Subject Line: 2025-02-18 Tuesday Evening Market Watch

Good evening UCF!

2/18 Market Indexes + 10-year treasury yield futures:

Dow Jones Industri...	44,552.01	+5.93	↑0.013%
S&P 500	6,129.49	+14.86	↑0.24%
Nasdaq Composite	20,040.49	+13.72	↑0.069%
Russell 2000 Index	2,290.39	+10.41	↑0.46%
10-Year Yield Futur...	$4.55	+$0.01	↑0.20%

[F.D.A.'s Food Safety Chief Resigns Over Trump Administration Layoffs - NYT]

- The director of FDA's food division, Jim Jones, resigned on Monday 2/17.
- The food division oversees many areas, including the regulation of additives like artificial coloring, investigating food-borne illness outbreaks, and researching ways to improve the quality of American food as a whole.
- The Trump administration's recent purge of employees in all government sectors (including the FDA), spearheaded by DOGE, was the main rationale behind Jones' resignation, as many new hires he was looking forward to working with were fired.

With the relatively recent creation of the Department of Government Efficiency (DOGE), it's clear that one of the Trump administration's top priorities is reducing federal spending. One of the many methods they are using is [mass layoffs in federal agencies](), including the Food and Drug Administration (FDA).

However, the speed at which these layoffs are occurring has raised concerns about [how these agencies will operate in the future](). The director of the FDA food division, Jim Jones, estimated that nearly 5% of the division's 2000 employees were fired just last weekend. These layoffs prompted Jones to resign yesterday (Feb. 17). Calling the layoffs "indiscriminate", he said that it would be "fruitless for him to continue" under such conditions, as most of the layoffs were new hires with a "fresh education and experience in food safety work" that Jones believed would represent the future of the agency.

These layoffs are potentially compromising the FDA's ability to carry out food safety initiatives and research. Jones had been planning efforts to combat "diet-related chronic disease and risks from chemicals in food", which have now been jeopardized.

Related to the recent FDA layoffs, Robert F. Kennedy Jr., the newly appointed secretary of the Department of Health and Human Services (HHS) that oversees the FDA, criticized the FDA as being too influenced by the industries it oversees and questioned the integrity of the food staff. This statement reflects RFK's general negative sentiment of the HHS, as [RFK has plans to completely revamp the FDA and CDC]() - similar to DOGE's plans.

The mass layoffs and leadership changes within the FDA could affect several adjacent industries, particularly food production, retail/grocery, and agriculture:

- Major food manufacturers like Nestle, Kraft Heinz, or General Mills might face less scrutiny over their products. We may see more food safety scandals in the future.
- Grocery chains like Walmart, Kroger, Whole Foods, HEB, etc. could end up spending more on food safety protocols to compensate for less FDA oversight. This might drive up grocery costs even more.
- Agriculture and livestock industries could experience fewer restrictions on chemicals/fertilizers or additives. This could boost short-term productivity but also cause a long-term increase in demand for "organic" alternatives among the general consumer.

Jim Jones's resignation is the beginning of a major change in how areas like food safety and public health will be regulated under the Trump administration. This is the start of an era where government oversight and regulation will be reduced in favor of efficiency and cost-cutting, and the trade-off will be increased safety risks and incidents across all affected industries. The bigger question remains: Does deregulation make industries more efficient, or are the costs/negatives of potential safety incidents more important? We'll have a better idea of the answer to that question in the coming months, but for now, watch your food labels a little more closely.

[Musk Doesn't Run DOGE, White House Says. Why the Distinction Matters - Barron's]

- A White House court filing on Feb. 17 says that Elon Musk is not the head of DOGE nor an employee, but rather a senior advisor to President Trump
- Despite this claim, Musk has been publicly acting as DOGE's leader
- Musk's role was being challenged in court as he, DOGE, and Trump faced lawsuits from 14 states. The states are claiming that Musk is exercising too much government power without Senate confirmation, and the court filing is a response to this

More information about DOGE and Musk's true role in it has surfaced through a recent White House court filing that said that Musk is not the head or an employee of DOGE, but rather a "senior advisor". The statement explicitly says that "Musk has no actual or formal authority to make government decisions himself", contrary to his actions online. Since Trump's inauguration, Musk has done many things that make him appear to be leading DOGE:

- Posted job openings for DOGE on X
- Brought in employees from Tesla, SpaceX, and X to work at DOGE
- Promoted DOGE's efficiency initiatives and federal job layoffs on social media
    - (search "DOGE" on Elon's X account for countless examples)

To me, this court filing looks like an attempt by the White House to downplay Musk's influence in the federal government. The filing was made in response to a federal lawsuit filed on Feb. 13 by 14 states in Washington, D.C. that challenged two things: 1) Musk's constitutional authority to exercise government powers without Senate confirmation, and 2) Whether Musk is violating the U.S. Constitution's appointments clause.

The White House claims that Musk does not need Senate approval since he is only an advisor, but many legal experts are skeptical, and rightfully so. Walter Shaub, former director of the Office of Government Ethics (OGE), brought up an important detail: Musk's actions are limited by "conflict-of-interest" laws, meaning that he cannot participate in government decisions that affect his own business interests, including Tesla, SpaceX, and X.

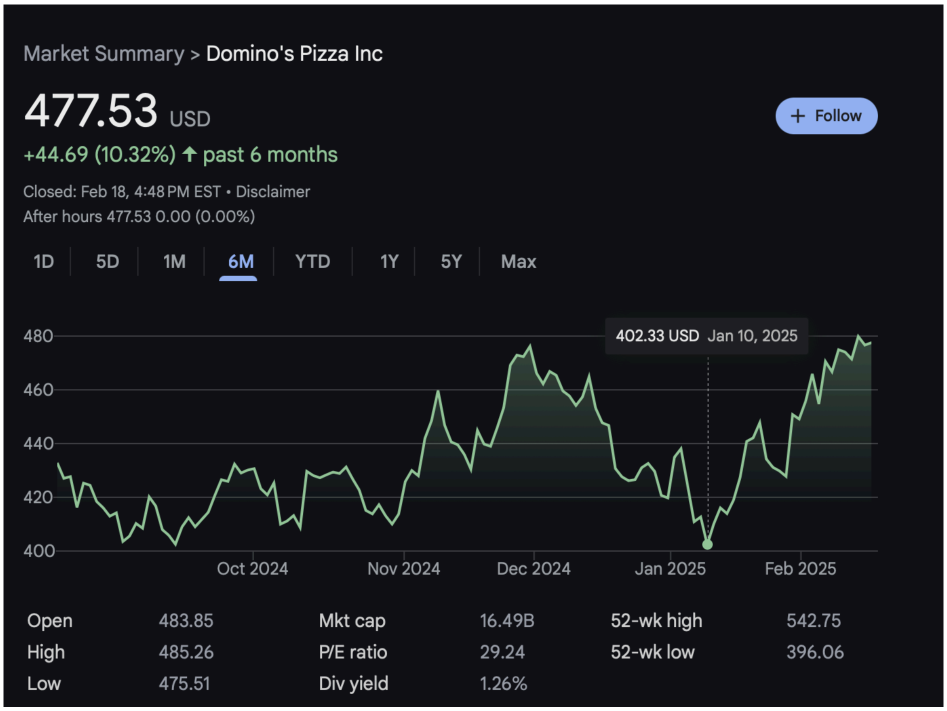
This court filing has many important implications. Regarding Tesla and SpaceX, if Musk is found to be illegally influencing government decisions, Tesla and SpaceX could be subject to more investigations from federal agencies, like the Securities and Exchange Commission (SEC) and Federal Trade Commission (FTC) have done in the past. This would cause investors to be concerned about legal risks that would make Tesla and SpaceX stocks more volatile. Additionally, the conflict-of-interest law means that if Musk is ruled ineligible by the courts to advise federal agencies, then DOGE will have to restructure its leadership. This would be a huge legal loss for the Trump administration.

The White House's attempt to distance Musk from DOGE, in my opinion, raises more questions than answers, as his actions contradict the administration's official statement. For investors, the results of these lawsuits are definitely something to watch closely, as they could determine the future of Musk's businesses and the role of corporate influence in government sectors.

What I'm Watching: Domino's Pizza Inc (NASDAQ: DPZ), LONG for ~6 months to 1 year

Domino's Pizza Inc. (DPZ) is one of the largest pizza chains in the world, best known in the fast-food pizza space for its well-designed digital app and delivery/carryout options, which, in combination, makes ordering pizza to your door extremely accessible and convenient.

6-month graph:



1-year graph:

Despite a rough 2024, where DPZ underperformed in comparison to the broader market, it has still managed to grow same-store U.S. sales, unlike its competitors (like Papa John's or Pizza Hut). This showed Domino's relative strength compared to its competitors in the pizza industry.

Some economic context about Domino's underperformance in 2024:

- The restaurant industry struggled with a general trend of lower traffic and sales as consumers became more selective with their spending. One exception was Chipotle, but most fast-food and pizza chains saw either little growth or declines in same-store sales.
- ~2/3rds of Domino's stores are located outside the U.S. (around 8500/14000 total), primarily in Europe and Asia. Domino's was hurt by weaker consumer demand overseas in 2024 overall, with one of many causes being the strong U.S. dollar, reducing international sales.

However, there was a recent Berkshire Hathaway (BRK.B) filing that showed Warren Buffett doubling Berkshire's holding in Domino's to nearly 2.4 million shares in Q4 2024. Buffett's investment shows BRK's confidence in Domino's long-term growth, which reinforces the argument that Domino's underperformance was caused by macroeconomic factors rather than poor company management. Also, Barron's had previously named Domino's a stock pick in December 2024, citing the potential for an international market recovery of sorts in 2025 that would greatly benefit Domino's.

Here are some reasons I believe Domino's stock will see growth in 2025:

- Domino's still managed positive growth in U.S. same-store sales (~2-3%), whereas its competitors saw outright declines.
- The company has expanded delivery capabilities through UberEats (already live, launched in 2023) and DoorDash (expected to launch in late 2025). These extremely popular platforms will likely help Domino's reach new customers (who might've been unwilling to download a separate app otherwise) and thus lead to more sales.
- Domino's app has always been the industry standard for pizza delivery, with millions of active users - several times more than Pizza Hut's, Papa John's, and Little Caesars' apps combined. This gives Domino's a strong data and marketing advantage that other companies don't have access to/can't replicate, making it more efficient in filling and delivering orders.
- Central banks in Europe and Asia are expected to cut interest rates in 2025, potentially increasing consumer spending (and thus more Domino's spending as the majority of their stores are overseas).
- Dominos' management is repurchasing $250 million worth of stock annually. This is helping drive Earnings Per Share (EPS) growth, with projections of 6% in 2025, 10% in 2026, and up to 12% in 2027 according to TD Cowen analyst Andrew Charles.

Some risks to consider are that Domino's still remains exposed to these macroeconomic factors. If a slower-than-expected recovery were to occur in the international markets, it would negatively affect Dominos' revenue. There is also some implementation risk with Domino's expansion into platforms like DoorDash. If the partnership fails to drive sales, or the plans are not implemented successfully, the anticipated upside wouldn't happen.

The bottom line is that Domino's 2024 performance suffered due to a variety of macroeconomic factors rather than company-specific management issues. Its strength in the industry is still superior to its competitors, evidenced by its positive growth in a generally unfavorable economic climate for restaurants. With its digital app's dominance, plans for an upcoming delivery partnership with DoorDash, potential to benefit from an increase in international spending, and positive sentiment from highly regarded investors like Buffett, I believe DPZ is well-positioned for a rebound in the next 6 months to 1 year. If macro conditions improve internationally, DPZ could easily return to its mid-2024 levels (~$520-530) if not higher, which would be a 10-12% increase from the current price of $477 today. I'd propose a stop-loss at $450 (-6%) which would mitigate most of the risk.

Thank you for reading, and have a great rest of your day!

Best regards,
Will