

corbin

**Thought Leadership:
This Week in Earnings
Consumer Discretionary Sector Beat**

May 2, 2025

Our Thought Leadership this week addresses:

- **Key Events**
- **Guidance Trends Post-Tariff Announcements** starting on April 2nd, including communication examples
- **Earnings Snap**, covering the S&P 500 stats to date
- Spotlight on **Consumer Discretionary** in “The Sector Beat”

Key Events this Week

GDP

- **U.S. GDP fell at a seasonally and inflation adjusted 0.3% annual rate** in the first quarter. That was the **first contraction since the first quarter of 2022**. **Consumer spending**, the economy’s main engine, **rose at a 1.8% pace in the first quarter**, the **smallest increase since mid-2023**. *(Source: The Commerce Department)*
- **Eurozone’s economy, which grew 0.4% in Q1 2025 and outpaced the U.S. for the first time in almost three years**, was supported by increased production, but **is expected to slow due to new U.S. tariffs**. ECB policymakers foresee tariffs driving down inflation, potentially leading to further rate cuts. *(Source: Eurostat)*

Employment

- **U.S. nonfarm payrolls increased by 177,000 jobs in April**, ahead of the 130,000 expected according to economists polled by Reuters. **March job gains were revised down to 185,000** from the 228,000 previously reported. The **unemployment rate held steady at 4.2% in April**, in line with expectations. *(Source: Labor Department)*
- **U.S. initial jobless claims totaled 241,000 for the week ended Apr. 26**, up from 223,000 in the prior week and above consensus of 224,000. The number of Americans filing new applications for jobless benefits surged to a two-month high last week, but that **likely did not mark a material shift in labor market conditions as the rise was related to school spring breaks in New York state**. *(Source: Labor Department, Reuters)*
- **ADP private sector payrolls rose by just 62,000 for the month**, the smallest gain since July 2024, down from 147,000 in March and missing the Dow Jones consensus estimate for an increase of 120,000. *(Source: ADP)*

Consumer Confidence

- The **Conference Board’s Consumer Confidence Index fell to 86 on the month, down 7.9 points from its prior reading** and below the Dow Jones estimate for 87.7. **It was the lowest reading in nearly five years**. The **board’s expectations index, which measures how respondents look at the next six months, tumbled to 54.4**, a decline of 12.5 points and the lowest reading since October 2011. **Board officials said the reading is consistent with a recession**. *(Source: Conference Board)*

Manufacturing PMIs

- **Economic activity in the manufacturing sector contracted in April for the second month in a row**, following a two-month expansion preceded by 26 straight months of contraction. **The Manufacturing PMI® registered 48.7% in April, 0.3 percentage point lower compared to the 49% recorded in March.** The overall economy continued in expansion for the 60th month after one month of contraction in April 2020. (Source: *Institute for Supply Management®*)

Politics / Tariffs

- **Canadian Prime Minister Mark Carney 's Liberals fell short of winning an outright majority in Parliament on Tuesday**, a day after the party scored a stunning comeback victory in a vote widely seen as a rebuke of U.S. President Donald Trump. (Source: *AP*)
- **President Trump moved to soften the impact of his automotive tariffs, preventing duties on foreign-made cars from stacking on top of other tariffs** he has imposed and easing some levies on foreign parts used to manufacture cars in the U.S. **Automakers paying Trump's automotive tariffs won't also be charged for other duties. Trump's tariffs on China, however, will continue applying** on top of auto and parts tariffs. (Source: *WSJ*)
- The Administration **also modified its tariffs on foreign auto parts—slated to be 25% and effective May 3—allowing automakers to be reimbursed for those tariffs up to an amount equal to 3.75% of the value of a U.S.-made car** for one year. The reimbursement would fall to 2.5% of the car's value in a second year, and then be phased out altogether. (Source: *WSJ*)

Guidance Trends Post-Tariff Announcements

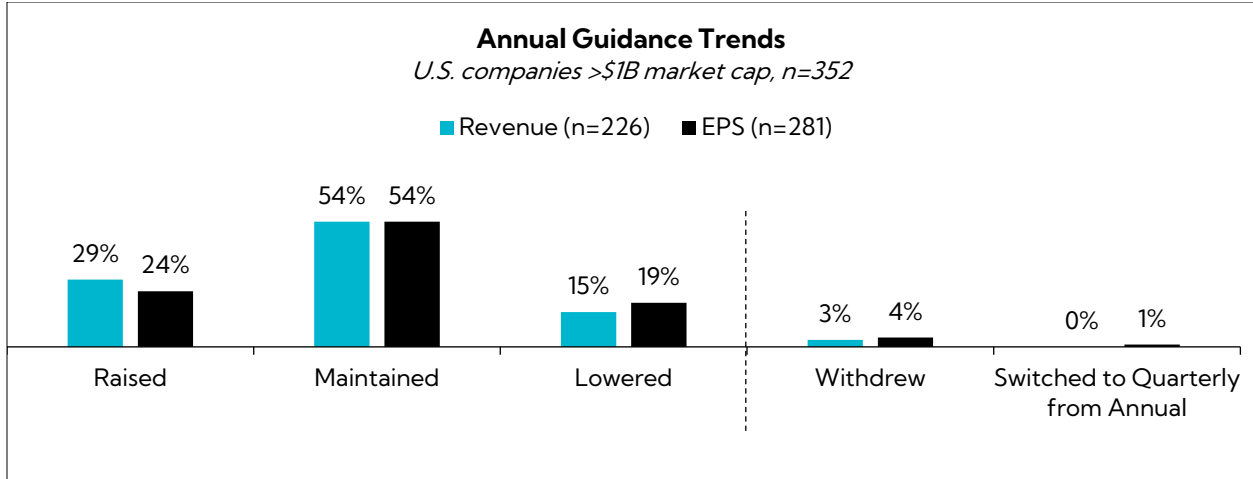
As noted last week, we have been closely monitoring earnings for any shifts in guidance and tariff impact inclusion. Specifically, we have analyzed¹:

- **Overall Guidance Approach:** 352 U.S. companies >\$1B in market cap across all sectors that have reported earnings to date; specifically, evaluating changes to guidance cadence or withdrawals
- **Tariff Inclusion/Exclusion:** 172 S&P 500 companies that provided annual revenue and/or EPS guidance; specifically, evaluating whether tariff impact is included in guidance assumptions

Overall Guidance Approach

To date, the majority of companies have *not* changed their approach to guidance, with only 3% of our basket withdrawing annual revenue guidance and 5% withdrawing annual EPS guidance or switching from annual to quarterly. Specifically, we have tracked 18 U.S.-based companies of at least \$1B in market cap — predominantly Airlines and select consumer companies — as the only companies to do so, and several of these do not provide "traditional" revenue and EPS guidance. Globally, there are a handful more.

¹ As of 4pm ET 4/24/25



Companies Withdrawing Annual Guidance To Date

	Company	Ticker	Industry (A-Z)	Market Cap (\$B)
U.S.				
1	United Parcel Service	UPS	Air Freight & Logistics	\$79.8
2	Delta Air Lines	DAL	Airlines	\$26.7
3	Southwest Airlines	LUV	Airlines	\$14.2
4	American Airlines	AAL	Airlines	\$6.2
5	Alaska Air	ALK	Airlines	\$5.0
6	JetBlue Airways	JBLU	Airlines	\$1.2
7	Frontier Group	ULCC	Airlines	\$0.7
8	Carter's Inc	CRI	Apparel Retail	\$1.3
9	Visteon Corp	VC	Automobile Components	\$1.9
10	Harley-Davidson	HOG	Automobiles	\$2.7
11	Masco	MAS	Building Products	\$12.4
12	Eastman Chemical ²	EMN	Chemicals	\$8.9
13	Cimpress	CMPR	Commercial Serv. & Supplies	\$1.1
14	Avery Dennison ³	AVY	Containers & Packaging	\$13.3
15	Skechers USA	SKX	Footwear & Accessories	\$7.0
16	Polaris Inc	PII	Leisure Products	\$1.8
17	QCR Holdings ⁴	QCRH	Regional Banks	\$1.2
18	Aehr Test Systems	AEHR	Semiconductor Equip. & Mat.	\$0.3
UK				
19	Character Group	CCT.LN	Leisure	\$0.06
20	Belluscura	BELL.LN	Medical Devices	\$0.004
21	Alphawave Semi	AWE.LN	Semiconductors	\$1.2
22	PageGroup	PAGE.LN	Staffing & Employment Serv.	\$1.0
Eurozone				
23	Stellantis	STLAM.MI	Auto Manufacturers	\$27.0B
24	Polestar	PSNY	Auto Manufacturers	\$2.1
25	Volvo Car AB	VOLCAR-B.SE	Automobiles	\$55.6
26	Mercedes-Benz	MBG.DE	Automobiles	\$55.3
27	Logotech	LOGN.CH	Computer Hardware	\$10.7
Canada				
28	Exco Technologies	XTC.CA	Automobile Components	\$0.2
29	Spin Master	TOY.CA	Leisure Products	\$1.6

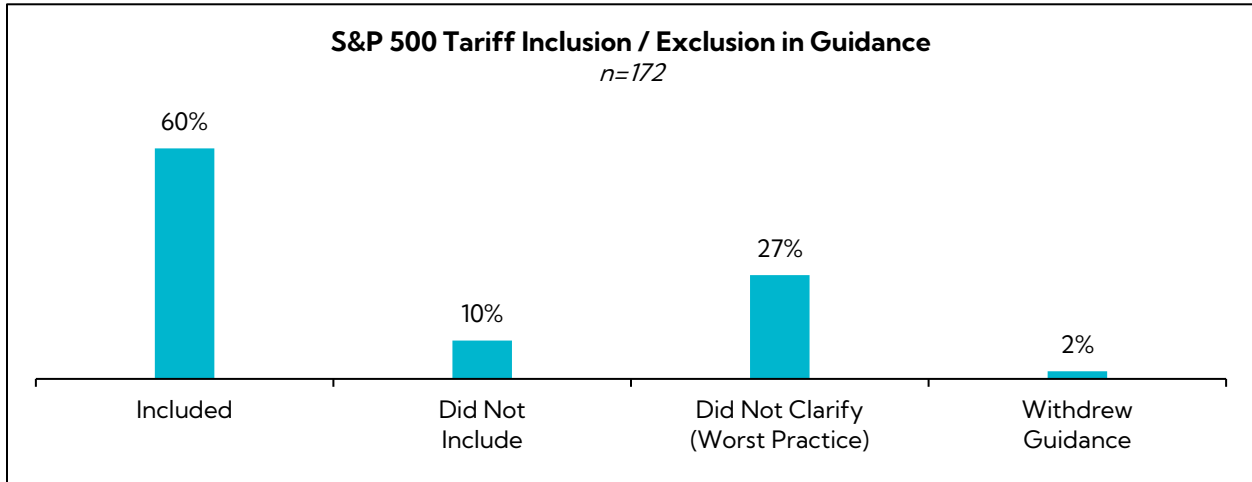
² Eastman Chemical moved to providing quarterly adjusted EPS guidance citing economic uncertainty "limited visibility"

³ Avery Dennison Earnings Presentation: "Shifting to quarterly from full-year guidance due to macro uncertainty"

⁴ QCR Holdings suspended FY loan growth guidance, provided quarterly guidance instead "due to heightened uncertainty"

Tariff Inclusion/Exclusion

As for the inclusion of tariffs in annual guides, we evaluated 172 S&P 500 companies that have provided either annual revenue or EPS guidance⁵ and analyzed their assumptions. At this time, 60% moved to include the effects of reciprocal tariffs in annual forecasts.



For companies that have elected to include tariff affects within guidance assumptions, the most common approach is to explicitly call out tariff-related impacts beneath updated guidance tables or within the "Outlook" or "Market Conditions" commentary sections.

For example, Polaris noted in its earnings presentation that tariff impacts were already embedded in financial results, with management explicitly referencing a "minimal tariff impact in Q1 due to timing" but emphasizing that uncertainty around global policy led them to withdraw full-year guidance. Separately, Whirlpool highlighted loopholes exploited by Asian competitors creating up to a ~\$70/unit cost disadvantage, noting that they "expect new trade policies to eliminate this unfair advantage," and that they have "successfully implemented" pricing actions. In several cases, these mentions were also paired with references to sourcing adjustments or ongoing reviews of operational exposure to tariffs.

Other updates this week included UPS pulling its full year guidance in concert with European auto manufacturers Stellantis and Volvo Car. Caterpillar took a similar approach to the one taken by United Airlines two weeks ago, providing two scenarios with their 2025 outlook: a pre-tariff scenario that does not include any impact from tariffs, and an alternative scenario that assumes current tariff levels remain in effect for the rest of the year.

View or download the PDF [Tariff Communication Examples Q1'25](#) for company communications related to guidance and tariffs.

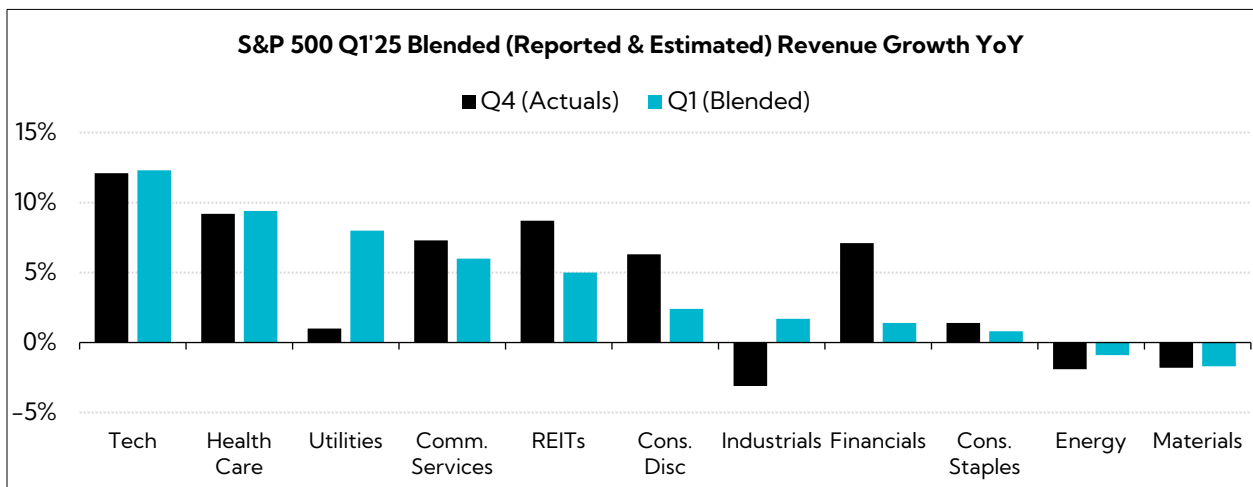
⁵ As of 4pm ET 5/1/25

Earnings Snap

- **71%** of the S&P 500 has reported earnings to date

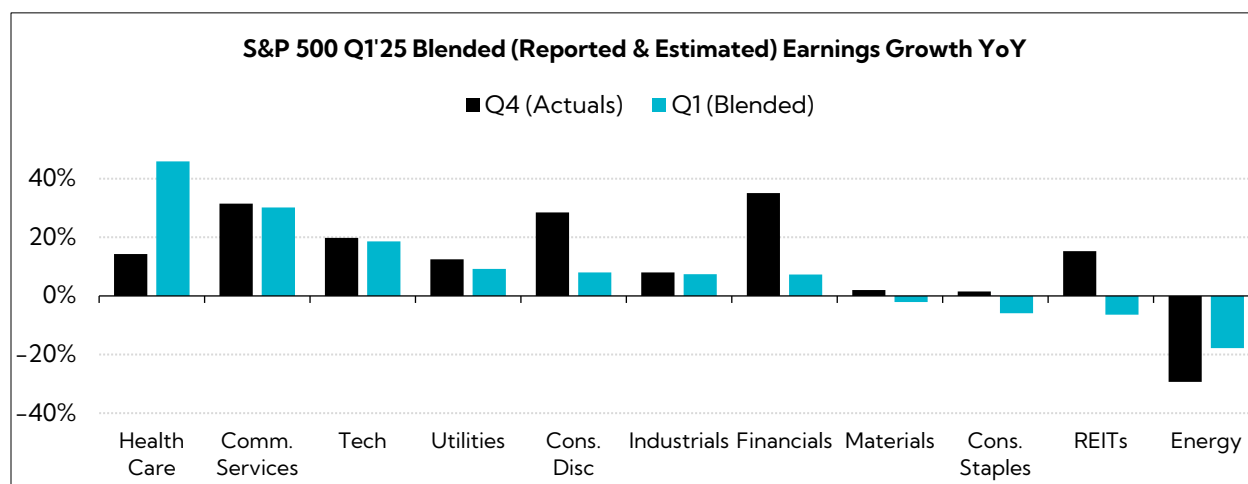
Q1'25 Revenue Performance

- **61% have reported a positive revenue surprise**, in line with the 1-year average (61%) and below the 5-year average (69%)
- **Blended revenue growth** (combines actual reported results for companies and estimated results for companies yet to report) is **4.6%**
- Companies are **reporting revenue 0.9% above consensus estimates**, in line with the 1-year average (+0.9%) and below the 5-year average (+2.1%)



Q1'25 EPS Performance

- **74% have reported a positive EPS surprise**, below both the 1-year average (77%) and the 5-year average (77%)
- **Blended earnings growth** (combines actual reported results for companies and estimated results for companies yet to report) is **13.6%**; if the Healthcare sector was removed, growth across the index would be 9.7% YoY
- Companies are **reporting earnings 7.0% above consensus estimates**, above the 1-year average (+6.1%) and below the 5-year average (+8.8%)



The Sector Beat — Consumer Discretionary

Consumer Discretionary Guidance: Initial Trends

At the beginning of each quarter, we analyze annual revenue and EPS guidance provided by U.S. Consumer Discretionary companies with market caps greater than \$1B that have reported to date. Below are our findings. For comparison purposes, we provide an “All Company” benchmark, which tracks a basket of U.S. companies⁶ across all sectors that have reported earnings to date (n = 352).⁷

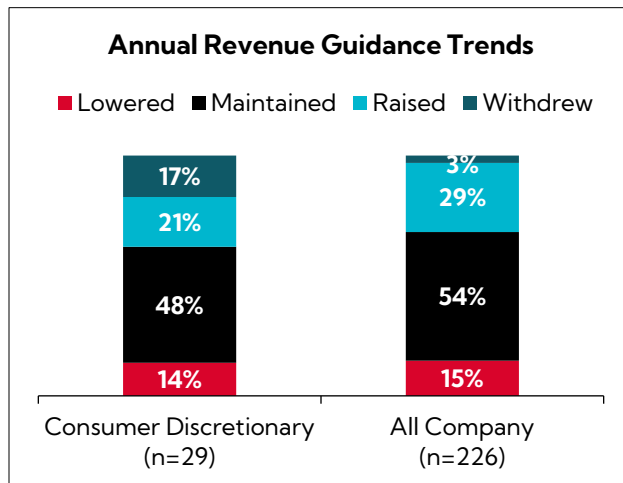
Guidance Breakdown by Industry

Industry	# of Companies
Diversified Consumer Services	7
Automobile Components	6
Hotels, Restaurants & Leisure	5
Specialty Retail	4
Textiles, Apparel & Luxury Goods	3
Distributors	3
Household Durables	3
Leisure Products	2
Automobiles	1
Total	34

⁶ >\$1B in market cap

⁷ As of 4pm ET 5/1/25

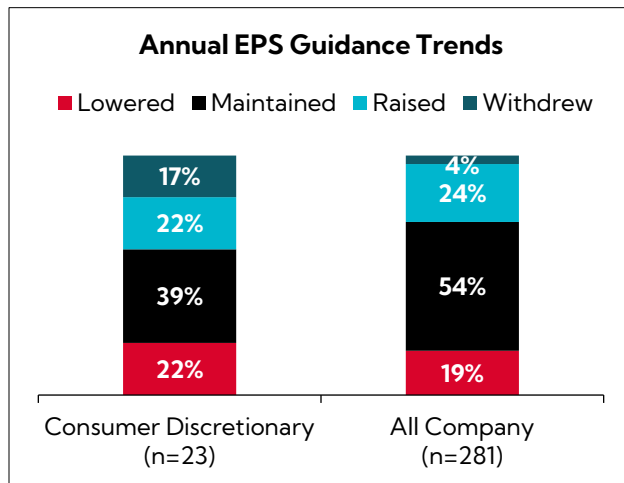
Revenue Guidance



To date, nearly half of Consumer Discretionary companies have *Maintained* annual revenue guidance, slightly below the All Company benchmark average. However, far more have opted to *Withdraw* guidance in leu of murky consumer sentiment and poor visibility as a result of the tariff regime. Notable withdrawals include Sketchers, Harley Davidson, and Polaris.

- Companies that **Lowered** guidance ($n = 4$)
 - All lowered the top and bottom of the original range
 - Average midpoint of -3.9% growth versus 2.2% last quarter
 - Average spread increased by 70 bps to 4.7%
- Companies that **Maintained** guidance ($n = 14$)
 - Average midpoint of 4.5% growth
 - Average spread of 3.3%
- Companies that **Raised** guidance ($n = 6$)
 - All but two companies raised the top and bottom of the original range; Upbound and Mister Car Wash raised the bottom but maintained the top
 - Average midpoint of 10.5% growth versus 9.1% last quarter
 - Average spread decreased by 110 bps to 1.4%
- Overall midpoints assume 4.6% annual growth, on average, the same as last quarter

EPS Guidance



More Consumer Discretionary companies have *Maintained* annual EPS guidance, but well below the broader All Company benchmark. Similar to the trend observed in annual revenue guides, more companies have opted to *Withdraw* guidance than the All Company average.

- Companies that **Lowered** guidance ($n = 5$)
 - All lowered the top and bottom of the original range
 - Average spread increased from \$0.65 to \$0.82
- Companies that **Maintained** guidance ($n = 9$)
 - Average spread of \$0.22
- Companies that **Raised** guidance ($n = 5$)
 - Nearly all companies raised the top and bottom of the range; Upbound raised the bottom but maintained the top
 - Average spread decreased from \$0.33 to \$0.27

Earnings Call Analysis

We analyzed the earnings calls for this group and the broader Consumer Discretionary universe to identify key themes.

Executive commentary reflects an increasingly cautious stance, with even those posting solid Q1 results acknowledging potential headwinds from fluctuating trade policy dynamics and downbeat consumer sentiment, causing them to soften 2025 outlooks (or reaffirm guidance rather than raising). While many point to stable demand trends at present, some cite signs of pressure and increased volatility through April. Amid the heightened uncertainty, executives note the current environment warrants a greater degree of conservatism, with some widening their guidance for a range of scenarios and others withdrawing guidance altogether until they gain greater clarity.

Indeed, "uncertainty" and "tariffs" continue to dominate earnings calls, with analysts probing for expected impacts and offsets. While tariffs were already top of mind at the start of the year, executives are dedicating more time on calls to mitigation efforts and providing greater granularity around manufacturing footprints, sourcing routes, and regional tariff rate exposures. While those with a strong U.S. manufacturing presence are framing their companies as competitively advantaged to be "net winners" from Trump's trade policies, others cite obstacles to onshoring/reshoring, noting Asia, including China, *will remain* a key manufacturing hub for certain products.

Against this backdrop, with consumer sentiment in the doldrums and tariff policy clouding the road ahead, executives are turning to their downturn playbooks, evaluating spending plans, readying cost control levers, and pointing to success navigating prior downturns.

Key Consumer Discretionary Themes

Macro & Outlooks – Executives Strike a Cautious Tone as Uncertainty Rises; Even Strong Q1 Performers Temper Expectations, While Others Augment or Withdraw Guidance as They Await Greater Clarity

- **O'Reilly Automotive (\$81.8B, Specialty Retail):** *"The high degree of uncertainty surrounding the duration, magnitude, and timing of potential tariffs, coupled with the changes we have already seen to previously announced tariffs, prevent us from prudently forecasting the inflationary impacts. We have not seen adverse impacts to consumers that could also come with rapid and sustained changes to the pricing environment, but we are cautious in our outlook given the broader uncertainties in the macroeconomic environment. Based on these considerations, we have maintained an unchanged sales guidance range that is supported by current business trends and volumes."*
- **Chipotle Mexican Grill (\$67.8B, Hotels, Restaurants & Leisure):** *"In February, we began to see that the elevated level of uncertainty felt by consumers are starting to impact their spending habits. We could see this in our visitation study where saving money because of concerns around the economy was the overwhelming reason consumers*

were reducing the frequency of restaurant visits. This drove a slowdown in our underlying transaction trends. This trend has continued into April."

- **Genuine Parts (\$16.5B, Distributors):** *"For right now, we're kind of sitting here in a wait-and-see mode. We had a good first quarter, in line with what we thought. We've had a decent start to April. I think we're all in the same camp of trying to understand what's happening. We have a lot of data points that would just point us to let's stay in the wait and see and hold it, and hopefully we can get past this 90-day period with a lot of good outcomes."*
- **Hasbro (\$8.6B, Leisure Products):** *"We've looked at a variety of scenarios, and we have a pretty cautious outlook in terms of what the impacts of the current tariff regime would have. Basically, we'd see the impact to consumer spending on the Toy category consistent with what happened with the 2008-2009 recession. The Toy category was down roughly mid-single-digits. And then in terms of the inflationary outlook, we went back to 2020 and 2021 with the early days of COVID. So, we basically see a combination of inflation and some recessionary pressures on the macro."*
- **Brunswick (\$3.5B, Leisure Products):** *"There remains significant uncertainty related to our 2025 performance and guidance, primarily due to the uncertainties of trade policy, the direct and indirect impact of these uncertainties on our consumers. Attempting to provide guidance is uniquely challenging in this environment, but we appreciate investor desire to understand the earnings components and guideposts that we're tracking internally. After accounting for the Q1 beat, we believe that we would see volume pressure, especially in the near term, as our consumer spends cautiously in response to the uncertain tariff environment."*
- **Mister Car Wash (\$2.6B, Diversified Consumer Services):** *"Embedded in our outlook is a cautious view of the consumer, given the current macro backdrop. We are balancing our optimism about our business and momentum against the uncertainty of the consumer environment and the potential economic fallout and turbulence from tariff negotiations. We are well-insulated from the direct tariff exposure. However, although our cost exposure is indirect, the broader downstream impact on the consumer is unknown and difficult to predict. This could create greater volatility in our business, particularly retail, where we are retaining a measured view on our expectations for the remainder of the year."*

Withdrawn Guidance / Augmented Guidance Practices

- **Tractor Supply (\$29.3B, Specialty Retail):** *"Since we shared our initial outlook for 2025, the macro environment has clearly become more uncertain. While not our standard practice, given current conditions, we are also providing second quarter guidance as we believe offering near-term visibility is important for our investors at this time. As always, our goal is to be transparent and we remain committed to updating our outlook as we gain greater visibility."*
- **Skechers USA (\$8.5B, Textiles, Apparel):** *"As we began 2025, we communicated our belief, reflected in our annual guidance, that this would be another year of growth. The first quarter confirmed that belief, reflecting the strength of our brand and product assortment. Today, we still believe many markets will continue along that trajectory,*

absent unforeseen impacts from the current macroeconomic environment. However, **we must also acknowledge that the world is significantly more uncertain today than three months ago. We were in a similar situation five years ago, albeit for different reasons.** I'm not in the habit of quoting myself often, but the language I used then is equally applicable today: **'We will not be providing revenue or earnings guidance at this time, as the current environment is simply too dynamic from which to plan results with a reasonable assurance of success.'**"

- **Wyndham Hotels & Resorts (\$7.0B, Hotels, Restaurants & Leisure):** **"With trends remaining softer through April we are refining our 2025 outlook to reflect a more cautious view. The high end of this range assumes the remaining nine months of the year performed largely in line with our original outlook,** essentially implying a swift resolution to the current global trade tensions and a corresponding improvement in consumer sentiment. Conversely, **the lower end of the range reflects performance more consistent with the trends we saw in March and April for the rest of the year.** Given the current uncertainty and limited long-term visibility, we believe this new guidance is a reasonable lower bound, **wider than what we typically provide,** but a prudent response in today's volatile macro environment."
- **Harley-Davidson (\$3.1B, Automobiles):** **"With the level of uncertainty we are seeing and the number of changes happening on an ongoing basis in global tariff and trade. It's difficult to predict what policies may impact customers over the course of the year and how consumer confidence will affect discretionary product purchases. We therefore are withdrawing our previous 2025 guidance until there is more clarity over the economy and tariff landscape."**
- **Visteon (\$2.1B, Automobile Components):** **"We're not reaffirming full-year guidance at this stage due to the uncertainty created from tariffs and the range of potential outcomes it creates for the automotive markets, most likely in the second half of the year. Absent the announced tariff and the latest economic developments, we would be tracking in line with our original guidance. We were confident we would be within our original guidance and likely towards the midpoint. However, the level of uncertainty has increased significantly since our last earnings call."**

Tariffs – Amid a Fluid Trade Policy Backdrop, Companies Prepare for Various Scenarios and Dive Deeper into Impacts and Mitigation Levers; Some Cite Strong Domestic Footprints as a Competitive Edge

- **General Motors (\$46.8B, Automobiles):** **"Post clarity from the presidential actions of Tuesday, we are expecting a \$4B to \$5B impact from tariffs. This includes about \$2B coming from vehicles we import from Korea as well as tariffs on vehicle imports from Mexico and Canada in addition to indirect material imports. Based on the current commercial environment, our updated guidance assumes we can offset at least 30% of this headwind via self-help initiatives."**
- **PulteGroup (\$20.6B, Household Durables):** **"I'm not anticipating COVID-level disruption in the supply chain, but to assume there's going to be none would be burying your head in the sand. There are things going on in the global supply chain that will inevitably create hot spots and issues. We'll be really transparent with you when we see those and what we're doing to mitigate it. I'm not suggesting this is going to be a [layup], but I**

think it'll be **potentially an easier obstacle course to navigate than the COVID supply chain disruptions**. I do think the industry needs to be prepared, and not just the industry, **the world needs to be prepared for some disruptions.**"

- **LKQ (\$11.0B, Distributors):** **"Before we get to that [pricing] lever, we really work with our supplier partners – we're in this together. Can we share the burden of some of these tariffs?** Are there opportunities where we can resource that product somewhere else to a different country, different supplier, reduce the impact on the tariff? **Are there any inefficiencies within our supply chain or logistics** that we can remedy and help offset some of the cost? **If we can't reduce the tariff impact by some of these other mitigating levers, then, we're going to obviously pass that through to the customer.** We won't be left holding the bag."
- **Skechers USA (\$8.5B, Textiles, Apparel):** **"Insofar as tariffs are concerned, we continue to address these with the same levers we have spoken about previously,** cost sharing with vendors, sourcing optimization, and price adjustments. We are **in the midst of pulling these levers while simultaneously monitoring the environment for needed adjustments** and closely watching consumer behavior to ascertain future demand characteristics."
- **Genuine Parts (\$16.5B, Distributors):** **"These industries are rational markets and...in inflationary periods, we're able to pass through price** as we're delivering a service proposition to our customers."
- **Meritage Homes (\$5.1B, Household Durables):** **"Given the cadence of tariff announcements and the evolving start-and-stop nature** of these discussions ever since, **we don't yet know to what degree, if any, tariff-related cost increases will impact our gross margin in the second half of 2025.** However, the current status quo of no tariffs on lumber should get us most of our expected 2025 closings completed at current market lumber prices. "
- **Visteon (\$2.1B, Automobile Components):** **"We continue to evaluate the optimal location for production,** utilizing our existing global footprints. **However, there will be limits on how much we can reduce the direct cost of tariffs,** and we **intend to pass along any remaining cost to our customers.** In addition, we are working to minimize the potential flow-through on volume, **leveraging our best cost footprint and ongoing focus on cost controls,** and we will be ready to implement some of the past playbooks that allowed us to emerge stronger in similar situations."
- **Brunswick (\$3.5B, Leisure Products):** **"Brunswick has the benefit of producing the large majority of our products in the U.S. for the U.S. market,** and we have **significantly reduced our exposure to China-based suppliers** since the initial imposition of Section 301 tariffs in 2017. However, at current tariff rates, we have the potential to incur up to \$100M to \$125M of incremental net tariff costs in 2025. We **continue to prepare for a range of scenarios and have many short- and long-term mitigating actions already underway,** including continued migration of our supply base, inventory staging, pricing, and optimization of our facilities."
- **Whirlpool (\$5.0B, Household Durables):** **"Let me review the tariff mitigation actions we have underway.** First, we have taken **steps to address the current environment through previously announced pricing actions.** We are also **taking additional cost actions to**

mitigate input cost increases. Secondly, we're evaluating our supply base and manufacturing footprint and are reducing our Asian exposure. This is limited, as we have by far the largest U.S.-based footprint, with 80% of what we sell in the U.S. produced in the U.S., compared to the industry average, which is only approximately 25%. Thirdly, we are proactively monitoring the evolving landscape and continue to provide insights to policymakers on tariff exemptions or circumventions that risk U.S. manufacturing. With today's review of how the different tariffs impact our business, we provided much more detail than we typically would. However, we felt it important to highlight what I mentioned upfront. No matter how you look at the new tariff landscape, Whirlpool, with its strong U.S. production base, is a net winner."

- **Newell Brands (\$2.6B, Household Durables):** *"We know that tariffs are top of mind, so we'd like to start by explaining why we're confident Newell Brands, after what will likely be a period of temporary disruption, is well-positioned to disproportionately benefit from the global trade realignment currently underway. Specifically, we believe past decisions to proactively prepare for higher China tariffs by aggressively shifting sourced finished goods procurement to alternate geographies, and to maintain and invest in a robust and extensive in-house domestic manufacturing base, while many of our top competitors outsourced or offshored much of their production capability, gives us a unique opportunity to not just manage through this period of tariff-related sourcing dislocations, but to be, on a net basis, significant beneficiaries of them."*

Sourcing – Despite Moves to Reduce Reliance on China, Asia, Including China, Remains a Key Manufacturing Center for Some Industries; Execs Cite Obstacles to Onshoring / Nearshoring

- **O'Reilly Automotive (\$81.8B, Specialty Retail):** *"We've continued to reduce our dependency on sourcing from China, [which] really started back during COVID. We're standing up capability in places like India, Vietnam, Thailand, and others where we're building muscle and have options to further move production there over time. We're going to take a strategic look when we feel like there's some...settling of where the true direction is on tariffs. Hopefully, we'll get that over the next couple of quarters. And long term, we're going to make the best strategic decisions for our sourcing options globally."*
- **Hasbro (\$8.6B, Leisure Products):** *"Today, roughly 50% of our U.S. toy and game volume originates from China, and we're accelerating plans to bring that down meaningfully starting this year. China will continue to be a major manufacturing hub for us globally, in large part due to specialized capabilities developed over decades. When we manufacture board games in the U.S., it is significantly more expensive to manufacture here than it is in China. For instance, if we move products like sourcing for Play-Doh from China, which is where it's dominantly sourced for the U.S. today, to Turkey, which we've been using to source to Europe, there is a cost associated with that, because the logistics in Turkey are just different. And we were looking at that across multiple product lines. We feel like over time we'll be able to manage the bulk of that and we'll be able to make these changes on a cost neutral basis. But at least in the mid term, that increased complexity and that increased load on new logistics centers will have some costs associated with our outlook."*

- **Dana Inc. (\$1.9B, Automobile Components):** *"We're having early discussions about what are the types of things that we can do to mitigate the issue from either reshoring or changing some suppliers, flipping things that aren't USMCA compliant, etc. But what is 100% clear is there are some things that if you take a two-year window are not going to be addressed. [Take] castings as an example. Everybody buys castings from India and in the next two years we're not going to be in a position where we can reshore that. So, they're subject to the 10% reciprocals right now. Before there was a higher list of additional reciprocal tariffs. But we're just going to have to wait and see how those play out as the administration negotiates some of these trade deals."*
- **Carter's (\$1.5B, Textiles, Apparel):** *"As part of our response to this issue, we've engaged advisors and have participated in varying lobbying events, efforts with Congress and the administration to make our point of view known on these matters. While we understand the objective of expanding manufacturing activity in the United States, very little baby or children's apparel is produced outside of Asia. Import data suggests that less than 5% of baby apparel specifically is produced in the Western hemisphere. Manufacturing of these products in the United States would be even less than this. We've evaluated near-shore production alternatives specifically in Latin America a number of times over the years. While there are certainly benefits from shorter transportation times and reduced or no duties, they are offset by uncompetitive labor costs, a lack of availability of important components beyond fabric such as snaps and zippers, and a general absence of the capabilities and expertise required to produce our products. We do not believe baby and children's apparel production will return to the United States anytime soon, and if it did, we believe the resulting cost of these items to the end consumer would prove extremely prohibitive."*

Consumer Spending Patterns – Execs Point to Weakening Sentiment and Volatile Demand Trends; Some Highlight Cushion from Industry-Specific Dynamics and Value Propositions

- **McDonald's (\$223.4B, Restaurants):** *"I think there's pressure on both low- and middle-income consumers in the U.S. But high-income consumer is still spending pretty consistently and pretty robustly. We over-index to low consumers in terms of our mix. So as those consumers are softer, that's going to put pressure. For us...having the strong value and affordability comes into play."*
- **O'Reilly Automotive (\$81.8B, Specialty Retail):** *"We continue to see pressure in discretionary categories, in line with trends over the last few quarters, and a continued indicator to us that consumers are being cautious in a period of economic uncertainty. We believe we're in a market where consumers are placing a high value on investments in their existing vehicles and will continue to be motivated to avoid the significant cost and monthly payment burden that comes with a new or replacement vehicle. The combination of these factors puts us in a backdrop that we would characterize as favorable for the industry, and for O'Reilly, yet carries a high degree of uncertainty."*
- **Wingstop (\$6.3B, Hotels, Restaurants & Leisure):** *"2025 has proven to present a dramatically different macro operating environment than we experienced in the last couple of years. Consumer sentiment has dropped to its second lowest level since 1952,*

even surpassing pandemic levels. While I believe it is impossible to know with certainty, this **current macro environment feels similar to consumer pullbacks we have seen before**. We believe that **consumers can show a near-term reaction to preserve cash and reprioritize spending**. That being said, **we've navigated these situations effectively in our past**, as evidenced by the strength of our operating model, delivering industry-leading returns for our brand partners."

- **PulteGroup (\$20.6B, Household Durables):** "As we've moved from March to April, we have seen consumers at all price points impacted by changing macro conditions and resulting **decline in overall consumer confidence**. Whether it's the volatility in stock market, concerns about tariff-induced inflation, the fluctuation in interest rates, or the growing talk of recession, **demand in April has been more volatile and less predictable day to day**. We continue to realize **meaningful relative outperformance among our move-up and active adult consumers, as they have greater financial flexibility** and can more easily adjust to market changes. That being said, **extreme volatility in the financial markets can cause even these consumers to pause** from making a large purchase."
- **LKQ (\$11.0B, Distributors):** "We **expect the tariffs will raise part prices and increase used car values**. Historically, **these increases have benefited the industry, as used car values are expected to rise faster than the vehicle repair cost**, potentially leading to more cars being repaired and kept on the road longer. [**Demand softness in the light vehicle and RV product lines remain challenges** for the business. Economic instability stemming from tariffs has resulted in **declines in consumer sentiment, which negatively impacts discretionary spending** in some of the markets in which specialty operates."
- **Hasbro (\$8.6B, Leisure Products):** "Our **conversations with the retailers are pretty fluid. Everyone is taking a slightly different approach** with how they're managing their inventory and their order patterns. [Among] the big three, **we're not seeing a ton of canceled orders and different thinking of how they're going to approach the holiday**. As we move through this Q2 period and then Q3 is when you tend to see the resets start to happen ahead of the holiday season. So, nothing hugely material in terms of orders being canceled. But, **we are seeing some shifts in how we're thinking about the phasing throughout the year**."
- **Brunswick (\$3.5B, Leisure Products):** "**Consumer sentiment remains volatile in response to the daily news flow, but our dealers are reporting that retail foot traffic continues to be steady** and, with the right incentives, they're able to get sales across the line."

Expense Management – Execs “Recalibrate” Spending Plans and Lean into Expense Management Actions

- **PulteGroup (\$20.6B, Household Durables):** "**Given today's macro uncertainties, we are asking our land teams to review project returns and confirm they still meet our hurdle rates** given changing market conditions. In 2024, we invested \$5.3B in land acquisition and development and entered 2025 with plans to increase our land spend to \$5.5B. **Given greater macroeconomic uncertainty, we are recalibrating our land spend** and expect it will be closer to \$5B."

- **Wendy's (\$2.9B, Hotels, Restaurants & Leisure):** *"We will continue to invest in the resources and technology needed to deliver on our strategic priorities. Additionally, we will tightly manage discretionary expenses and expect incentive compensation will be lower than our initial outlook."*
- **Meritage Homes (\$5.1B, Household Durables):** *"We continue to expect full-year land spend of around \$2.5B for 2025, but we are mindful of current economic uncertainties and will shift our capital dollars if further market disruptions were to occur."*
- **Mister Car Wash (\$2.6B, Diversified Consumer Services):** *"We continue to tightly manage our expenses during the quarter, which, along with a timing shift in marketing expenses, allowed us to lever SG&A and drive strong cash flow and adjusted EBITDA levels. Great revenue growth, coupled with good expense management, delivered strong flow-through to EBITDA, as well as a healthy increase to adjusted EBITDA margin."*
- **Patrick Industries (\$2.8B, Automobile Components):** *"We have multiple levers available to further manage leverage without risking the business model, including further cost reductions, if necessary, and aggressive working capital management, as we did in the second half of 2022 when the RV industry pulled back production sharply."*
- **Polaris (\$2.3B, Leisure Products):** *"We focus on Capex and making sure we're only spending money where we absolutely need to. We deferred a couple of projects that can go into next year. We'll continue to look to do that."*
- **Dana Inc. (\$1.9B, Automobile Components):** *"I'm pleased to announce that we're accelerating the realization of the cost program here in 2025, from what was \$175M to \$225M. We've got a few scenarios, whereby depending on the volume change severity, we would [enact] different plans. I won't go into details, but it would go from minor discretionary spending reduction to a little bit more structural changes, without jeopardizing the future investments that we're making."*

In Closing

The Consumer Discretionary sector continues to face challenges, with macro commentary increasingly conservative across the board. A sense of optimism at the start of the year has given way to tariff turmoil and souring consumer sentiment, clouding outlooks.

With costs for many expected to rise no matter how trade negotiations shake out, companies are contending with a challenging environment and heightened uncertainty.

In this environment, investors are not seeking perfect certainty, but rather transparency and a clarity around how your company is navigating these choppy waters and steps being taken to mitigate the downside.

As always, please reach out if you have any questions about your earnings approach this quarter. We'll continue to cover evolving themes in our ongoing weekly earnings Sector Beat coverage to provide insightful information on the macroeconomic landscape and helpful communication strategies.

Up next week: Materials Sector Beat.