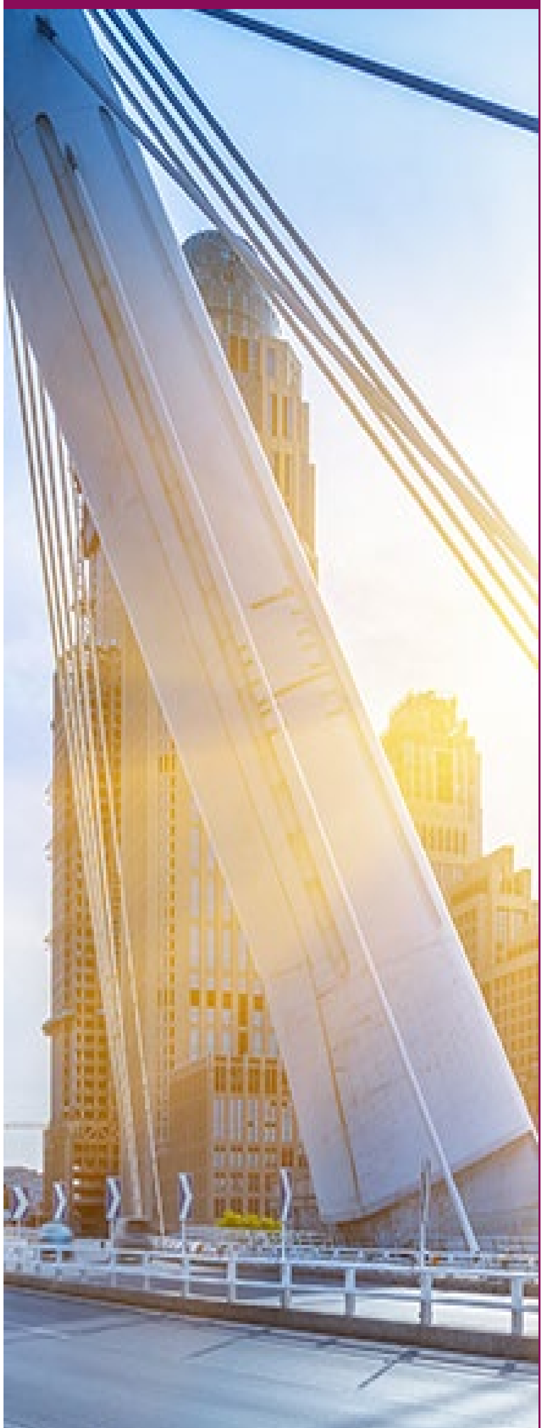
20 May 2025

Market Ethos

The latest market insights from Richardson Wealth



Craig Basinger

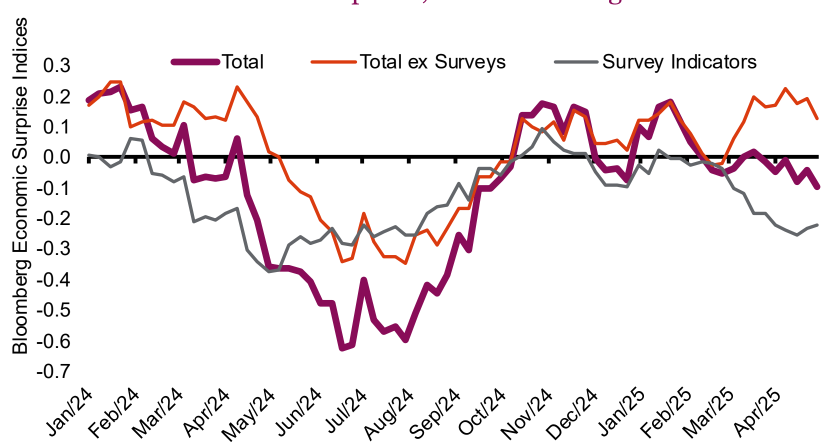
RICHARDSON
Wealth

Wobbly

The April correction was caused by policy, or rather changing policy. We had to look pretty far back to find other corrections that were policy-induced mainly because over the past 30ish years, policy has been ubiquitously supportive of markets. If Mr. Market got in too much trouble, policy came to the rescue. And if policy was implemented outside periods of market stress, they tended to be supportive or at least not disruptive.

Looking at past policy-induced corrections, they tend to resolve quickly. Largely because the market adjusts to whatever the new rules are and then resumes what markets do. Another interesting characteristic of past policy corrections is that the economic data remains resilient for a longer period. In a normal correction induced by the economy, sentiment data erodes, fast economic data then slows and then this spreads to the slower hard economic data. The policy disruptions process takes longer which is what we are seeing today.

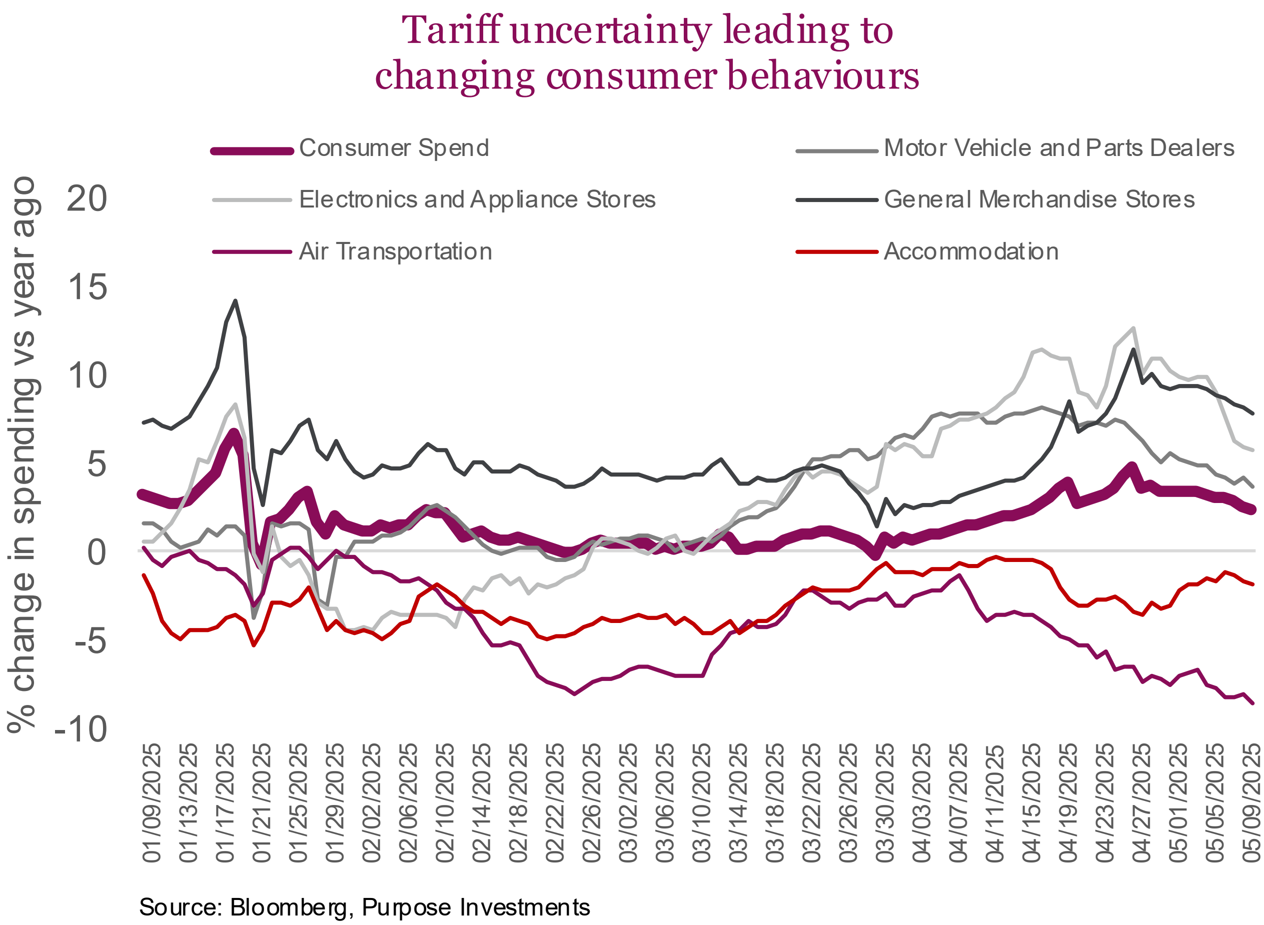
Hard data has held up well, but is it starting to soften?



Source: Bloomberg, Purpose Investments

There is a high probability that the economic and earnings data year-to-date has been helped by the tariff uncertainty. Shipping volumes spiked higher ahead of the tariff risk as importers endeavoured to bring in goods to the U.S., ahead of the constantly moving tariff deadline. This also likely boosted industrial production, and it may also be evident in consumer spending.

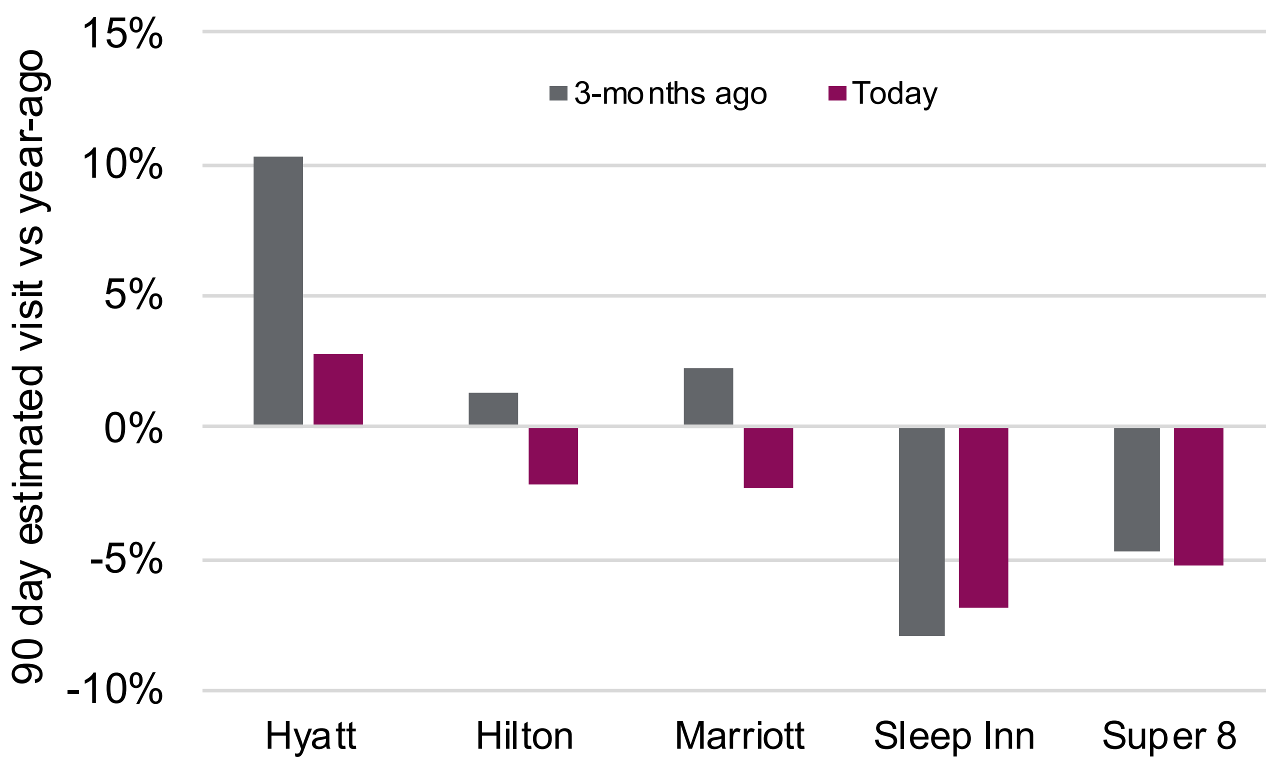
Based on daily credit and debit card transactions, the U.S. consumer appears in aggregate to be holding up nicely (thicker purple line), up about 2.4% year-over-year. But over the past month it has been really helped by goods spending in electronics, autos and general merchandise. The categories that could see tariff induced price increases. Meanwhile, spending on leisure has been very weak, including air transportation and accommodation.



Could the fear of tariffs have caused the consumer to try and pick up goods sooner rather than later? If so, that could spell a reversion down in the coming months that may be starting to take hold. This could be the case for containerships and industrial production.

Accommodation is an interesting one. The norm over the past year has been that the higher income consumer was healthy and spending and the lower end was having troubles, given inflation. Breaking down several national hotel chains, it would appear the pain is now moving up the income spectrum. The chart below shows the change in estimated visits to various chains on a year-over-year basis, looking at the pace three months ago and today. The lower cost hotels have been suffering for a while. But even the higher-end hotels (Hyatt, Hilton, Marriott) are now seeing an erosion in visits.

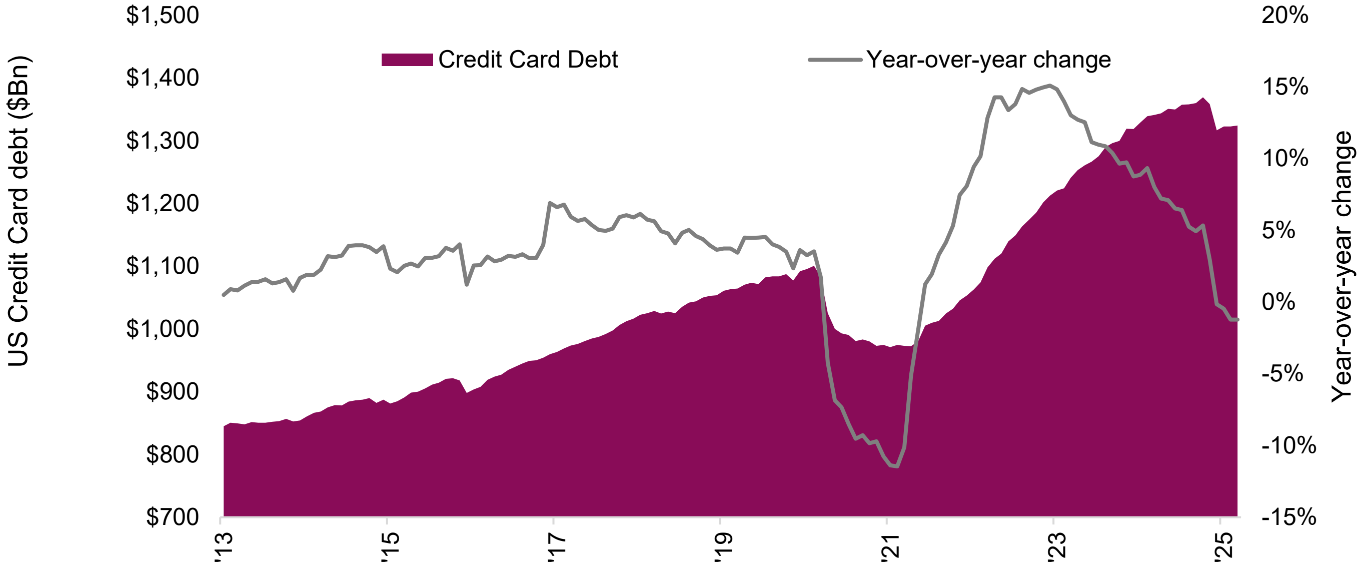
It is not just low income consumer curtailing behaviour



Source: Bloomberg, Purpose Investments

As further evidence the U.S. consumer may be running low, we turn to credit card data. Now this has been an interesting trend because COVID caused many to migrate to a more cashless world. As a result, the aggregate credit card debt rose substantially. But this was more a behaviour change in the choice of payment options. The challenge of late is that spending on cards is starting to contract. Just a bit so far, however this could be a sign the consumer is more tapped out.

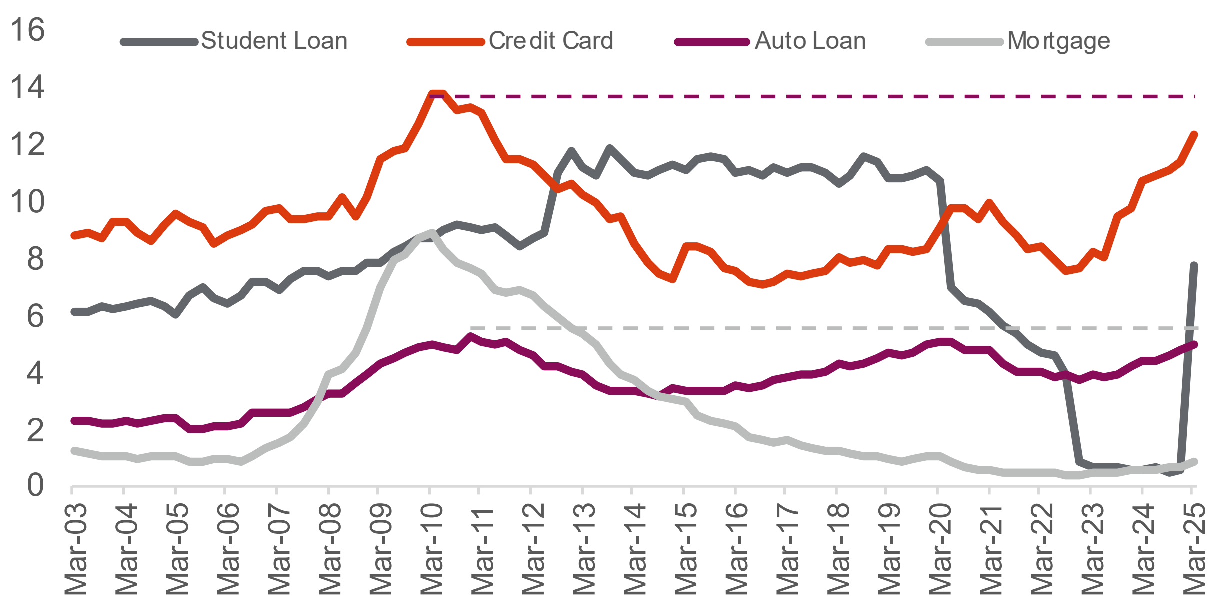
Is this the behaviour of a healthy US consumer?



Source: Fed, Purpose Investments

More disturbing is delinquencies. This is the percentage of balances that are 90+ days delinquent by category. We will ignore student loans as those have been odd given changing legislation in the U.S. Mortgage delinquencies are very low, however, credit card delinquencies are getting close to the peak levels following the great financial crisis. And this has happened with a supportive labour market and no recession. Auto loans are also seeing rising delinquencies. Inflation and high rates are clearly taking a toll on the consumer, and it is starting to show up more and more.

Percent of balance 90+ days delinquent by loan type



Source: Fed, Purpose Investments

Final thoughts

The U.S. consumer has a long history of finding ways to keep spending. We believe the saying goes if they earn $1, they spend $1.20. Still, they do appear to be waning or at least losing momentum at a time when wage growth is good and the labour markets are decent. Neither policy uncertainty nor DOGE efforts have helped. This does appear to be further evidence supporting a potential economic growth scare in the coming months or quarters. Or at the very least a very selective approach in the consumer discretionary space.

Source: Charts are sourced to Bloomberg L.P., Purpose Investments Inc., and Richardson Wealth unless otherwise noted.

The contents of this publication were researched, written and produced by Purpose Investments Inc. and are used by Richardson Wealth Limited for information purposes only.

*This report is authored by Craig Basinger, Chief Market Strategist at Purpose Investments Inc. Effective September 1, 2021, Craig Basinger has transitioned to Purpose Investments Inc.