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**Global Markets Division**

## **U.S. Consumers**

**Unveiling the fragility of U.S. consumers' unsustainable spending and capitalizing on opportunities across various affected sectors.**

**Investment Horizon: 12 Months**

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Maximilian Bittl, Emilia Kalss, Niklas Paul Müller

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# Team Overview



Global Markets Division



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- Task Distribution
- Macroeconomic Analysis
- Trade Strategy



BSc (WU) in Economics



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What are we going to talk about

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# Macroeconomic Overview

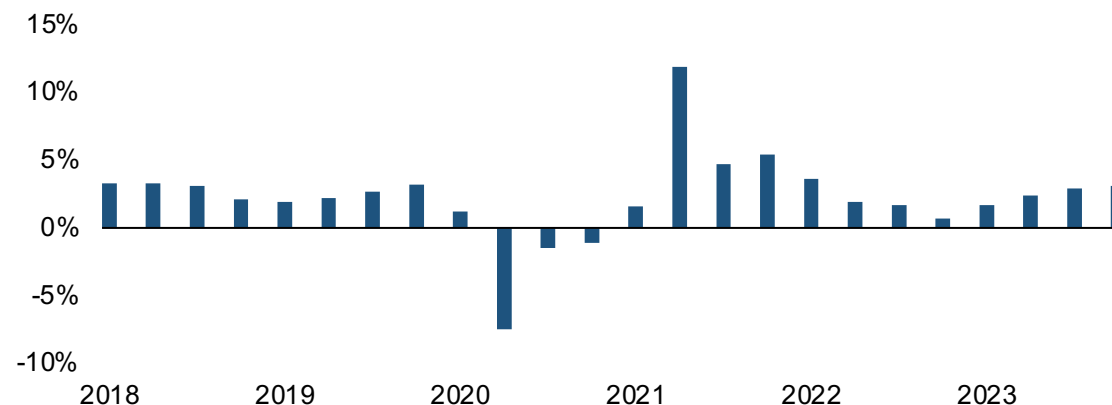
# Economic snapshot

The U.S. economy is resilient, the data shows a positive trend

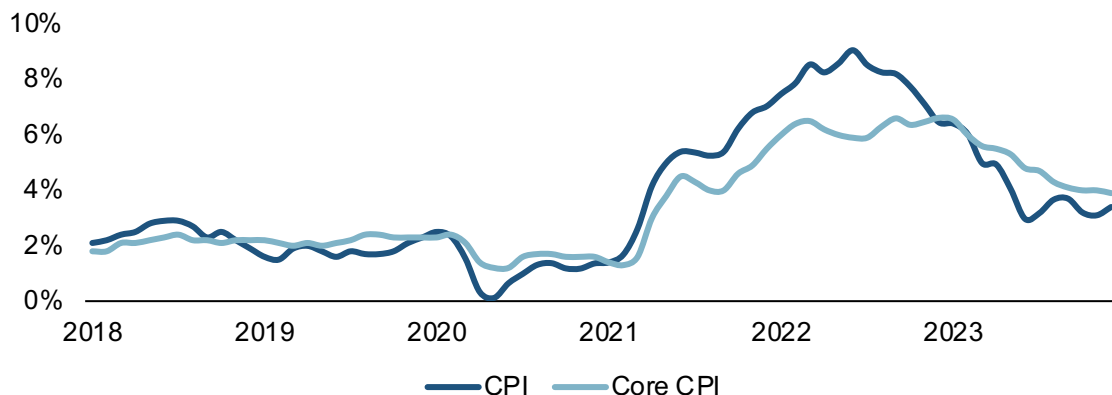
## Overview

-  Contrary to forecasts, **economic growth** has not slowed in 2023, mainly due to higher-than-expected consumer spending
-  **Inflation** has fallen sharply from its high in 2022, but still remains above the target inflation of 2%
-  **Unemployment rate** is at a low level, job openings are higher than the pre-pandemic level, but have been falling steadily since 2022

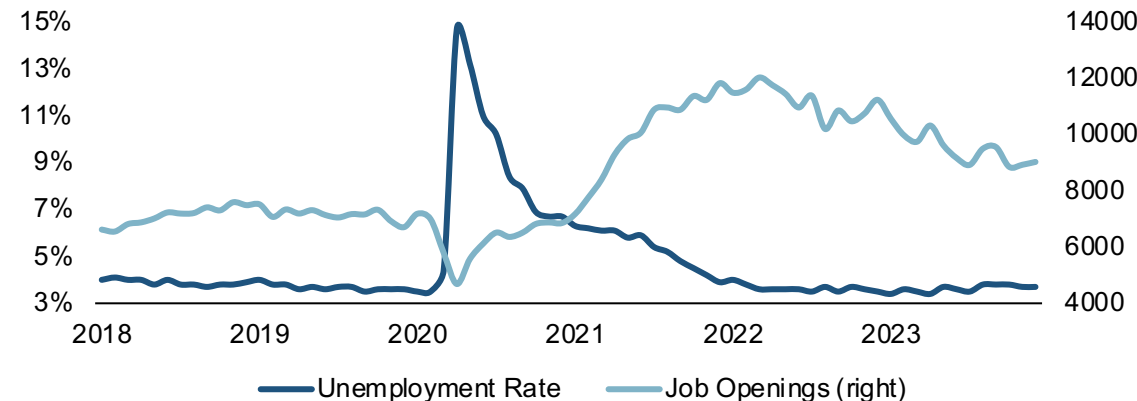
## Gross Domestic Product (YoY)



## Consumer Price Index (YoY)



## Labor market



# Consensus sentiment

Overall U.S. 2024 outlook is positive

## GDP



Real GDP is expected to grow slowly but steadily at 1.5% YoY

## Unemployment



Unemployment rate is said to rise 0.5% reaching 4.1%

## Inflation



CPI is presumed to approach the target with a 2.7% YoY rate

## Interest rates



The FED is expected to lower interest rates by around 1% this year

## Consumer spending



Consumption is still developing positively at 1.5% YoY

## Recession



U.S. is thought to avoid a recession with an expected probability of 55%

# Recovery of the U.S. economy

U.S. recovery after COVID-19 was stronger than the other G7 countries

## U.S. advantages in crisis

1

**U.S. GDP** was closer to the pre-Covid trend than other advanced economies

2

**Consumer spending** recovered faster than GDP

3

The **U.S. fiscal stimulus** was significantly larger than in other countries

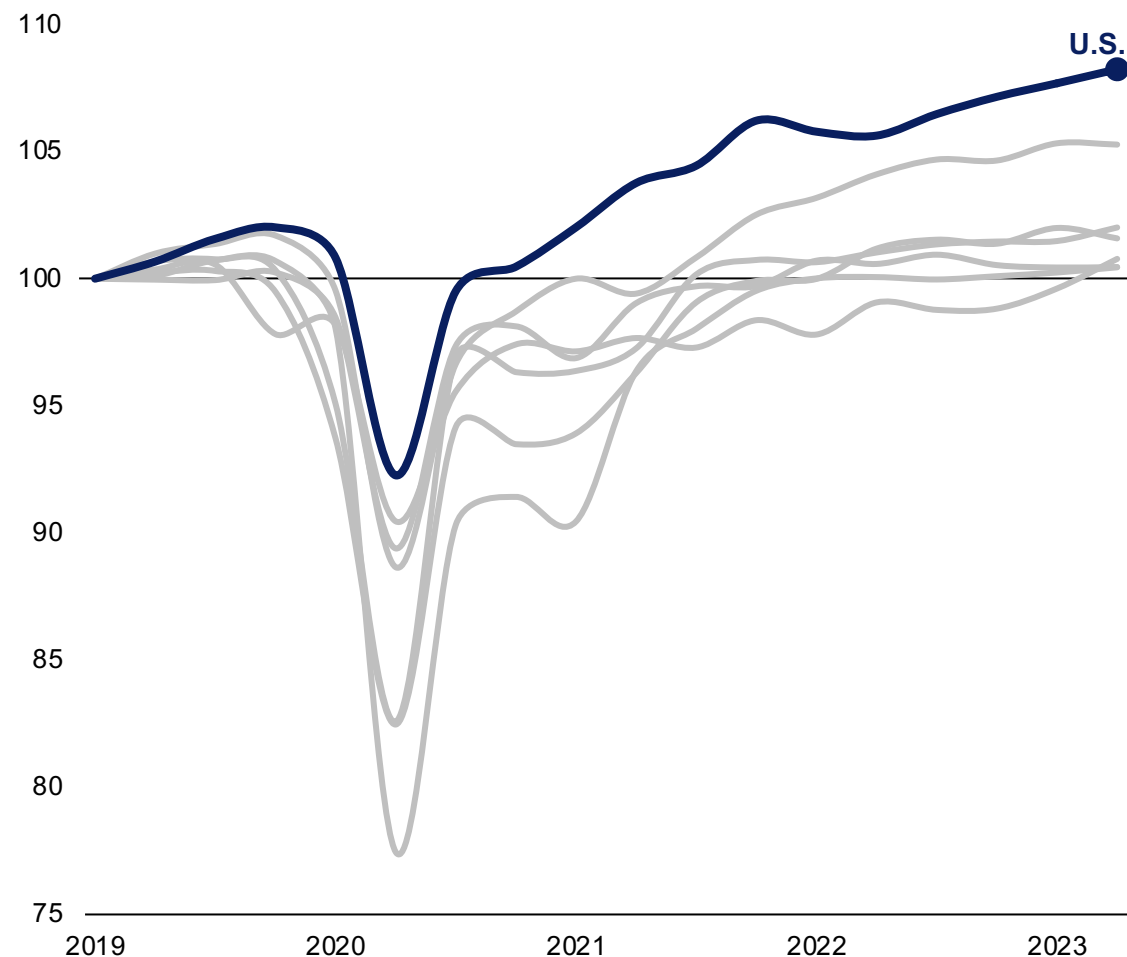
4

U.S. had **domestic energy production**

5

**Gross fixed capital formation contraction** in U.S. was less than in European countries and Japan

## Real GDP across G7 (Q1 2019 = 100)

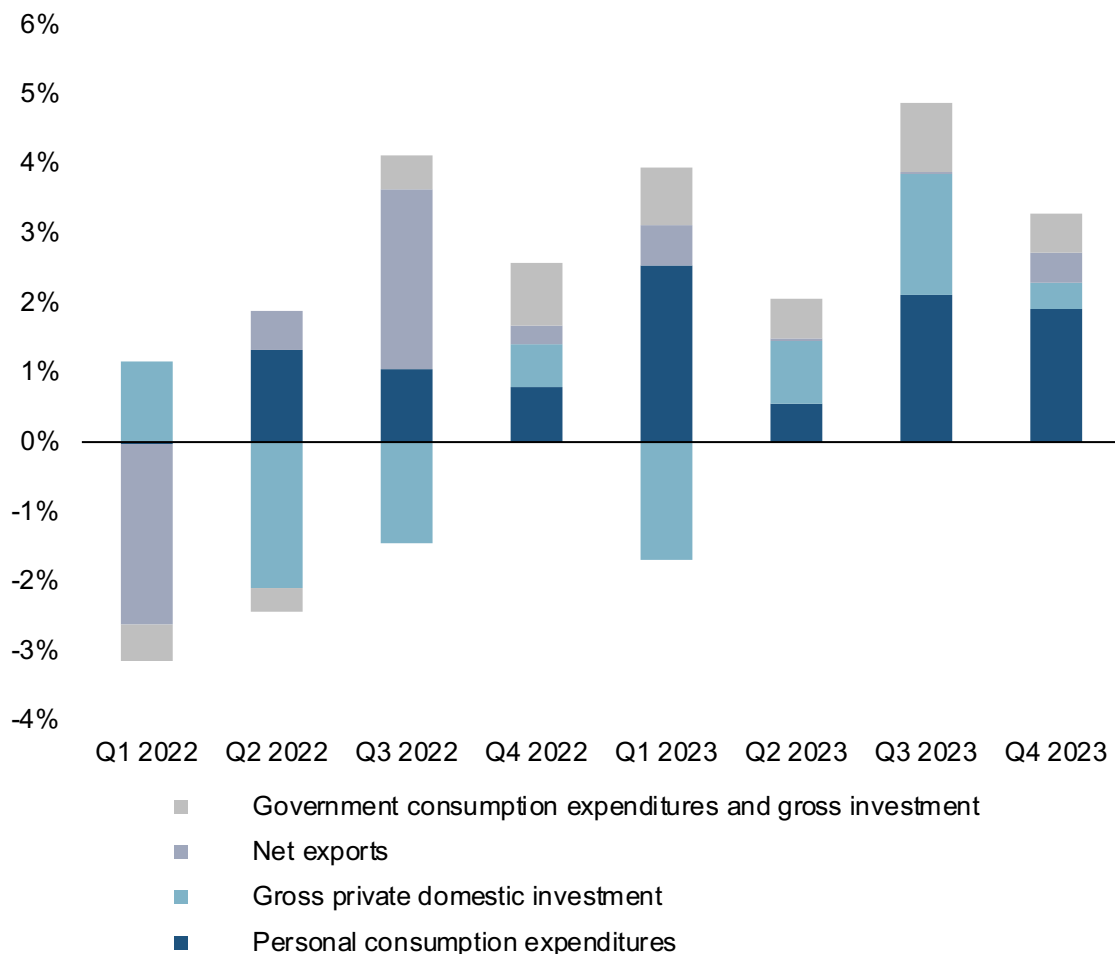




# Consumers as a key factor of recovery

The U.S. consumer determines the trajectory of the U.S. economy

Contribution to U.S. GDP growth, 2022 - 2023



Contribution of U.S. consumers in Q4 2023

58% Personal consumption expenditures

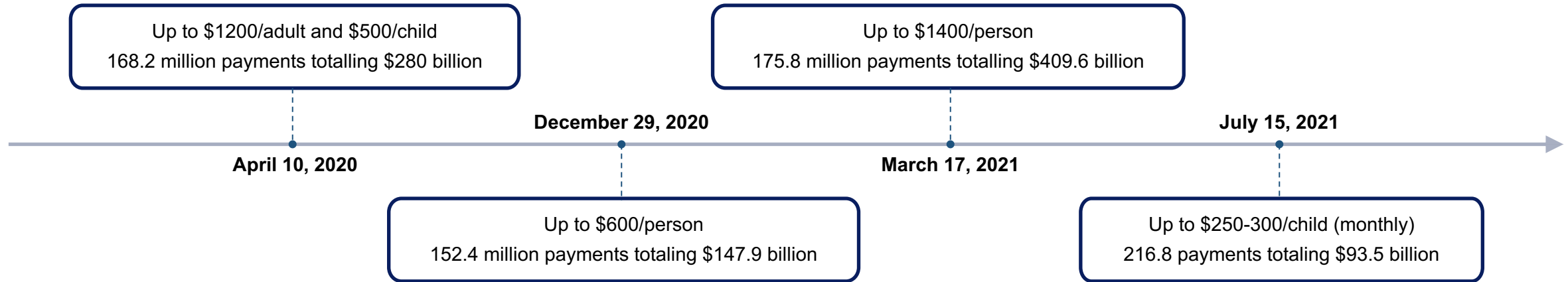
- Excessive personal consumption** as a determining element of the U.S. recovery from **Covid**
- Consumer spending** makes up a **crucial amount** of U.S. GDP, especially in Q4 2023
- Personal **savings** rate **decreased by over 90%** comparing 2020 and 2022
- Due to generous **government stimulus**, consumers could spend what they held back during the pandemic




# Consumer as a key factor for recovery


Government stimulus during Covid-19 gives opportunity to spend more

## Timeline of government support to U.S. consumers

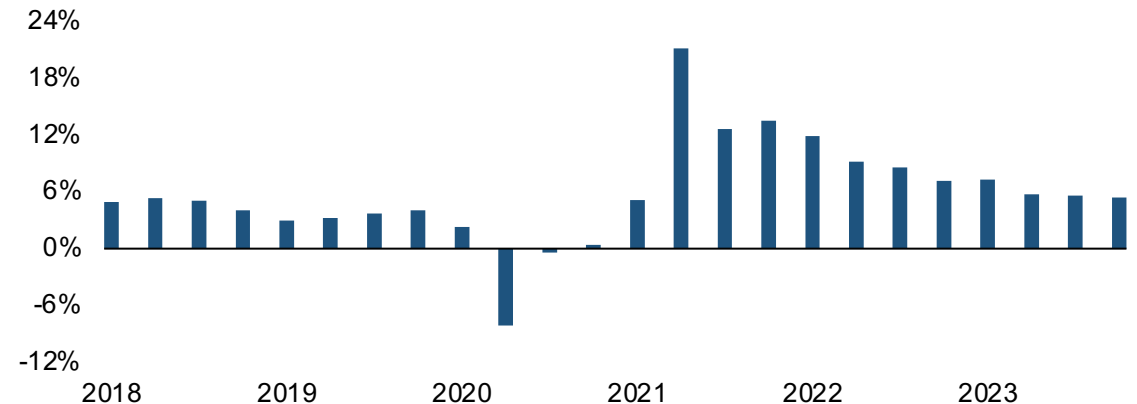


## Cumulative effect on the U.S. economy

 Federal government made **direct payments** to individuals totaling \$931 billion to address pandemic-related financial stress

 This is **8.59 times higher** than similar payments during the Great Financial Crisis in 2008-2009

## Private consumption expenditures (YoY)



# Development of consumer debt levels

U.S. consumer debt continues to increase, reaching a new all time high

## Spending behavior

1

**Total household debt** hit a record of \$17.29 trillion in Q3 2023, led by mortgage, credit card & student loans

2

**Credit card debt** balances spiked to a \$1.08 trillion record

3

**Average debt per capita** also hit a record of \$60,690.00

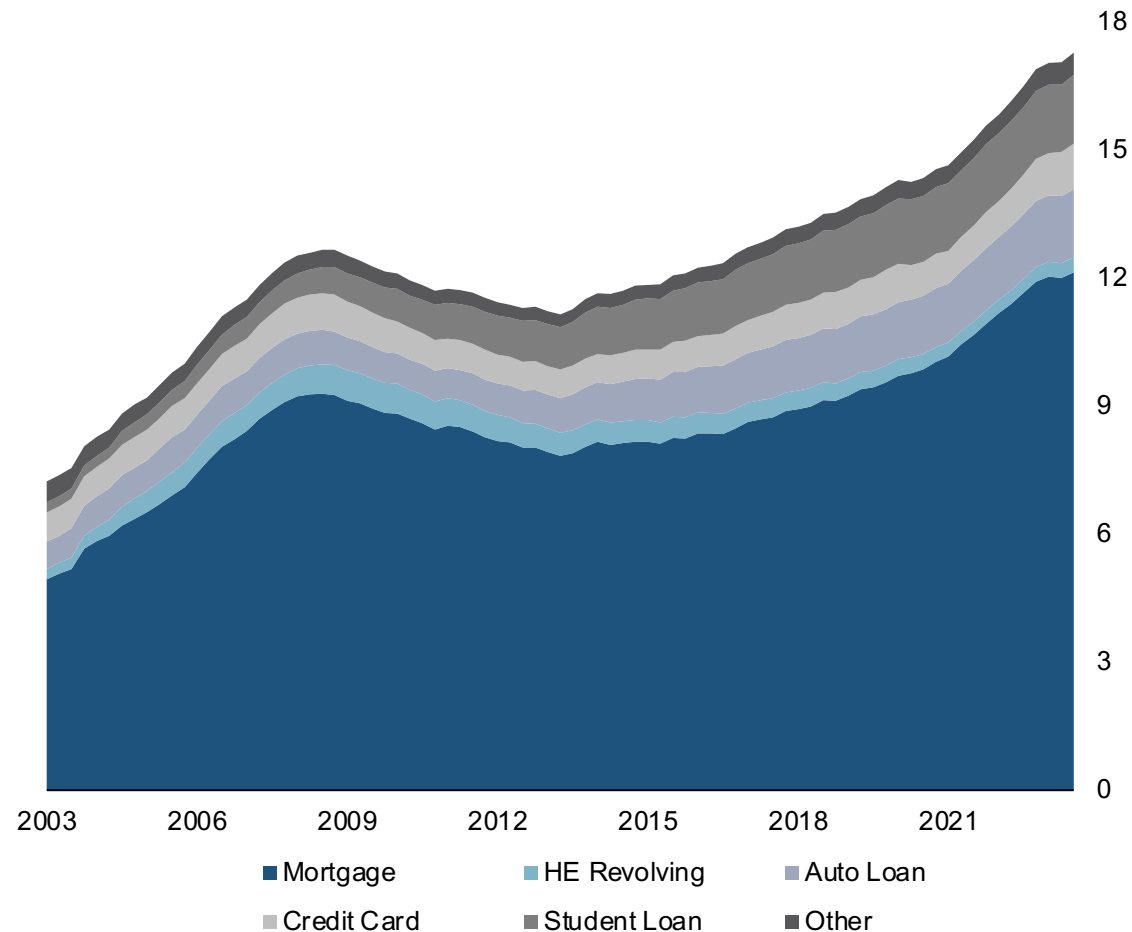
4

Especially in recent years the debt growth rate **accelerated**

5

Consumers are still tending to finance minor expenses with **money they don't have**

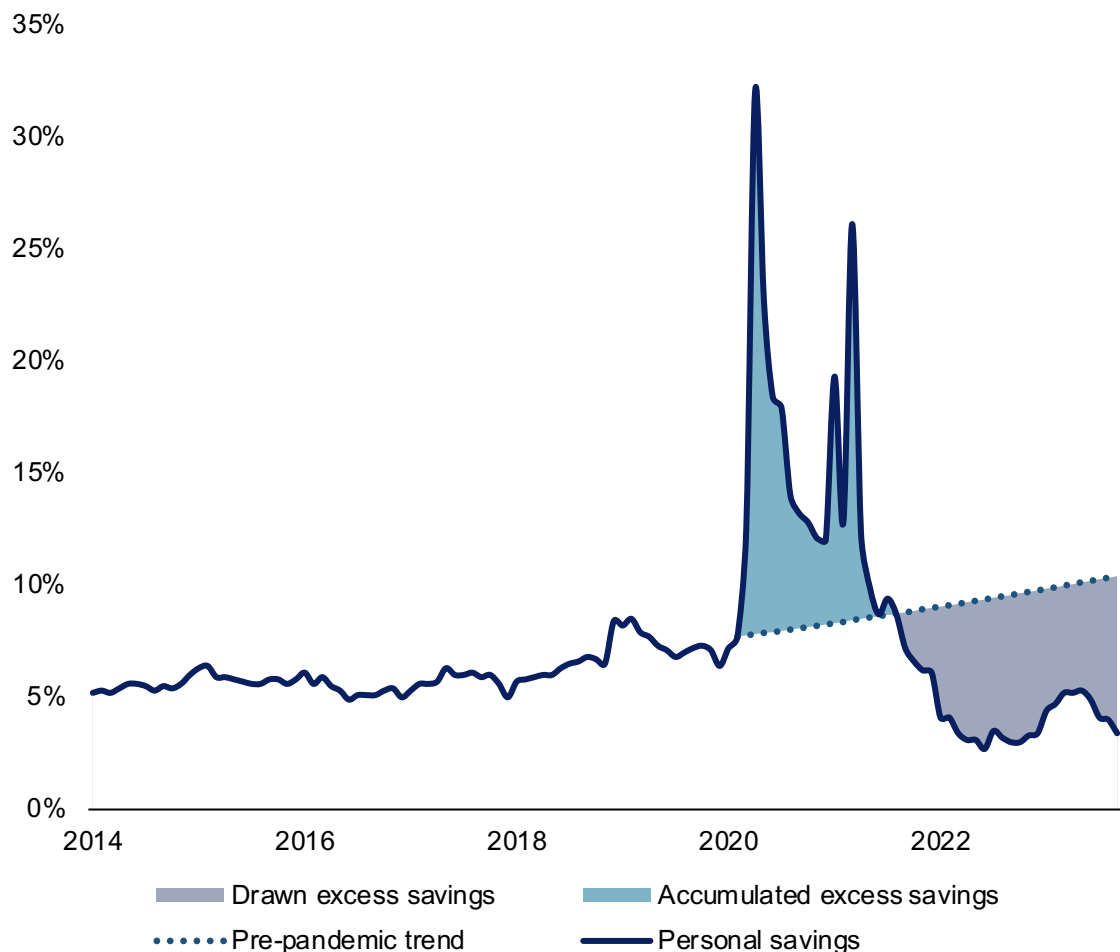
## Debt size of different loan types (in tn \$)




# Savings dynamics for U.S. consumers


Consumers spent all the excess savings they accumulated during Covid

## Personal savings rate vs. pre-pandemic trend



## Consumers are running out of money

 During Covid people were able to accumulate significant **excess savings** due to lower spending and extraordinary fiscal stimulus

 However, during the last few years consumers spent **all accumulated money** so that now savings are well below the pre-Covid level

This year online **Black Friday** sale hit **record** \$9.8 billion, up 7.5% YoY

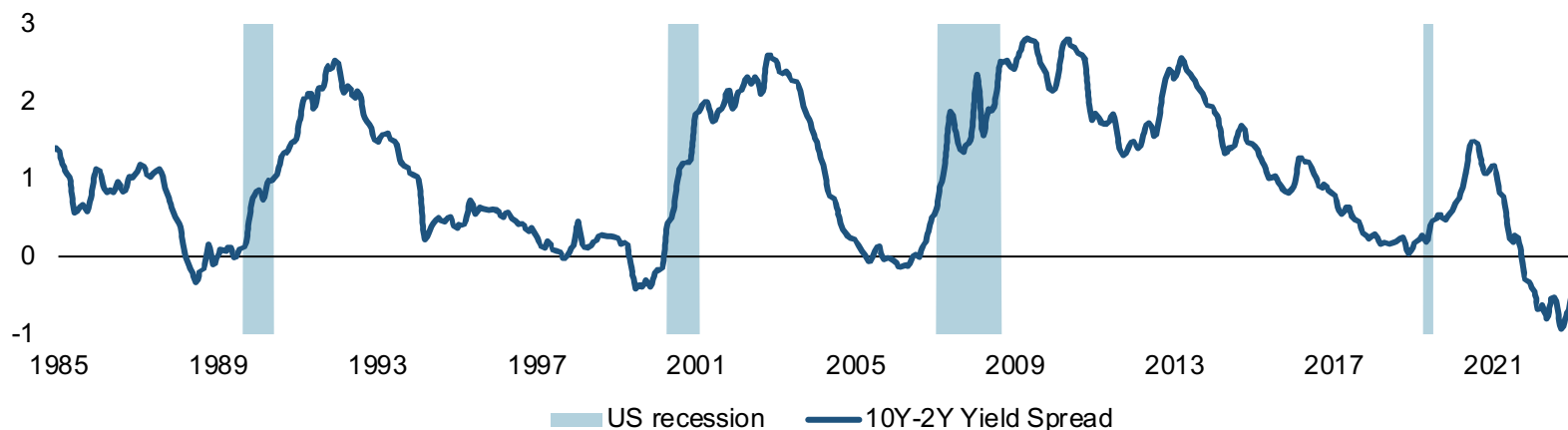
Retail sales fell by 0.1% in October, ending **six straight months of gains**

U.S. consumers finally will have to **cut back** on spendings

# Problems for consumers ahead

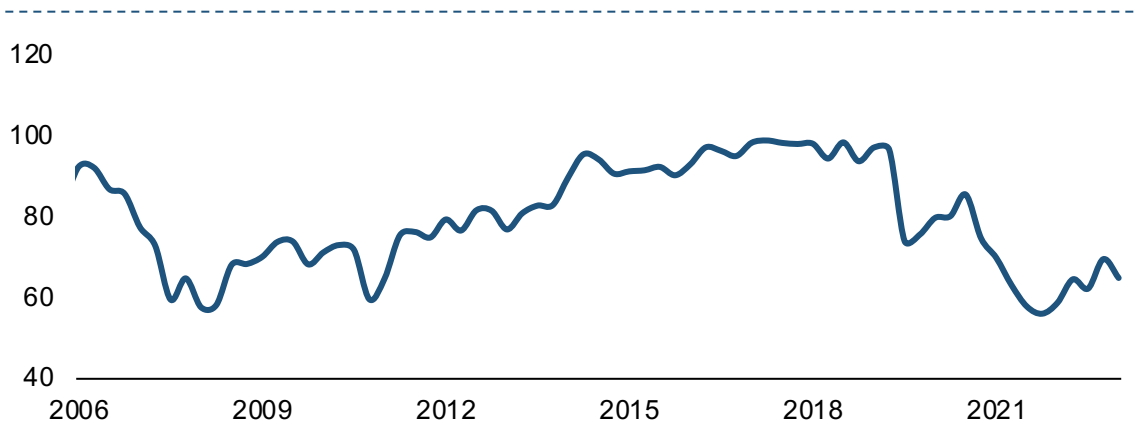
Despite a strong U.S. economy, there are signs of a possible recession

## 10y-2y yield spread as a predictor of upcoming recession



Last 4 times 10Y-2Y **yield spread** reached its minimum **12-18 months** later U.S. economy entered **recession**

## Consumer Sentiment Index



## Labor market starts to weaken



The U.S. economy added **216,000 jobs in December 2023**, surpassing the 199,000 added in November



That is still **below the average** monthly gain of 240,000 observed over the past year

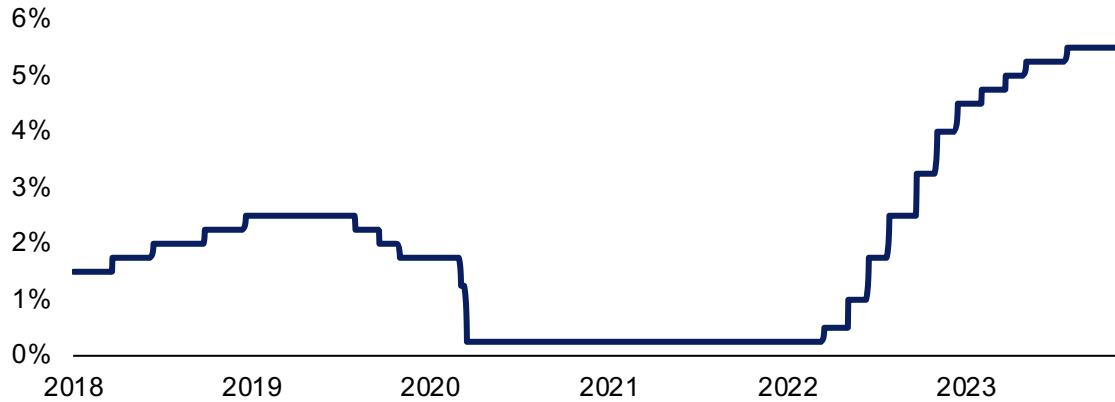


Consumer Sentiment Index is at **one of the lowest** levels in 21<sup>st</sup> century

# High interest rate environment

High interest rates make debt problems more noticeable

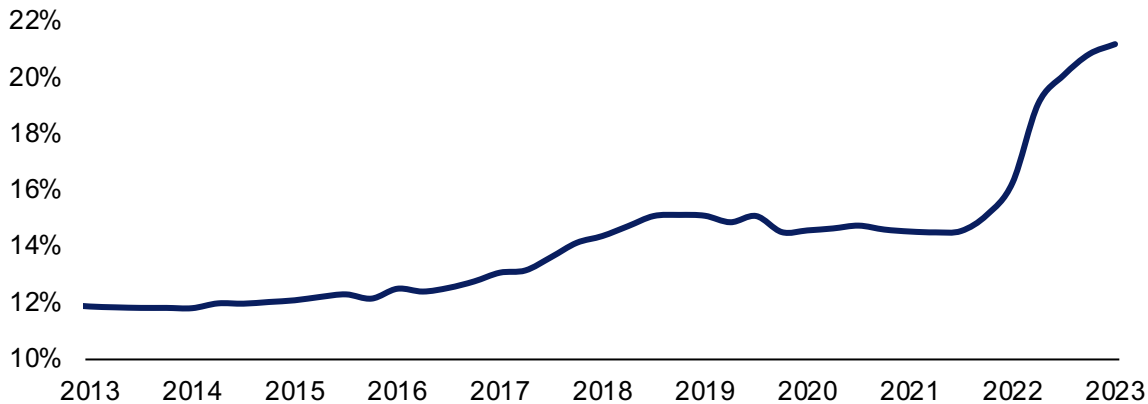
## Fed funds rates



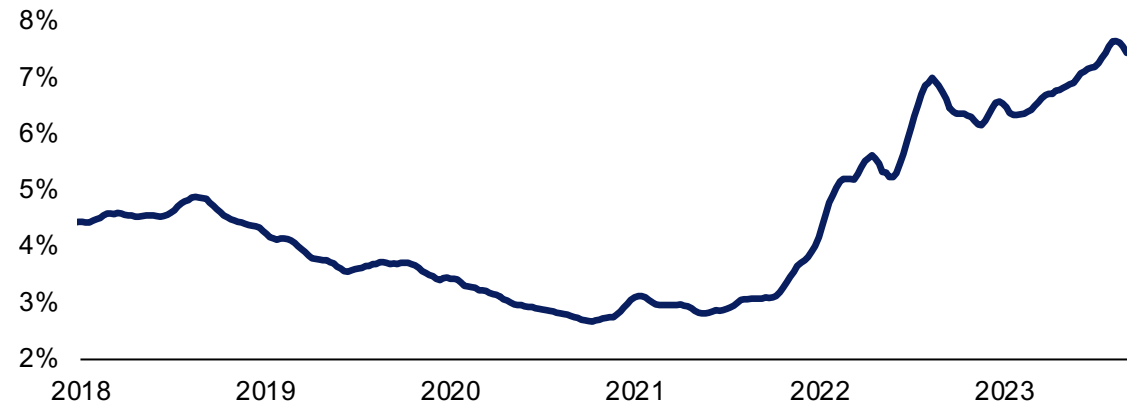
We saw the **most rapid** interest rate hiking cycle since 1981 in 2022-2023

This led to a **surge in rates** across different types of loans

## Commercial bank interest rate on credit card plans



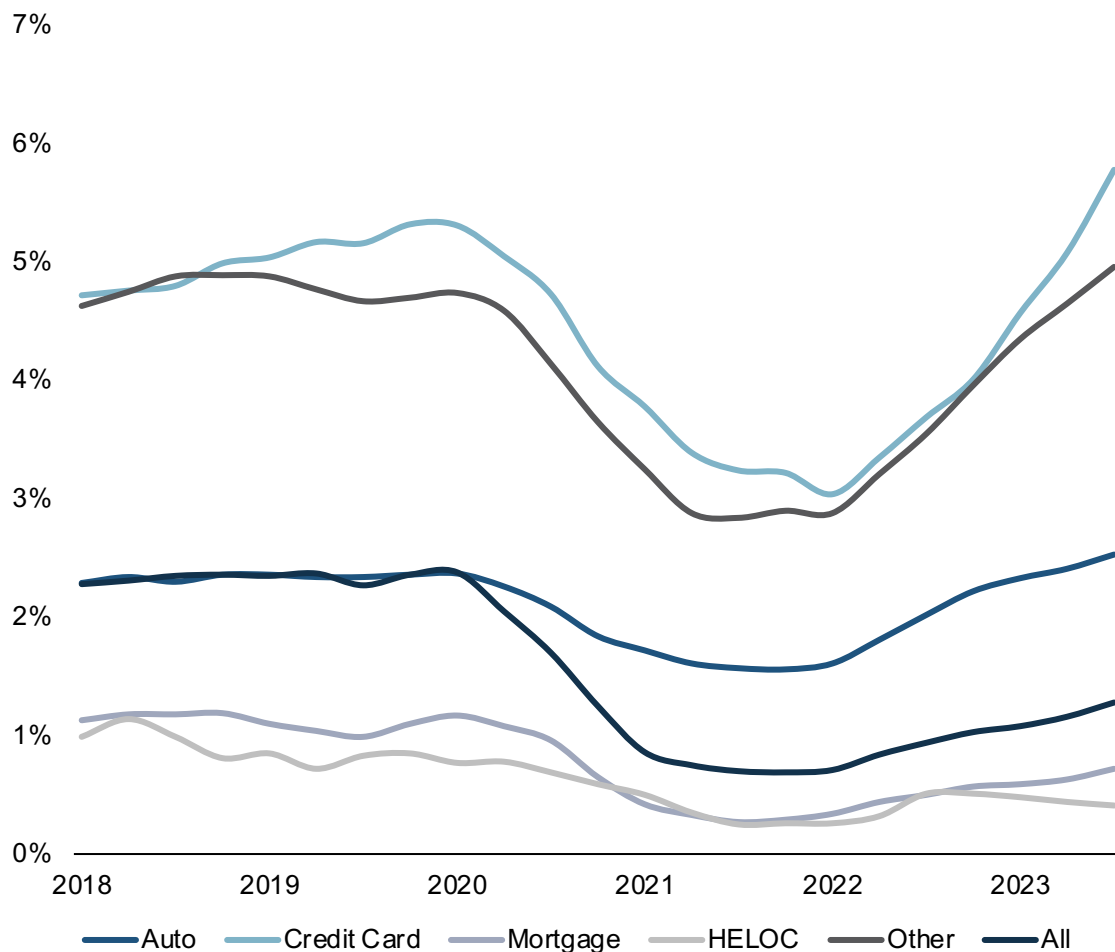
## 30-year fixed rate mortgage average




# Delinquency Rates


The interest rate hikes are leading to rising delinquency rates


## New seriously delinquent Balances by loan type (excl. student Loans)



## Delinquency in detail

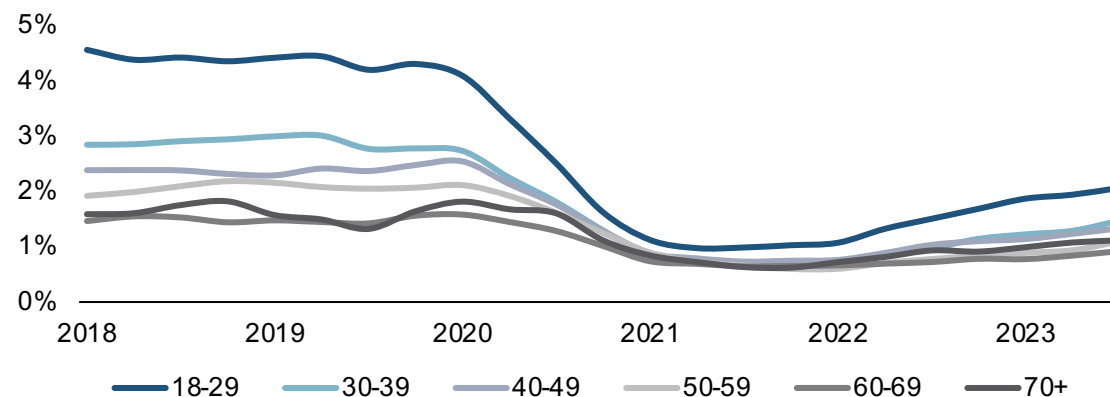
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Share of **newly delinquent credit card users** rose again in Q3 and has now surpassed pre-pandemic levels
- 

Delinquency is over proportionally **driven by** people with relatively higher credit card balances
- 

Serious delinquency is strongest among **young people** & the rate is way steeper now than it has been before

## Transition into serious delinquency by age



# Summary

The U.S. consumer might soon be struggling to maintain such high levels of consumption





# Affected Sectors



# Consumer Discretionary

Looking for sectors most affected by a weak U.S. consumer

## Subsectors



Automobiles & components



Consumer services



Consumer durables & apparel



Retail

## Screening criteria

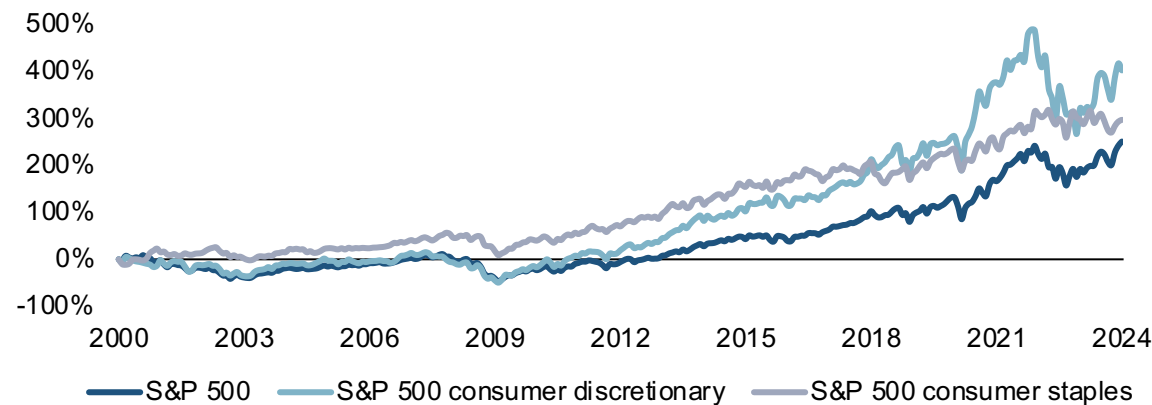
**1** Sectors highly affected by **consumer spending**

**2** Operations mainly in the **U.S.**

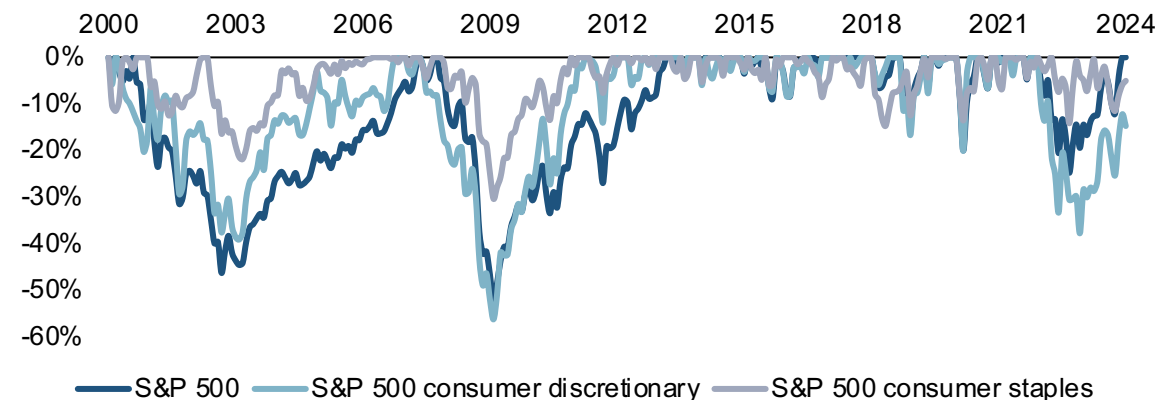
**3** Market capitalization higher than **1.000 M**

**4** **Flaws** in the business model or in the financials

## Relative sector performance



## Sector drawdowns



# Overview of subsectors

## Analysis of the U.S. retail and the U.S. digital banking sector

### U.S. retail



**\$7.7 trillion**  
Market size



**3.9% p.a.**  
Growth in past 5 years



**52 million**  
Jobs supported by Retail



**\$3.9 trillion**  
Total GDP Impact

### U.S. digital banking



**\$3.9 trillion**  
Deposits



**\$2.0 trillion**  
Loan value



**208 million**  
U.S. users in 2023

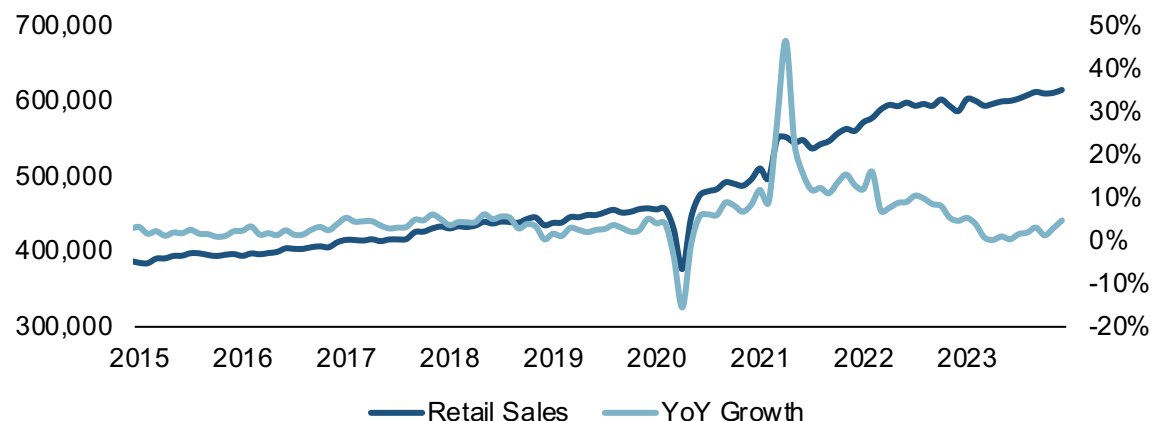


**\$457.29 billion**  
expected market size in 2024

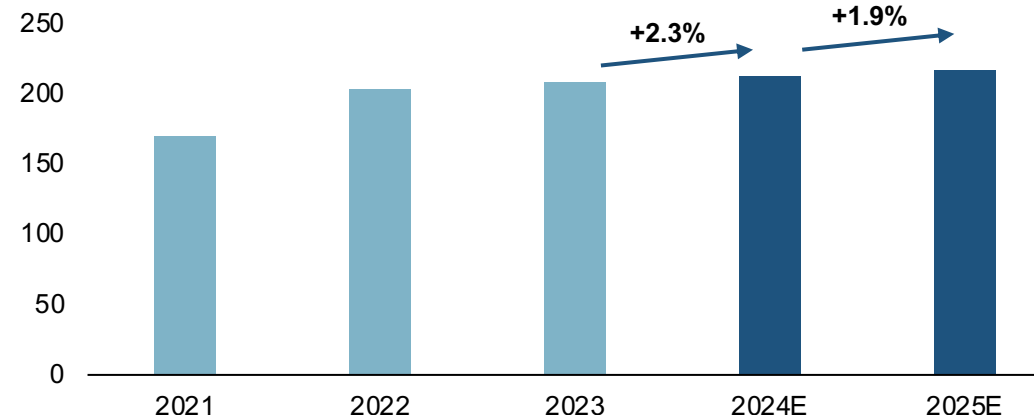
The U.S. retail industry is a **major driver of the US economy**, but it **grapples with challenges** like e-commerce growth, shifting consumer preferences, rising labour costs, and an anticipated dip in 2024 consumer spending.

The U.S. digital banking industry is a **rapidly growing industry**. Therefore, it is **highly competitive**, with many players rivaling for market shares. Furthermore, it is **adversely affected by rising delinquency rates**.

### U.S. retail sales (in mn \$) and YoY growth



### Number of digital banking users in the U.S. (in mn)



# Company insights



# Macy's Inc. Overview

An omnichannel retail company in the specialty retail sector.

## Company description

Macy's Inc is an **omnichannel retail company**. It operates department stores, websites, and mobile apps, offering **apparel, home furnishings, cosmetics, and accessories** under private label brands.



**Founded in**  
1830



**Employees**  
94,570

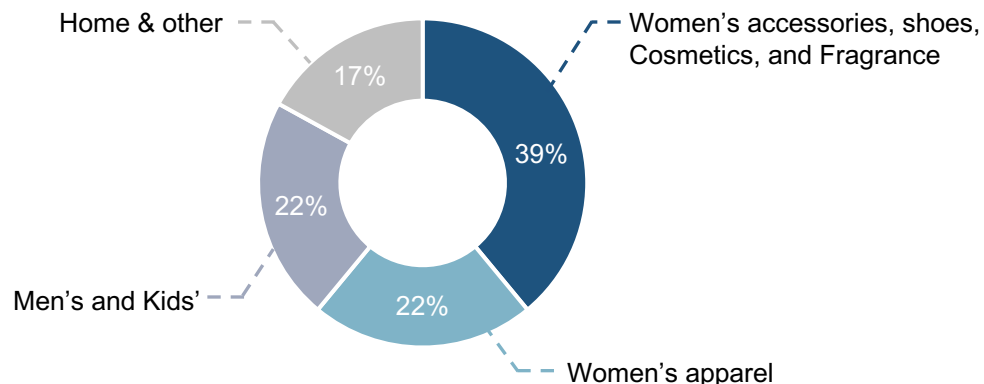


**Headquarters**  
New York



**Geography**  
U.S. only

## 2022 revenue breakdown by source



## Stock performance (LTM)



## Shareholder structure

Private companies **0.0032%**  
 State or government **0.0434%**  
 Individual insiders **0.626%**

General public **17.7%**

Institutions **81.6%**

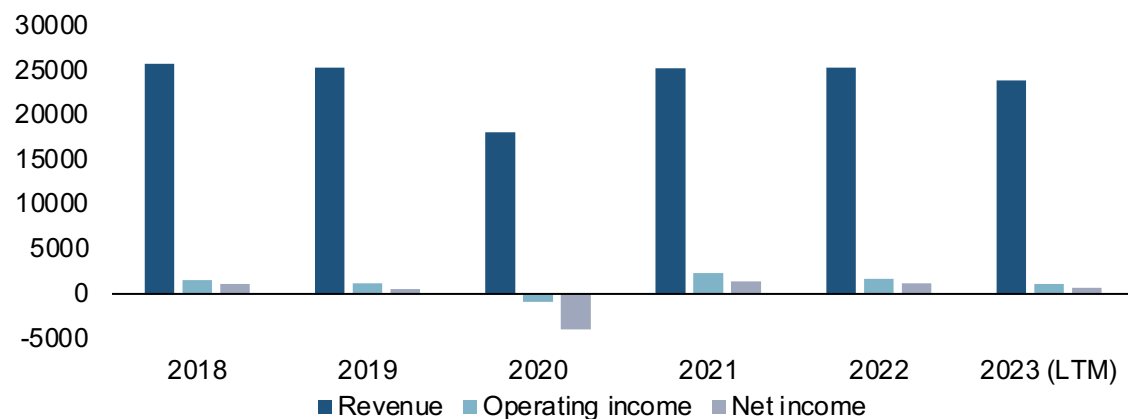
**Top holders by position size:**

- The Vanguard Group, Inc. **13.3%**
- Blackrock, Inc. **9.17%**
- State Street Global Advisors, Inc. **4.14%**
- Arrowstreet Capital LP **4.13%**

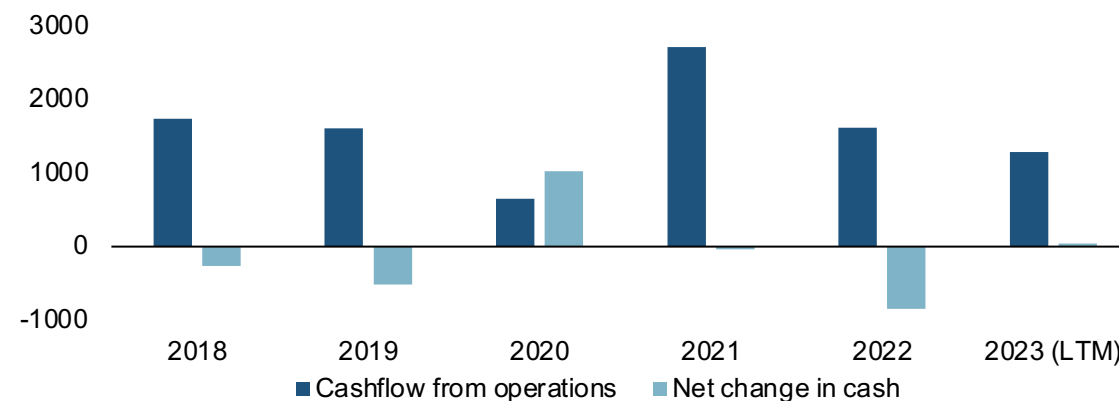


## Overview of financial statements

### Income statement overview (in mn \$)



### Cashflow statement overview (in mn \$)



### Key facts

1

Revenues decreased by 5.43% compared to 2022

2

Operating income declined by more than 30%

3

Net income declined by 41.88% compared to last year

4

Cashflow from operations is declining through the last 3 years but still positive

5

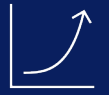


Net change in cash is slightly positive for the first time in last 5 years, except 2021

## Overview of financial statements




### Selected ratios

Ratio	2019	2020	2021	2022	2023 (LTM)
Quick ratio	0.2x	0.4x	0.4x	0.2x	0.1x
Lt Debt / Equity	102.5%	297.4%	176.6%	146.0%	145.5%
Total Debt / Equity	116.2%	322.9%	185.7%	154.2%	149.4%
Inventory turnover	2.9x	2.7x	3.7x	3.5x	2.3x
Avg. days inventory outstanding	125.4	132.8	99.3	102.9	155.8




### Company has problems with sales

-  In 2023 there was significant growth in company's inventories. **They increased by 41.2% in comparison with 2022**
-  Inventory turnover ratio is low showcasing the **company has problems converting their inventories to sales**
-  Average days inventories outstanding reached **155.8 days which is the maximum in last 5 years**

### Company has liquidity and solvency issues

-  In the last 3 years **cash** strongly declined, especially during 2023, compared to 2022 it **decreased by 57.8%**
-  Macy's has a very low Quick Ratio. **In 2023 it was 0.1x – the lowest in last 5 years**
-  Long-term debt/equity and total debt/equity ratio are higher than 100% which shows that the **company has a lot of debt**

### News on Macy's Inc.

-  Company plans to **close 5 stores**
-  Company plans to **layoff 2,350 workers**
-  Company might be a target for **takeover**



# SoFi Technologies overview

SoFi Technologies is a Financial Service provider mostly operating in the U.S.

## Company description

SoFi Technologies offers financial services across lending, technology platforms, and financial services, including **personal, student, and home loans**, as well as **tech solutions and various financial services** for individuals and institutions.



**Founded in**  
2011



**Employees**  
4.000+



**Headquarters**  
San Francisco

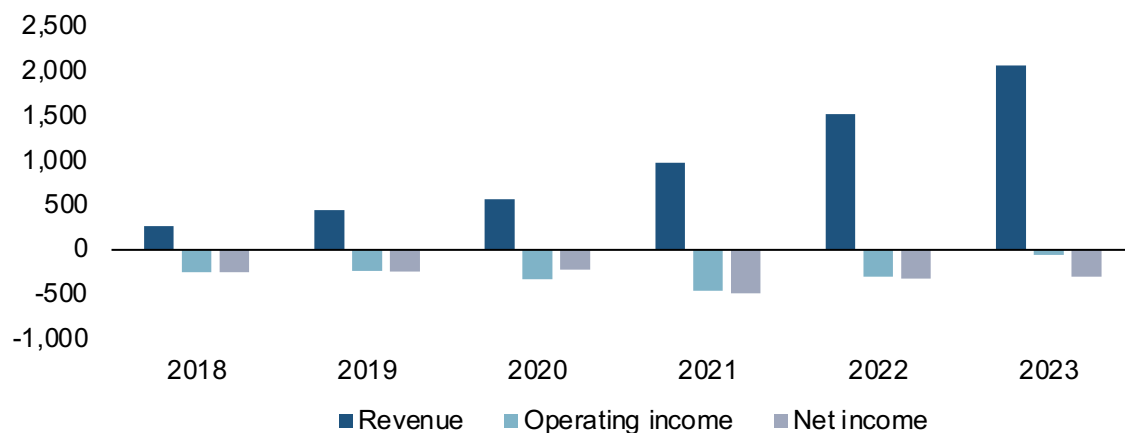


**Geography**  
95% US

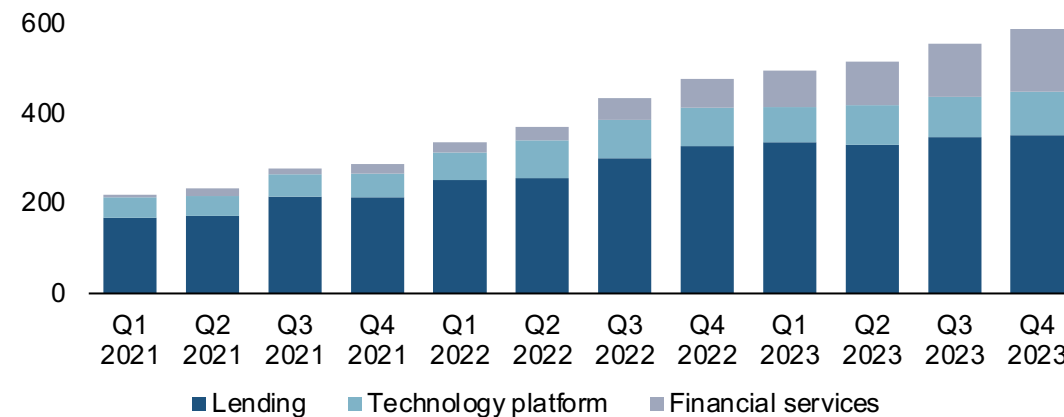
## Stock performance LTM



## Financials (in mn \$)






## Revenue is reliant on lending (in mn \$)



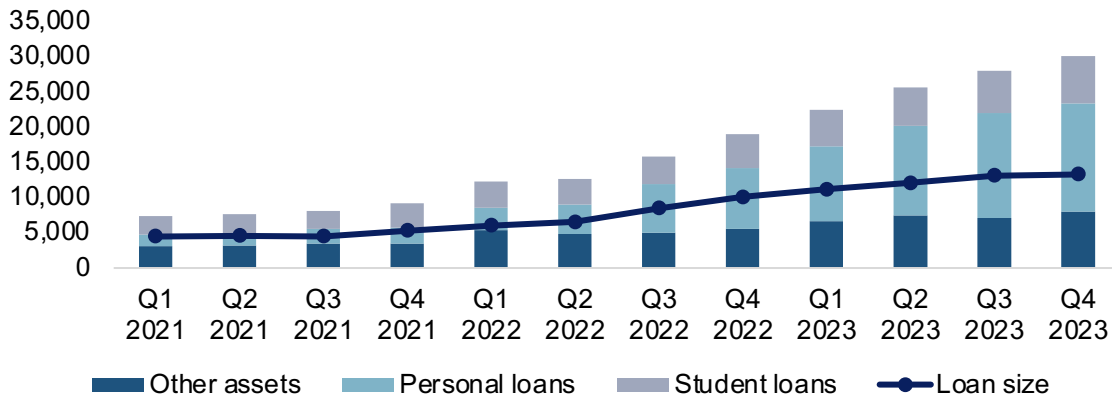
# Assets and delinquencies

Strong reliance on personal loans and skyrocketing delinquency rates

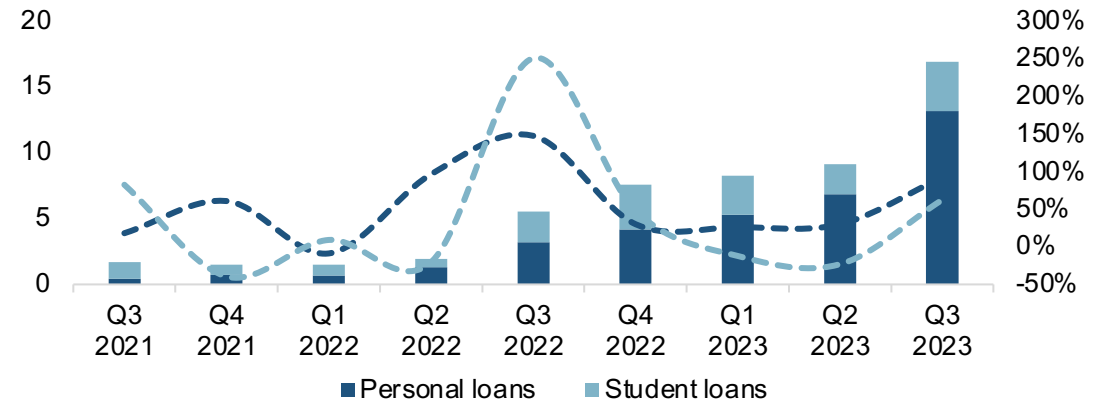
## Growth of personal loans

-  Growing importance of **personal loans**
-  Personal loans make up **51% of total assets & 60% of Revenue**
-  **Loan size** increased significantly as it **nearly tripled**

## Growth of assets (in mn \$)



## Delinquent loans by type (in mn \$)

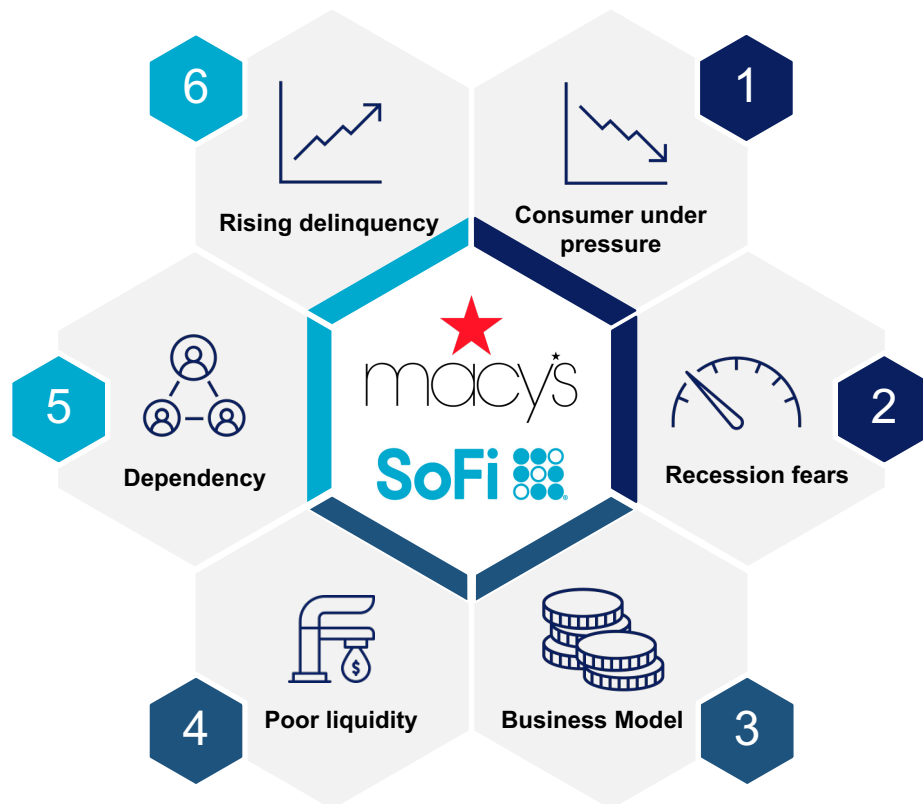


## Growth of delinquencies

- Total growth of delinquent loans**
  - Personal loans factor of **33x**
  - Student loans factor of **4.4x**
- Average delinquency growth QoQ**
  - Personal loans by **54.68%**
  - Student loans by **39.69%**
- Delinquencies outgrew assets**
  - Personal loans factor of **4.5x**
  - Student loans factor of **3.7x**

# Summary

A struggling consumer might cause problems for \$M and \$SOFI



- 1 Consumers are **spending their savings** and have **record levels of debt**, all while **interest rates** are very high
- 2 An **inverse yield curve**, a weakening **labor market** and a **high interest rate** environment are causing fears of recession
- 3 Macy's **outlook is dire** and lead them to **lay-off workers** and **close stores**
- 4 Macy's is facing **liquidity** and **solvency issues**
- 5 SoFi is heavily **dependent on the consumer** as the majority of its assets and revenues are directly linked to them
- 6 SoFi is already confronted with an **enormous growth rates of delinquencies**

### The strategy

#### Bear Call Spread

A **bearish strategy** that involves both **purchasing and selling call options** with varying strike prices but the same maturity, leading to **limited potential losses and profits**.



#### Why options instead of directly short selling the shares?

- Lower and more controllable risk
- Lower capital requirement
- Easier implementation



#### Why selling options instead of buying them?

- Profit from high implied volatility of \$SoFi and \$M
- Benefitting from time decay
- Possibility to reinvest the premium

### Key risks

1

Better than expected performance of the general economy and/or the specific companies – we are betting against the **consensus of a soft landing**

2

**U.S. presidential elections** could bring stimuli that further strengthen the consumer. Equity markets deliver good returns on average in election years

3

Due to the **low trading volume of options on Macy's** we have a wide spread and an exit before the expiration date might be difficult

4

According to CEO Jeff Gennette, Macy's is open to takeover offers - an **acquisition of Macy's** by another company would strengthen the stock

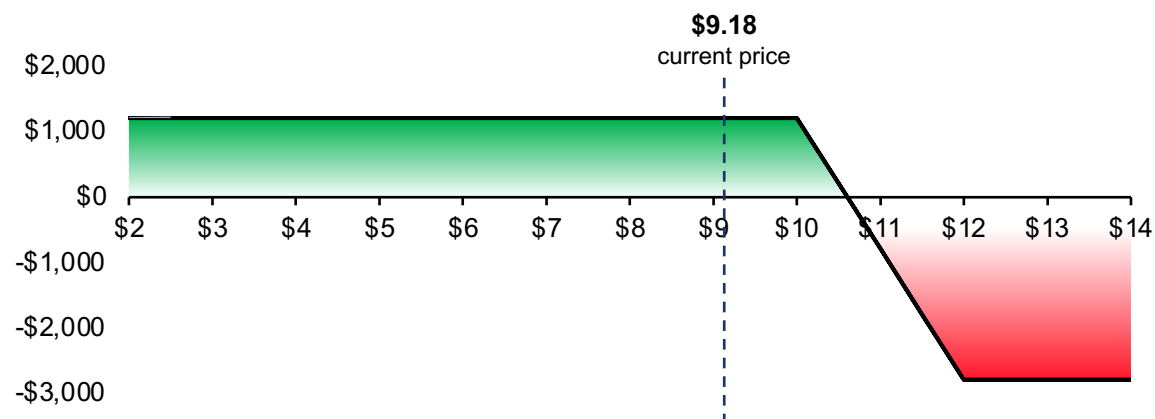
# Trade structure

Placing bear call spreads on \$Sofi and \$M maturing in January 2025

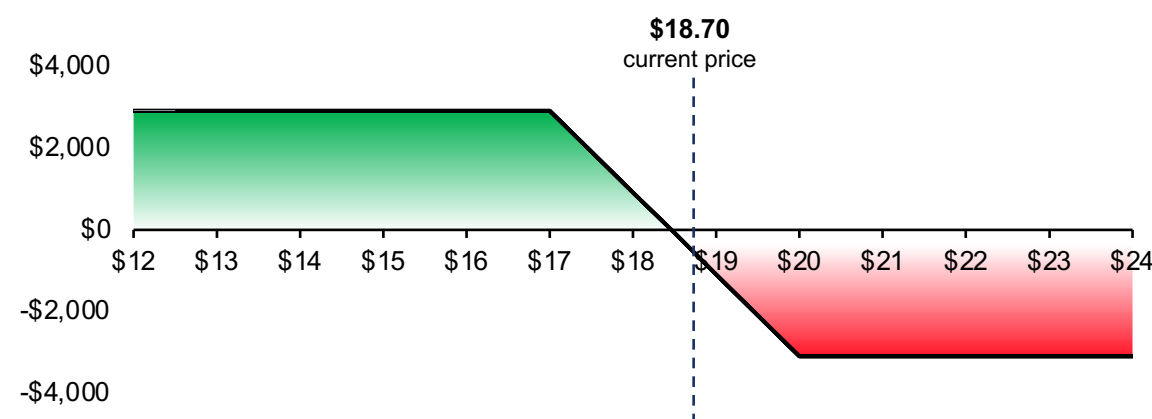
## Trade details

Buy/Sell	Size	Option	Bid/Ask	Strike	Expiration	Break Even Point	Net Credit/Debit	Max Loss	Max. Profit	Max Risk	Risk/Reward
Buy	20	SOFI 1/17/25 C12	\$1.48	\$12	17.01.2025	\$10.61	+\$1,210.00	-\$2,790.00	+\$4,120.00	-\$5,880.00	1.43 : 1
Sell	20	SOFI 1/17/25 C10	\$2.07	\$10							
Buy	20	M 1/17/25 C20	\$2.45	\$20	17.01.2025	\$18.46	+\$2,910.00	-\$3,090.00			
Sell	20	M 1/17/25 C17	\$3.90	\$17							

\$SoFi payoff chart



\$M payoff chart







# Appendix

Source Name	Link	Date of Retrieval	Used for
FRED	<a href="https://fred.stlouisfed.org/">https://fred.stlouisfed.org/</a>	13.12.2023	Economic Data
Federal Reserve Bank of New York	<a href="https://www.newyorkfed.org/microeconomics/hhdc">https://www.newyorkfed.org/microeconomics/hhdc</a>	26.11.2023	Household Debt, Delinquency Data
Barron's	<a href="https://www.barrons.com/market-data/stocks/sofi/company-people?mod=quotes#subnav">https://www.barrons.com/market-data/stocks/sofi/company-people?mod=quotes#subnav</a>	08.12.2023	Description SoFi
S&P Capital IQ	<a href="https://www.capitaliq.com">https://www.capitaliq.com</a>	15.11.2023	Financial Data
Yahoo Finance	<a href="https://finance.yahoo.com/quote/SOFI/history?p=SOFI">https://finance.yahoo.com/quote/SOFI/history?p=SOFI</a>	13.12.2023	Historical stock prices
SoFi Technologies	<a href="https://www.sofi.com">https://www.sofi.com</a>	05.12.2023	Company specific information
U.S. Bank	<a href="https://www.usbank.com/investing/financial-perspectives/market-news/consumer-spending.html#:~:text=Consumer%20spending%20is%20credited%20as,the%20nation%27s%20Gross%20Domestic%20Product.">https://www.usbank.com/investing/financial-perspectives/market-news/consumer-spending.html#:~:text=Consumer%20spending%20is%20credited%20as,the%20nation%27s%20Gross%20Domestic%20Product.</a>	11.12.2023	Consumption Information
U.S. Government Accountability Office	<a href="https://www.gao.gov/products/gao-22-106044">https://www.gao.gov/products/gao-22-106044</a>	16.11.2023	U.S. Fiscal Stimulus During Covid-19



Source Name	Link	Date of Retrieval	Used for
U.S. Government Accountability Office	<a href="https://www.gao.gov/products/gao-22-106044">https://www.gao.gov/products/gao-22-106044</a>	16.11.2023	U.S. Fiscal Stimulus During Covid-19
Reuters	<a href="https://www.reuters.com/business/retail-consumer/adobe-says-black-friday-online-sales-hit-record-9-blm-2022-11-26/">https://www.reuters.com/business/retail-consumer/adobe-says-black-friday-online-sales-hit-record-9-blm-2022-11-26/</a>	01.12.2023	Black Friday Online Sales
CNBC	<a href="https://www.cnn.com/2023/11/15/wholesale-prices-fell-0point5percent-in-october-for-biggest-monthly-drop-since-april-2020.html">https://www.cnn.com/2023/11/15/wholesale-prices-fell-0point5percent-in-october-for-biggest-monthly-drop-since-april-2020.html</a>	01.12.2023	Retail Sales
Trading Economics	<a href="https://tradingeconomics.com/united-states/consumer-confidence">https://tradingeconomics.com/united-states/consumer-confidence</a>	29.11.2023	U.S. Consumer Sentiment Index
J.P. Morgan	<a href="https://www.jpmorgan.com/insights/outlook/economic-outlook/october-2023-jobs-report#:~:text=The%20Bureau%20of%20Labor%20Statistics,slightly%20from%20the%20previous%20month">https://www.jpmorgan.com/insights/outlook/economic-outlook/october-2023-jobs-report#:~:text=The%20Bureau%20of%20Labor%20Statistics,slightly%20from%20the%20previous%20month</a>	16.11.2023	U.S. Job Openings
Statista	<a href="https://www.statista.com/outlook/fmo/banking/digital-banks/united-states">https://www.statista.com/outlook/fmo/banking/digital-banks/united-states</a>	30.1.2024	Digital Banking Analysis
TIME	<a href="https://time.com/6564377/macys-closes-5-stores-job-cuts-union/">https://time.com/6564377/macys-closes-5-stores-job-cuts-union/</a>	27.01.2024	News on Macy's

Source Name	Link	Date of Retrieval	Used for
Statista	<a href="https://www.statista.com/outlook/fmo/banking/digital-banks/united-states">https://www.statista.com/outlook/fmo/banking/digital-banks/united-states</a>	30.1.2024	Digital Banking Analysis
Mordor Intelligence	<a href="https://www.mordorintelligence.com/industry-reports/united-states-digital-lending-market#:~:text=United%20States%20Digital%20Lending%20Market%20Analysis,period%20(2024%2D2029).">https://www.mordorintelligence.com/industry-reports/united-states-digital-lending-market#:~:text=United%20States%20Digital%20Lending%20Market%20Analysis,period%20(2024%2D2029).</a>	30.01.2024	Digital Banking Expected Market Size
AP News	<a href="https://apnews.com/article/macys-arkhouse-brigade-takeover-c9167d79c3fe39a192a0ac4c80341408#">https://apnews.com/article/macys-arkhouse-brigade-takeover-c9167d79c3fe39a192a0ac4c80341408#</a>	27.01.2024	Macy's Rejects Takeover Bid
NRF	<a href="https://nrf.com/research-insights/retails-impact">https://nrf.com/research-insights/retails-impact</a>	29.01.2023	Overview of U.S. Retail Sector

# Appendix

Option Chain 29/01/2024 21:30

Strike	Ticker	Bid	Ask	Last	Volm	OInt	IV	DL	GL	VL	TL
10	SOFI 1/17/25 C10	2.16	2.20	2.18	11,141	69,427	64.82	-0605	-0.658	-0.0348	0.0037
12	SOFI 1/17/25 C12	1.55	1.60	1.58	3,886	21,727	63.94	0.488	0.0691	0.0360	-0.0037
17	M 1/17/25 C17	3.80	4.00	3.90	9	1,475	37.74	-0.710	-0.0498	-0.0624	0.0047
20	M 1/17/25 C20	2.29	2.60	2.45	11	3,089	36.63	0.543	0.0594	0.0722	-0.0049

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