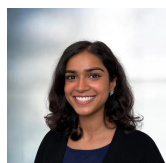


First to Market

September 24, 2026

## THERE'S ONLY THE HIGHER-INCOME CONSUMER NOW

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ECONOMIC STRATEGIST, MARKET INTELLIGENCE

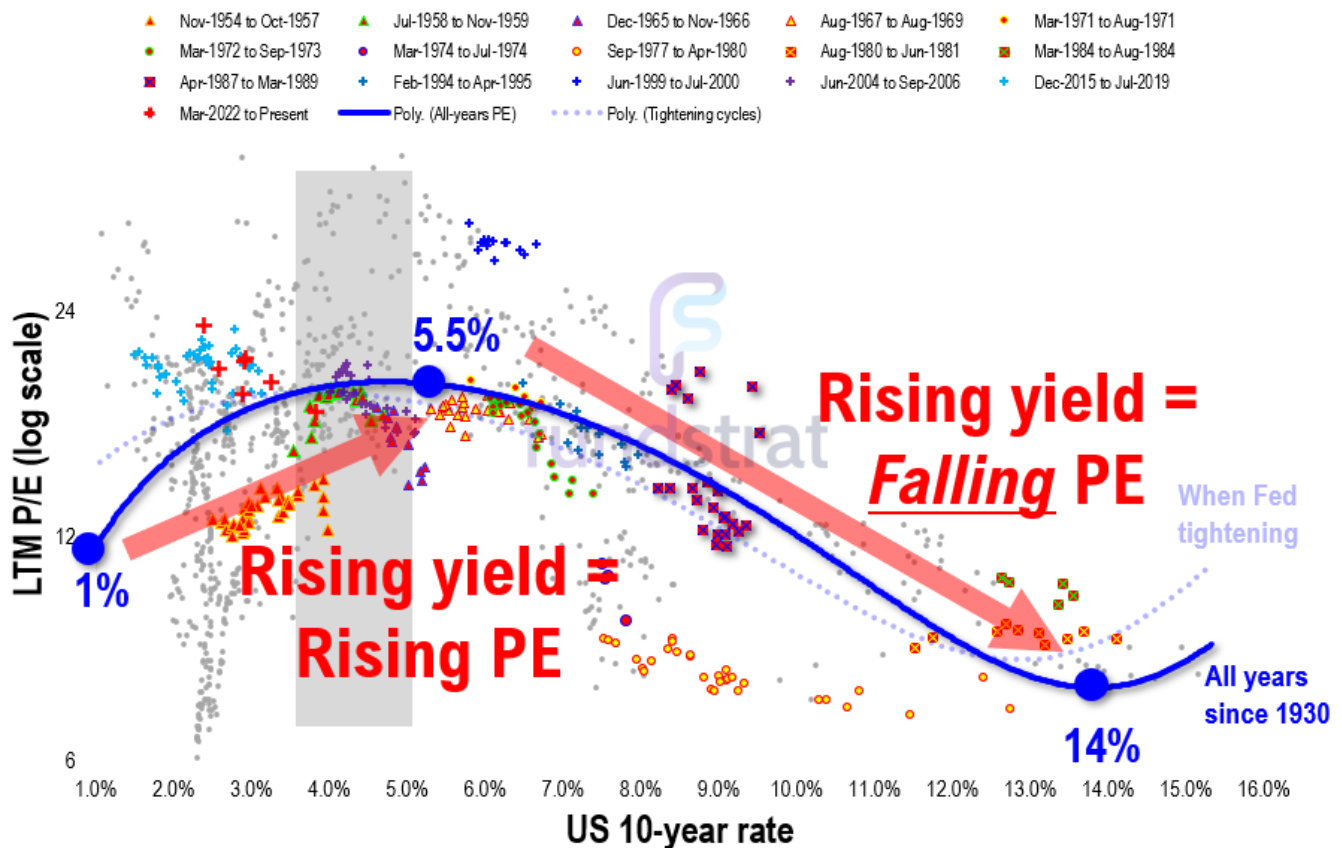
### Chart of the Day

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## VALUATION: Multiple tightening cycles since 1930

Figure: S&P 500 multiples given different monetary conditions

X-axis 10-yr yield. Y-axis is P/E. Since 1930



Source: Fundstrat, Bloomberg, Shiller

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### Good morning!

The hopes and dreams of consumer-sensitive companies are being carried on the back of the higher-income consumer, which is the only group that is still spending.

From McDonald's to Dollar General to Ollie's Bargain Outlets to Amex, companies are noting that the higher-income consumer is trading down while the lower-income consumer is shying away from spending altogether. It's only expected to get worse for the latter group because of higher gas and record diesel prices, 19-year highs in the 10-year Treasury yield, and the potential start of another interest-rate hiking campaign.

Though it's my view and that of Fundstrat Head of Research Tom Lee and Head of Technical Strategy Mark Newton that the overall stock market remains in good shape, it's becoming more and more clear that at the very least consumer staples don't count. Both Tom and Mark rank staples as an underweight, according to the latest sector allocation summary. Staples are up 6.7% this year, far underperforming the S&P 500's 12% advance.

And don't expect to be pleasantly surprised in the upcoming earnings season either. The consumer-staples sector has logged the second largest percentage decrease in earnings estimates out of the 11 sectors since the start of the quarter. The largest contributor to the decline has been Walmart. Meanwhile, Tyson Foods, Dollar Tree, and Mondelez International have noted a slide in their mean earnings estimates of more than 10% each.

It's far from just a staples story, however, and McDonalds Chief Executive Chris Kempczinski made that clear during yesterday's investor event. He expects customer traffic growth in major markets to be flat in the coming years and anticipates that inflation will remain elevated, as well. As he has communicated in the past, his plan in this new normal of a difficult environment is to "grab growth" from competitors. Yesterday he shared how exactly he plans to do that. Some of his ideas include expensive restaurant upgrades, new food and drinks options, and an AI-powered drive-thru for the restaurant. Shares still fell 4.8%, and it was among the top three contributors to the 1.6% decline posted by the consumer-discretionary sector, indicating that investors aren't buying the new turnaround strategy.

Shares of other chain restaurants posted losses, too. El Pollo LoCo \$LOCO was down 0.9%, while Jersey Mike's Subs \$JMKE and Dutch Bros \$BROS declined 1.2% and 0.9%, respectively. The S&P 500, in comparison, slipped 0.8%.

All three of those examples are in the consumer-discretionary sector, so a bigger concern is that a subset of the higher-income consumer is showing signs of strain, as well. According to the University of Michigan, sentiment within every income group is near record lows.

Dollar General executives have been highlighting that for a while now. “I would tell you, what we're hearing more and more from them is 'I don't feel like I'm higher income at \$100,000 any longer,' because of all of the headwinds that I just mentioned,” Dollar General Chief Executive Todd Vasos said. Executives at Ollie's, too, pointed out that those making \$100,000 and above in household income are trading down. Dollar General shares are down 12% this year, while Ollie's have declined 26%.

Lowe's \$LOW, on the other hand, targets the middle-income homeowner, which according to execs, still has a strong personal balance sheet and real disposable income growth. However, it's noting the consumer being cautious at the same time. Shares are down 23% this year.

Amex \$AXP, the premium credit-card company, in the most recent quarter noted the highest level of consumer spending growth since the first quarter of 2018. It continues to receive “good engagement” from millennials and Gen Z, which make up the largest share of U.S. consumer spending. Yet Amex shares are down 19% this year.

So for all the talk about how the higher-income consumer is holding up the whole economy and how they're spending is extraordinarily strong, it's important to note that there's sub-groups within it, and not all of them are faring so well either.

## Share your thoughts

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Do you think McDonald's will emerge a winner from its new turnaround strategy?  
Click [here](#) to send us your response.

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### Here's what a reader commented

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**Q:** Do you think tech's back for real?

**A:** As long as skeptics like Burry remain in the market, they can help curb excessive optimism in tech stocks, potentially leaving more room for further gains.

## Catch up with Fundstrat

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We believe the conditions are setup for stocks to continue to strengthen. While investors are understandably nervous given the rise in yields, this is creating maximum bearishness at a time of max hawkishness by the Fed. Thus, we think these are conditions for a face ripper.

## Technical

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Until US equity indices begin to show more evidence of downside acceleration on this pullback attempt, it's right to consider pullbacks as representing attractive risk/reward opportunities, not something which leads to meaningful weakness.

## Crypto

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It was a difficult day for risk assets, but the real stress was in rates. Hawkish commentary from Fed Governor Barr, renewed geopolitical risk around Iran, and reports that the administration was considering a temporary diesel-export ban all pushed inflation/rate concerns back to the forefront. Fed Funds futures now price >3.5 hikes over the next 12 months, well above the path laid out in last week's SEP.

## News We're Following

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### *Breaking News*

- A Perfect Storm Is Raging in the Bond Market WSJ

### *Markets and economy*

- The AI Build-Out Is Becoming the Biggest Economic Bet in U.S. History WSJ
- New York Fed's Williams says it's 'reasonable' to expect another rate hike by year-end CNBC

- Trump is turning to a Putin ally to help America's farmers. But there's a big catch CNN
- Fewer stocks are carrying the market than at any time since the dot-com peak MW

### ***Business***

- Mark Zuckerberg debuts \$1,299 Meta VR Glasses and Muse Charm pendant as part of AI agent push CNBC
- Micron's stock has become a 'battleground' as the AI narrative shifts MW

### ***Politics/U.S.***

- Judge Orders Trump to Lift Ban on CNN, MS NOW, Politico WSJ
- Behind the Oil-and-Gas Industry's Blitz to Try to Defeat a Diesel Export Ban WSJ
- MAGA Podcasters Are Tuning Out Trump. We Tracked What They Are Talking About Now. WSJ

### ***Overseas***

- Iran Has a Secret Weapon in Its War With America: Help From China WSJ
- Switzerland is keeping rates at 0% — for now CNBC

### ***Of Interest***

- Novels by Marlon James and Douglas Stuart Lead Booker Prize Shortlist NYT

### **Overnight**

|                  |                             |
|------------------|-----------------------------|
| S&P Futures      | -53 ▼ point(s) ( -0.69% ▼ ) |
| overnight range: | -54 ▼ to +7 ▲ point(s)      |

### **APAC**

|              |          |
|--------------|----------|
| Nikkei       | +0.76% ▲ |
| Topix        | -0.39% ▼ |
| China SHCOMP | -1.22% ▼ |
| Hang Seng    | -0.29% ▼ |
| Korea        | +0.90% ▲ |
| Singapore    | -0.46% ▼ |

|           |          |
|-----------|----------|
| Australia | -0.72% ▼ |
| India     | -1.48% ▼ |
| Taiwan    | -0.28% ▼ |

## Europe

|           |          |
|-----------|----------|
| Stoxx 50  | -0.44% ▼ |
| Stoxx 600 | -0.38% ▼ |
| FTSE 100  | -0.03% ▼ |
| DAX       | -0.48% ▼ |
| CAC 40    | -0.55% ▼ |
| Italy     | -0.49% ▼ |
| IBEX      | -0.04% ▼ |

## FX

|                    |                    |
|--------------------|--------------------|
| Dollar Index (DXY) | +0.13% ▲ to 101.23 |
| EUR/USD            | -0.04% ▼ to 1.1377 |
| GBP/USD            | -0.08% ▼ to 1.3229 |
| USD/JPY            | -0.27% ▼ to 158.75 |
| USD/CNY            | -0.03% ▼ to 6.7132 |
| USD/CNH            | -0.07% ▼ to 6.7161 |
| USD/CHF            | -0.24% ▼ to 0.8272 |
| USD/CAD            | -0.03% ▼ to 1.4106 |
| AUD/USD            | -0.10% ▼ to 0.7032 |

## UST Term Structure

|                       |                     |
|-----------------------|---------------------|
| 2Y-3M Spread narrowed | 1.2bps - to 74.0bps |
|-----------------------|---------------------|

|                        |                      |
|------------------------|----------------------|
| 2Y-5Y Spread narrowed  | -1.2bps ▼ to 74.9bps |
| 10Y-2Y Spread widened  | 3.1bps to 24.6bps    |
| 30Y-10Y Spread widened | 1.2bps to 29.4bps    |

## USD HY OaS

|                       |                       |
|-----------------------|-----------------------|
| All Sectors           | +3.0bps ▲ to 302bps   |
| All Sectors ex-Energy | +5.4bps ▲ 287bps      |
| Cons Disc             | +10.9bps ▲ to 509bps  |
| Indu                  | +17.5bps ▲ to 259bps  |
| Tech                  | +1.6bps ▲ to 193bps   |
| Comm Svcs             | +12.6bps ▲ to 300bps  |
| Materials             | -4.5bps ▼ to 237bps   |
| Energy                | +1.2bps ▲ to 249bps   |
| Fin Snr               | +2.1bps ▲ to 186bps   |
| Fin Sub               | -0.9bps ▼ to 250bps   |
| Cons Staples          | +9.1bps ▲ to 408bps   |
| Healthcare            | +5.3bps ▲ to 306bps   |
| Utes                  | +3.0bps ▲ to 209bps * |

| DATE | TIME DESCRIPTION ESTIMATE LAST |
|------|--------------------------------|
|------|--------------------------------|

| DATE |          |                                 | TIME | DESCRIPTION | ESTIMATE | LAST    |
|------|----------|---------------------------------|------|-------------|----------|---------|
| 9/24 | 10:00 AM | Aug New Home Sales              |      |             | 615.55   | 607     |
| 9/24 | 10:00 AM | Aug New Home Sales m/m          |      |             | 1.3      | -10.5   |
| 9/25 | 8:30 AM  | Aug P Durable Gds Orders        |      |             | -0.3     | 1.1     |
| 9/25 | 10:00 AM | Sep F UMich 1yr Inf Exp         |      |             | n/a      | 4.6     |
| 9/25 | 10:00 AM | Sep F UMich Sentiment           |      |             | 47.5     | 47.8    |
| 9/29 | 9:00 AM  | Jul S&P Cotality CS 20-City m/m |      |             | n/a      | 0.24    |
| 9/29 | 10:00 AM | Sep Conf Board Sentiment        |      |             | 91       | 89.4    |
| 9/29 | 10:00 AM | Aug JOLTS                       |      |             | 7225     | 7271    |
| 9/30 | 8:30 AM  | Aug PCE m/m                     |      |             | 0.4      | 0.2     |
| 9/30 | 8:30 AM  | Aug Core PCE m/m                |      |             | 0.3      | 0.25    |
| 9/30 | 8:30 AM  | Aug PCE y/y                     |      |             | 3.7      | 3.7     |
| 9/30 | 8:30 AM  | Aug Core PCE y/y                |      |             | 3.35     | 3.34415 |
| 9/30 | 8:30 AM  | 2Q F GDP QoQ                    |      |             | 1.5      | 1.5     |

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