

## Consumer Finance

## Credit card spending rebounds in February

## Industry Overview

## Leap day boosts February card spending

BAC aggregated credit card data indicates spending increased 2.2% y/y in February, a nice acceleration from the -0.8% y/y growth observed in January. February credit card spending declined 1.8% m/m, which is better than the average 5.0% m/m decline in February (since 2010). We note that February benefitted from leap day so core spending trends may be more muted than headlines suggest. Credit card spending behavior is important for all card issuers because it drives loan growth. It is particularly important for American Express (AXP) given its more spend-centric model. Maintain ratings on covered companies.

## Readthrough to AXP: G&amp;S and T&amp;E accelerate

The readthrough from February data is overall credit card spending trends are improving on a y/y basis. Credit card spending by high earners accelerated to +2.4% y/y growth in February up from -0.2% in January. The improvement is driven by improvements in both G&S and T&E spend – restaurant, travel, and entertainment spending all accelerated from the prior month on a y/y basis. However, entertainment spend is still down 0.6% y/y, so overall spend is being supported by G&S strength. G&S spend represents 75% of total billings at AXP so stronger G&S spend is a positive for AXP.

## Feb. Total credit card spend: +2.2% y/y; -1.8% m/m

Total credit card spend in BAC card data was up 2.2% y/y in February, an acceleration from -0.8% in January. Similarly, overall credit card spending by high earners (\$125K+) was up 2.4% y/y compared to -0.2% in January. Over the past few years, BAC credit card spending trends have been highly correlated with AXP's reported network volume, billed business, and US consumer spending trends (Exhibits 1-3).

## Feb. Restaurant spend: +1.7% y/y; +4.9% m/m

According to aggregated BAC credit card data, on a one-year basis, spending at restaurants accelerated to +1.7% y/y in February vs. -4.4% in January. Restaurant spend historically increases by 0.6% m/m in February and 2024 performance was materially stronger at 4.9% m/m, likely helped by the calendar. Spending at restaurants represented 7% of billed business at AXP in 4Q23. Over the past two years BAC restaurant credit card spend trends are highly correlated with AXP's restaurant and US consumer T&E spending trends (Exhibits 4-5).

## Feb. Travel spend: -0.1% y/y; -2.0% m/m

According to aggregated BAC credit card data, spending on travel accelerated to -0.1% y/y in February, from -1.5% y/y in January. We note that spending declined 2.0% m/m which is slightly weaker than typical seasonality in February at -1.4% m/m. BAC travel credit card spending trends are highly correlated with AXP's US Consumer T&E and Total T&E spending. (Exhibit 6-7).

See [BofA on USA](#) report for methodology, limitations, and disclaimers related to BAC aggregated credit and debit card data and commentary on broader retail trends from the BofA Global Research US Economics team.

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United States  
Consumer Finance

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Data  
Analytics



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G&amp;S: Goods and Services

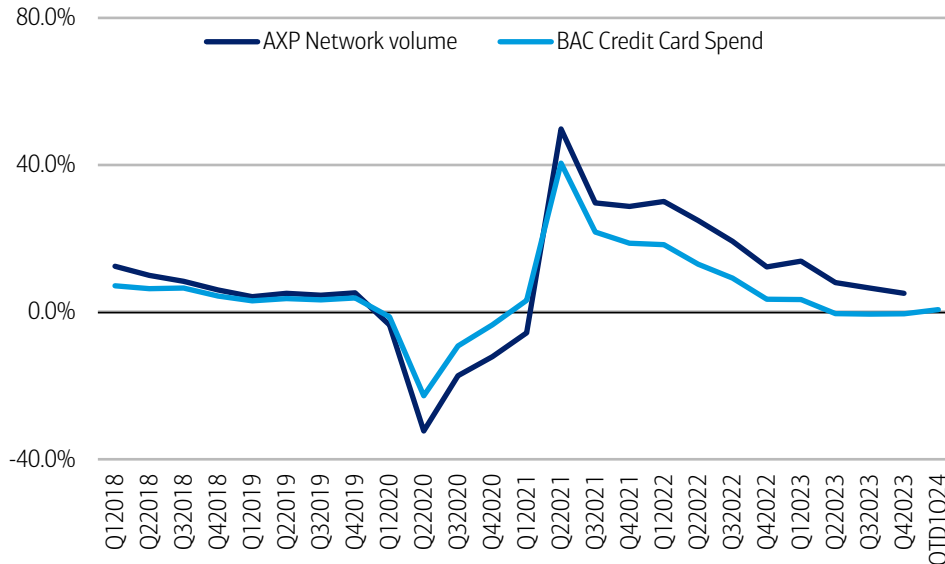
T&amp;E: Travel and Entertainment

AXP: American Express

**Please note most of the BAC card data in this report and references to spending are in connection to BAC credit card spending only as we believe credit card spending trends are most relevant for Amex**

**Exhibit 1: BAC aggregated credit card spend and AXP Network volume (y/y growth)**

BAC credit card spending was up 2.2% y/y in February. QTD spending is up 0.7% y/y

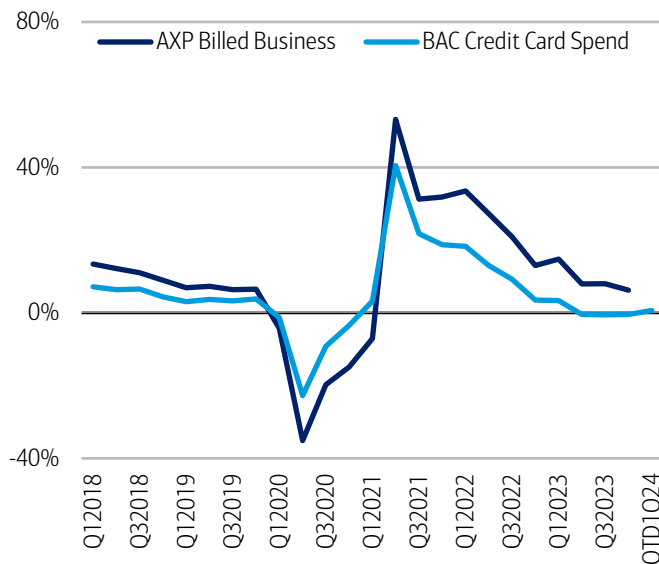


Source: BAC Internal data, Company reports

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**Exhibit 2: BAC aggregated credit card spend and AXP Billed business (y/y growth)**

BAC credit card spending was up 2.2% y/y in February. QTD spending is up 0.7% y/y

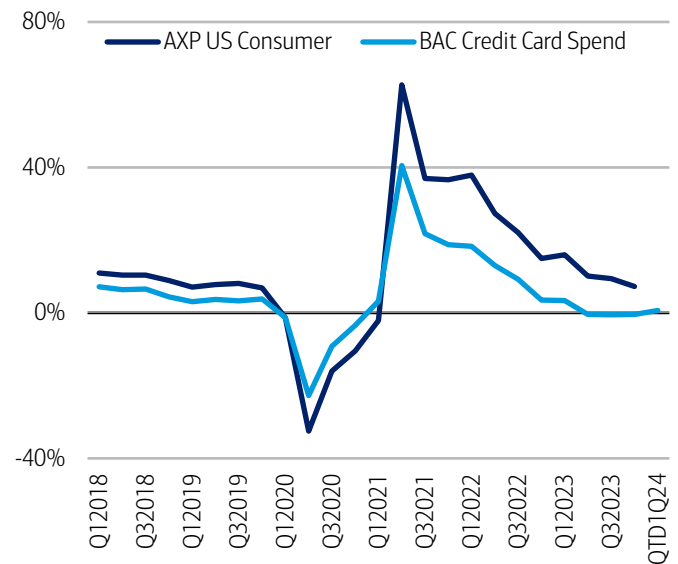


Source: BAC Internal data, Company reports

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**Exhibit 3: BAC aggregated credit card spend and AXP US Consumer volume (y/y growth)**

BAC credit card spending was up 2.2% y/y in February. QTD spending is up 0.7% y/y

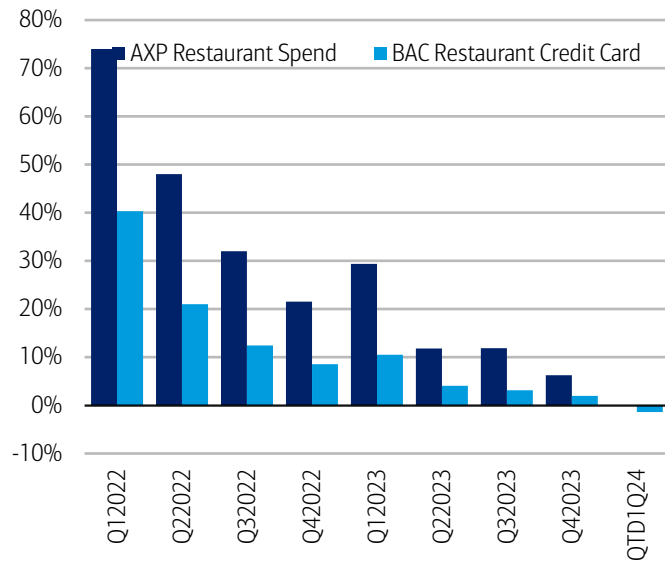


Source: BAC Internal data, Company reports

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**Exhibit 4: BAC aggregated credit card spend at restaurants and AXP billed business at restaurants (y/y growth)**

Restaurant y/y spend growth accelerated to 1.7% y/y in February from -4.4% y/y in January. QTD spending is down 1.4% y/y

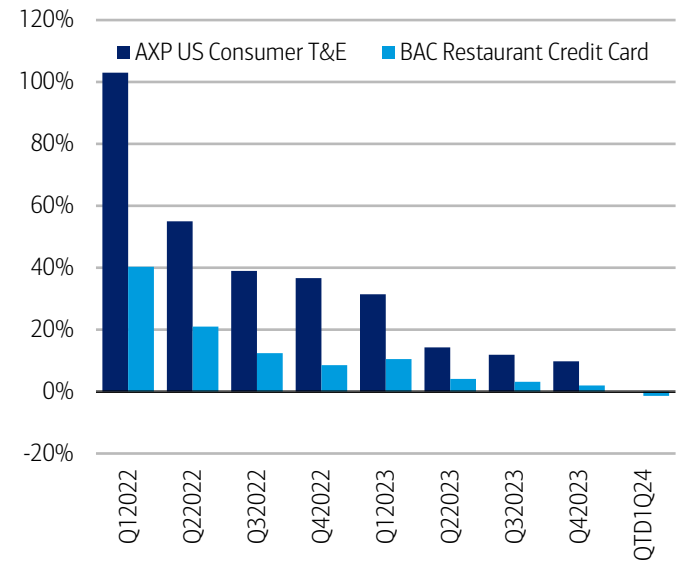


Source: BAC Internal data, Company reports

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**Exhibit 5: BAC aggregated credit card spend on restaurants and AXP US Consumer T&E volume (y/y growth)**

Restaurant y/y spend growth accelerated to 1.7% y/y in February from -4.4% y/y in January. QTD spending is down 1.4% y/y

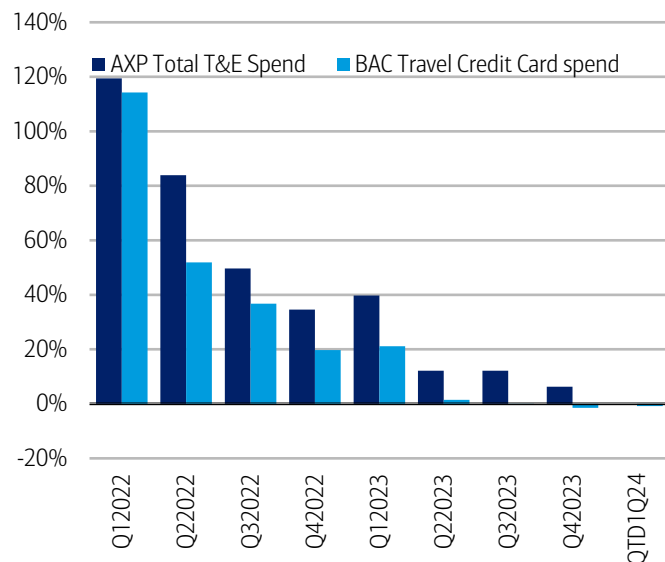


Source: BAC Internal data, Company reports

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**Exhibit 6: BAC aggregated credit card spend on travel and AXP Total T&E Spend (y/y growth)**

Travel y/y spend growth accelerated to -0.1% y/y in February from -1.5% y/y in January. QTD spending is down 0.8% y/y

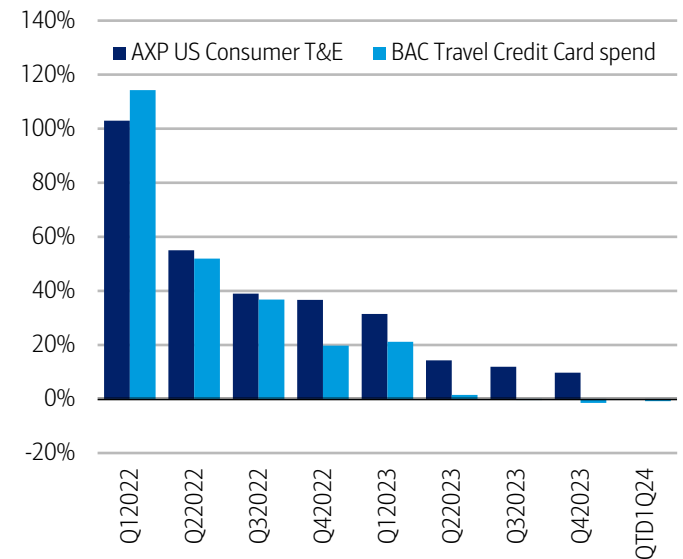


Source: BAC Internal data, Company reports

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**Exhibit 7: BAC aggregated credit card spend on travel and AXP US Consumer T&E volume (y/y growth)**

Travel y/y spend growth accelerated to -0.1% y/y in February from -1.5% y/y in January. QTD spending is down 0.8% y/y



Source: BAC Internal data, Company reports

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Selected Bank of America ("BAC") transaction data are used to inform the views expressed in this report and should be considered in the context of other indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used are not comprehensive; they are based on aggregated and anonymized selections of BAC data and may reflect a degree of selection bias and limitations on the data available.

## Methodology explained

Readers should be aware that although the BAC datasets utilized in our analysis represent a significant number of data points, they nevertheless present a degree of selection bias, including but not limited to income levels and geographies. In addition, the data is limited to debit and credit cards and does not include other payment methods such as cash or checks.

Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

BAC data used in this report include spending from active US households only. Spending from corporate cards are excluded.

Additional information about the methodology used to aggregate the data is available upon request.

## Exhibit 8: Stock Mentioned

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AXP	AXP US	American Express	US\$ 222.65	B-1-7
BFH	BFH US	Bread Financial	US\$ 36.68	C-2-7
COF	COF US	Capital One	US\$ 140.27	B-1-7
DFS	DFS US	Discover Finl	US\$ 124.75	-6-
SYF	SYF US	Synchrony Financial	US\$ 42.13	B-2-7

Source: BofA Global Research

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## Price objective basis & risk

### American Express Company (AXP)

Our \$247 price objective is based on a 16.5x multiple to our 2025 EPS forecast. The 16.5x PE multiple is on the higher end of the historical range (12-18x) for AXP, which we think is appropriate given the growth outlook and strong operating momentum it is experiencing.

Downside risks to our PO are weaker-than-expected macroeconomic conditions, softer consumer and business spending, weaker loan growth, increasing competition, weaker US consumer credit performance, disruptions in capital markets, or an increasing regulatory burden.

### Bread Financial Holdings Inc (BFH)

Our \$40 PO is based on a 0.9x multiple to current book value. We believe more investors are looking at BFH through a book value lens given potential profitability challenges if the CFPB's late fee rule was to come into effect. We view a book value of <1.0 as

appropriate in such a backdrop.

Downside risks to our price objective are: an economic downturn, which could lead to elevated loan loss rates, increased defaults, higher credit costs and slower loan growth. Deteriorating economic conditions would likely hurt investor sentiment and drive valuations lower. Loss of retail partners also poses a risk to growth and the earnings outlook.

#### **Capital One Financial (COF)**

Our \$152 PO is based on a 9.5x PE multiple to our 2025 EPS forecast. A 9.5x PE multiple is in the middle of the historical range (7-12x) which we think is appropriate given the more optimistic macro outlook and strong loan growth, partially offset by rising credit costs.

Downside risks are: slower than expected revolving credit growth, faltering economic recovery and rising loan losses, which could drive earnings below our estimates, and result in valuation compression. Cybersecurity and regulations are also risks.

#### **Discover Financial (DFS)**

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

#### **Synchrony Financial (SYF)**

Our \$43 PO is based on a 7x P/E multiple on 2025E EPS. Our multiple is on the low end of the typical trading range for SYF (6-12x), which we think is appropriate given the relatively uncertain macro backdrop and rising credit costs, execution risk on late fee mitigants, somewhat balanced by the potential for high capital returns.

Downside risks to our price objective are an economic downturn, which could lead to elevated loan loss rates, increased defaults, higher credit costs and slower loan growth. Deteriorating economic conditions would likely hurt investor sentiment and drive valuations lower. Loss of retail partners also poses a risk to growth and earnings outlook.

Upside risks are: Consumer balance sheets continue to hold strength and credit metrics remain strong. Increased visibility in peak loss rates shifts investor sentiment. Federal reserve achieves a soft landing. Outsized capital return.

### **Analyst Certification**

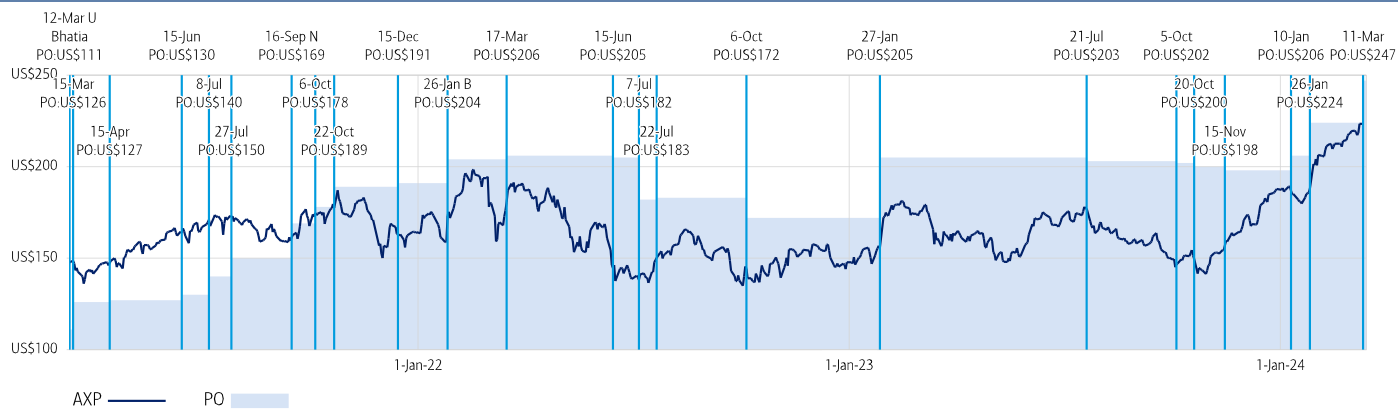
I, Mihir Bhatia, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

**US - Payments, Processors, Specialty Finance and IT services Coverage Cluster**

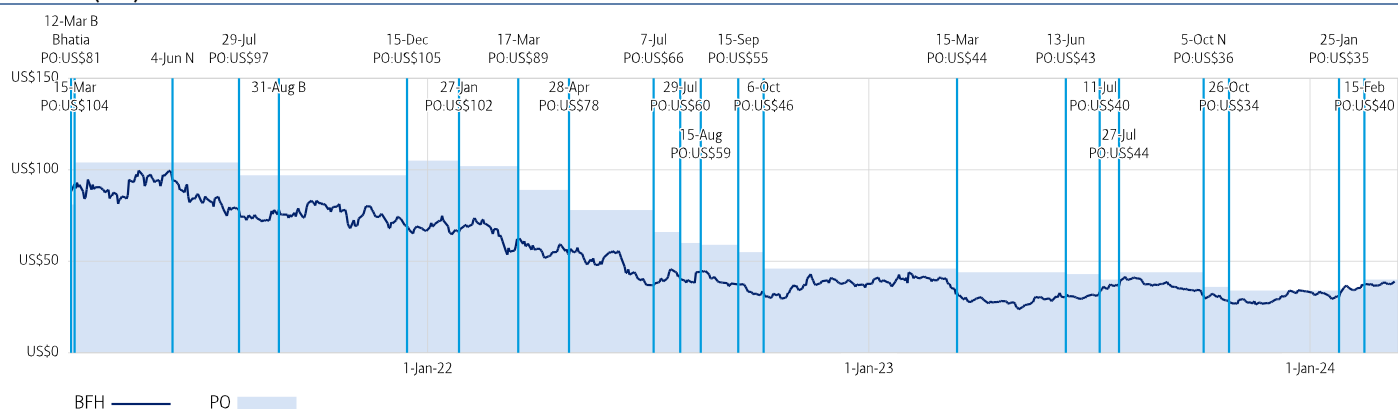
Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
<b>NEUTRAL</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
<b>UNDERPERFORM</b>				
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

## Disclosures

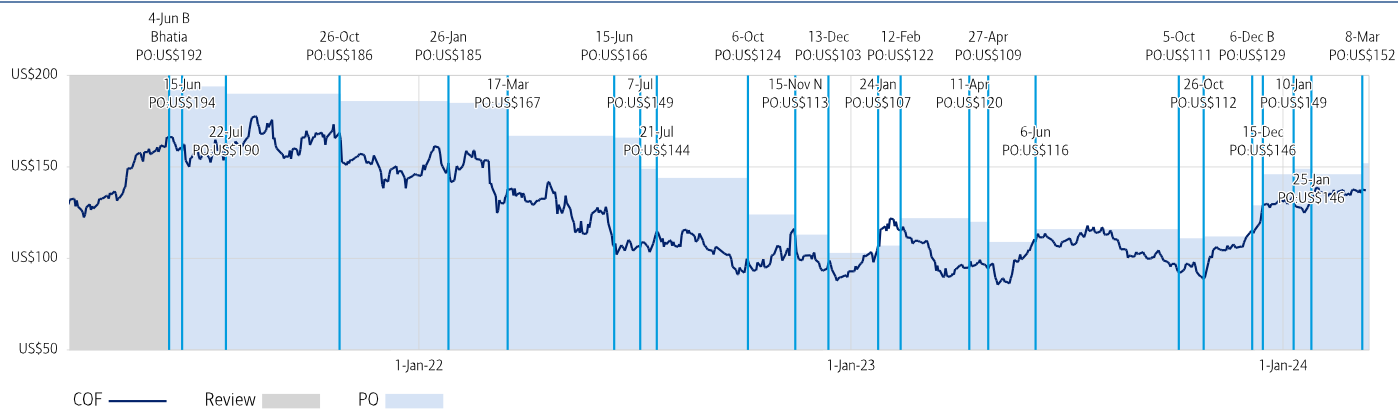
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**American Express (AXP) Price Chart**

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

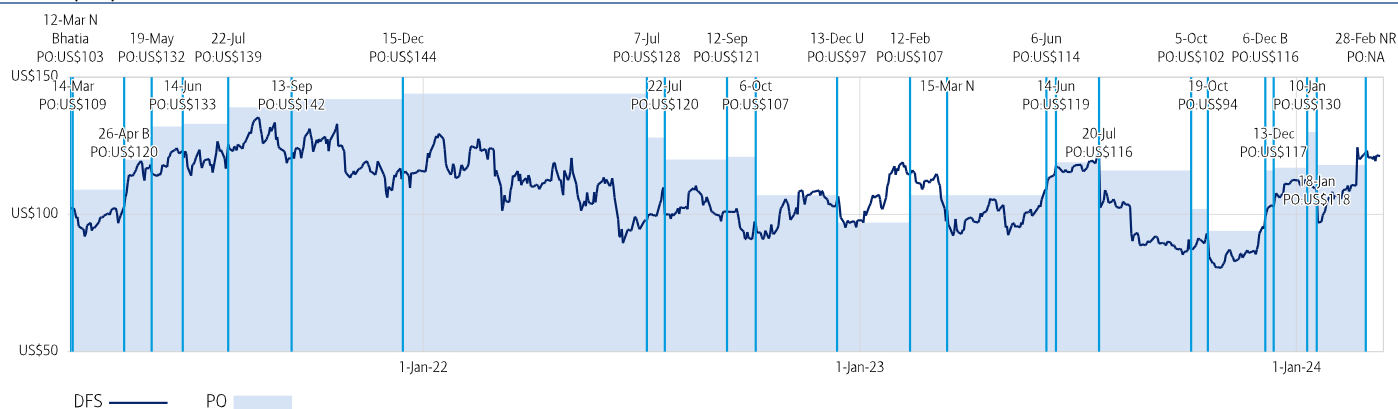
**Bread Financial (BFH) Price Chart**

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**Capital One (COF) Price Chart**

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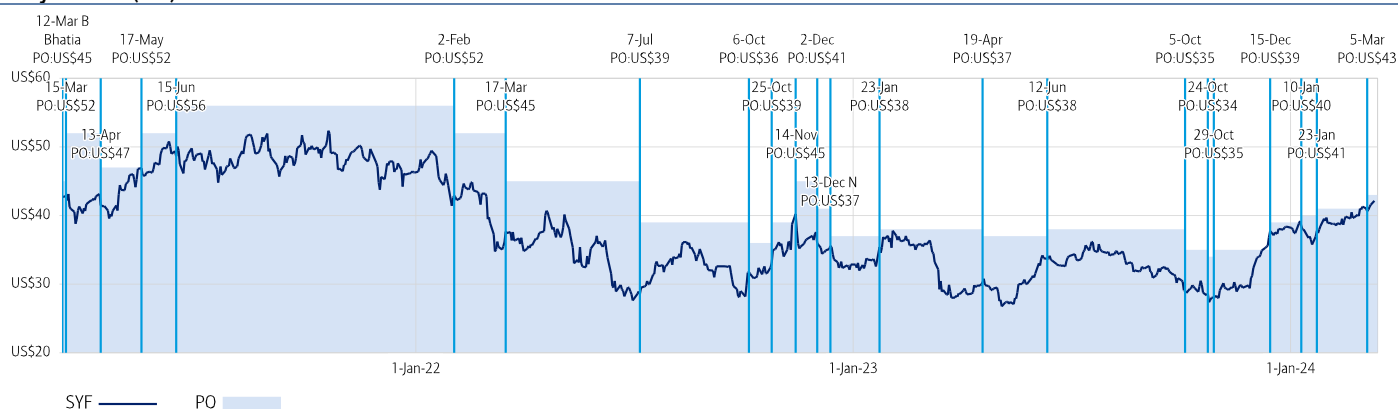
## Discover Finl (DFS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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## Synchrony Financial (SYF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

## Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.



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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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