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Market Update

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Last week, earnings reports from Walmart (WMT) and Target (TGT) revealed important insights about the state of the U.S. consumer; the takeaway from both was interesting to say the least.

1. The Consumer Is More Value-Focused Than Ever

- Walmart posted strong results with a **5.3% increase in same-store sales**, boosted by growing online sales (+27%) and higher spending from both middle- and upper-income shoppers seeking value.
- Target, on the other hand, reported disappointing numbers, with in-store sales **falling 1.9% despite increased foot traffic**, highlighting a shift away from impulse buying.

2. A Shift in Spending Behavior

- Consumers are spending but are increasingly **deliberate and discerning**. Essentials like groceries (Walmart's focus) are driving sales, while discretionary and impulse purchases (a Target hallmark) are declining.
- This marks a sharp departure from the freewheeling spending habits seen post-pandemic.

3. Economic Implications

- Consumer spending, which accounts for $\frac{2}{3}$ of the U.S. economy, remains resilient overall, supporting the case for a "soft landing." However, spending patterns are vulnerable to further deterioration in labor markets or economic conditions.

WHAT THIS MEANS FOR THE MARKET

- The consumer discretionary sector remains supported by positive post-election outlooks, but risks remain. Vigilance is critical as small shifts in spending patterns can signal broader economic changes.

Walmart's focus on value and Target's challenges reinforces that understanding how consumers prioritize their spending will be essential to navigating the markets ahead.

Regards,
Tim

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