Market Commentary Blog

Cash Flow *and Carey*

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This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Consumer Discretionary Index is an unmanaged index which includes the stocks in the consumer discretionary sector of the S&P 500 Index. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance. Consumer delinquency data is seasonally adjusted.

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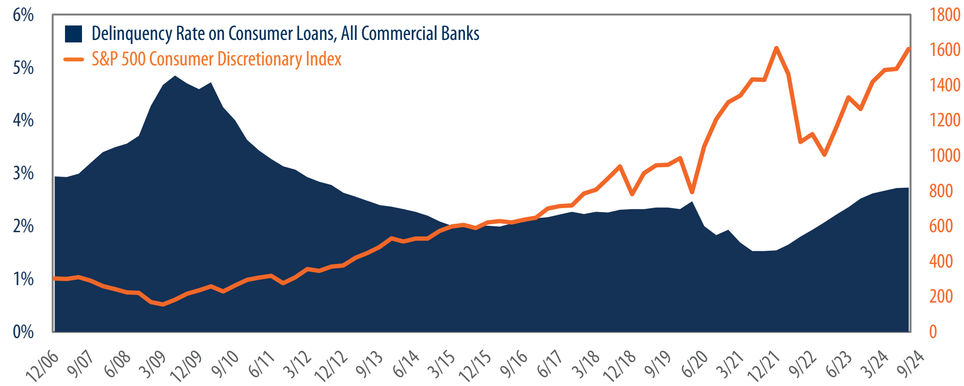
Consumer Delinquency Rates

Loan Delinquency Rate vs. Consumer Discretionary Stocks



Source: Bloomberg and FRED. Quarterly Data Points from 12/29/06 to 9/30/24. **Past Performance is no guarantee of future results.**

View from the Observation Deck

For today's post, we compare the delinquency rate on consumer loans issued by all U.S. commercial banks to the prices of the S&P 500 Consumer Discretionary Index, over time. We use data from the Board of Governors of the Federal Reserve System, retrieved from FRED, for the former set of observations. As the data is released on a lagging time frame, our current set of observations end in Q3'24.

At 30.14%, the S&P 500 Consumer Discretionary Index (Consumer Discretionary Index) boasted the fourth-highest total return of the 11 major sectors that comprise the S&P 500 Index in 2024.

The Consumer Discretionary Index has not fared as well in 2025, posting a year-to-date (YTD) total return of -0.07% thru 2/11/25.

With a YTD total return of -0.46%, Information Technology is the only sector in the S&P 500 Index with a lower total return than consumer discretionary stocks. Notably, a similar scenario was playing out in our last post on this topic in June 2024 (click here). At that time, consumer discretionary stocks were on their way to a total return of just 5.66% (ranking them 9th of all 11 sectors) over the first six months of 2024. That said, the following six months saw a dramatic shift in investor confidence, with the Consumer Discretionary Index surging by 23.17%, making it the top performing sector over the period. From our perspective, the recent 100 basis point reduction in the federal funds target rate likely contributed to this reversal, with lower interest rates potentially offering investors a reprieve to surging delinquencies.

Despite declining interest rates, the consumer loan delinquency rate continues to increase. After falling to an all-time low of 1.53% in Q3'21, the consumer loan delinquency rate surged to 2.73% at the end of Q3'24. Loan delinquency rates among credit cards and auto loans increased as well.

One important aspect of overall consumer health is the rate at which they are defaulting on their debt obligations. Not all delinquencies will become defaults, but a spike in the number of payments that are past-due could be an indication that the U.S. consumer is under increasing financial duress. The loan delinquency rate for credit cards issued by all insured commercial banks surged to 3.24% at the end of Q2'24, its highest level since the close of Q4'11. Since then, the metric declined slightly, settling at 3.23% in Q3'24. In a signal of further stress, 4.6% of U.S. auto loans were delinquent by 90 days or more in Q3'24. For comparison, the metric's record high of 5.3% was reached in Q4'10.

Takeaway

The delinquency rate on consumer loans issued by all U.S. commercial banks, stood at 2.73% at the end of Q3'24. At current readings, delinquency rates are well below their historical average of 3.06% and even further below their all-time high of 4.85%. That said, the surge in delinquencies is notable and coincides with a recent decline in consumer sentiment. The University of Michigan's "Surveys of Consumers" revealed that consumer sentiment stood at a reading of 67.8 in February 2025, down from 76.9 the year before. Given their sizeable contribution to GDP, we maintain that a healthy U.S. consumer may play an integral role in the U.S. avoiding an economic recession. We will continue to monitor the delinquency rate among consumers and report on changes.