Goldman Sachs The Markets
Consumer stocks: Finding the winners
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Chris Hussey: Recent earnings and economic data are shedding light on one of investors' biggest question. Can the US consumers stay strong? This is The Markets. I'm Chris Hussey with Goldman Sachs Research and I'm joined by Scott Feiler, a consumer sector specialist in our Global Banking and Markets division. Scott, thanks for joining us today.

Scott Feiler: Thanks very much for having me, Chris.

Chris Hussey: Scott, the consumer is very much in focus right now. We're at the tail end of retail earnings season. Retailers of course close their books at the end of April. Retail sales and consumer confidence numbers have also come in pretty strong. What have we learned about the state of the consumer?

Scott Feiler: Yeah, the state of the consumer is choppier than it was last year. Corporates, you know, across many different end markets are calling out to top line slowdown at first quarter. From a micro perspective, we've picked up this tidbits about a more stretched consumer. From a macro perspective, though, we haven't really heard about the slowdown. Yes, government retail sales missed in April, but the jobs picture is still quite strong with two million more job openings than there are job seekers. So while we've heard about this slowdown this earnings season in consumer, as long as employment holds, we think consumer will remain choppy but we won't see a ferocious slowdown that many are worried.

Chris Hussey: All right, terrific. Against that backdrop, how are investors trading these names right now?

Scott Feiler: Yeah, we think consumer dispersion is really the name of the game. Investors are shorting low-income exposed names that have discretionary exposure versus owning names that are levered to the high-income exposure, especially on the travel side. Not all are created equal in consumer right now. It's really a stock picker's game right now within consumer.

Chris Hussey: There's been a lot of questions about the ability of the consumer to weather higher rates. I think it's fair to say that people have been surprised by the resilience that we've seen so far, but are we now starting to see some cracks in that picture?

Scott Feiler: Yeah, we've seen some modest slowdown, you know, in the consumer, but again, there's tremendous dispersion across income demographics of how rates are impacting consumer. You know, whether it's $2 trillion of excess savings that were around during the pandemic are largely gone, household net worth is at all-time highs. So it's definitely just that rates picture is impacting consumers different depending on who you focus on. The rates picture is definitely impacting big ticket purchases, but it's not impacting all purchases. It's definitely impacting consumers different based on their income demographic.

Chris Hussey: Which makes a lot of sense. Now, the consumer space is obviously a very wide one, and you look at everything from retail to staples to travel. What types of names are working right now and which aren't? And are we still seeing that consumer shift where they're leaning into experiences over goods?

Scott Feiler: Yeah, absolutely, we definitely are. We've heard from a lot of travel companies the last few weeks that talked about their bookings, their prices at all-time highs. So we really haven't seen the slowdown in the travel trade at all. Most of those stocks are at all-time highs, and the commentary importantly within travel is still sort of near peak levels, we've heard, since the recovery began. So trade is very much in focus travel and services over goods.

Chris Hussey: All right. Now, you talk to some of the biggest investors in the consumer space. What themes are they getting excited about right now as they look across this space?

Scott Feiler: On the long side, investors are still focused on the travel trade. That caters to the higher income consumer with net worth at all-time highs. Investors are still excited about the recovery, in pricing in the travel trade. So investors very much like that. We've sort of seen a resurgence in apparel trends. Some of the small ticket purchases are holding up very well both across footwear and apparel. It's not unanimous across the board, but there are definitely some winners within the apparel space where they're still benefiting both from margin expansion and strength in top-line trends there. So the travel trade on the long side and certainly pockets of apparel and footwear still very strong.

Chris Hussey: Now, you mentioned in your commentary that, as long as the labor market holds up, the consumer will probably hold up. But you also mentioned that rates is impacting the lower end of the consumer a little bit more. What are you seeing out of the low-end consumer here? Is it cracking like people are saying? Or is it the fact that they're doing well on the employment side holding them up?

Scott Feiler: Yeah, we're definitely pressures called out. We've had a range of companies talk about trade down from that middle income consumer down into their stores. So we're really seeing that consumer continue to spend, but they're trading down and focusing more on the cheaper price points. They're focusing more on private label. So we're seeing that consumer still spend because they have to, but they're focusing their spend on consumables purchases but they're trading down to different retailers that they might not have been shopping at the last few years.

Chris Hussey: Great. One last question for you because we're going to turn the page to June next week. What are you looking out for?

Scott Feiler: Yeah, I mean, we're still in the thick of consumer earnings season. While most other sectors are done, consumer earnings are still very much in the forefront. I'd say that we're looking for earnings reactions to remain very rational. That's what we've seen so far. We've had tremendous dispersion where stock pickers can get rewarded for picking earnings revisions are right, and where earnings revisions are moving lower, people's shorts are working. So we have still around another ten to fifteen companies in consumer next week, and investors have been rewarded for picking [AUDIO SKIP] right way, and that's been a change relative to the prior quarters. So we're really just looking for dispersion to continue, for stock pickers to be rewarded for thinking about who's gaining share and who's losing share, and that's what we're focused on next.

Chris Hussey: Scott, let me follow up to that because you make a comment about how investors are rewarding companies that are beating and they're, you know, selling companies that aren't beating. But what types of companies are doing the beating, and what types of companies are losing? Is it top-line beat situation? Is it a bottom-line beat situation? Is it same-store sales? How are you characterizing it?

Scott Feiler: Yeah, within consumer, historically around 70% correlation between top-line and how stocks react. So investors are still very much focused on who's winning share of wallet and who's beating on the top line. That's still what is really, really driving stocks. And into the names that are really being rewarded, it's those companies that are levered to travel, to apparel where we are seeing the most upside, and that's what we expect to continue next week where it's the companies that are levered to the big ticket interest-rate-driven purchases that are missing. And those stocks are suffering a little bit. But, yeah, investors are still very much focused on top line and revisions there in terms of how they feel like they're going to get rewarded for stocks.

Chris Hussey: Super helpful, Scott. Thank you very much. That does it for another episode of The Markets. Be sure to find us on Apple Podcasts, Spotify, or wherever you get your podcasts. And to learn more, please visit us at GS.com and subscribe to Briefings, our weekly newsletter on the global economy. I'm Chris Hussey. Thanks so much for listening.