CREDIT PERSPECTIVES | TAXABLE BONDS

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STAYING STRONG: CONSUMERS AND COMPANIES AMID TARIFFS

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Even before President Trump's "Liberation Day" tariff announcement on April 2, many consumer-facing companies were already signaling caution, citing policy uncertainty and mixed economic data. Since the announcement, many investors — including our team — have been maintaining limited exposure to the most-affected companies to avoid outsized risks. In this article we share how we are looking beyond the headline economic data to what management teams are saying and doing to guide our credit selection process today.

KEY POINTS

- Consumer spending remains robust but selective. Consumers are still spending, but they are pulling back on non-essential goods.
- Companies are responding by adjusting sourcing, inventory, and production to control costs and avoid price hikes.
- We remain selective in the sector: Our focus remains on issuers tied to essentials and experiences, with strong balance sheets, flexible supply chains, and a proven ability to manage cost pressures.

CONSUMER SPENDING REMAINS RESILIENT, BUT VALUE-SEEKING BEHAVIOR PERSISTS

Recent commentary from a range of financial and consumer-facing companies suggests consumers remain resilient. Spending has held steady into the second quarter, despite weak sentiment readings and macroeconomic uncertainty. At recent industry conferences, financial company management teams collectively emphasized that consumer spending has not meaningfully slowed to match sentiment. One large credit card issuer attributed this resilience to solid employment (**Figure 1**) and wage growth levels (**Figure 2**), as well as healthy consumer credit.

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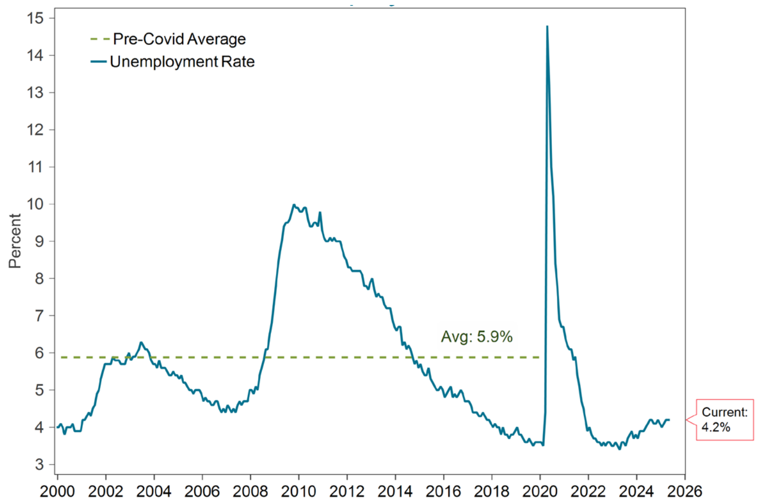
FIGURE 1

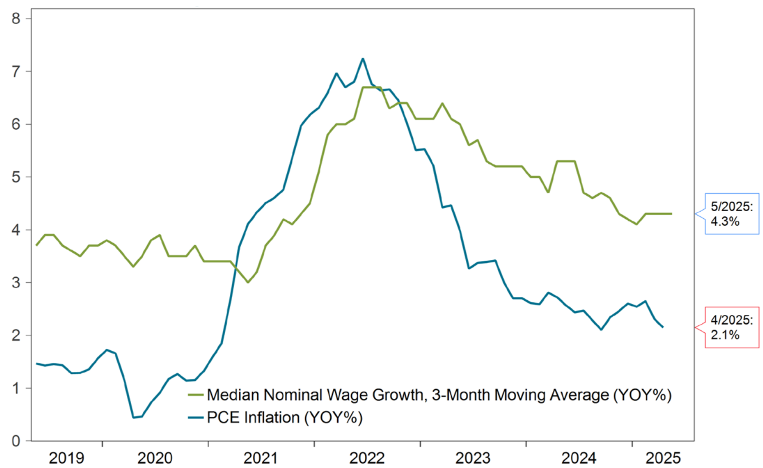
US Unemployment Rate



Source: GW&K Investment Management and Macrobond

FIGURE 2

Rising Real Wages: US Wage Growth Outpaced Inflation in 2023 and 2024



Source: GW&K Investment Management, Atlanta Fed, BEA, and Macrobond

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Some signs of shifting behavior have started to emerge, however. Consumer products businesses and retailers are seeing greater demand for value and a pullback in discretionary categories like apparel, consumer electronics, and big-ticket home goods. Many of these firms have lowered guidance for the year. Similarly, certain food and grocery companies noted a pivot from dining out to more affordable eat-at-home options.

In contrast, lodging and leisure companies reported continued demand. Higher-end hotels, cruise lines, and Las Vegas casinos expect activity to remain robust, supported by strong booking rates and activity levels. Consumers remain willing to spend on experiences, even if that means cutting back elsewhere.

"Consumers remain willing to spend on experiences, even if that means cutting back elsewhere."

COMPANIES ARE PROTECTING DEMAND BY MANAGING COSTS, NOT RAISING PRICES

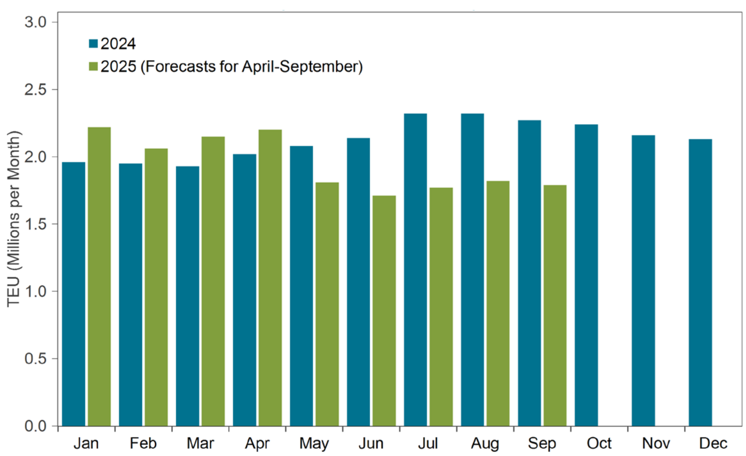
Facing increasingly price-conscious consumers, many companies are holding off on raising prices. Rather than passing through potential tariff-driven cost increases, they are mitigating the impact by adjusting inventory strategies, shifting sourcing, and relocating manufacturing. Several companies we follow have made it clear that price hikes will be a last resort.

A range of companies, from department stores to home improvement centers, have accelerated inventory purchases in high-confidence categories to lock in lower costs (**Figure 3**). Others are focusing their orders on essential, non-discretionary items to reduce the risk of future promotional activity.

"Rather than passing through potential tariff-driven cost increases, many companies are mitigating the impact by adjusting inventory strategies, shifting sourcing, and relocating manufacturing."

FIGURE 3

Monthly Imports 2024 – 2025 (TEU – Millions)



Note: TEU refers to Twenty-Foot Equivalent Units
Source: NRF/Hackett Associates Global Port Tracker and Macrobond

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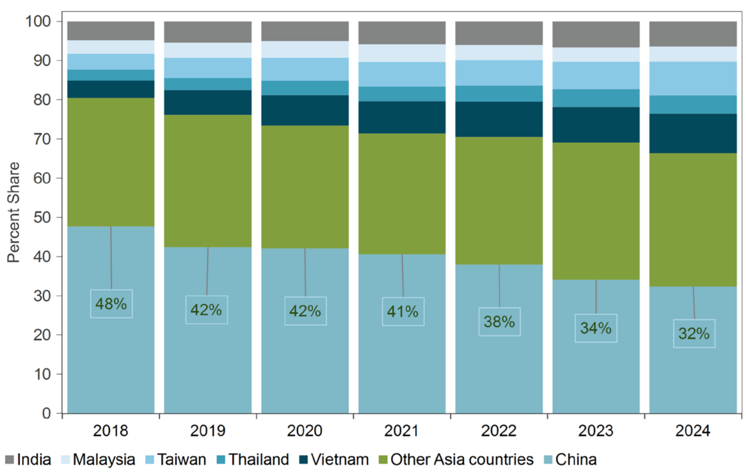
Supply chain diversification away from China, a trend that began during the first Trump administration (**Figure 4**), has gained renewed urgency. Wherever possible, companies still reliant on Chinese manufacturing are fast-tracking shifts to lower-tariff regions. Others are highlighting domestic supply chains that give them an edge in maintaining earnings and cash flow guidance.

FIGURE 4

Declining Proportion of US Imports From China Versus the Rest of Asia



Source: GW&K Investment Management, US Census Bureau, and Macrobond

Suppliers, too, play a critical role. Management teams are pushing back on vendor pricing and seeking shifts in production locations to limit cost pressures. Even US-based producers can be affected by tariffs on certain imports. As a result, these companies are leaning on suppliers to help absorb costs and support end market demand.

OUR VIEW AND POSITIONING

As we reach midyear, economic data remains firm and company commentaries suggest consumers are spending actively, though increasingly selectively. However, the true test lies ahead, as the coming months should reveal how consumers and companies adapt to a more tariff-focused environment.

Against this backdrop, we remain invested in the consumer sector to capture attractive spread levels, but with a keen focus on credit quality. Our approach favors issuers anchored in non-discretionary and experiential categories. We prioritize

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companies with proven ability to manage inventory, control costs, and negotiate effectively with suppliers. Further, we emphasize supply chain resilience, either diversified or US-based production footprints.

We find the most compelling risk-adjusted value in companies that pair strong credit fundamentals with these operating advantages. These issuers are best equipped to absorb cost pressures, navigate shifting policies, and outperform in a more complex operating environment.

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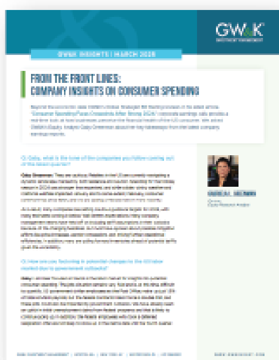

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