First to Market

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A $13 BURRITO JUST DOESN'T HIT THE SAME ANYMORE

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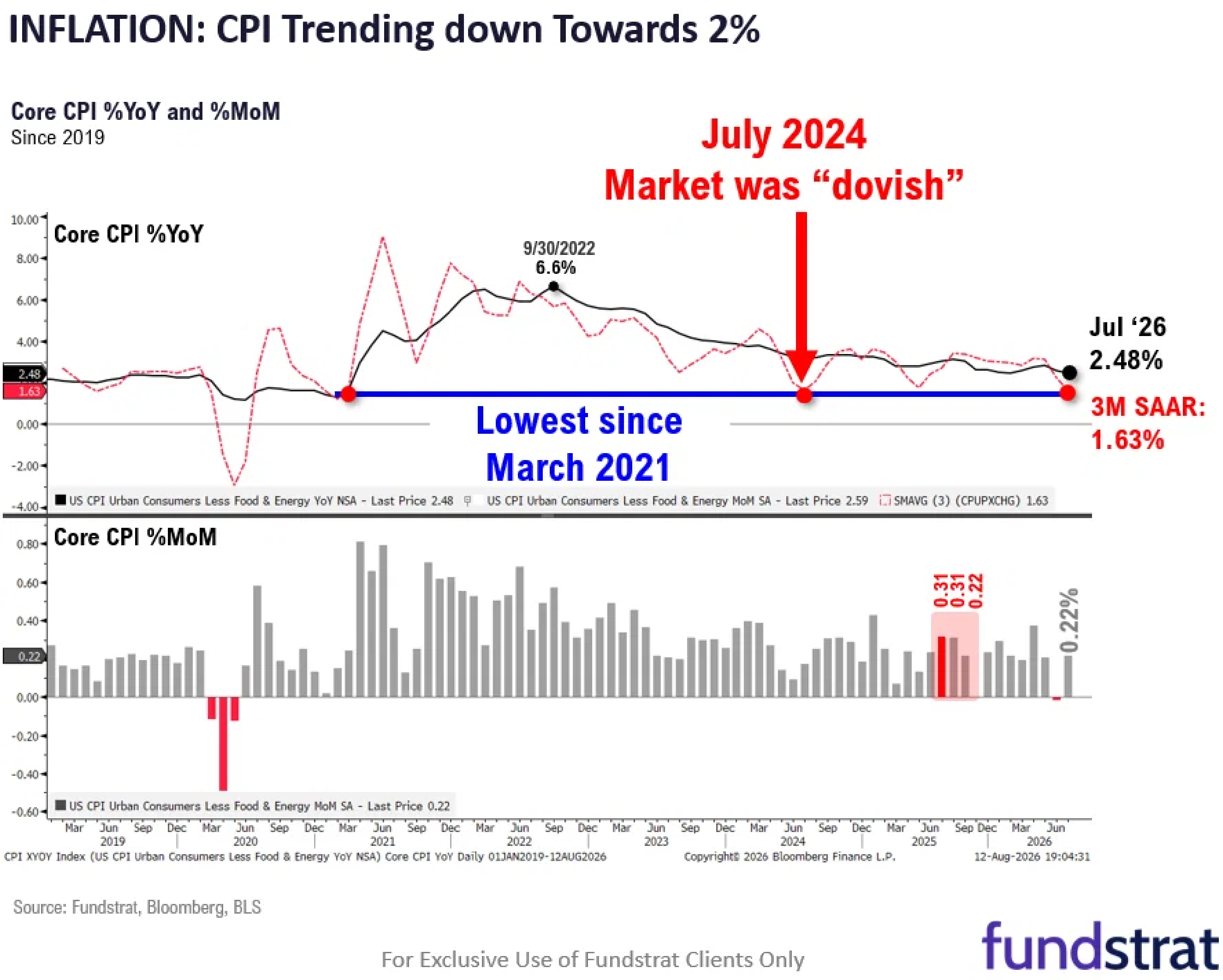
Chart of the Day

For important disclosures, see Page 9



Good morning!

Shares of sit-down restaurants are outperforming those of fast casual, a sign that younger consumers are increasingly strapped for cash and cutting back.

The 60-day return gap between (1) Cheesecake Factory $CAKE, BJ's Restaurants $BJ, Brinker $EAT, Texas Roadhouse $TXRH, and Darden $DRI and (2) Chipotle $CMG, Wingstop $WING, and Shake Shack $SHAK hit 48.7%, the highest level in a decade on July 29. Since then, it's declined to 45.2% when calculated on an equal-weighted basis held since Dec. 2015. (Credit goes to Yahoo Finance's Jared Blikre for highlighting this trend in his X post yesterday.)

Between a weakening labor market, persistent inflation, and higher interest rates, younger workers are getting squeezed more than most, which has meant less money for burrito bowls and burgers. Quarterly same-store sales at casual-dining restaurants, aka group 1, have remained steadily higher than fast-casual, or group 2, since early last year.

The pullback makes sense when considering that on a monthly basis, prices at fast casual restaurants from a year ago have ever-so-slightly risen this year, while prices for dine-in restaurants have come down from where they were earlier this year.

Because younger consumers make up a majority of Chipotle, Wingstop, and Shake Shack's customers, it's safe to say the trend isn't likely to reverse any time soon.

The student loan delinquency rate increased to 10.6% for balances that are over 90 days past due, according to the New York Fed's second quarter household debt and credit report, which is up from the 10.3% observed in the first quarter of this year. The 18-29 group also has the highest delinquency rates for credit card debt.

Older, wealthier demographics, meanwhile, are in a much better financial position. They are arguably benefitting from the weird market and economic conditions. Higher interest rates are earning them more on their cash piles, a tight housing market is contributing to higher home values, and records in the stock market are boosting retirement portfolio values.

So it's easier for them to hit up sit-down restaurants, even though prices at such eateries are still increasing at a greater pace than fast-casual. However, there's a difference between paying $30 for a shrimp alfredo with unlimited bread and salad because you can take your time to enjoy a restaurant versus spending $20 on soggy wings and pop that you have to finish in a rush. You're also expected to tip 20% these days no matter if you're choosing a dine-in restaurant or a fast-casual place, making the former a very obvious choice.

According to Blikre, another reason why fast-casual chains have been hurt is because they're trading at a median forward price-to-earnings multiple of 35x versus 22x for the sit-down group. To me, that makes sense because the likes of Chipotle are considered to be growthier companies, so their price-to-earnings ratio reflects that, but at the same time, they're not growth-oriented enough to trade at a higher multiples than the VanEck Semiconductor ETF's 23x.

The reversal of fortunes for dine in and fast casual marks a big shift from a few years ago when it was the former group that was struggling to rebound after the pandemic, forcing some of them, like California Pizza Kitchen, to file for chapter 11. But as workers' paychecks lose pace with inflation, it's turned into a blessing in disguise for dine-in chains, which have stepped up their game recently by upgrading ingredients and decor.

Share your thoughts

Do you frequent dine-in restaurants or fast casual? Click here to send us your response.

✍Here's what a reader commented ✍

Q: How far away do you think we are from widely deployed humanoid robots?

A: The key word is "widely." [Even] ignoring price point, robotics still has a way to go to develop real world functionality. Center of gravity issues related to picking things up off the floor still need working out. People tend to not want something that has a flaw. Think of how long it took EVs to become widely adopted, or even cellphones. Even the automobile took a while.

Catch up with Fundstrat

While many pundits are calling for the Fed to hike, in order to restore credibility, we are taking a contrarian take. If the Fed were to hike, we find 5 reasons this may actually hurt Fed credibility.

Technical

Early defensive stirrings, with consumer discretionary starting to falter vs. staples while telecom pushed sharply higher, bear close watching as technology nears its former peaks.

Crypto

The SEC meets today to consider a potential tailored offering regime for certain investment contracts involving crypto assets. As discussed earlier this week, I do not think the simple existence of new agency rules should automatically be viewed as a catalyst. However, there may be actionable takeaways contained within the details.

News We're Following

Breaking News

- Stock futures choppy after S&P 500 sets record above 7,800, heads for winning week CNBC

Markets and economy

- US sells 30-year bonds at highest borrowing costs since 2001 FT
- Trump White House says it's losing $19B-$26B a year in revenue as countries dodge tariffs AP
- US court backs Trump's power to close 'de minimis' tariff exemption REU

Business

- OpenAI and Anthropic in price war as Chinese AI rivals gain ground FT
- Mark Walter dangled Guggenheim stake to quickly secure loans BBG
- China's Pony.ai, Uber to jointly deploy over 2,000 robotaxis in Europe REU
- Tyson Foods to exit more beef plants, with cattle in short supply WSJ

Politics/U.S.

- Harvard wins dismissal of US suit over campus antisemitism BBG
- U.S. sending fresh aircraft carrier to Middle East amid Iran war strain WSJ

- Trump gives green light to U.S. companies to aim hacks at cybercriminals NYT
- Trump orders Navy to restore older tech on aircraft carriers, costing billions WSJ

Overseas

- Ukraine offers Russia truce in Black Sea as food supply fears mount, source says REU
- USAID fallout: In Nepal, when the aid workers stopped coming, the women and babies started dying AP
- Brazilians weigh the benefits of AI facial recognition against the costs CSM

Of Interest

- Nero’s Bridge emerges from Tiber River as Rome faces water crisis AP

Overnight	
S&P Futures	+2 ▲ point(s) (+0.03% ▲)
overnight range:	-2 ▼ to +6 ▲ point(s)

APAC	
Nikkei	+0.59% ▲
Topix	+0.51% ▲
China SHCOMP	+0.01% ▲
Hang Seng	-1.10% ▼
Korea	+2.42% ▲
Singapore	+0.41% ▲
Australia	-0.80% ▼
India	-0.10% ▼
Taiwan	-0.46% ▼

Europe	
Stoxx	50 +0.13% ▲

Stoxx	600 -0.05% ▼
FTSE	100 -0.17% ▼
DAX	+0.58% ▲
CAC	40 -0.04% ▼
Italy	-0.04% ▼
IBEX	-0.11% ▼
Canada	+0.26% ▲
Mexico	-1.41% ▼
Brazil	-0.23% ▼

FX

Dollar Index (DXY)	-0.23% ▼ to 99.738
EUR/USD	+0.21% ▲ to 1.1552
GBP/USD	+0.26% ▲ to 1.3522
USD/JPY	+0.23% ▲ to 159.13
USD/CNY	+0.04% ▲ to 6.7416
USD/CNH	+0.03% ▲ to 6.7430
USD/CHF	+0.10% ▲ to 0.8133
USD/CAD	+0.30% ▲ to 1.3890
AUD/USD	+0.21% ▲ to 0.7074

UST Term Structure

2Y-3M Spread widened	1.5bps to 34.7bps
10Y-2Y Spread widened	1.0bps to 50.8bps
30Y-10Y Spread widened	0.7bps to 57.5bps

USD HY OaS

All Sectors	+1.6bps ▲ to 308bps
All Sectors ex-Energy	+2.5bps ▲ 300bps
Cons Disc	+1.1bps ▲ to 505bps
Indu	+0.1bps ▲ to 254bps
Tech	+1.6bps ▲ to 211bps
Comm Srvcs	+7.7bps ▲ to 292bps
Materials	+2.8bps ▲ to 266bps
Energy	+3.0bps ▲ to 281bps
Fin Snr	+2.1bps ▲ to 188bps
Fin Sub	+5.4bps ▲ to 283bps
Cons Staples	+0.5bps ▲ to 462bps
Healthcare	+2.5bps ▲ to 318bps
Utes	+2.2bps ▲ to 211bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
8/14	10:00 AM	Aug P UMich 1yr Inf Exp	4.2	4.2
8/14	10:00 AM	Aug P UMich Sentiment	55	55.2
8/17	10:00 AM	Aug Homebuilder Sentiment	33	34
8/17	4:00 PM	Jun Net TIC Flows	n/a	132.177
8/18	8:30 AM	Jul Import Price m/m	0.1	0.3
8/19	2:00 PM	Jul 29 FOMC Minutes	n/a	0

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