

Sector Insights

Global Securities Research

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2025's holiday outlook

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Summary

The holiday season is the biggest time of year for retailers of all shapes and sizes and can account for as much as 30% of a retailer's annual sales. The 2025 holiday season is expected to be dominated by another record-breaking year for online sales, with Adobe forecasting online spending to grow 5.3% year over year. In contrast, overall holiday retail spending, per National Retail Federation (NRF), is forecasted to be down -1.3% year over year compared to last year's record. This lower expectation is driven by price sensitivity due to inflation and tariffs, leading some consumers to plan for decreased spending. The NRF outlook offers a more optimistic take than Deloitte's projection that consumers plan to spend 10% below last year. Taken together, both paint a picture of a cautious consumer heading into the holiday season.

A cautious consumer heading into the holiday season

The holiday season, defined by the NRF, as sales in the months of November and December is the biggest time of year for retailers of all shapes and sizes, and can account for as much as 30% of a retailer's annual sales. As the peak holiday shopping season approaches, it appears most U.S. consumers have a more downbeat outlook on the economy and their own financial situation based on monthly recent sales trends. Macroeconomic indicators suggest mediocre growth in retail spending this holiday season. More consumers are finding it harder to live paycheck to paycheck due to factors like rising

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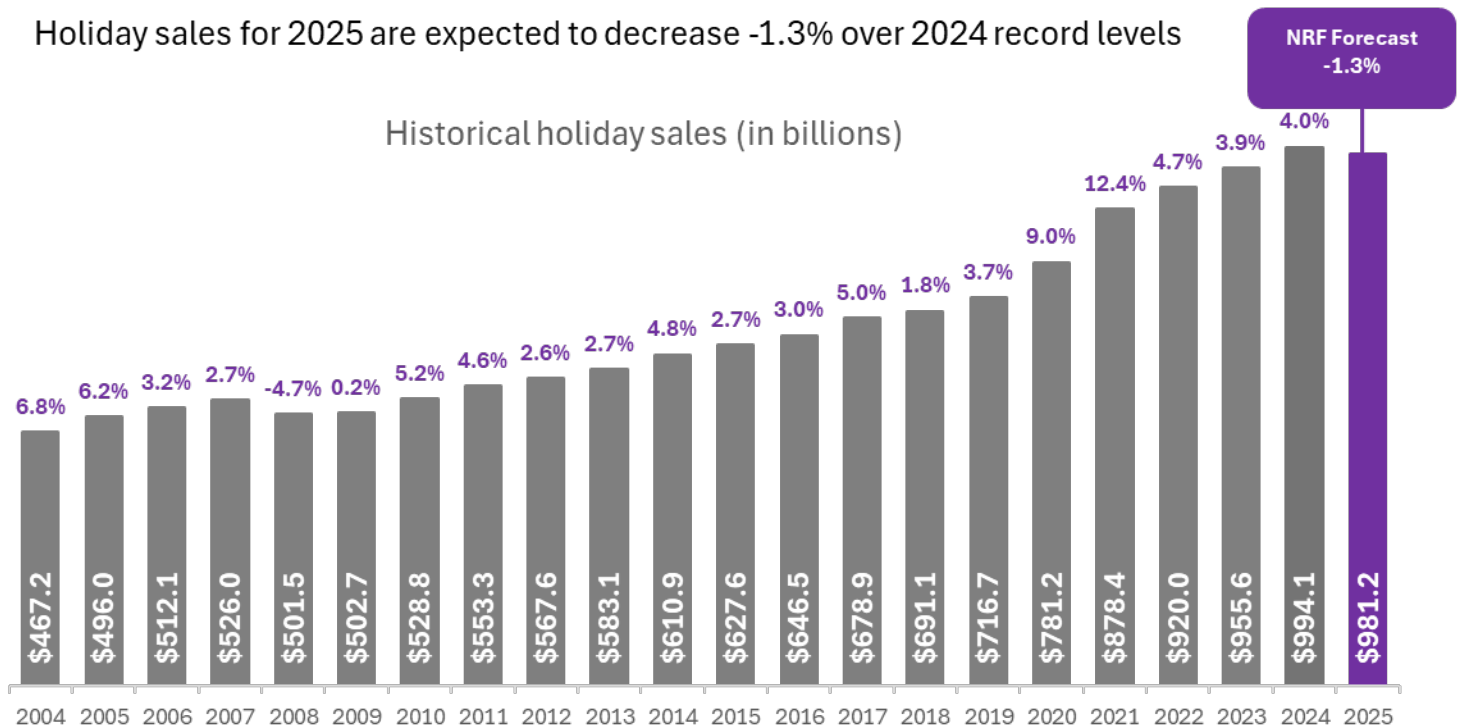
inflation, increased costs for essentials like housing, utilities, and groceries, and income that has not kept pace with expenses. This is leading to greater financial strain, particularly for younger generations and those with high fixed costs.

The 2025 holiday season is expected to be dominated by another record-breaking year for online sales, with Adobe forecasting online holiday spending to grow 5.3% year over year (YOY), slower than the year ago increase of 8.7%. In contrast, overall holiday retail spending, per NRF, is forecasted at roughly \$943.2 billion, down -1.3% YOY compared to last year's record of \$955.6 billion. This lower expectation YOY is driven by price sensitivity due to inflation and tariffs, leading some to plan for decreased spending. The NRF outlook offers a more optimistic take than Deloitte's projection that consumers plan to spend 10% below last year. Taken together, both paint a picture of a cautious consumer heading into the holiday season. Consumers are cutting back due to rising prices, new tariffs, and a higher cost of living. It is important to point out that despite any projections, with retail inflation near 2%, real spending will be down more than actual headline figures at season end.

Key trends this holiday season include earlier shopping, heightened price sensitivity with a keen focus on value, and an omnichannel experience. The holiday season is starting earlier, and consumers are beginning their shopping journey well before the peak period — with a significant portion of consumers planning to start shopping before November. Shoppers are expected to be budget-conscious — seeking value and deals and maybe spending less due to economic concerns — but also want authentic, personalized experiences and willing to spend on brands that resonate with them. Beyond just discounts, consumers want a sense of normalcy and a connection with brands. They are also seeking more intentional, value-driven purchases. Despite economic pressures, consumers are still generous and want to buy meaningful gifts.

The affluent households (households with a liquid asset of \$100,000 plus) still account for the largest portion of holiday sales and are expected to drive the lion's share of holiday 2025 sales and are expected to increase overall spend. In contrast, the lower-income households are most likely to decrease their spending this year. Stubbornly high inflation has placed a significant and disproportionate burden on low-income families by increasing the cost of essential goods, particularly food, housing, and energy, which make up a larger portion of their limited budgets, thereby, cutting into the level of discretionary expenditures available to this cohort during the upcoming holiday season. The low-end consumer will look for ways to stretch their dollars this holiday season to provide as much as they can to loved ones with what is available. We see off-price and discount stores as the primary beneficiary of this cautious outlook within the low-end consumer. We expect affluent households to maintain, or even accelerate, spending this year's holiday season on the heels of healthy stock market advancement. Finally, continued growth in the home equity and relatively low mortgage rates are likely to keep growth in spending by aspirational households, at worst, in line with last year.

Holiday sales for 2025 are expected to decrease -1.3% over 2024 record levels



Sources: National Retail Federation, Wells Fargo Investment Institute. Date: October 21, 2025.

We remain selective in the retail sector

In this uncertain consumer spending environment, we remain selective and favorably predisposed to value-oriented sub-industries within traditional retail. We maintain a favorable view on the Specialty Retail sub-sector with a keen focus on the off-price sub-industry as it is uniquely positioned to take advantage of consumers' desire for value-priced products while being less exposed to fashion risk than many competitors with its lean, high-turnover inventory model. Off-price retail is a business model where retailers sell brand-name merchandise at prices lower than traditional retailers. They acquire excess inventory, closeouts, and overruns from manufacturers and other stores at a discount, passing the savings onto customers. We think off-price is positioned to benefit from both long-term secular tailwinds and favorable sourcing conditions in the short term. We expect off-price to continue to take share from other areas of retail as consumers gravitate toward value, and as off-price retailers improve their assortments of brand-name merchandise. We also see currently elevated department store and apparel manufacturing industry inventories as a positive for off-price channel, as this should create a favorable environment for product availability.

We are also favorable on the Merchandise Retail sub-industry (which lies in the Consumer Staples sector) based on these companies' ability to offer low prices, a wide product selection, and the convenience of one-stop shopping, which resonates with budget-conscious consumers across different income brackets. The strong performance of discount- and value-focused stores highlights a consumer shift toward affordability. By winning market share and a growing percentage of consumer share of wallet over recent years, these retailers are able to better negotiate with suppliers to keep costs low to pass along savings to consumers. To maintain success, these retailers are adapting by leveraging their omnichannel presence, in-store merchandising, and data analytics to improve efficiency and customer experience.

General merchandise and off-price retailers recommended by Global Securities Research

Ticker	Company name	Market cap (billions)	Price	Dividend	Dividend yield	Estimated NTM EPS	NTM P/E	Core	DSIP	Growth	Focus	High Yield	SMID	Value
General merchandise														
COST	Costco Wholesale Corporation	\$417.6	\$942.05	\$5.20	0.6%	\$20.35	46.3x	X	X					
DG	Dollar General Corporation	\$22.7	\$102.99	\$2.36	2.3%	\$6.54	15.7x							X
TGT	Target Corporation	\$42.8	\$94.25	\$4.56	4.8%	\$7.73	12.2x		X			X		X
WMT	Walmart Inc.	\$852.2	\$106.86	\$0.94	0.9%	\$2.85	37.5x	X	X					
Off-price														
BURL	Burlington Stores, Inc.	\$16.9	\$268.11	\$0.00	0.0%	\$10.78	24.9x			X			X	
TJX	TJX Companies Inc	\$158.5	\$142.40	\$1.70	1.2%	\$4.94	28.8x	X			X			

Sources: FactSet, Wells Fargo Investment Institute. Prices and data as of October 23, 2025. NTM – next-twelve-months. EPS = earnings per share. P/E = price-to-earnings.

Appendix table: Companies discussed

Company	Symbol	Price
Burlington Stores, Inc.	BURL	\$268.11
Costco Wholesale Corporation	COST	\$942.05
Dollar General Corporation	DG	\$102.99
Target Corporation	TGT	\$94.25
TJX Companies Inc	TJX	\$142.40
Walmart Inc.	WMT	\$106.86

Sources: FactSet, Wells Fargo Investment Institute. Prices as of October 23, 2025.

Global Securities Research List Descriptions:

The **Core List** includes a wide range of what we view as high-quality companies. In general, the list may have representation across all 11 sectors and exposure to stocks with varying levels of maturity, valuation, and cyclicity. The Core List assumes a long-term holding period and can be used to build or supplement a well-diversified equity portfolio.

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