AUGUST 2026

August Market Perspectives: *The Selective Consumer*

> “PRICE IS WHAT YOU PAY. VALUE IS WHAT YOU GET.”
>
> — WARREN BUFFETT

August Market Perspectives: *The Selective Consumer*

- The U.S. consumer is holding up, but the composition of spending is changing. Growth is increasingly concentrated in non-discretionary categories while discretionary momentum is fading slowly.
- Recent sentiment has bounced back from all-time lows, yet the improvement rests largely on somewhat more volatile components such as gasoline prices and inflation expectations.
- Experiences continue to win the marginal dollar: travel, dining, and entertainment demand has stayed firm even as goods spending turns more price conscious.
- The consumer is increasingly split: upper-income households buoyed by rising asset prices and locked-in housing costs, and lower-income households are feeling the ongoing pinch from inflation.

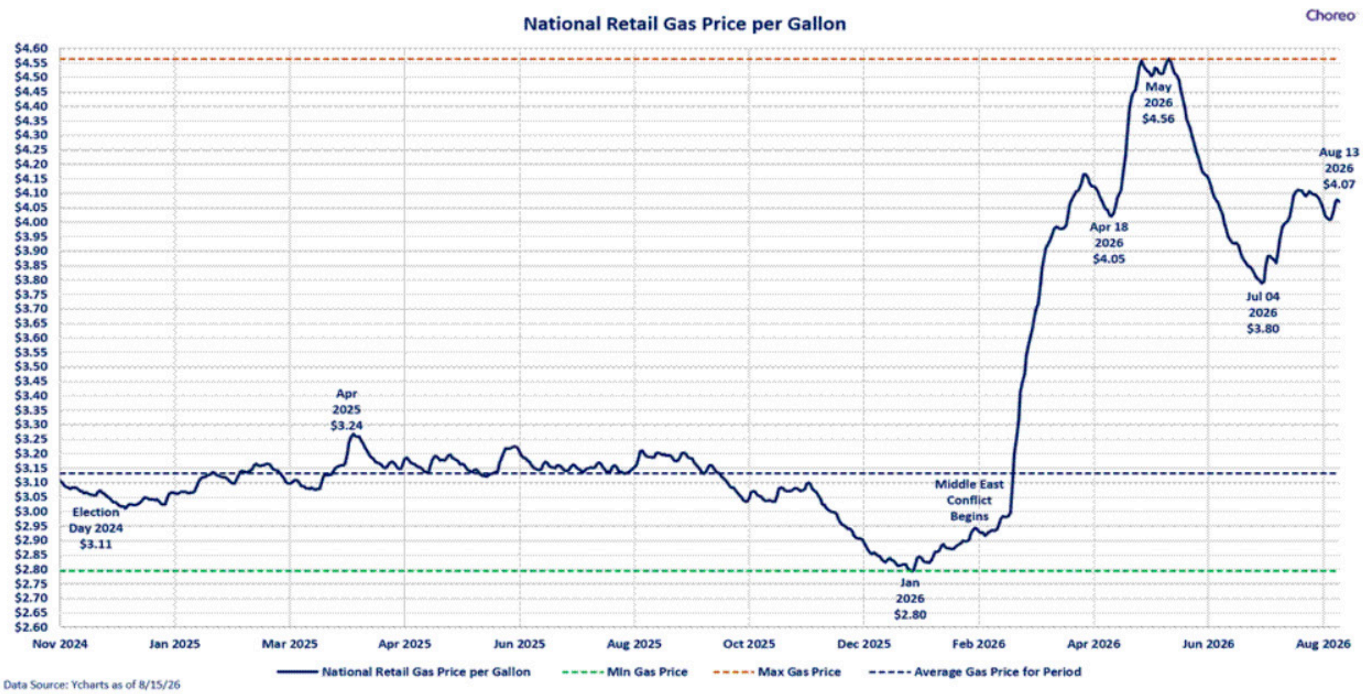
Summer is winding down, vacations are finishing up, and inflation concerns remain a focus with the middle east conflict still unresolved. That combination raises the question worth asking before third quarter earnings arrive: how well is the average household actually holding up? Roughly two-thirds of the U.S. economy is driven by consumer spending. Six months into a geopolitical conflict that pushed inflation back into the headlines as oil prices rose rapidly; volatility in consumer sentiment remains.

What the household’s vital signs signal heading into fall is as critical as ever in an economy increasingly leveraged to several unique factors such as geopolitics and the rapid development of artificial intelligence (“AI”) technology. Spending continues to grow, but the mix of that spending is shifting in ways that suggest households are managing budgets more deliberately than they were a year ago. Resilience and fatigue are showing up in the same data set, and separating the two may help determine the economic direction heading into the holiday shopping season.

SPENDING: RESILIENT, BUT INCREASINGLY SELECTIVE

At a high level, spending remains surprisingly durable. Visa's Spending Momentum Index ("SMI"), which aggregates transaction activity across millions of credit and debit card users to track spending trends, has moved generally higher since February up until recently (Source: Visa Spending Momentum Index). The important caveat is what drove that gain: much of it reflected higher gasoline prices following the supply disruptions and closures around the Strait of Hormuz, which inflates the dollar value of spending without adding a single unit of demand.

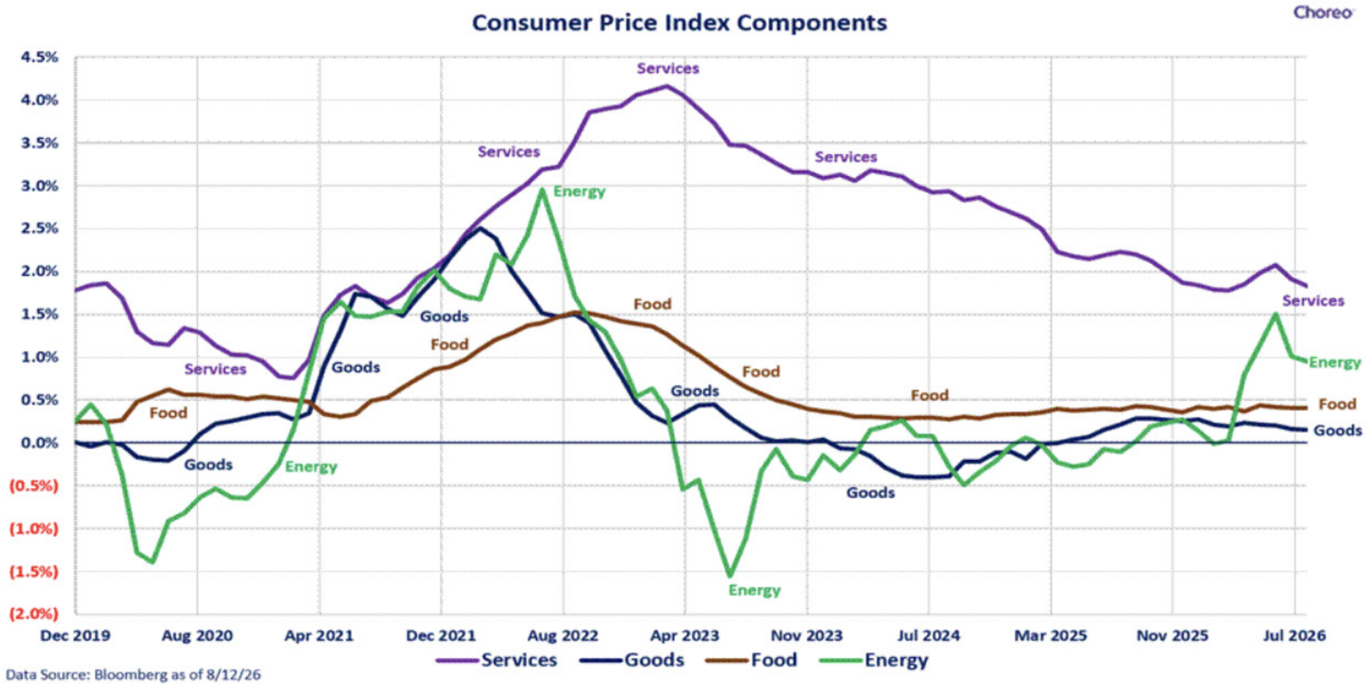
The average price per gallon of gas at the pump is an easy proxy to understand. If filling up a tank creates a total spend of $75 vs. $60, retails sales may appear better, but this is not a signal of consumer health. Rather, this is a signal of inflation. The same factors can work in reverse — appearing to skew consumer health lower when gas prices retreat. More broadly, since energy prices are generally non-discretionary (a family needs to use the car, heat the house, etc.), cuts will be made in other parts of their lives. This is the trend worth monitoring.



As negotiations between the U.S. and Iran have continued with periodic progress and setbacks, fuel prices have followed a similarly murky pattern — yet the underlying picture has become easier to see. Both discretionary and non-discretionary subcategories in the SMI slipped modestly in July. While one data point does not make a pattern, it is consistent with households trading down to lower-cost brands as they absorb persistent price increases. In other words, signs of fatigue are emerging at the margin, but the aggregate spending trend is still positive. For now, what appears to be the correct characterization is: resilient but more selective.

The distinction matters more than it may appear. Non-discretionary spending — groceries, fuel, utilities, insurance, healthcare — is not a vote of confidence or health; it is the household monthly bill. When the discretionary subindex weakens while the non-discretionary side holds, the household is not spending so much as choosing less, and a larger share of the budget is being consumed by obligations rather than preferences. Trading down is the visible symptom: the same cart, a cheaper label. It preserves the volume in the data while quietly compressing the margin of the company selling the branded version. In this case, a decline in both subindexes if persistent could suggest hesitance on the part of consumers to maintain or increase discretionary spending despite a dip in household bills.

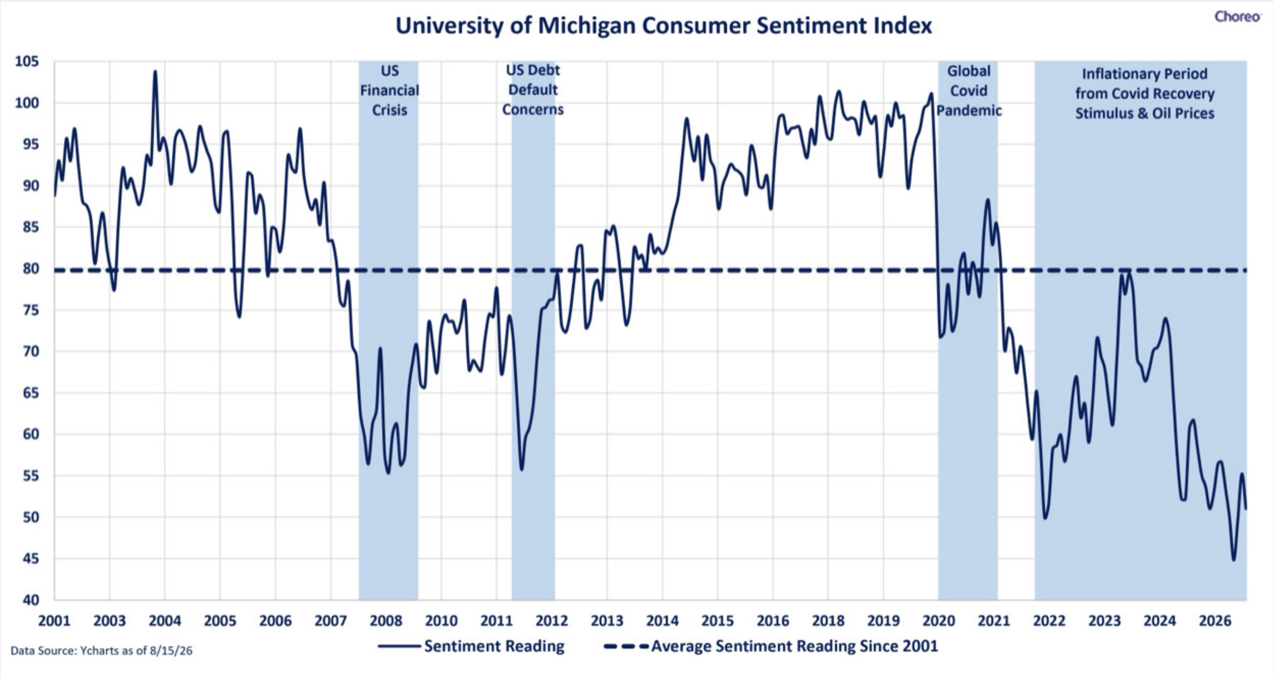
The graph below shows the main components of the Consumer Price Index ("CPI"), a measurement of inflation. The important takeaway is that most segments in which consumers spend—other than energy—continue to moderate from an inflationary perspective, a positive for consumer health. If products and services cost increases are more manageable, budgeting becomes easier, spending can accommodate temporary increases in certain segments such as energy, and overall discretionary spending can continue.



Households under genuine stress often cut the big, visible items first — the trip, the vehicle, the appliance — something not currently seen on scale. Substitution at the grocery store, which historically may show up before any meaningful pullback in total outlays (if it were to occur) is potentially in the early stages.

SENTIMENT VS. BEHAVIOR: MIND THE GAP

Survey data shows signs of improvement, albeit from low levels. The University of Michigan Consumer Sentiment Index, a widely followed gauge, rose sharply in June and July off May's record low before the most recent month's decline. While the measure remains well off its longer-term average and below year-ago levels, improvements were broad-based across income, education, and age cohorts, which is constructive — narrow gains driven by one demographic tend not to last.



Despite the gains, one-year inflation expectations remain elevated at 4.2%, signaling inflation concerns remain at the forefront. Respondents themselves flagged the source of their improved mood — cheaper gasoline — as fragile given ongoing shipping and geopolitical disruptions in the Middle East. A sentiment recovery built on one reversible input is worth respecting but not extrapolating. This is also a reminder of a longer-running pattern: sentiment and actual spending have drifted apart for several years now, with households reporting pessimism while continuing to open their wallets.

Why the gap exists is equally as important. Sentiment surveys are heavily influenced by prices, and particularly by the two prices households see posted regularly: gasoline and groceries. That makes the index an excellent barometer for how expensive life "feels" and a much weaker gauge of whether a household has the income and job security to keep spending. Politics has widened the wedge further, with responses increasingly reflecting how people feel about the direction of the country rather than the state of their own finances. The practical takeaway is to treat sentiment as a leading indicator of tone rather than of transactions. Low readings tell us that value messaging, promotions, and private-label alternatives may resonate; they have not, in this cycle, reliably told us that spending is about to stop.

SUB-PLOT: EXPERIENCES STILL WIN

Where households are still spending freely tells us as much as where they are pulling back. Travel plans have largely survived the geopolitical noise: TSA throughput is running within 3% of last year's levels, and hotels are capturing that demand on both sides of the equation, with occupancy up 3.0% year-over-year even as average daily room rates have risen 4.1% compared to a year ago (Source: CoStar STR Benchmark). Paying more and still showing up is not the behavior of a household in retreat.

The pattern extends beyond travel. Box office receipts hit a record $637 million in the first week of August, Broadway shows saw gross sales running 13% above a year ago, and OpenTable reservations are up 11% (Source: OpenTable). The through-line is that the marginal dollar continues to favor experiences over goods — the same preference that has persisted since the post-pandemic reopening.

There is a caveat worth holding onto. Spending data tied to experiences tend to have a material lag—flights booked, tickets purchased, trips planned around a school calendar that does not flex are typically made in advance. Travel and entertainment data therefore tell us a great deal about households' confidence last spring and comparatively little about confidence today. The forward-looking read is in the booking window rather than the boarding gate, and early-fall reservations and advance bookings are where changes would show up. This is worth close monitoring.

Equally, experience spending is not immune to the trading-down behavior showing up in goods. Households can keep the vacation and shorten it, keep the dinner out and skip the second course, keep the concert and buy the cheaper seat. Occupancy rising alongside higher room rates is a genuinely strong signal today; the more informative question this fall is whether the length of stay and the on-property spending hold up alongside it.

The temptation with consumer data is to grade it pass or fail. In practice, the useful question is narrower: is the consumer changing behavior in ways that alter earnings expectations for companies? Right now, the answer is somewhat unclear, but resilience when looking at the full picture.

CLOSING PERSPECTIVE

As summer gives way to fall, the consumer story is less about strength or weakness than about selectivity. Households are still spending, still traveling, and still showing up for the experiences they value — but they are doing the math more carefully than they were a year ago. The U.S. consumer is as powerful a force as ever, and the reason why investors pay close attention to the subtle shifts in behavior. For long-term investors, maintaining a disciplined and diversified approach can help smooth these behavioral shifts over time. As always, please reach out to your Choreo advisor with any questions or comments.

IMPORTANT DISCLOSURES

Opinions are as of the date referenced and are based on sources considered reasonable by Choreo. Opinions are subject to change based on market or economic conditions. There is no guarantee that any of these expectations will become actual results.

Choreo, LLC is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Registration as an investment adviser does not imply a certain level of skill or training of the adviser or its representatives. This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, insurance, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. Information has been obtained from a variety of sources believed to be reliable though not independently verified. Choreo, LLC, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. Internal Revenue Service rules require us to inform you that this communication may be deemed a solicitation to provide tax services. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed. Past performance does not indicate future performance. The sole purpose of this document is to inform, and it is not intended to be an offer or solicitation to purchase or sell any security, or investment or service. Investments mentioned in this document may not be suitable for investors. Before making any investment, each investor should carefully consider the risks associated with the investment and make a determination based on the investor’s own particular circumstances, that the investment is consistent with the investor’s investment objectives.

20260821-5861366