



Market Commentary

Weekly perspective on current market sentiment

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Last week's S&P 500 Index: -1.4%

Has the consumer “checked out”?

Key takeaways

- The recent batch of weaker economic reports warrants perspective rather than alarm. While consumer spending may slow in this year's second half, the broader backdrop remains consistent with continued economic growth.
- We believe labor-market stability, upper-income household spending, and the artificial intelligence (AI) investment boom will keep economic growth and corporate earnings on track.

Summer doldrums? There's been no such thing for the macroeconomic backdrop. While investors have focused on geopolitical tensions and policy uncertainty, the more important question may be whether the U.S. consumer is losing momentum.

A contraction in July nonfarm payrolls (combined with prior downward revisions) marked a return to sluggish job growth observed at the turn of this year. July retail sales unexpectedly declined by the most since May 2025. Disappointing earnings reports from several retailers highlighted a cautious consumer prioritizing essential items over discretionary purchases. Elevated gasoline prices tied to the ongoing Middle East conflict only added to consumer fatigue, feeding into an August slump in consumer sentiment.

So, has the U.S. consumer “checked out”? We don't think so. Despite the recent softness, one of the most important supports for consumer spending appears fundamentally stable: the labor market. Weekly initial jobless claims remain historically subdued and recently reached their lowest level in decades. With the “no hire, no fire” environment intact, we believe the labor market will provide a sufficient consumer underpinning. Moreover, some downbeat data should be kept in perspective. July's drop in retail sales likely overstated underlying weakness as several temporary spending boosts had already pulled purchases forward into the second quarter. These included big tax refunds and World Cup-related spending.

Further, downcast consumer sentiment surveys have become a feature of the post-pandemic economy amid affordability concerns, but that has not put a brake on consumer spending this cycle. This is largely because upper-income households drive an increasingly disproportionate share of overall spending. (Recent Federal Reserve data show the top 10% of income earners now account for almost half of spending, up from roughly 35% in the mid-1990s.) Slowing wage growth, a historically low savings rate, elevated gasoline prices, and the high cost of other essentials can leave lower-income families financially strained and more reliant on borrowing to fund purchases. But these same factors can matter much less for more affluent households that benefit from wealth-building gains in stocks and other financial assets. And beyond the consumer, ongoing business investment tied to AI infrastructure has cushioned the overall economy, helping offset any pockets of weakness tied to financial stress among lower-income households.

Bottom line: Recent data suggest the consumer is slowing, not taking a deep dive. We do expect spending growth to moderate in the coming months as temporary tailwinds fade and lower-income budgets remain stretched. However, we believe a stable labor market, continued AI-related investment, and wealth gains among higher-income households should keep the economic expansion on track, potentially driving gains in the stock market.

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