Yardeni Research

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Morning Briefing

Tracking Consumers & Nvidia's Investing

Check out the accompanying chart collection.

Executive Summary: How is the US consumer doing? Jackie examines the evidence. Trump tariff turmoil likely distorted the clues in March retail sales, and Tesla and Amazon weighed on the S&P 500 Consumer Discretionary index. We take a look at bank consumer lending and Americans' trips to Vegas for clues. Also: US importers appear suddenly to have stopped front-running tariffs as they work down inventories. Much anecdotal evidence even suggests they're cancelling orders already placed. … And: In the wake of new government export restrictions costing Nvidia big bucks, we look at the acquisitions that expand the company's offerings beyond chips.

Consumer Discretionary I: Bracing for Recession? March retail sales data and better-than-expected earnings news from some of the nation's largest banks painted a much rosier picture of the consumer than the ytd performance of S&P 500 Consumer Discretionary stocks does.

Granted, retail sales data and big banks' Q1 earnings both reflect the economy before the shock and awe of President Trump's Liberation Day on April 2. Stocks, meanwhile, are forward-looking predictors of the future, sometimes accurate, sometimes not. Nonetheless, the S&P 500 Consumer Discretionary stock price index is painting a gloomy picture, having fallen 17.8% ytd through Tuesday's close, far behind the S&P 500's ytd performance, down 8.2% (*Fig. 1*). Admittedly, Tesla's shares, down 37.1% ytd, and Amazon's shares, down 18.1% ytd, have weighed heavily on the Consumer Discretionary index. Excluding the two giants' shares, the Consumer Discretionary stock price index would be only 5.5% lower ytd.

Here's the performance derby for many S&P 500 Consumer Discretionary industries ytd through Tuesday's close: Automotive Retail (12.8%), Restaurants (-0.7), Home Improvement Retail (-9.4), Homebuilding (-13.5), Retail Composite (-13.5), Hotels, Resorts & Cruise Lines (-14.2), Casinos & Gaming (-25.6), and Automobile Manufacturing (-35.0) (*Fig. 2*, *Fig. 3*, and *Fig. 4*).

Let's take a quick look at consumer discretionary indicators from the past and the present as we attempt to divine the future:

(1) *Consumers buy anticipating inflation.* US retail sales jumped 1.4% m/m in March, beating expectations for a 1.2% increase (*Fig. 5*). Much of that spending was on cars, as consumers may have been proactively buying if they anticipated price increases in the wake of Trump’s tariffs. But even excluding car sales, retail spending rose 0.5% m/m.

With the weather warming up in many parts of the country last month, consumers were out there spending in all kinds of stores, including those selling building and garden supplies (up 3.3% m/m), sporting goods, hobby, musical instruments, and books (2.4), electronics & appliances (0.8), health and personal care items (0.7), and general merchandise (0.6). Restaurants and bars benefitted from more spending (1.8) too, so not all of the increased spending can be explained by front-running tariff impacts.

(2) *Bank earnings looked good.* Earnings from Bank of America and Citigroup were better than expected, and their shares rallied last week on the news. B of A reported Q1 earnings per share of $0.90, up sharply from $0.76 last year and well above the $0.82 analysts expected.

“We note that some retailers may say that their sales are slower and others are picking up, and it really reflects the change in consumer spending behavior. But in the aggregate, the consumer keeps pushing money into the economy,” said CEO Brian Moynihan on the bank’s earnings *conference call*.

While the bank painted a picture of a healthy consumer, it did seem to be positioning for slightly tougher times ahead. Bank of America’s consumer banking unit’s revenue rose 3.2% y/y in Q1, but net income declined 4.7% to $2.3 billion. The bottom line was dented by an increase in the provision for credit losses of $142 million, or 12.3% y/y, to $1.3 billion.

Moynihan also noted that the bank’s consumer loan portfolio, at $468 billion, is $200 billion smaller than it was back in Q4-2009, with home equity loans down by more than $125 billion and unsecured credit card loans down by more than $60 billion over the 15-year period. “This reflects a concentrated effort by us to focus on our relationship loans rather than loans as a product and deepen those relationships with the highest quality prime credit customers,” he explained.

(3) *Warning signs out of Vegas?* One of the ultimate consumer discretionary purchases is

visiting Las Vegas. Many Americans in recent years wouldn't think twice about jetting to the home city of Frank Sinatra to see a concert, go to friends' bachelor and bachelorette parties, gamble, or attend business conferences.

They seem to now. The number of passengers arriving at and departing from Las Vegas fell in February by 7.5% y/y, according to a March 27 *press release* from the Harry Reid International Airport. Visitors flying in and out on domestic airlines in February fell three times as much as those who flew in and out on international airlines, declining by 7.7% versus 2.6%. Vegas hosted the Super Bowl in 2024, so traffic would understandably be down in February 2025, when the big game was played in New Orleans. We'll be watching to see if March traffic rebounds, but Canadians reportedly have pulled back on their visits to Sin City, according to an April 13 KTNV *article*.

Consumer Discretionary II: Retailers Sink Shipping. Retailers who raced to import goods before the Trump tariffs went into effect appear to be hitting the brakes. Yes, the President has paused most reciprocal tariffs for 90 days, but the baseline tariff increase of 10% remains in place, as do the reciprocal tariffs on China that can amount to 125% or more.

The pre-tariff-importing spike lifted nominal imports of merchandise to $3.9 trillion in February, a whopping 22.1% above last February's level (*Fig. 6*). But now it appears from anecdotal evidence, confirmed by shipping data, that the pendulum has swung the other way: Shipments are sinking on everything from toys to time pieces. Daily bookings to ship containers from China to the US have tumbled 25% y/y, according to an April 9 FreightWaves *article* citing SONAR's Container Atlas data. Globally bookings have fallen 13% y/y.

The impact is also apparent in pricing. The Drewry World Composite index, which tracks spot shipping rates worldwide for 40-foot containers, did inch up 3% from the week of April 3 to the week of April 10, but it was way lower than usual: It fell 19% y/y, the shipping consultant *reported*. The y/y declines are sharpest on the routes from Rotterdam to Shanghai (-38%), Shanghai to Los Angeles (-23%), and Shanghai to Rotterdam (-22%). Shipping prices could continue to fall as retailers work down their newly beefed up inventories.

Here's a sampling of anecdotes circulating in the press about items that will remain warehoused abroad for the time being instead of heading out on the open seas:

(1) *Tariffs hit shoes*. US textile buyers have halted their orders from Bangladesh. An exporter of footwear and leather products said that "an order of bags, belts and wallets worth $300,000 was halted on April 6 by one of his buyers," an April 15 *article* in the *South China Morning Post* (*SCMP*) reported.

(2) *Tariffs hit toys.* Five Below suspended cargo shipments from China, according to a letter that A.P. Moller-Maersk A/S sent on behalf of the retailer to suppliers. Five Below sells toys, clothes, and household goods. "No containers are to be delivered to the yard starting April 10, with those that have been loaded to be unpacked and returned to the carrier," according to the letter cited in the *SCMP* article.

Basic Fun!—the maker of Care Bears, Tonka Trucks, and the like—has paused shipments of Chinese-made products, an April 10 *article* in *People* reported. Eighty percent of US toys are made in China, and the 125% tariff on them will make for a much more expensive holiday season. The owner of the Christmas Loft in New Hampshire said the retailer will absorb some of the tariff cost, but expects they'll raise prices by at least 50%.

(3) *Tariffs hit cars*. Shipments of Jaguars, Land Rovers, and Range Rovers have come to a halt, as they're made in the UK and subject to a 10% tariff, an April 7 *New York Post* *article* reported. Swiss makers of luxury watches—think Rolex, Breitling, and Piguet—are also halting their US shipments.

These pauses may be temporary as importers devise strategies for dealing with tariffs, while hoping that President Trump walks them back. But if the shipping strike continues, parents may have to get creative filling stockings this holiday season.

Disruptive Technologies: Nvidia Broadening Beyond Chips. Nvidia got bad news this week from the US government: The chip manufacturer will need a license to export its AI H20chips to China and five other nations for the indefinite future. Nvidia announced on Tuesday night that the restrictions will result in the company taking a charge of up to $5.5 billion, and its shares fell 6.9% on the news. The H20 was designed to comply with US export regulations that previously banned the company's H100/A100 chips.

Fortunately, Nvidia has been laying the groundwork to move beyond chip manufacturing. Through many acquisitions, Nvidia has bulked up its software and hardware offerings. "We acquire and invest in businesses that offer products, services and technologies that we believe will help expand or enhance our strategic objectives," the company states in its *annual report*.

We first wrote about the company's acquisitive nature in the May 2, 2024 *Morning Briefing*. Let's take a look at what the company has been up to more recently:

(1) *Expanding into servers.* Nvidia's most recent acquisition reportedly occurred earlier this month for Lepton AI, which rents servers powered by Nvidia's AI chips from cloud service providers and then leases them out to smaller clients. Lepton, which was founded just two years ago, was reportedly valued at several hundred million dollars. Lepton's founder Yangqing Jia, who was also Alibaba's former VP of AI and Data Analytics, will join Nvidia. The deal seemingly would put Nvidia in competition with cloud providers like Amazon, Google, and Microsoft.

Famed short-seller James Chanos is skeptical of the deal. On X he *wrote*, "[T]rying to buyout your resellers is usually a huge red flag. It's often a way to bury inventory costs and/or avoid receivables provisioning."

(2) *All about AI.* Nvidia also recently purchased Gretel, which generates synthetic AI training data. Founded in 2019, its price tag was said to be in the nine figures. "The startup fine-tunes models, adds proprietary tech on top, and then packages these models together to sell them," reported a March 19 TechCrunch *article*. AI companies have needed to use synthetic data to train their models because they've already consumed the real-world data available for training.

Late last year, Nvidia acquired another AI focused company, OctoAI, for $250 million. Spun out of the University of Washington in 2019, the company specializes in developing generative AI tools. One offering makes it easier for developers who aren't AI experts to work with large language models. Their technology works with chips from AMD, Intel, and Nvidia, making it a versatile solution. The acquisition "allows Nvidia to expand its reach beyond its own GPU ecosystem and capture a larger share of the enterprise AI market," concluded a September 30 *Forbes* *article*.

(3) *Venture investing too.* Nvidia has also been an active venture investor, following in the footsteps of many large tech companies. The chip company invested in 49 funding rounds for AI companies last year, up from 34 in 2023, a March 16 TechCrunch *article* reported. This is in addition to the 24 deals Nvidia's venture capital arm, NVentures, invested in last year.

Most recently, the company was part of a group that invested in Safe Superintelligence, an AI startup that's captured a ton of attention, as it was co-founded by former OpenAI chief scientist Ilya Sutskever. The Nvidia investment was part of the startup's latest funding round, which raised $2 billion and valued the company at $32 billion. SSI also received an investment from Google and chose to "primarily" use Google's TPU chip and servers instead of Nvidia's GPUs, an April 15 *article* in The Channel Co. reported.

Nvidia has also invested $100 million in OpenAI and undisclosed amounts in xAI, Cohere, Mistral AI, Perplexity, Scale AI (a data-labeling service), Crusoe (a data center company), Figure AI (a robotics company), Lambda (an AI cloud provider), and many others. Nvidia was an investor in CoreWeave and bought additional shares at its IPO price of $40 when it went public last month. The AI data center company's share price hasn't changed much since the offering despite the stock market's volatility.

Calendars

US: Thurs: Housing Starts & Building Permits 1.42mu & 1.45mu; Initial Claims 225k; Philadelphia Fed Manufacturing Index 3.1; Atlanta GDPNow; Barr. **Fri:** Daly. (FXStreet estimates)

Global: Thurs: ECB Interest Rate Decision & Deposit Facility Rate 2.40% & 2.25%; Germany PPI -0.1%; Germany Buba Monthly report; BoE Credit Conditions; Japan CPI. **Fri:** Spain Consumer Confidence; China FDI. (FXStreet estimates)

Strategy Indicators

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): During the April 10 week, forward revenues rose for three of the 11 S&P 500 sectors and forward earnings rose for just two. The forward profit margins also rose w/w for two sectors. Heath Care was the only sector with record-high forward revenues this week. These five are less than 0.2% from their recent record highs: Communication Services, Consumer Staples, Financials, Information Technology, and Utilities. Among the remaining five sectors, Consumer Discretionary and Real Estate have dropped 1.4% and 0.7%, respectively, from their mid-March record high forward revenues, Industrials' is 2.6% below its early September record, and both Materials and Energy are the biggest laggards seeming to bottom now at 7.4% and 14.8% below, respectively. Looking at forward earnings, Utilities was the only sector at a record high this week. These seven sectors are less than 2.0% from their record highs:

Communication Services, Consumer Discretionary, Consumer Staples, Financials, Health Care, Industrials, and Information Technology. Real Estate's has improved to 4.6% below its record high in August 2022. Forward earnings remains depressed, but beginning to improve for the last two sectors, Energy and Materials, which are 35.2% and 26.4% below their respective highs during 2022. Looking at the forward profit margin, Communication Services and Consumer Discretionary were the only two sectors at a record high this week as Financials exited that club. During late 2024, the Industrials and Information Technology sectors were also in that club, but they remain close. These four sectors are struggling, with their forward profit margins at or barely above cyclical lows: Consumer Staples, Energy, Health Care, and Materials. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (27.2%, down 0.1ppt w/w and down from its 27.6% record high in September prior to low-margin Dell's index addition, which lowered the margin 1.3ppts then to 26.3%), Financials (20.1, down 0.1ppt w/w from a 20.2 record high), Communication Services (18.7, a record high), Real Estate (16.4, down 0.2ppt w/w and from its 19.2 record high in 2016), Utilities (14.5, down from its 14.8 record high in April 2021), S&P 500 (13.6, a record high), Materials (10.7, just 0.2ppt above a four-year low 10.5 in March and down from a 20-month high of 11.6 in July 2023 and a 13.6 record high in June 2022), Energy (9.1, down 0.2ppt w/w to a 39-month low and down from its 12.8 record high in November 2022), Industrials (11.1, down 0.1ppt w/w and from its 11.3 record high in early January), Consumer Discretionary (9.4, a record high), Health Care (8.6, only 0.1ppt above its 8.5 record low at the end of April and down from its 11.5 record high in February 2022), and Consumer Staples (6.8, only 0.1ppt above its 20-month low 6.7 in late March and down from its 7.7 record high in June 2020).

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US Economic Indicators

Retail Sales (*link*): Retail sales in March posted the strongest monthly gain since January 2023, fueled by autos. *Retail sales* jumped 1.4% in March, slightly above consensus estimates and well above February's 0.2% increase. Sales were up 4.6% versus a year ago. Sales in the *control group*—which excludes autos, gasoline, building materials, and food services—rose 0.4% in March, falling short of the 0.6% consensus estimate, following February's 1.3% increase. *Of the 13 nominal retail sales categories*, 11 rose in March, while only two fell. *March sales performance versus that of a year ago*: motor vehicles & parts (5.3 m/m & 8.8 y/y), building materials & garden equipment (3.3 & 2.6), sporting goods & hobby stores (2.4 & 2.7), food services & drinking places (1.8 & 4.8), electronics & appliance stores (0.8 & 1.8), health & personal care stores (0.7 & 7.2), miscellaneous store retailers (0.7 & 4.7), general merchandise stores (0.6 & 3.8), clothing & accessories stores (0.4 & 5.4), food & beverage stores (0.2 & 3.6), non-store retailers (0.1 & 4.8), furniture & home furnishings (-0.7 & 7.7), and gasoline stations (-2.5 & -4.3).

Business Sales (*link*): Both nominal and real business sales have been volatile around record highs. *Nominal business sales* in February rose 1.2% to a new record high of $2.31 trillion. Meanwhile, *real business sales* dipped 1.2% in January to $1.85 trillion, after climbing to a new record high of $1.87 trillion in December. These sales hovered at $1.85 trillion from September to November.

Industrial Production (*link*): Industrial production contracted 0.3% in March—weaker than the consensus estimate of a 0.1% shortfall—reflecting a steep drop in utilities output. *Utilities* output plunged 5.8% last month due to unseasonably mild weather. Meanwhile, *manufacturing production* rose for the fifth straight month in March, by 0.3% m/m and 2.1% over the period. The sector expanded 5.5% (saar) during the first quarter. *Motor vehicle* output rose 1.2% in March, building on February's 9.2% spike. *Excluding autos*, industrial production rose 0.5%. *By market group*, *consumer goods* output declined 1.0%, as a 1.4% decline in *nondurables* output, mostly energy, more than offset a 0.5% increase in *durable* goods production. Meanwhile, *business equipment* output jumped 1.7% last month on widespread gains, with transit equipment (4.5%) posting the biggest gain, followed by information processing (1.3), industrial (0.8), and defense & space (0.6) equipment.

Capacity Utilization (*link*): The *headline* capacity utilization rate fell in March to 77.8%, after climbing from 76.8% in November to 78.2% by February. March's rate is 1.8ppts below its long-run (1972-2024) average. The *manufacturing* utilization rate rose for the second month to 77.3% in March after hovering between 76.1% and 76.4% the prior four months, with the rate 0.9ppt below its long-run average. The utilization rate for mining rose to 90.6% last month from 88.6% at the start of the year—4.1ppts above its long-run average—while the utilities rate fell for the second month, from 74.9% in January to 69.1% in March, remaining well below its long-run average.

NAHB Housing Market Index (*link*): "Policy uncertainty is having a negative impact on home builders, making it difficult for them to accurately price homes and make critical decisions" noted NAHB Chief Economic Robert Dietz. "The April HMI data indicates that the tariff cost effect is already taking hold, with the majority of builders reporting cost increases on building materials due to tariffs." April's *housing market index* (HMI) ticked up a point to 40 in April, after dipping to 39 in March—matching last August's recent low, which was the lowest since December 2023. It was at a nine-month high of 47 during January. Two of the three HMI components moved higher in April: *current sales conditions* rose 2 points to 45, while *traffic of prospective buyers* ticked up a point to 25. Meanwhile, *sales expectations* sank four points to 42. The April survey indicates that the *share of builders cutting prices* was unchanged at 29%. Meanwhile, 61% of builders used sales incentives this month, up from 59% in March.

Global Economic Indicators

Eurozone CPI (***link***): The *Eurozone's CPI* slowed for the second month, to 2.2% y/y in March, after accelerating from 1.7% last September—which was the lowest yearly rate since April 2021—to a six-month high of 2.5% by January. Meanwhile, the *core CPI* slowed for the second month to 2.4% last month, the lowest since January 2022, after a string of 2.7% increases from September through January. The headline and core CPIs are down sharply from their recent peaks of 10.6% in October 2022 and 5.7% in March 2023. Looking at the components, the *services* rate eased for the third month in March, to 3.5%, after fluctuating in a narrow band from 3.9% to 4.0% for several months. The rate for *energy* prices slowed for the second month to -1.0% y/y in March after climbing from a recent low -6.1% in September to 1.9% by January. Meanwhile, the rate for *food, alcohol & tobacco* accelerated for the second month to 2.9% in March, after easing from 2.9% in October to 2.3% at the start of this year. The rate for *non-energy industrial goods* held at 0.6% in March, fluctuating in a narrow band between 0.5% and 0.6% since October. Among the four *largest Eurozone countries*, March's yearly inflation rate was unchanged in France at 0.9%, eased in Spain (2.2% from 2.9%) and Germany (2.3 from 2.6), and accelerated in Italy (2.1 from 1.7).

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