TRIVARIATE RESEARCH

US Equities
March 16, 2025

Level Set - It Isn't A Growth Scare, The Consumer Is Actually Slowing

We want to get bullish on the market. Why? Because the best set-up is one where you are a contrarian bull, and you are ultimately proven to be right. We had that feeling in our year-ahead outlook in January 2023, and again, to a lesser extent, in January 2024. This year, in January 2025 (see here), we wrote in our outlook that the market would be volatile and down in the first half. Now, many strategists who were relatively bullish at the beginning of the year have downgraded their views, and lowered their price targets for the S&P500. We are very tempted to use this reset in sentiment to get more bullish on equities. However, we also have empirically studied and written several times that making one-month market calls is a fool's game. Hence, if we do get bullish again, it needs to be because we think the bull case will be likely over the coming 12-24 months. So what do we need to see to get more optimistic on the risk-reward of US equities?

Here are the reasons we think it is too early to get bullish.

Sentiment: Most top-down strategists who started the year sanguine about US equities are now short-term bearish, but nearly universally have couched their caution by saying some version of "But we think the market will end the year higher." There were reports this last week that Retail investors are still buying equities and taking risk. The Volatility Index hovering around 22 is not really a sign of stress. Financial Conditions, according to Bloomberg's Index, are only average (see below). This calculation is normalized to zero. All of this is to say, we don't think there has been true capitulation or significant enough de-risking to make a counter-sentiment bullish call. This week we heard the inevitable stories of de-risking in certain pods within the multistrats, but too many of the big picture gauges tell us there is more possible selling to come.

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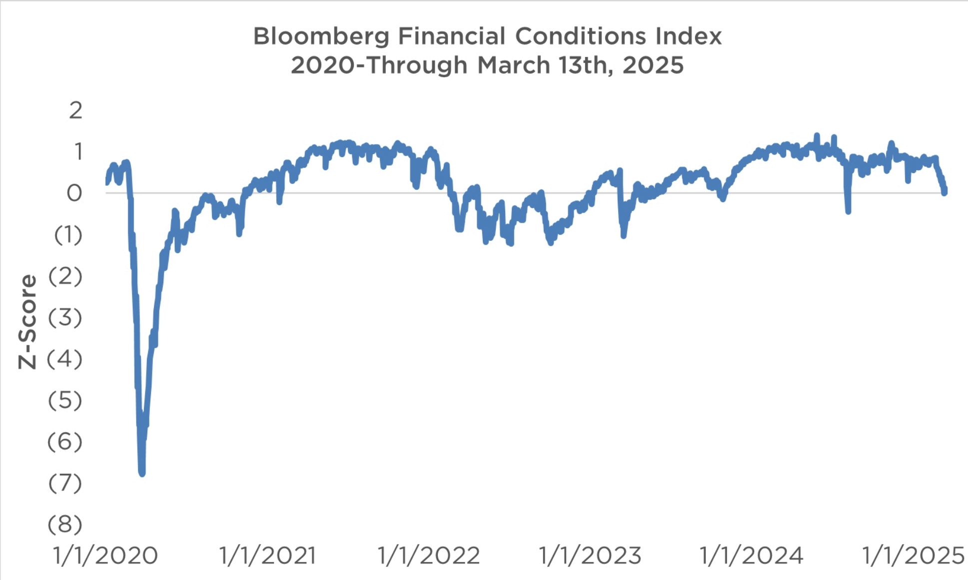
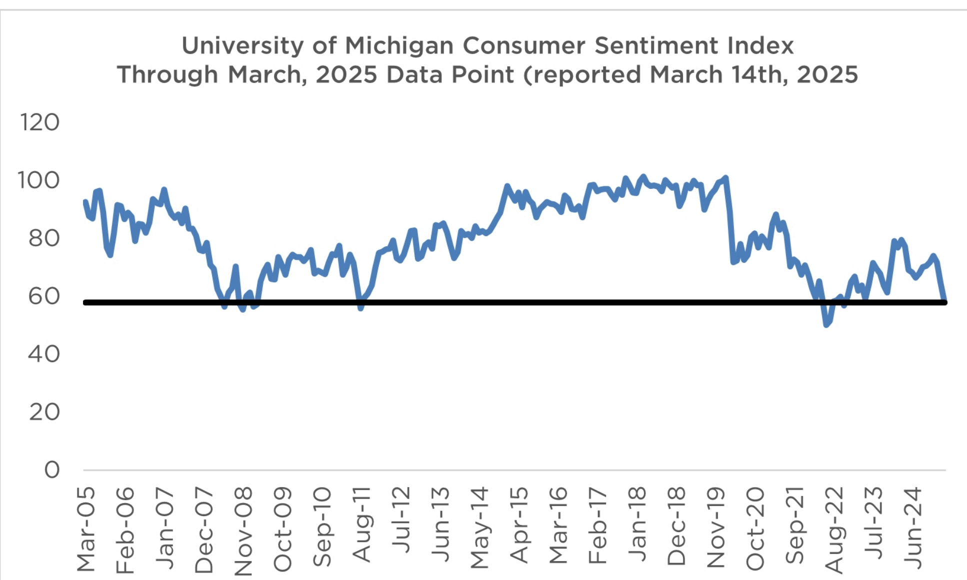
Finiancial Conditions - On a Normal Distribution - Suggest Today Is Average



Source: Trivariate Research, LP

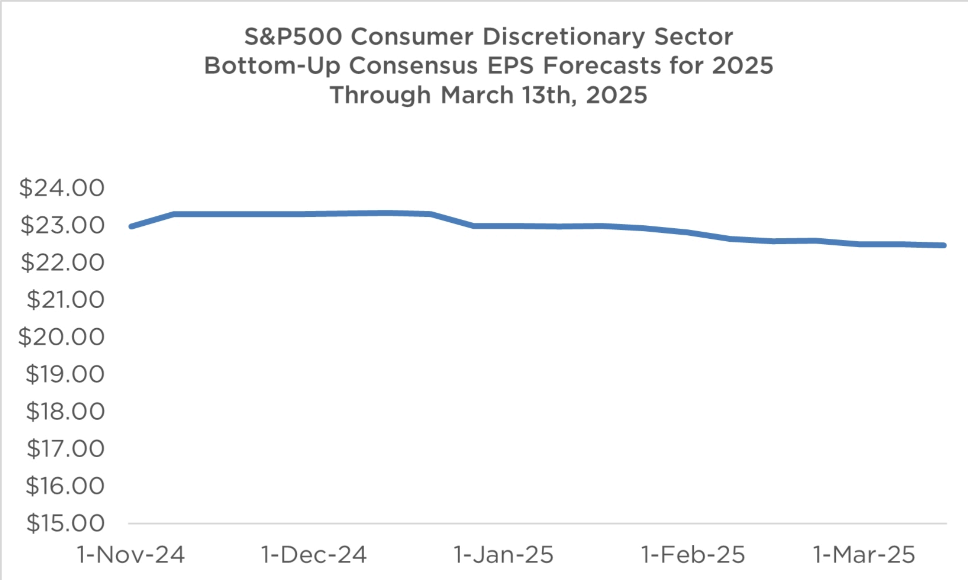
Fundamentals: Most of the clients we talked to in the last week, and most of the corporate commentary, pretty firmly indicate that the economy and US consumer are slowing. Diminished government spending is impacting the Airlines, while Credit Default Swaps are blowing out on certain indebted Consumer Companies, like Kohls (Ticker: KSS), and Hertz (Ticker: HTZ) to name two. There are ample data points that the US Consumer is slowing. Friday's Michigan Consumer Confidence report hit its lowest level since 2022.

Other than 2022, Consumer Confidence Has not Been Lower Since 2011!



Source: Trivariate Research, LP

Despite this recent Consumer Confidence number marking the 5th worst three-month percent change in the last 25-years, the bottom-up analyst earnings estimates have not moved much year-to-date. On January 1st, 2025, EPS estimates for the Consumer Discretionary sector were $22.99, and they are $22.47 today. This is only a 2.3% reduction to the 2025 full-year outlook.



Source: Trivariate Research, LP

We regularly track bottom-up analyst estimates for sales and revenue, as well as monitor revisions to their forecasts. Usually, there are far worse sales and earnings revisions for the Consumer Discretionary sector than the market excluding the Consumer Discretionary sector in periods following declines in Consumer Confidence this great. Below we show the typically up-minus-down / divided by total revisions for the twenty previous periods over the last 25 years where Consumer Confidence declined this much in a 3-month period. On average, sales and earnings revisions were more likely to be revised upward than downward three months later for the market excluding the Consumer stocks, but materially downwardly revised for Discretionary stocks (see below).

Bottom-Up Analyst Revisions (Up to Down Minus Total) Following the 20 Worst 3-Month Changes in Consumer Confidence Consumer Discretionary vs. Market Excluing Consumer Discretionary				
	Consumer Discretionary		Ex-Consumer Discretionary	
Revision Variable	Mean	Median	Mean	Median
1 Month EPS Revisions	(5.6%)	(4.0%)	(1.3%)	1.8%
1 Month Sales Revisions	(5.2%)	(3.9%)	0.5%	1.5%
3 Month EPS Revisions	(5.2%)	(4.6%)	2.8%	3.0%
3 Month Sales Revisions	(5.1%)	(6.6%)	8.5%	12.3%

What's our point? We think the relative estimate achievability of the Consumer Discretionary earnings are below average. We have been recommending an Underweight on the sector this year, and it has been the worst performing sector year-to-date, lagging the S&P500 by nearly 10%. So is it all in the price? Our guess is, no. Below are Consumer Discretionary stocks with poor one-month price momentum and net debt greater than their market capitalizations. We would avoid this group.

Indebted Consumer Stocks With Poor Momentum

Consumer Discretionary Stocks
Poor One-Month Price Momentum and High Net Debt-to-Market Cap.
As of March 13th, 2025

Ticker	Company	Industry	Market Cap. (US $Bil.)	Net Debt (US $Bil.)	Net-Debt-to-Market Cap.	21-Day Momentum	Short Interest-to-Floatcap.
KSS	Kohl's Corporation	Broadline Retail	0.91	7.03	7.69	(30.3%)	52%
JACK	Jack in the Box Inc.	Hotels, Restaurants & Leisure	0.59	3.10	5.28	(21.4%)	19%
PLAY	Dave & Buster's Entertainment, Inc.	Hotels, Restaurants & Leisure	0.67	3.27	4.87	(30.4%)	28%
CZR	Caesars Entertainment, Inc.	Hotels, Restaurants & Leisure	5.65	24.91	4.41	(25.0%)	9%
PENN	PENN Entertainment, Inc.	Hotels, Restaurants & Leisure	2.39	10.54	4.41	(25.2%)	11%
MODG	Topgolf Callaway Brands Corp.	Leisure Products	1.13	4.02	3.55	(18.7%)	12%
CWH	Camping World Holdings, Inc.	Specialty Retail	1.01	3.43	3.42	(33.1%)	16%
BLMN	Bloomin' Brands, Inc.	Hotels, Restaurants & Leisure	0.70	2.22	3.18	(30.7%)	16%
VAC	Marriott Vacations Worldwide Corporation	Hotels, Restaurants & Leisure	2.32	5.12	2.21	(20.0%)	5%
VSCO	Victoria's Secret & Co.	Specialty Retail	1.39	2.94	2.12	(45.9%)	10%
LAD	Lithia Motors, Inc.	Specialty Retail	7.50	13.56	1.81	(22.4%)	8%
KMX	CarMax, Inc.	Specialty Retail	10.65	19.15	1.80	(20.1%)	8%
NCLH	Norwegian Cruise Line Holdings Ltd.	Hotels, Restaurants & Leisure	8.15	13.73	1.68	(29.2%)	6%
FL	Foot Locker, Inc.	Specialty Retail	1.48	2.38	1.62	(19.6%)	11%
FUN	Six Flags Entertainment Corporation	Hotels, Restaurants & Leisure	3.52	5.11	1.45	(19.6%)	8%
AN	AutoNation, Inc.	Specialty Retail	6.12	8.64	1.41	(19.7%)	5%
CBRL	Cracker Barrel Old Country Store, Inc.	Hotels, Restaurants & Leisure	0.91	1.17	1.29	(22.1%)	14%
ABG	Asbury Automotive Group, Inc.	Specialty Retail	4.46	5.19	1.16	(24.6%)	10%
HBI	Hanesbrands Inc.	Textiles, Apparel & Luxury Goods	2.03	2.34	1.15	(23.5%)	9%
CCL	Carnival Corporation & plc	Hotels, Restaurants & Leisure	24.76	27.67	1.12	(25.3%)	5%

Source: Trivariate Research, LP

April earnings and guidance: For the first time in at least two years, we think it is quite likely we will see some negative pre-releases of Q1 earnings during the first week of April. Data and commentary from corporations presenting at conferences in March generally confirm that trends are slowing. In order to get more bullish we would need to see:

1. No major pre-releases or large guide downs for the full year 2025 results during April earnings season. We see this as unlikely at this point.
2. Stocks trading flat to higher after an earnings announcement and guidance that results in downward revisions. This would give us some confidence that the lower expectations are "in the price."
3. Some cost-cutting / productivity proof cases for AI that lead us to believe companies can grow their revenue without net hiring and drive margins higher.
4. It appears policy-wise the administration will present a tax bill before Easter, and then focus on regulation. Those macro policy presentations could catalyze more focus on the pro-growth sentiment that immediately followed the Red Sweep last November.

For now, we would recommend focusing on lower beta stocks, using revenue acceleration and relative earnings estimate achievabiility as key signals for portfolio construction. This leads us to recommend Healthcare and disfavor Consumer Discretionary.

Important Disclosures

Analyst Certification

The analysts, Adam Parker, Maxwell Arnold, Chang Ge, Colin Cooney and Ryan McGovern, responsible for the preparation of this research report certifies that: all the views expressed in this research report accurately reflect the research analyst's personal views.

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