A Resilient Global Consumer Is a Support for Global Credit

JUNE 2025

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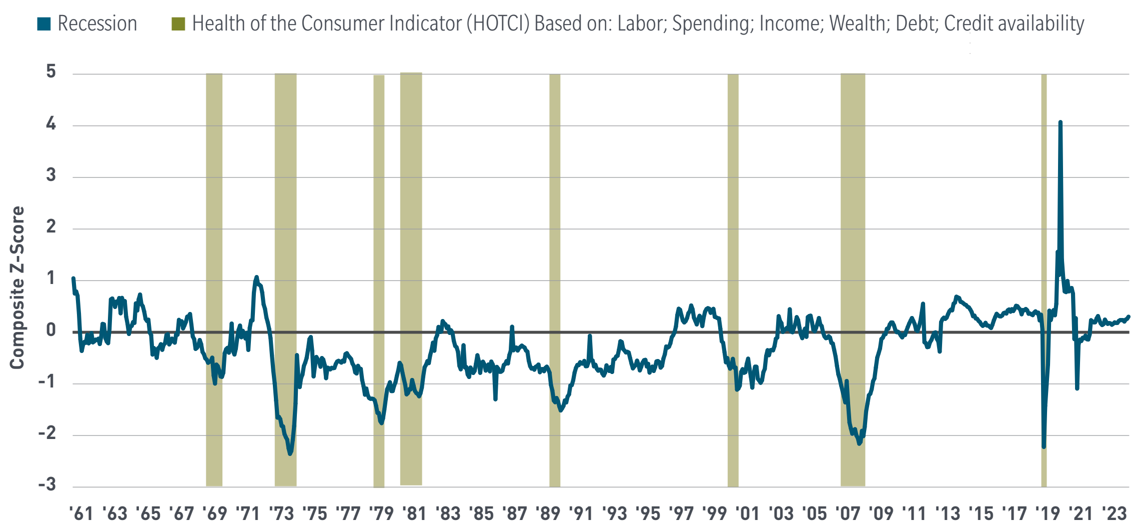
What's happened? *Investors are concerned about a severe growth shock.*

The global outlook is subject to major risks. In particular, policy uncertainty remains elevated while the trade war is ongoing, with little visibility about when the situation will normalize. In addition, global investors have grown concerned about policy risks, especially rising fiscal deficits and larger government debt burdens. Government debt projections across many countries are not encouraging amid the risk that market rates may stay higher for longer, with potentially adverse repercussions for global demand. In the face of these major risks, a single economic actor holds the key to the global macro outlook: the consumer.

The global consumer appears to be coming to the rescue, allaying concerns that the global economy may suffer a major slowdown. Given severe policy uncertainty and the ongoing trade war, it is understandable to fear a considerable worsening of the global outlook. But the health of the global consumer has given us comfort that the prospects for the global economy remain robust.

In the US, the consumer remains resilient. This mainly reflects the strong labor market, which shows no signs of dramatic deterioration. In addition, the consumer balance sheet is particularly robust, best illustrated by the ratio of household net worth to disposable income, which stands near its historical high at 760%. Meanwhile, the US consumer's debt position is also quite favorable, with a ratio of debt to net worth of 11.8%, its lowest level since 1972. These data suggest that the US consumer is well equipped to weather a potential growth shock in the period ahead. We have designed an indicator to gauge the health of the US consumer (HOTCI) that covers labor, spending, income, wealth, debt and credit availability based on 16 variables. Overall, we believe the results are quite encouraging. At this juncture, the health of the consumer is well above its historical average, and doesn't appear to be sending a recession signal (Exhibit 1).

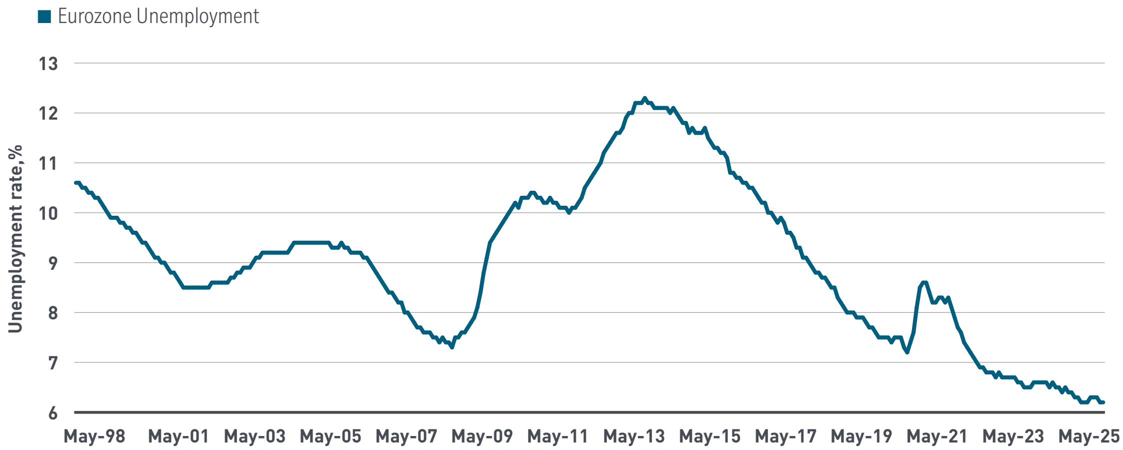
Exhibit 1: The Health of the US Consumer Remains Well Above Its Historical Average



Sources: Bloomberg, Fed, Department of Labor, Bureau of Labor Statistics,Bureau of Economic Analysis, Goldman Sachs, US Census Bureau. The HOTCI aggregates 6 sub-scores covering labor, spending, income, wealth, debt and credit availability and includes 16 variables in total. Monthly data as of April 2025.

Our assessment of the health of the European consumer is also broadly positive. The results may not be as convincing as they are in the US, but there appears to be no cause for alarm. In particular, the European consumer remains supported by a favorable labor market situation, with an unemployment rate close to historical lows, as well as low debt service ratios. While consumer confidence has been rather subdued in recent months, it is showing early signs of recovery.

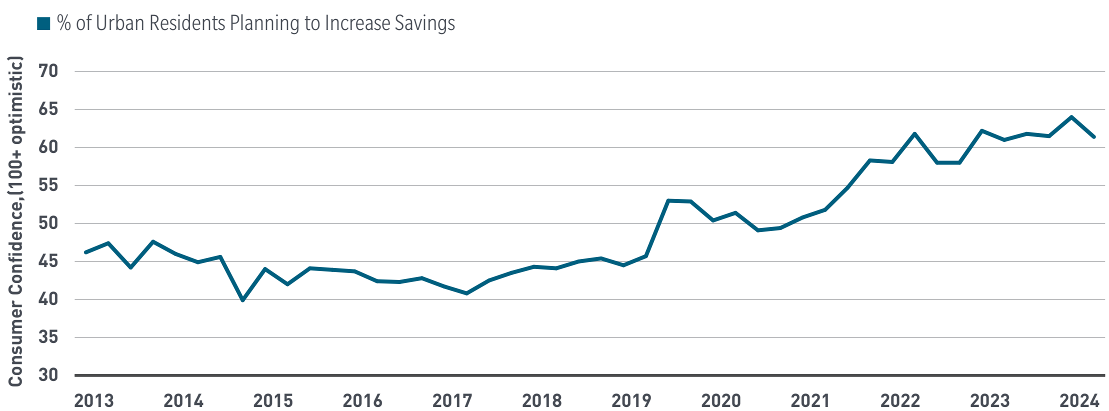
Exhibit 2: Eurozone Unemployment Rate Near All-Time Low



Sources: Bloomberg, Eurostat, monthly data up to May 2025.

In China, we are cautiously optimistic about the consumer. The Chinese consumer seems to have turned a lot more prudent, with spending behavior exhibiting some restraint. Essentially, Chinese households continue to sit on large excess savings. Looking ahead, the Chinese authorities are fully committed to policy easing, using both fiscal and monetary levers, which ultimately should bolster the confidence of the local consumer. While savings remains high, we have observed a small drop in consumer intentions to save more, pointing to early signs of an improvement in consumer confidence (Exhibit 3).

Exhibit 3: China Consumer Prudence May Start To Turn



Source: Haver, PBOC. Data up to December 2024.

In emerging markets, the consumer does not appear to be under severe pressure. For instance, in Brazil, consumer real income has been rising by about 6% on a year-on-year basis for a few months. Meanwhile, in Indonesia, consumer spending has been running at above 4% in real terms over the past few quarters. Overall, one supportive signal for the EM consumer is that unemployment is low. (Exhibit 4).

In this environment, investors should seek out resilient companies that can navigate uncertainty. Valuations, the driver of cash flows and risks to cash flows, take on increased importance. All of this leads to increased dispersion across sectors and regions, which should be beneficial for active managers as they seek to find winners and avoid losers. Broad indices may be overexposed to more-at-risk companies and regions.

Exhibit 4: EM Unemployment Rate Remains Historically Low

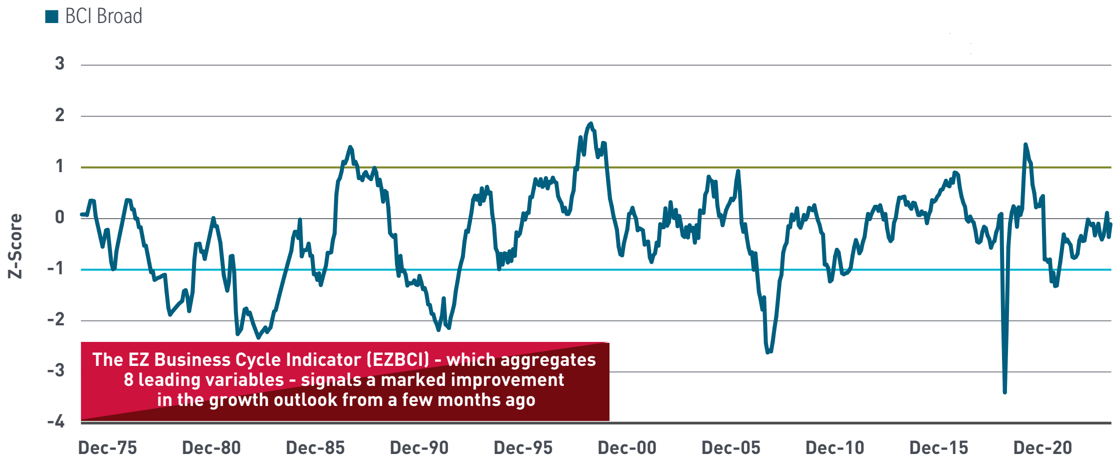
Sources: Bloomberg, National Statistics Authorities. GBI-EM country sample includes China, Indonesia, Malaysia, Mexico, Thailand, Poland, South Africa, Brazil, Czech Republic, Colombia, Romania and Hungary. Monthly data.

Why is it important? *The consumer will remain a contributor to growth.*

In the US, we do not see the economy tipping into recession. While it is true that the macro impact of higher tariffs remains unclear, the US economy should be able to weather any potential growth shock given strong initial conditions and a resilient consumer. To be clear, the growth risks are skewed to the downside, but we would characterize the current phase of the US business cycle as a moderate slowdown.

In Europe, the growth prospects for the region have improved. This is mainly the result of the expectation of broad fiscal stimulus to be implemented in the period ahead, especially in Germany. Market Insights' Business Cycle Indicator for the eurozone points to a marked improvement in the outlook from a few months ago.

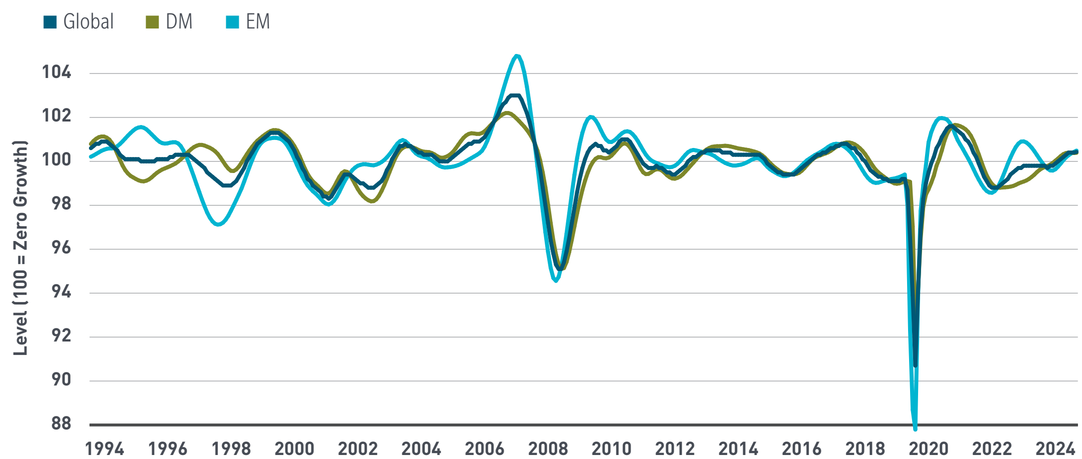
Exhibit 5: The Outlook for the Eurozone Is Improving



Sources: Bloomberg. Ifo Pan Germany Business Expectations, Sentix Sentiment for the Eurozone, France Consumer Confidence, Germany manufacturing orders, Zentrum fuer Europaeische Wirtschaftsforschung (ZEW), European Commission Economic Sentiment Indicator Eurozone, Eurozone Composite PMI, Spain, capital goods turnover. Monthly data from November 1975 – May 2025. The composite indicator is based on the average of the z-scores of these eight variables.

Overall, global leading indicators are pointing to growth resilience, despite global risks. In particular, the OECD composite leading indicator suggests that the global economy will continue to grow at a pace above its long-term trend in the period ahead, reflecting the contribution from EM growth. One important consideration for the growth outlook is that policies will likely support growth. In the US, and more importantly in Europe, we anticipate expansionary fiscal policies. Meanwhile, the European Central Bank may continue its policy easing, although it now appears that the easing cycle may soon come to an end. In China, the authorities are fully committed to using both fiscal and monetary levers to bolster the economy.

Exhibit 6: The OECD Leading Indicators Point to a Positive Global Growth Outlook



Sources: Bloomberg, OECD. The Composite Leading Indicators (CLIs) are designed to anticipate turning points in economic activity relative to trend six to nine months ahead. A CLI for any given month provides an indication of whether GDP levels are expected to be above or below long-term trends. Trend GDP estimates are set at 100 in the system for all economies and all months. A CLI above 100 anticipates that GDP levels will be above trend levels in six to nine months, whilst a CLI below 100 anticipates that GDP levels will be below long trend levels in six to nine months. A reading above 100 that is rising predicts expansion, above 100 and falling a downturn, below 100 and falling a slowdown, and below 100 and rising a recovery. Monthly data from April 1994 to May 2025.

How does it impact investors? *This is supportive of risky assets, including global credit.*

The resilient consumer as a theme is likely to be supportive of global risky assets. With the global economy avoiding a severe slowdown scenario, in large part thanks to the contribution of the global consumer, growth assets should continue to be supported by the positive economic outlook. This applies to both global credit and equities.

Against this backdrop, we believe that global credit is well positioned to perform in the period ahead. This is mainly because global credit may deliver attractive defensive characteristics, regional diversification and interesting alpha opportunities. Some recent dislocation in the face of higher global recession pricing may offer attractive security selection opportunities, in autos for instance. In addition, some consumer sub-sectors such as gaming are less exposed to the tariff shock and may present attractive defensive characteristics.

Spread dispersion remains tight, thereby placing a focus on security selection. Tight spread dispersion is often a symptom of mispriced fundamentals at the sub-index level. Fundamental analysis therefore plays an even bigger role given the elevated market uncertainty as the re-underwriting of credit exposures becomes a core part of active portfolio and risk management. The larger the dislocations and the mispricing of credit fundamentals, the greater the potential opportunity to generate alpha through a robust security selection process.

IN SUMMARY

We believe that global investors' concerns about a severe growth shock are misplaced because the global consumer remains resilient.

Against this backdrop, we believe that global credit is well positioned to perform in the period ahead.

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