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Don't fight the US consumer

Amongst all the earnings reports this week, one key focus will be bottom up evidence on the health of the US consumer. Recent macro data (GDP, PCE, consumer confidence) have suggested the consumer is in rude health.

Will that picture be endorsed by anecdotes from the retailers, hotels, cruise liners, casinos and car hire companies who release earnings this week? The Watchlist below highlights some of the headline companies reporting this week.

Model Name	ST/LT	Asset Class	Confidence(%)	Val Gap	Val Gap (σ)
CAR	LT	Equity	51%	-10.5...	-0.87
NCLH	LT	Equity	78%	-7.77%	-0.63
SBUX	LT	Equity	58%	-1.91%	-0.36
SHOP	LT	Equity	84%	-3.74%	-0.23
AAPL	LT	Equity	89%	-2.11%	-0.21
H	LT	Equity	71%	1.49%	0.19
AMZN	LT	Equity	74%	2.86%	0.26
EXPE	LT	Equity	77%	2.42%	0.29
MAR	LT	Equity	85%	2.51%	0.42
MGM	LT	Equity	78%	4.69%	0.56
ABNB	LT	Equity	62%	6.22%	0.59
CZR	LT	Equity	77%	6.32%	0.84
PYPL	LT	Equity	11%	9.55%	1.09

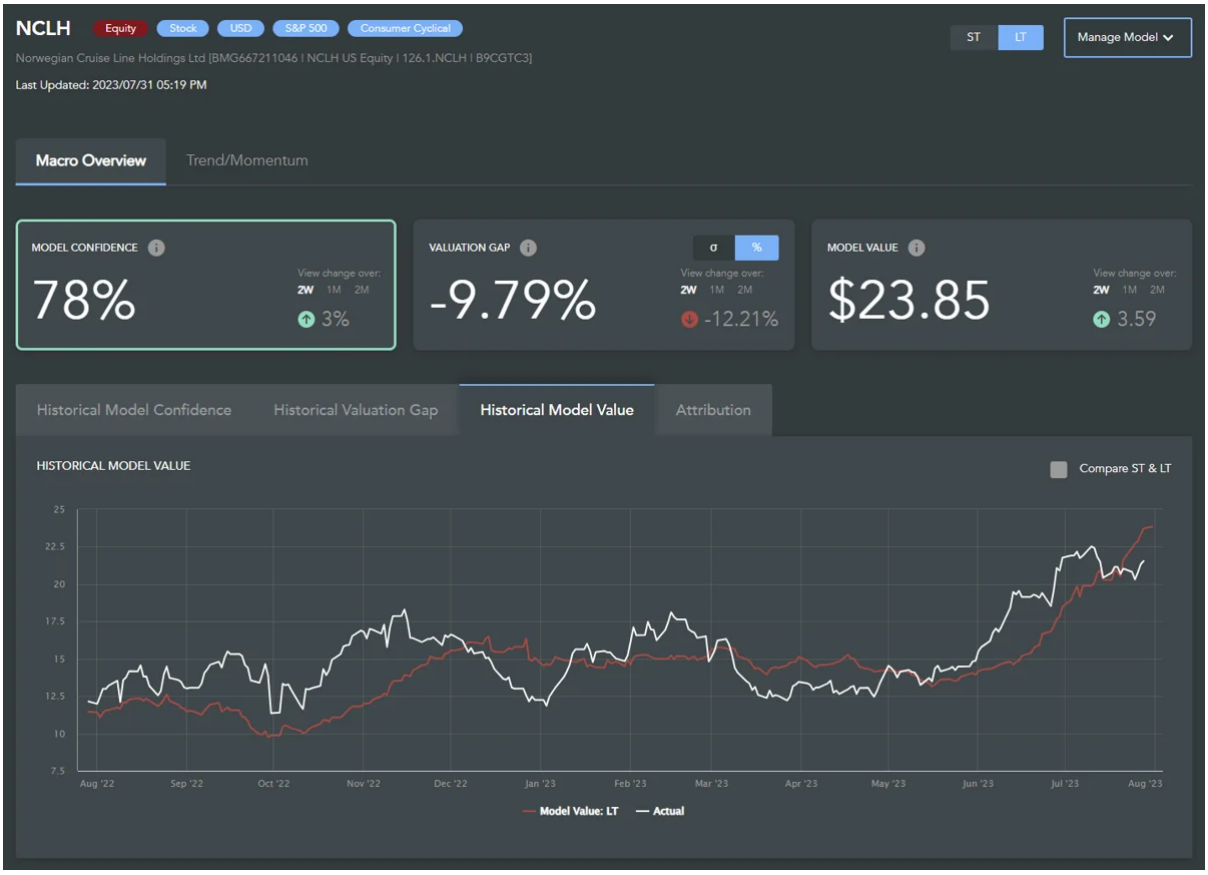
Some stocks are purely idiosyncratic plays. Their results reflect a company story with no broad read through for broader macro trends. PayPal is one such name - 11% model confidence means managers can ignore macro and focus on company fundamentals.

But the majority of these stocks have high model confidence on Qi - investing in these names means you are not simply picking a stock, but taking **implicit macro exposures**.

From a macro perspective, what patterns emerge?

Retailers are largely moving in line with macro conditions. The book-ends in macro valuation terms come from the "experience economy". The best revenge travel story is not in Las Vegas but out at sea. Caesers Entertainment and MGM International both screen as rich. Macro conditions are improving but their stock price has moved ahead of fundamentals.

In contrast, Norwegian has lagged the uptrend in macro momentum. After strong Q2 performance, NCLH has stalled of late. But macro-warranted model fair value rose 25% over the last month. It now represents the most efficient play on the ongoing hedonism of the US consumer.

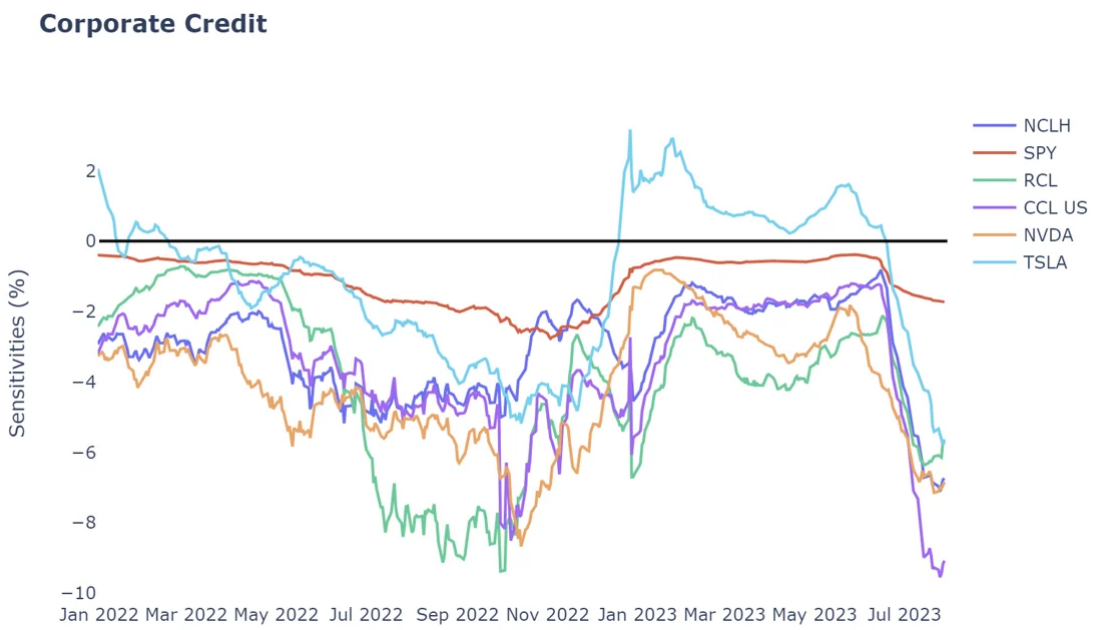


Norwegian is, in fact, something of a bellwether for these consumer stocks; indeed the whole US equity market.

A key standout on Qi currently is the **growing reliance on tight credit spreads**. The S&P500's macro regime shows credit spreads and interest rate volatility as the dominate drivers. SPX sensitivity to credit has started to move back towards Q3'22 levels.

At the single stock level, filtering S&P500 names for those in macro regimes and then screening for those most sensitive to credit reveals that three cruise line companies - Norwegian, Carnival and Royal Caribbean - rank in the top five.

The chart below shows the percentage impact for an isolated one standard deviation widening in credit spreads. For Carnival it's a 9.5% hit. **Betting on cruise stocks** to capture the revenge travel narrative, is also a **big bet on credit spreads remaining tight**.



Then two retail tech favourites - Nvidia and Tesla - emerge as the other two stocks most dependent on credit. Once again, **investments made for thematic** (AI, EV) **motives also carry inherent macro risks.**

For now this isn't an issue. Credit markets continue to grind tighter. The issue will come when aggregate macro conditions point to wider credit spreads.

Yesterday's Fed Senior Loan Officer survey was no smoking gun. There were some marginal improvements but the report still suggests overall credit conditions remain in restrictive territory. But the fault lines remain, and with them recession risks cannot be ignored.

Watch the red line below for Qi to highlight if / when macro - which explains 87% of the variance in US high yield spreads - is starting to turn against credit.