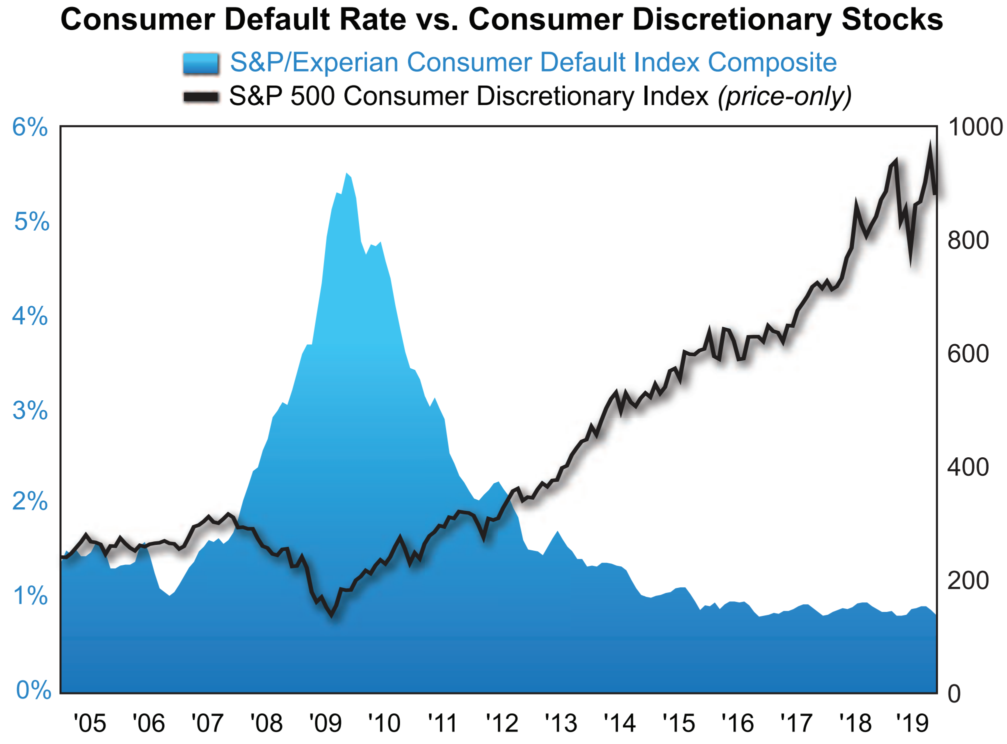
The Low U.S. Consumer Credit Default Rate Is Good For Discretionary Stocks



Source: Bloomberg. Monthly data points from 7/30/04-5/31/19. Past performance is no guarantee of future results.

View from the Observation Deck

1. The S&P/Experian Consumer Default Index Composite measures the default rates across mortgages, bank cards and auto loans. Its inception date was July 2004.
2. The index registered a default rate of just 0.83% in May 2019, well below its 1.87% average since inception, according to Bloomberg. Its all-time high was set in May 2009 at 5.51%, while its all-time low was set in May 2016 at 0.81%.
3. The index's default rate has been below the 1.0% mark since April 2015. The combination of U.S. households getting their fiscal houses in order and the strong U.S. job market has helped fuel demand for consumer discretionary stocks following the 2008-2009 financial crisis, in our opinion.
4. Consumer spending accounts for more than two-thirds of U.S. economic activity, according to Reuters.
5. From 3/9/09-5/31/19 (current bull market), the S&P 500 Consumer Discretionary Index posted a cumulative total return of 717.22%, the highest of the 11 major sectors that comprise the S&P 500 Index, according to Bloomberg. For comparative purposes, the S&P 500 Index posted a cumulative total return of 403.59%.
6. Investors funneled an estimated net $670 million into Consumer Cyclical mutual funds and exchange-traded funds in Q2'19, according to Morningstar.

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