Zooming In

Zooming In – October 2025 – Sector Outlook: US Consumer Discretionary and Staples

Neha Sahni and Meredith Jensen

Neha

Hi everyone! Welcome to a new episode of our CIO Zooming In series, where we discuss burning market and investor questions. Today's topic of discussion is one that has been debated by most macro enthusiasts since the imposition of US tariffs in early 2025, and that is the impact of these tariffs on the health of the US consumer. To discuss the outlook for US consumer discretionary and US consumer staples sectors, today I'm joined by Meredith Jensen, who is a senior consumer research analyst at HSBC's Global Investment Research division. Meredith, welcome and thanks for joining us today.

Meredith

Thanks, Neha. Great to talk to you.

Neha

So let's start with discussing America's macroeconomic landscape. Whilst US CPI remains fairly contained for now, slowly, but surely, we are seeing signs of tariff pass-through in imported goods. At the same time, the US labour market is weakening. Add to this slowing growth-higher inflation outlook, the potential impact of some recently announced tariffs, and we are starting to see a US consumer who is getting really hurt. So Meredith, in such a tricky macroeconomic backdrop, what are your observations on how the US consumer behaviour is changing and how is all this impacting the overall consumer sentiment in the US?

Meredith

Thanks, Neha. Totally agree with your characterisation that the US consumer demand picture is a complex one. Specifically, on one hand, we see experiencial spending versus goods as a sustainable megatrend, that we expect to continue, and this is an important one. At the same time, we're seeing a broader cross-section of American consumers, which are truly concerned about the macro picture. In addition, the political environment, including the recent government shutdown, is adding to this volatility and concern. So what we're seeing is Americans are becoming increasingly vocal about the cost of everyday life. And it's spanning from insurance premiums on their houses and their cars to the price of hamburger in the grocery store. So what is happening now is they are recalibrating, shifting the way they are choosing to spend, being much more deliberate. And we're seeing this show up a lot in travel and this is across income cohorts. Consumers are choosing to take shorter trips, they're choosing to drive instead of flying, they're perhaps trading down in terms of hotel stays or restaurant choices.

Neha

So now, let's move on from the broad macro economic picture in the US to two long term trends that we have been observing. The first one is that the US has a K-shaped consumption story, whereby the top 10% of the US earners account for nearly 50% of US consumption, and therefore their discretionary demand remains high. Whereas the consumers who are at the lower end of the consumption spectrum are really struggling with the high cost of living. The second is the structural opportunity that's arising from aging demographics. Baby boomers are retiring in droves, and they're turning into what we call here as the silver spenders, who have enormous wealth to spend on travel, experiences and personalised services. At the same time, their longevity is going up as well. So Meredith, what are the structural and cyclical implications of these two long term trends for both consumer discretionary and consumer staples sectors? And within these two sectors, which particular pockets or subsectors are likely to see growth and which ones are likely to get hurt from higher import costs and expensive labour costs?

Meredith

Fully agree, Neha, that these structural shifts are really amplifying the bifurcation of the US consumer spending picture. On the one hand, we see the luxury companies, the luxury lodging, the high-end cruise companies having strong pricing power and will continue to show growth hundreds of basis points above the group average. On the flip side, we have quick-service restaurant companies where about a third of their customers are lower income, who are really feeling the pinch of the current economic environment. On top of this, these same companies are facing labour pressures, volatile commodity prices, and this is another concern. Finally, touching upon staples, I would say these are considered essentials and usually more defensive. The challenge is now the heightened price sensitivity of consumers as well as the input cost pressures. So, what we need to see are companies that not only can offer a strong value proposition, but that also can adapt to these changing demographic and structural shifts that you mentioned.

Neha

So essentially, even within the preferred subsectors of US consumption, there is still a need to focus on bottom-up stock selection. And to that effect, please could you talk to us about your “Five Factor Framework”, which I believe is your methodology to identify companies which have sustainable cash flow?

Meredith

You're exactly right Neha. We have found it over the years we've covered consumer, it is really essential to identify ways to evaluate companies that are going to outperform. So, what we have used is a Five Factor Framework, on which we scale the companies. And the first factor we would use is we look for companies that have a broad geographical footprint and are diversified across verticals and segments, and this really helps to protect and diversify against risks. Second, we look for companies that have economies of scale, and this is going to help with purchasing power, it's going to help dilute fixed costs, so another really important factor. Third, we're looking for strong brand equity companies that have a network effect for their brand and can drive customer engagement, loyalty and frequency. Next, we would certainly factor in liquidity and a company's ability to drive free cash flow. This provides resilience through this cycle, particularly against other companies who are less well resourced. Finally, I would of course look at valuation and we have to have companies with attractive valuation.

Neha

Finally, let's talk about the broadening of the use of AI to the US consumer sectors. Which subsectors, in your view, Meredith, are at the forefront of leveraging AI to their advantage here?

Meredith

Yes, AI is critical for the development of the consumer companies, and in fact, they have been focused on data for years. So this is only intensifying the focus. And if we look at our sectors that we cover, I would highlight, online travel companies as best positioned among the companies we cover. They have a track record for innovation and a track record for prioritising the spend of resources to move ahead. So while we're very early innings in this, I would put my bet on the online travel companies to be some of the winners in this new AI race.

Neha

To conclude, America has a K-shaped consumption story, whereby the top 10% of US earners contribute nearly 50% to the US consumption. Thanks to their high purchasing power, their discretionary spending remains high, even if they are now becoming a little value minded. Within the consumer discretionary sector, we prefer to invest in companies that offer a strong value proposition whilst delivering elevated brand quality. Long-term structural trends like ageing demographics, higher purchasing power of silver spenders and their rising longevity is supportive of certain subsectors within the consumer discretionary sector like high-end hotels, cruise liners and online travel agents. These subsectors also enjoy higher pricing power and they are leveraging AI to their advantage. However, even within these preferred subsectors, there is a need to do bottom-up stock analysis using a proper framework. Given a weaker US labour market and rising goods prices, we see continued headwinds for the US consumer staples sector. Subsections like quick-service restaurants should continue to face negative traffic trends whilst also facing headwinds from higher labour costs and higher import costs. As a result of all these factors, we maintain a relative preference for the consumer discretionary sector over the consumer staples sector. In our tactical asset allocation, we maintain a neutral view on both US and global consumer discretionary, whilst maintaining a mildly underweight view for both US and global consumer staples sector. Thank you, Meredith for sharing your razor-sharp insights on the US consumer with us today.