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US consumer: What's happening?

This is a GS basket of stocks called "middle income discretionary consumer basket". Consumer discretionary was the worst performing sector of all sectors last week leading to calls for recession and doom. Betting against the US consumer is generally not a good long-term strategy, but let's anyhow have a look at the latest in terms of the bear case.

GS

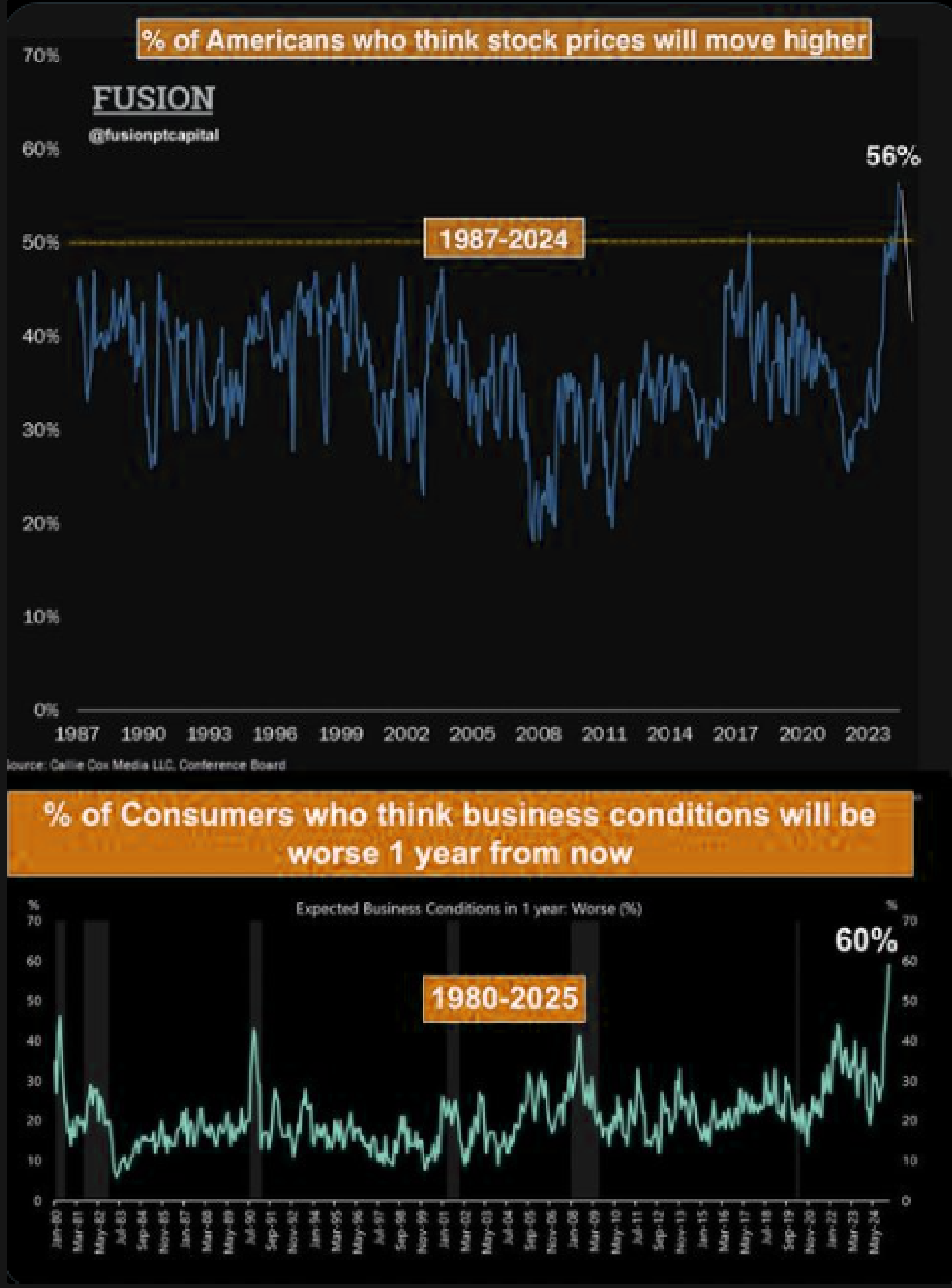
The bear case: Consumers reduce their spending, causing a recession

"The preliminary Consumer Sentiment Index (CSI) survey for March supports the bear case in which consumers reduce their spending, causing a recession. At the same time, higher inflation prevents the Fed from lowering interest rates. The CSI during the first two weeks of March fell to 57.9, the lowest since November 2022"

Yardeni

Double whammy

"Truly cannot make the climate we are in up, these are 40+ year surveys and have swung from the highest upside expectations for stocks to the highest worsening conditions for business in less than 5 months."



Fusion Capital

This time different...?

The consumer specialist sales at Morgan Stanley weighs in.

"Consumer Discretionary was the worst performing sector -7.6%) last week as recession fears are back (again) and I'm reminded of the US consumer that has powered through recession fears for years now and proven more resilient than anyone has imagined as the labor market remains healthy, oil has now fallen to 1-year lows, and the 10-year has fallen 60bps off its high.

That said, the market is clearly discounting that this time is different.

So what's changed? Three things:

1) The speed and magnitude of tariffs

2) The speed and magnitude of de-regulation and reducing the size of the government

3) The market drawdown creating risk around a reverse wealth effect

Our economists have acknowledged that the distribution of these policies has shifted to a faster pace than initially expected.

*Ultimately this is creating more **uncertainty**, not only with consumers, but businesses contemplating investments, hiring, capex deployment, etc"*

Cautious consumers

Here is a list of consumer companies with cautious statements recently.

1) CL: "As we're looking at a consumer that is a little bit more cautious in dealing with issues like perception of higher inflation, what's going on with layoffs, what's going on with the Hispanic consumer … So I think we're seeing that right now. That's having an impact on category growth … I think as you look at the first quarter, that's happening a little more rapidly than what we had anticipated..."

2) DG: "The good thing is what we're seeing is that trade down or trade in as we like to speak to it, has accelerated going through Q4 and into Q1."

3) TGT: "Although consumers are strapped, they're on a budget, they're under financial pressure, they still are prioritizing and leaning into those special holiday moments."

4) VSCO. "So, definitely saw a macro shift in the environment as it relates to traffic sort of mid-January into mid February, we know what the macro factors are there. We know it was weather. We know it's consumer confidence."

5) AZO. "I think that the lower-end consumer is under pressure and will continue to be under pressure."

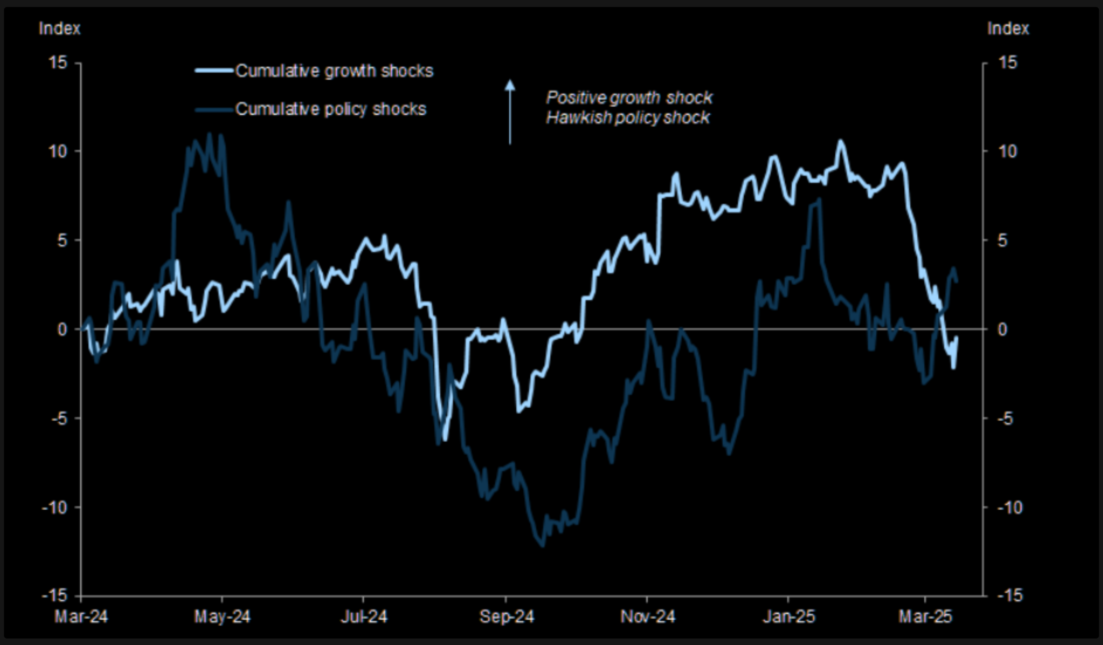
Even the consumer general has a hiccup

Costco has had a 16% drawdown in 2025. However, Costco is up more than 3x in the last 5 years (27% CAGR).

Koyfin

Downgrade without relief

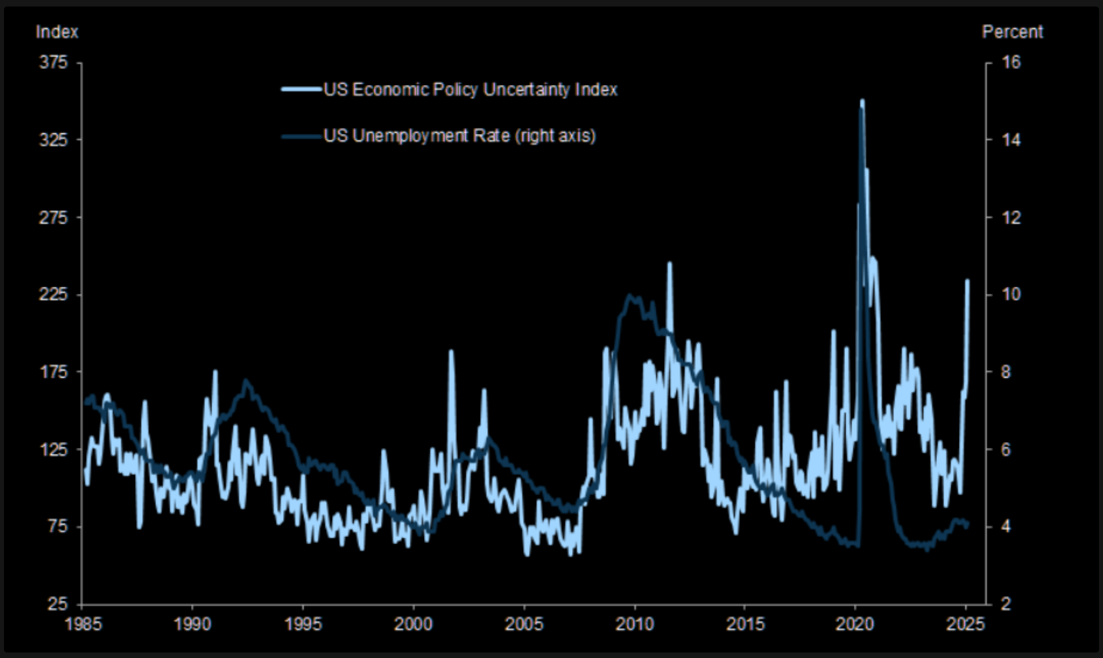
GS: "A big US growth downgrade, without a policy offset"



Goldman

The key risk

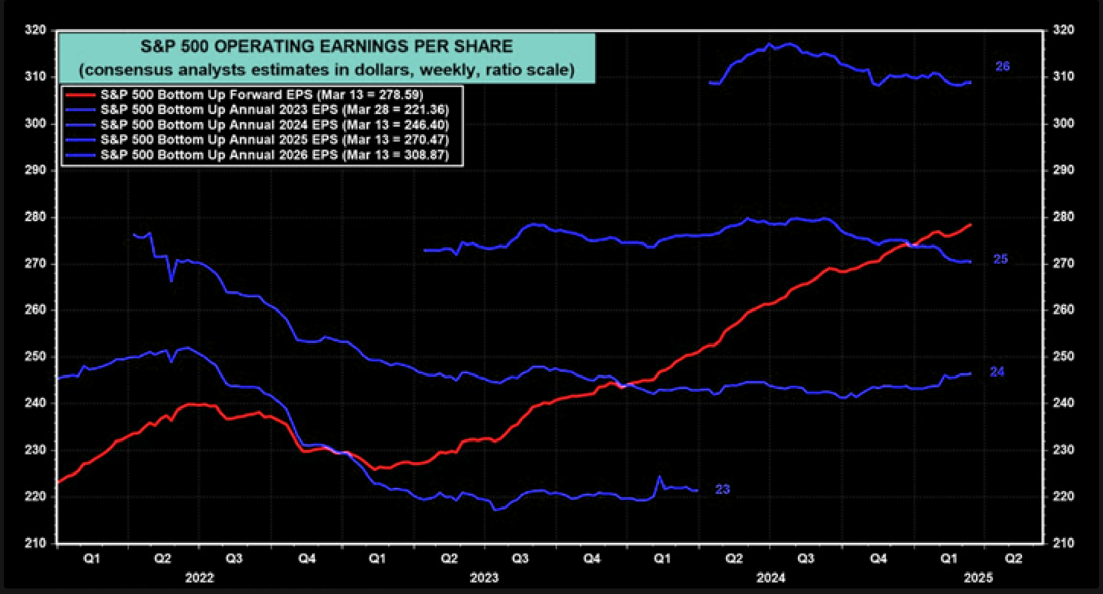
GS: "The key risk is that rising uncertainty presages more meaningful growth or jobs weakness"



Haver

Analysts did not get the memo

So far, industry analysts haven't gotten either the tariff memo or the recession memo. S&P 500 forward earnings per share rose to a record $278.59 during the March 13 week.


S&P 500 OPERATING EARNINGS PER SHARE
(consensus analysts estimates in dollars, weekly, ratio scale)
S&P 500 Bottom Up Forward EPS (Mar 13 = 278.59)
S&P 500 Bottom Up Annual 2023 EPS (Mar 28 = 221.36)
S&P 500 Bottom Up Annual 2024 EPS (Mar 13 = 246.40)
S&P 500 Bottom Up Annual 2025 EPS (Mar 13 = 270.47)
S&P 500 Bottom Up Annual 2026 EPS (Mar 13 = 308.87)
26
25
24
23
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2
2022 2023 2024 2025

Yardeni