



Hey big spender

Confidence in the US economy is positively affecting a change in consumer buying behaviour as they switch to spending rather than saving

There has been a distinct shift in US consumer spending patterns as growing confidence in the strength of the economy is translated into a desire to spend hard-earned dollars.

And the millennials are leading the way, a generation born into the social media age for whom it is the norm to share everything online. What they are sharing now are experiences such as holidays, festivals or meals out rather than objects such as the latest handbag or pair of shoes.

Spending patterns are changing as more of a consumer's discretionary pot goes on what entertains them. The new mentality is: 'If it isn't shareable, it didn't happen'.

Consumer confidence

Part of consumers' increased confidence comes from improved labour conditions and a gradual rise in salaries, including one or two sectors where higher minimum wages are being introduced.

Also, worries about interest rates were most concentrated around the first rate rise; fear about the next rise have already subsided and, if anything, the next one will help cement consumer confidence as a sign of an even stronger economy.

Over the past few years, consumers

have saved hard but now feel able to spend. They are looking for places where they feel good about spending their dollars, and are being entertained. Netflix, Disney and Comcast give us exposure to this pure entertainment theme.

Much of the rest of consumers' discretionary spending is on restaurants, online retailers and 'athleisure', which satisfies their growing demand for a healthier and more active lifestyle.

Going online

We cannot talk about the US consumer without mentioning Amazon – one of our largest holdings in the sector. The US consumer is spending more and more time on their phones, laptops, and PCs, and they want to spend their dollars in the same way. As such, companies with broad online offerings are poised to take share from traditional brick and mortar retailers, and Amazon has it all.

On average, a consumer spends an hour and a half perusing Amazon's website while making a purchase; by comparison, the average time spent on Target Corp or Walmart's websites is 10-15 minutes. This shift in preference works to Amazon's benefit given their broad assortment of goods, and is a trait we look for in other retailers. The general shift towards online retailers is one of the biggest themes we play.

Spending at leisure

The consumer staples sector has already benefited from an uptake in healthy lifestyle options in terms of better quality food that is organically sourced and produced in a way that is more advantageous to the environment.

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This is now supported by 'athleisure', a fashion trend that grew out of a consumer's desire to go straight from a workout to brunch. A trend compounded by those companies creating wholesome fashion for consumers to wear alongside their trips to a farmer's market to source the fresh produce they increasingly want.

The main stocks we follow for this theme are LuluLemon, Nike and UnderArmor.

Home improvements

Another theme benefiting from the increase in economic confidence is housing, specifically homebuilding and maintaining. Greater comfort in financial position is turning into increased mortgage applications, new and existing home sales, higher house prices and more housing starts.

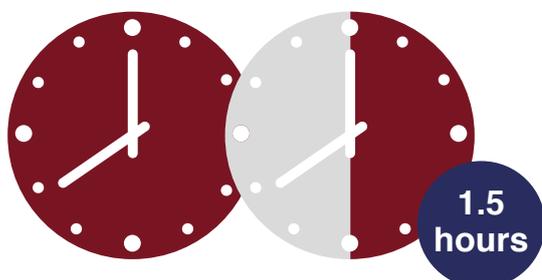
For the same reason, consumers are also spending money on longer-term home improvements, confident they will get a good return from an increase in their home's value.

Home Depot is the stock here, the largest home improvement retailer in North America.

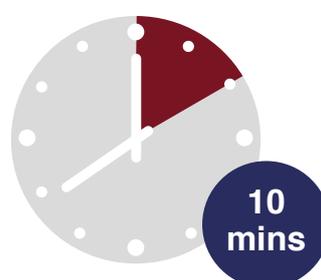
Again millennials have a part to play as they are confident in their own inability to make home improvements themselves. At the other end of the scale, baby-boomers are choosing not to make the improvements themselves because they can afford to pay someone else to do the work. Either way, they each have the discretionary spend available to bring in professional contractors who are making up a larger percentage of those spending at Home Depot.

Economic strength is a gauge of consumer confidence. The increase in both of these is helping to identify investment themes of which the desire to entertain and be entertained is a compelling one.

Average time a consumer spends on Amazon



Average time a consumer spends on Target Corp website



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