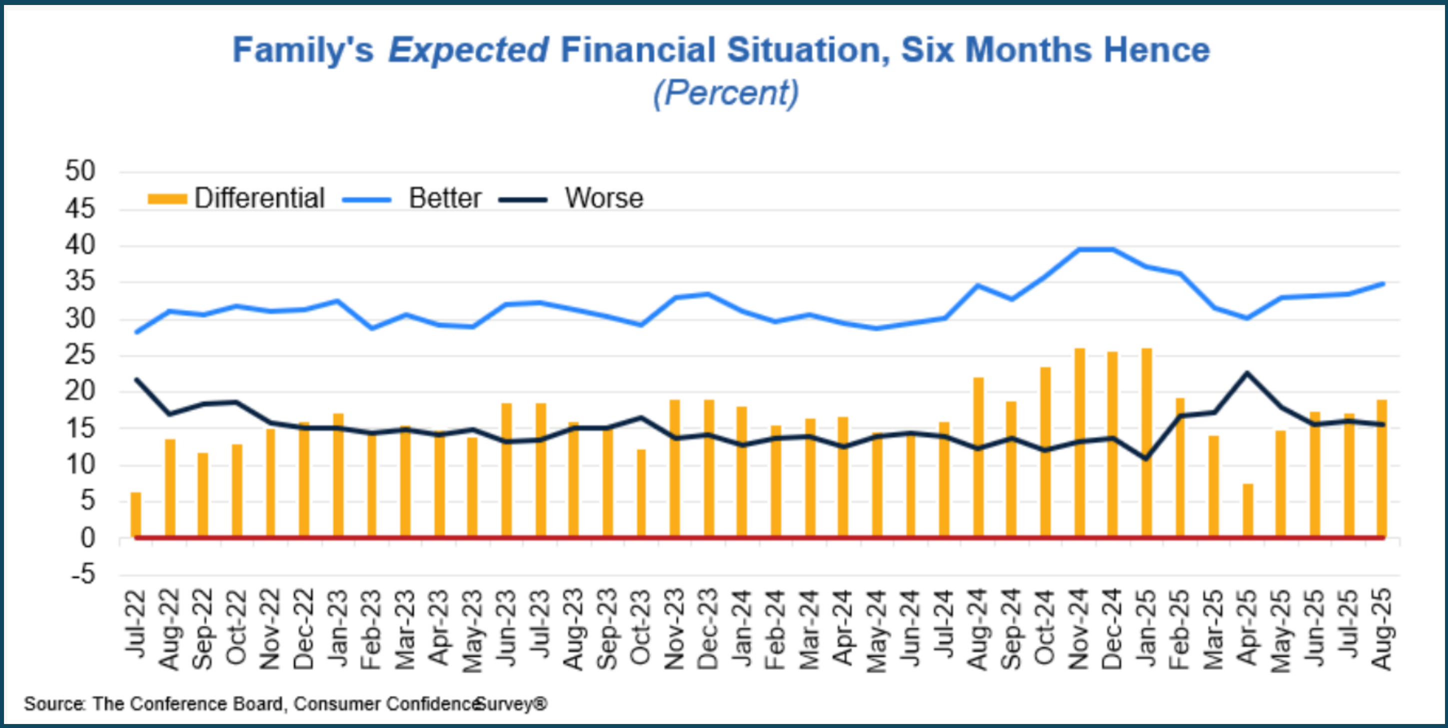

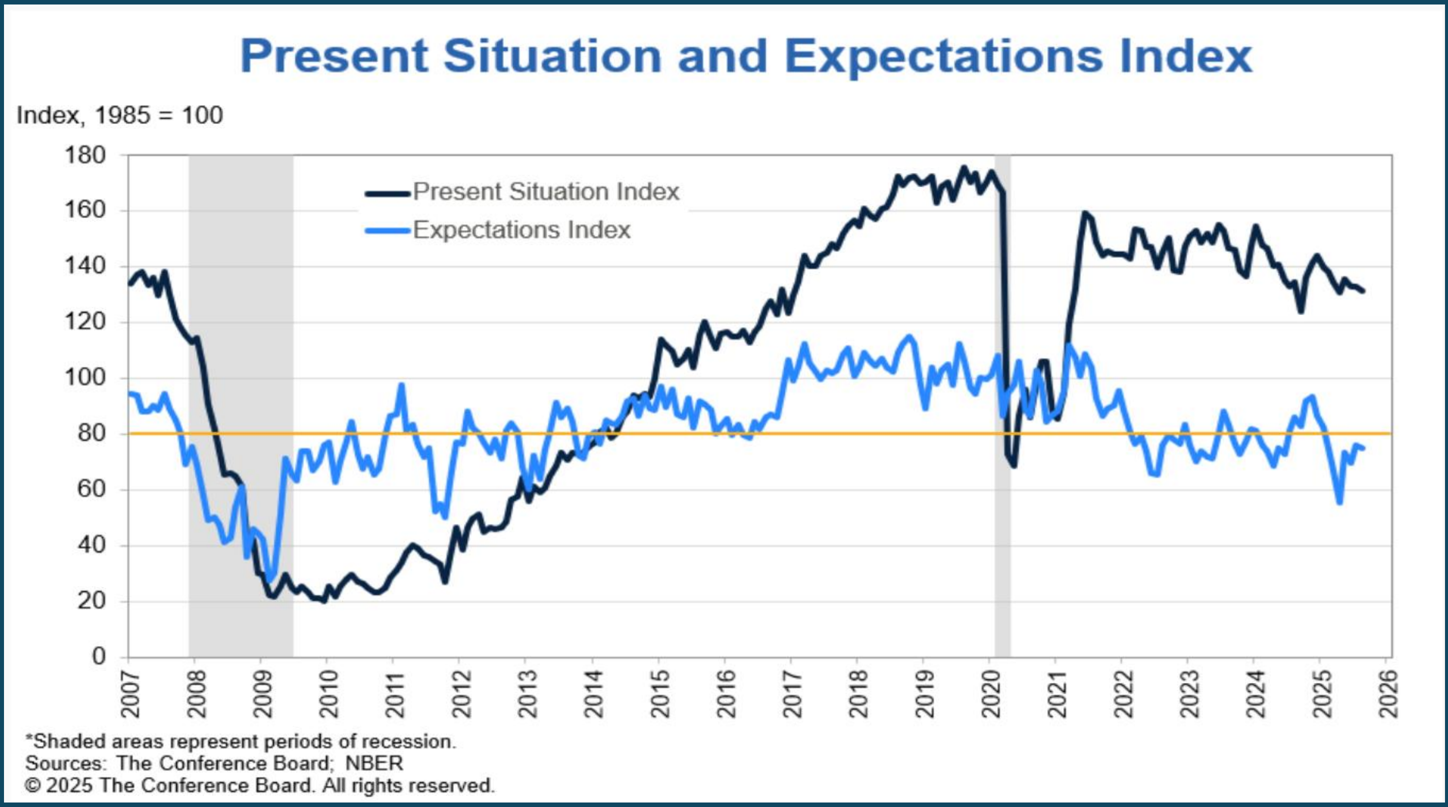

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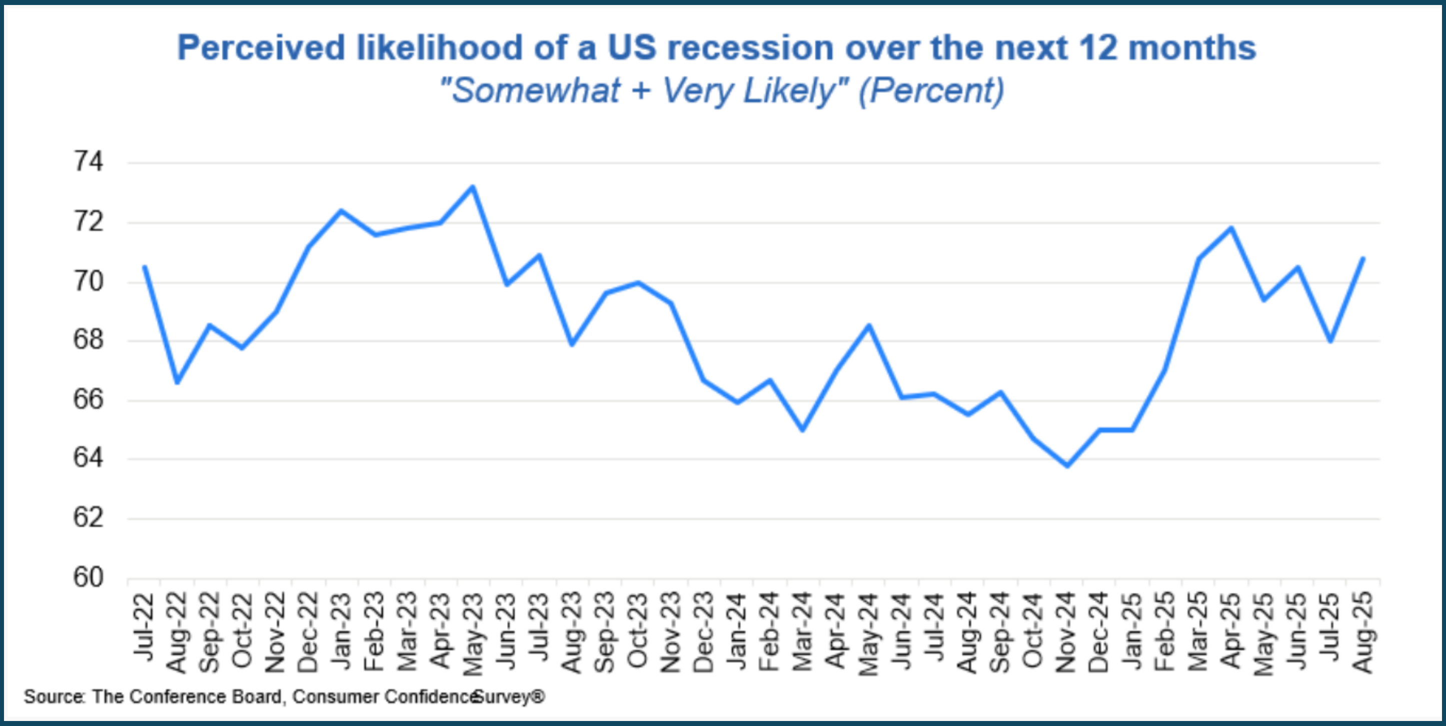
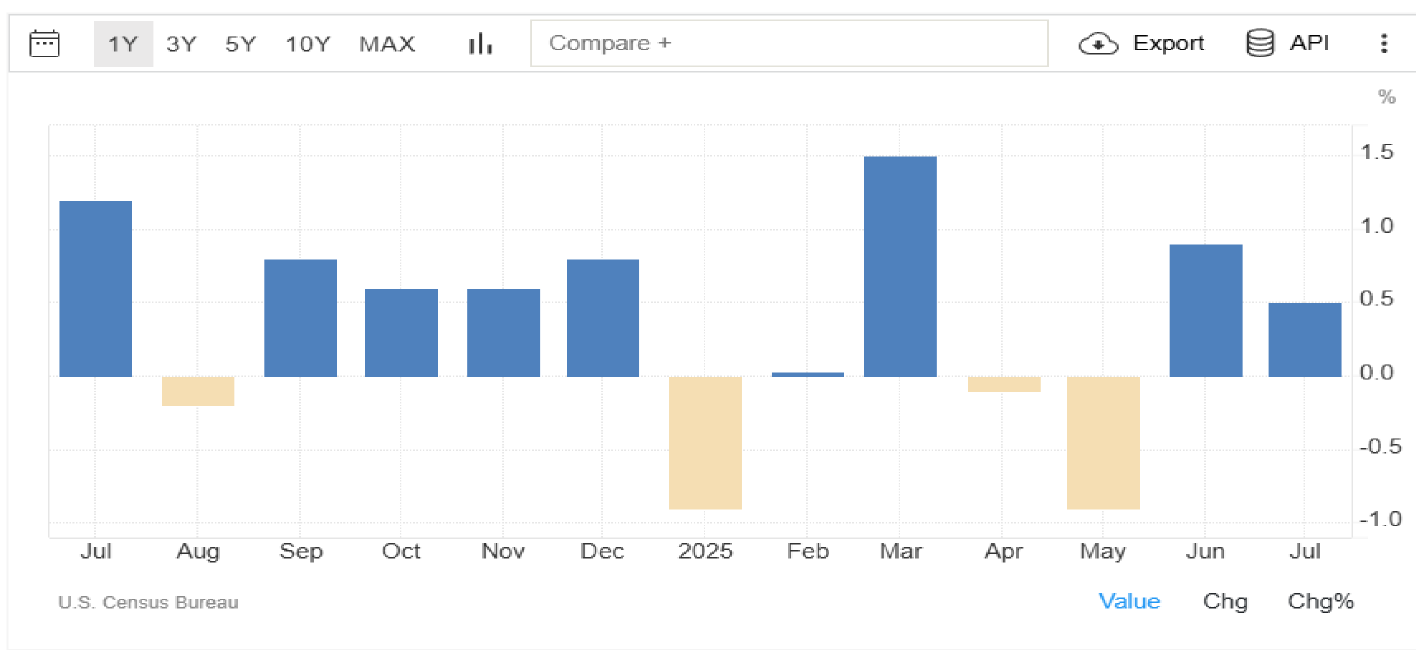


Graphics (Retail Sales Data)



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2025-08-15	12:30 PM	Jul	0.5%	0.9%	0.5%	0.4%
2025-09-16	12:30 PM	Aug				

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