

Broadline Retail: Policy Risks and Opportunities Under Trump 2.0

Key Takeaways

- Policy risks have injected heightened levels of uncertainty across the retail landscape, prompting most retailers to issue cautious guidance for 2025.
- Tariffs are the most immediate concern, as they often raise costs for retailers and prices for consumers. Consumer sentiment has already fallen due to tariff fears and higher inflation expectations.
- Medium- to longer-term policy risks include stricter immigration policies and potential modifications to government assistance programs like SNAP.
- Potential opportunities include closing the de minimis loophole, which should reduce the competitive edge for fast-growing Chinese discounters like Temu and Shein. Additionally, favorable tax policies and a more friendly regulatory environment generally support growth.
- Our view is that retailers are better prepared to manage policy risks like tariffs under Trump 2.0. Supply chains have diversified since the first trade war with China back in 2018-2019. In addition, retailers should be able to flex their bargaining power with suppliers to mitigate tariff pressure (e.g., price negotiations). Other tools include product substitution (i.e., removing a high tariffed product for a product with low or no tariffs) and product reengineering (which can cut manufacturing costs).
- Our top picks within the big-box retail space are **WMT**, **KR**, and **BJ**.

Positive (+) or Negative (-) Implications

(+) BJ's Wholesale Club Holdings, Inc. (BJ)

(+) Costco Wholesale Corporation (COST)

(+) The Kroger Co. (KR)

(+) Walmart, Inc. (WMT)

(-) Dollar General Corporation (DG)

(-) Dollar Tree, Inc. (DLTR)

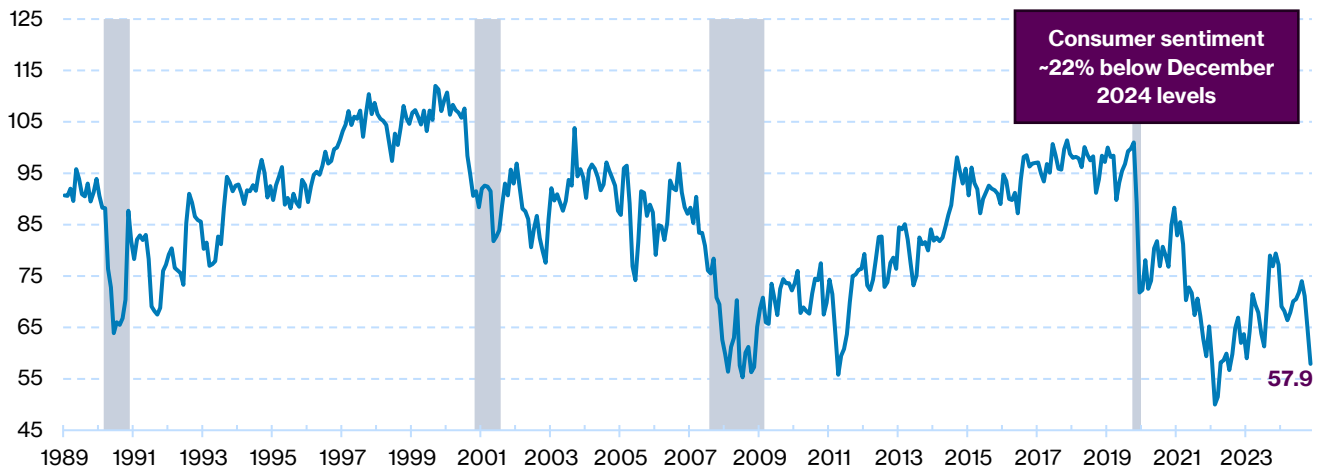
Fundamental Context

Although retailers are coming off a strong Q4 and holiday season, policy risks have injected heightened levels of uncertainty, causing most retailers to issue cautious guidance for 2025. The 2024 holiday season turned out to be better than anticipated. Despite a shorter holiday shopping calendar and a generally cautious consumer, holiday sales grew above most economic forecasts, driven by strong online spending and generally stronger spending among higher-income households. Industry leaders Walmart, Target, and Costco all delivered strong fourth quarter performances. However, their 2025 outlooks generally fell short of consensus expectations as policy risks, particularly potential tariff changes, have created significant uncertainty. While retailers appear to be setting modest expectations for the coming year, it's worth noting that most have not yet factored potential tariff impacts into their current outlooks.

Macro indicators haven't been great in recent months, fueling concerns of recession risk. Consumer sentiment has declined for three consecutive months, now sitting approximately 22% below December 2024 levels. While current economic conditions have remained relatively stable, forward-looking expectations have deteriorated amid high uncertainty surrounding policy decisions and other economic variables. Notably, sentiment declined across all political affiliations in March, following an initial post-election boost among Republican voters. Retail sales have also presented a mixed picture in early 2025. After disappointing January figures, February retail sales demonstrated a welcome recovery, but are still falling short of

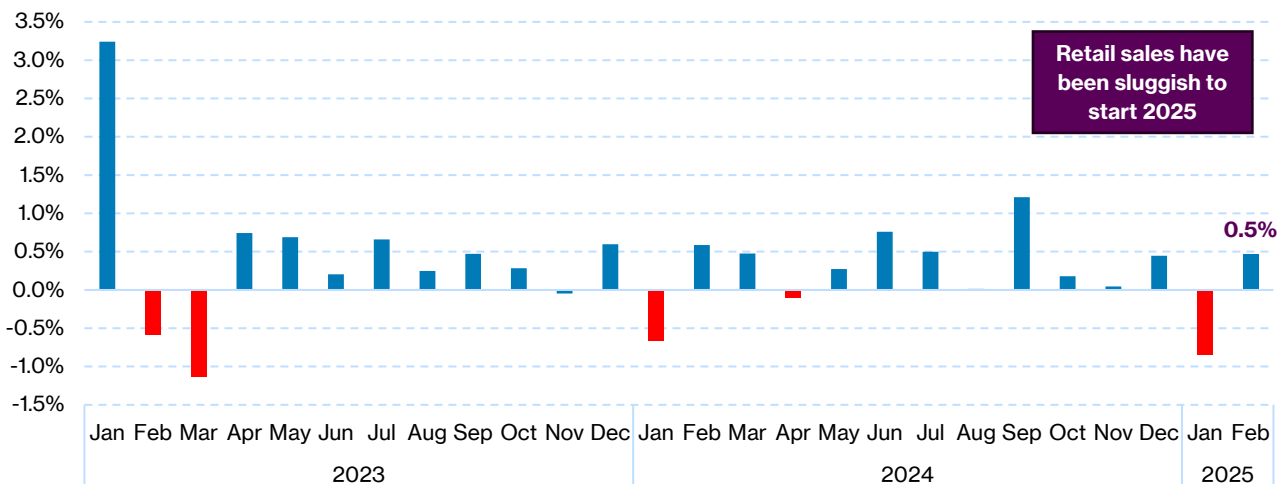
consensus forecasts. Certain segments showed promising resilience, particularly non-store retailers (i.e., e-commerce), which rebounded by 2.4% in February following an unexpected decline in January.

Figure 1: Consumer Sentiment



Source: University of Michigan (data through March 2025).

Figure 2: Retail Sales (Ex-Auto and Gas) (% Change M/M)



Source: CFRA; U.S. Census Bureau (Seasonally Adjusted) (data through February 2025).

Tariffs are the biggest near-term concern for retailers and consumers given their inflationary impact.

Within a few months of being in office, President Trump has upended global trade by slapping tariffs on some of the country’s biggest trade partners, including Canada, Mexico, and China. He also warns of more tariffs to come, such as reciprocal tariffs on April 2, although recent reports suggest a potentially softer stance on these incremental tariffs. Reciprocal tariffs would be the administration’s most aggressive action yet, as it could target hundreds of U.S. trading partners. Countries like Canada, Mexico, China, and the EU have already implemented (or are contemplating) retaliatory tariffs, sparking concerns of a global trade war and higher inflation. The timing is particularly concerning as the U.S. economy is still recovering from record inflation over the past few years. These renewed inflationary pressures represent an unwelcome challenge for consumers already navigating economic uncertainties.

Immigration and labor supply are more longer-term policy risks. Immigration policy has become an increasingly contentious issue. Trump’s hardline approach, which includes plans for mass deportations of undocumented workers and restrictions on legal immigration pathways (e.g., H-1B visas) threatens to create

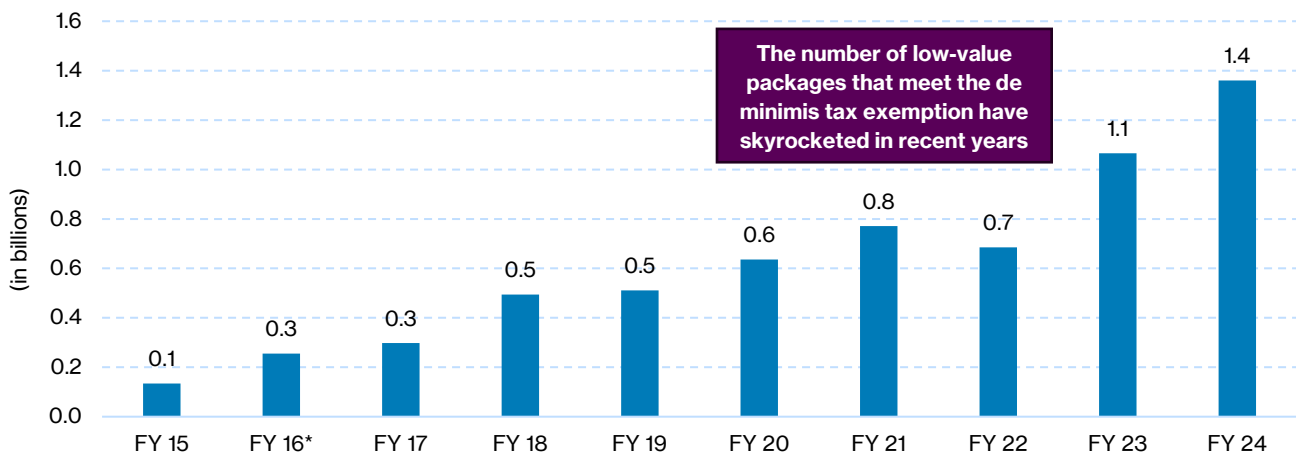
labor supply challenges and disrupt supply chains. We could see a greater upstream impact on supply chains, including jobs within transportation, fulfillment, and manufacturing. Beyond the labor market implications, these immigration policies could disproportionately impact discount retailers like Dollar General and Dollar Tree, whose customer base includes a greater proportion of lower-income households, including immigrant communities.

Another near- to medium-term risk includes changes to government entitlement programs like SNAP (i.e., food stamps). In February, House Republicans voted to pass a budget resolution that sought to cut at least \$230 billion in agriculture programs over 10 years, with the vast majority likely to come from SNAP. At the same time, several states have proposals in place to revoke junk food like soft drinks and candy as eligible SNAP products. With more than 40 million Americans relying on SNAP, these policy changes could have a meaningful impact on packaged food manufacturers and grocers. Walmart is the top destination for grocery shopping among SNAP shoppers. However, discount retailers like Dollar General and Dollar Tree index much more to SNAP shoppers versus non-SNAP shoppers. Retailers with less SNAP exposure include Amazon, Target, and Costco.

Potential areas of opportunity include favorable tax policies and a business-friendly regulatory stance. The new administration plans to pass significant tax legislation and build on the 2017 Tax Cuts and Jobs Act (TCJA). CFRA's Washington Analysis policy research team expects some sort of tax legislation to be enacted this year. However, the size and scope depends on the Republican party's appetite for the potential loss in tax revenue. In addition to favorable tax policies, we expect the administration to adopt a more business-friendly regulatory stance. A relaxed FTC could facilitate more M&A activity, benefiting the retail sector, which seems to be in a period of consolidation.

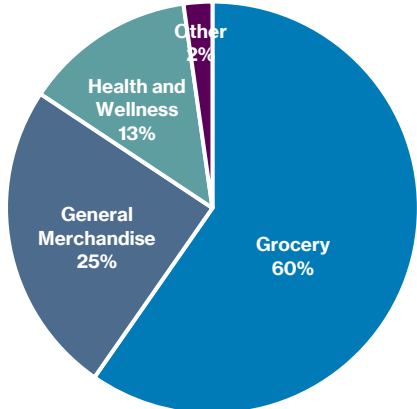
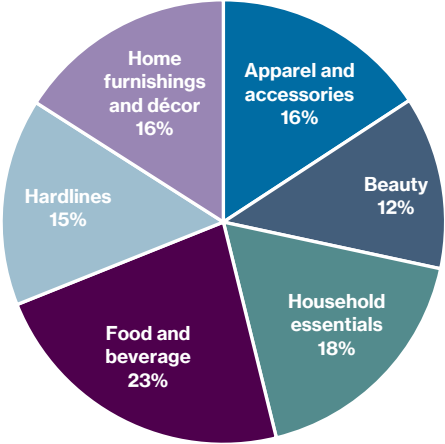
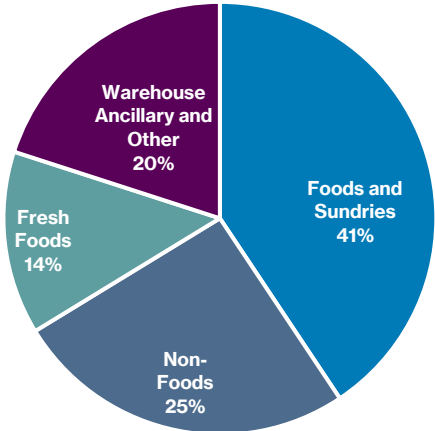
The removal of the de minimis tax loophole should be a net positive for U.S. retailers. The current de minimis exemption allows for tax and duty-free shipping of one shipment of goods per person, per day, if it is valued under \$800. Chinese discounters like Temu and Shein have used this loophole to avoid tariffs, keep prices low, and gain market share in the U.S. In 2024, over 1.36 billion packages were funneled into the U.S. through the de minimis exemption, up from a little over 500 million packages in 2019 (Figure 3). In February, Trump signed an executive order to close the de minimis exemption with China. However, it was paused a few days later as border agencies needed time to set up adequate systems to process and collect this incremental tariff revenue. It seems like it is just a matter of time before the de minimis exception is ultimately removed with China, which should be a net positive for e-commerce companies (e.g., Amazon, eBay, and Etsy), discounter retailers (e.g., Walmart, Dollar Tree, and Dollar General), and general merchandisers (e.g., Target and Five Below).

Figure 3: De Minimis Shipment Volumes into the U.S.

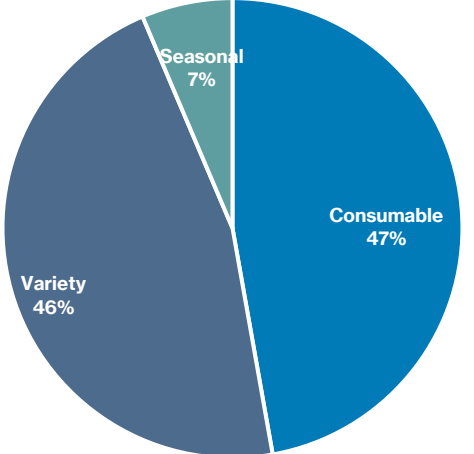
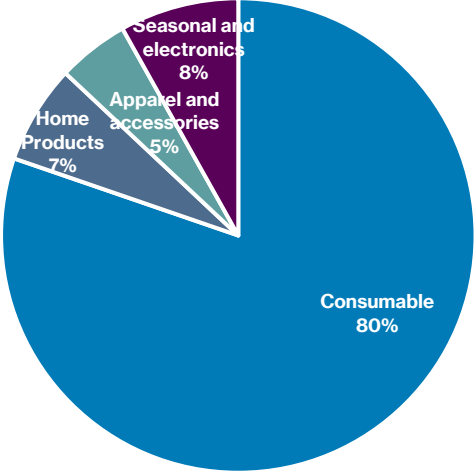


Source: CFRA; U.S. Customs and Border Protection. *The de minimis threshold was increased from \$200 to \$800.

Table 1: Tariff Risks/Exposure by Retailer

Company	Tariff Risk	Notes	Sales Mix Chart														
<p>Walmart Inc.</p>	<p>Moderate</p>	<ul style="list-style-type: none"> More than two-thirds of Walmart's U.S. total product spend last year was on items its suppliers reported were made, grown, or assembled in the U.S. About 60% of Walmart's U.S. sales mix is grocery, which faces less tariff risk versus general merchandise (about 25% of Walmart's U.S. sales mix) 	<p>Walmart U.S. Sales Mix (as of FY 25)</p>  <table border="1"> <caption>Walmart U.S. Sales Mix (as of FY 25)</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Grocery</td> <td>60%</td> </tr> <tr> <td>General Merchandise</td> <td>25%</td> </tr> <tr> <td>Health and Wellness</td> <td>13%</td> </tr> <tr> <td>Other</td> <td>2%</td> </tr> </tbody> </table>	Category	Percentage	Grocery	60%	General Merchandise	25%	Health and Wellness	13%	Other	2%				
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<p>Target Corporation</p>	<p>High</p>	<ul style="list-style-type: none"> About half of TGT's products are made in the U.S. Private label sourcing from China reduced from about 60% in 2017 to around 30% today (with the goal being less than 25% by the end of 2026) Apparel production reduced to 17% exposure to China, with sourcing shifting to the western hemisphere (e.g., Guatemala and Honduras) 	<p>Target Sales Mix (as of FY 25)</p>  <table border="1"> <caption>Target Sales Mix (as of FY 25)</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Food and beverage</td> <td>23%</td> </tr> <tr> <td>Household essentials</td> <td>18%</td> </tr> <tr> <td>Apparel and accessories</td> <td>16%</td> </tr> <tr> <td>Home furnishings and décor</td> <td>16%</td> </tr> <tr> <td>Hardlines</td> <td>15%</td> </tr> <tr> <td>Beauty</td> <td>12%</td> </tr> </tbody> </table>	Category	Percentage	Food and beverage	23%	Household essentials	18%	Apparel and accessories	16%	Home furnishings and décor	16%	Hardlines	15%	Beauty	12%
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<p>Costco Wholesale Corporation</p>	<p>Moderate</p>	<ul style="list-style-type: none"> About one-third of COST's products sold in the U.S. are imported, with less than half of these imports coming from China, Mexico, and Canada Well equipped to handle tariffs given low-cost model, limited SKUs, and more affluent customer base versus other retailers Recent membership price increase could be reinvested into lower prices 	<p>Costco Sales Mix (as of FY 24)</p>  <table border="1"> <caption>Costco Sales Mix (as of FY 24)</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Foods and Sundries</td> <td>41%</td> </tr> <tr> <td>Non-Foods</td> <td>25%</td> </tr> <tr> <td>Warehouse Ancillary and Other</td> <td>20%</td> </tr> <tr> <td>Fresh Foods</td> <td>14%</td> </tr> </tbody> </table>	Category	Percentage	Foods and Sundries	41%	Non-Foods	25%	Warehouse Ancillary and Other	20%	Fresh Foods	14%				
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<p>BJ's Wholesale Club Holdings, Inc.</p>	<p>Moderate</p>	<ul style="list-style-type: none"> Less general merchandise mix compared to club peers Costco and Sam's Club Only a few percentage points of total product spend are directly imported from China Less affluent customer base versus club peers like COST, but BJ specializes more in grocery and smaller pack sizes Recent membership price increase could be reinvested into lower prices 	<p>BJ's Sales Mix (as of FY 25)</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Grocery</td> <td>71%</td> </tr> <tr> <td>Gasoline and other</td> <td>18%</td> </tr> <tr> <td>General merch and services</td> <td>11%</td> </tr> </tbody> </table>	Category	Percentage	Grocery	71%	Gasoline and other	18%	General merch and services	11%				
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<p>The Kroger Co.</p>	<p>Low</p>	<ul style="list-style-type: none"> Low exposure to general merchandise categories The consumables business (e.g., fresh and grocery) is predominately domestically sourced or manufactured Produce has moderate exposure to countries like Canada and Mexico Tariffs could even provide upside to comparable sales growth 	<p>Kroger Sales Mix (as of FY 24)</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Non-Perishable</td> <td>51%</td> </tr> <tr> <td>Fresh</td> <td>24%</td> </tr> <tr> <td>Supermarket Fuel</td> <td>11%</td> </tr> <tr> <td>Pharmacy</td> <td>10%</td> </tr> <tr> <td>Other</td> <td>4%</td> </tr> </tbody> </table>	Category	Percentage	Non-Perishable	51%	Fresh	24%	Supermarket Fuel	11%	Pharmacy	10%	Other	4%
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<p>Dollar General Corporation</p>	<p>High</p>	<ul style="list-style-type: none"> While DG only directly imports about 4% of its purchases, it indirectly has high tariff risk given many of its suppliers or vendors import products or components from overseas Core customer is low- and fixed-income households who tend to be disproportionately impacted by elevated inflation Multi-price point strategy gives DG flexibility and optionality 	<p>Dollar General Sales Mix (as of FY 25)</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Consumables</td> <td>82%</td> </tr> <tr> <td>Seasonal</td> <td>10%</td> </tr> <tr> <td>Home Products</td> <td>5%</td> </tr> <tr> <td>Apparel</td> <td>3%</td> </tr> </tbody> </table>	Category	Percentage	Consumables	82%	Seasonal	10%	Home Products	5%	Apparel	3%		
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<p>Dollar Tree, Inc.</p>	<p>High</p>	<ul style="list-style-type: none"> One of the largest importers in the country, with significant sourcing from China and Southeast Asia Family Dollar banner is expected to be sold within the next few months February 4 tariffs with China (10%): DLTR has mitigated 90% of this incremental cost (embedded into the company's outlook) March tariffs (additional 10% with China; 25% on Canada/Mexico): DLTR is working to mitigate this incremental cost; Pre-mitigation exposure would be about \$20M/month or roughly \$0.85/share for FY 26; These costs are <u>not</u> reflected in the company's FY 26 outlook Multi-price strategy gives DLTR more pricing flexibility versus 2018/2019 tariffs Other tariff mitigation strategies include shifting sourcing, negotiating price concessions, modifying product specifications, or substituting items (i.e., swap high tariffed products with low/no tariffed products) 	<p>Dollar Tree Sales Mix (as of FY 24)</p>  <p>Family Dollar Sales Mix (as of FY 24)</p> 
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Source: CFRA; Company filings.

Overall, we believe retailers are better positioned to withstand tariffs today compared to the first Trump administration. While certain retailers are more disproportionately impacted by tariffs and changes to the consumer spending environment, nearly all retailers seem better positioned for tariffs today compared to the first Trump administration. The main reason is because supply chains have significantly transformed and diversified, with most manufacturers and retailers reducing their exposure to China, the top target of tariffs over the past several years. For example, most apparel and footwear manufacturers have moved some operations from China to other Southeast Asian countries like Vietnam, Cambodia, Thailand, Bangladesh, and India. We've also seen retailers like Target move apparel manufacturing from China to countries in Central America (e.g., Guatemala and Honduras).

Retailers have other tools besides price hikes to offset tariff pressure. Most of the larger retailers have long-standing relationships with their vendors, which allows them to work closely together and find ways to cut costs. Warehouse clubs like Costco and Sam's Club (owned by Walmart) work with an even more limited supplier base, making it easier to conduct these conversations. Given the high degree of bargaining power these retailers have over their suppliers, they can negotiate price concessions to lower costs and at least partially offset tariff pressure. Retailers can also substitute products in or out of their assortment depending on tariff exposure. In the past, we've also seen manufacturers reengineer products to reduce costs and pass these savings onto the consumer. Lastly, one of the strongest tools retailers have is product mix management. If retailers focus on selling higher-margin products over lower-margin products, they can potentially keep overall margins relatively high without price increases on tariffed products.

Ultimately, tariffs present the most pressing near-term challenge for retailers and consumers, which could potentially push the U.S. economy into a period of slower economic growth. CFRA's base case for 2025 is slower U.S. economic growth, but enough growth to avoid a recession. While headlines about tariffs and trade tensions will likely create persistent headwinds and foster business uncertainty, it's important to recognize that tariffs represent self-imposed constraints on economic expansion, constraints that can be lifted when market and economic conditions necessitate action. Additionally, several fundamental indicators support our outlook for continued moderate growth rather than an imminent downturn. The labor market remains resilient, with unemployment at 4.1% alongside consistent job creation. Furthermore, although U.S. consumer debt is increasing, it continues to maintain relatively healthy levels overall. These underlying strengths provide a foundation for economic stability despite the challenging policy environment.

Risk Factors

The primary risk stems from policy unpredictability. So far, Trump's trade policies in his second term have been highly unpredictable, marked by frequent shifts in announcements and a lack of clear, consistent guidance. Some may argue that this unpredictability aligns with Trump's dealmaking mindset and negotiating style. However, uncertainty is starting to weigh on businesses and consumers, increasing the risk of slower economic growth. CFRA's base case for 2025 anticipates slower, but positive, economic growth. This outlook is supported by a resilient labor market, characterized by low unemployment and steady job creation. That said, we are closely monitoring inflation expectations, household balance sheets, and leading indicators like consumer sentiment and confidence.

Retailers risk facing backlash when asserting their purchasing power over suppliers. Large retailers like Walmart, Costco, and Target often leverage their scale and long-standing relationships to pressure suppliers into absorbing tariff costs, rather than passing them on to the retailer or end consumer. However, this approach has recently drawn criticism. Reports indicate that the Chinese government has requested a meeting with Walmart over such negotiating tactics. Beyond relying heavily on Chinese suppliers for its U.S. operations, Walmart has a significant presence in China itself, operating more than 50 Sam's Club warehouses and nearly 300 Walmart supercenters. This extensive footprint exposes Walmart to potential pressure from Chinese authorities, heightening the risks associated with aggressive bargaining strategies.

Company Implications

BJ's Wholesale Club Holdings, Inc. (BJ 111 ****) is a leading warehouse club operator (concentrated in the eastern U.S.) with over 250 clubs across 21 states. Our opinion is Buy. We like BJ's unique go-to-market strategy in this environment. BJ's has a broader assortment compared to Costco and Sam's Club, especially in grocery and consumables, but at about 25% lower prices on average compared to conventional grocers. We see growth being accelerated by new club openings, noting 25 to 30 new clubs are targeted over the next two fiscal years. The recent inflection in general merchandise sales adds to our positive view. In addition, private label growth remains strong, membership metrics look robust, and the recent membership fee increase supports earnings visibility over the next few years. Our 12-month target of \$129 represents

30x FY 26 (Jan.) EPS of \$4.31. While above BJ's historical 19x multiple, this remains below Walmart's (36x) and Costco's (57x). We expect multiple expansion as investors view BJ more as a big-box peer than a conventional grocer (trades at much lower multiples at around 9-13x).

Costco Wholesale Corporation (COST 926 *)** is a large members-only retailer with nearly 900 warehouses across the world, with about 80% in the U.S. and Canada. COST has proven to be a resilient retailer as its value proposition and treasure-hunt-like approach to spur customer traffic, spending, and membership renewal have positioned the company for long-term success. As of Q2 FY 25 (Aug.), renewal rates were over 90% worldwide, with total paying members at 78.4 million (+5 million Y/Y) and Executive members at 36.9 million (+3 million Y/Y). Looking forward, we see COST driving shareholder value as it puts more emphasis on areas like e-commerce (e.g., Costco Next; new partnership with Uber), technology, data analytics/personalization, and advertising. Our 12-month target of \$1,080 is 55x our FY 26 EPS vs. the 40x five-year average forward P/E. We see COST's rich valuation supported by strong membership trends, renewal rates, and about 25-30 club unit growth per year. We see EPS rising 9% to \$18.00 in FY 25 and 9% to \$19.58 in FY 26.

The Kroger Co. (KR 66 **)** is one of the largest supermarket chains in the country. Our Buy opinion reflects improving sales momentum, margin expansion potential, and attractive valuation versus peers. FY 26 (Jan.) should be stronger than FY 25, driven by accelerating identical sales and margin expansion from alternative profits, improved mix, and shrink management. The terminated Albertsons merger removes an overhang, in our view. Recent new leadership could bring positive strategic shifts in merchandising, pricing, loyalty, and ecommerce. Share buybacks remain a bright spot, noting the company's recent \$7.5 billion share buyback authorization, of which \$5.0 billion will be under an accelerated plan. Our \$76 target represents 16x FY 26 EPS of \$4.74, above KR's 13x historical average. The premium is justified by improving sales trends, solid balance sheet, significant buyback capacity, and growth in higher-margin revenue streams like retail media. We note that big-box peers like Walmart and Costco trade at much higher multiples.

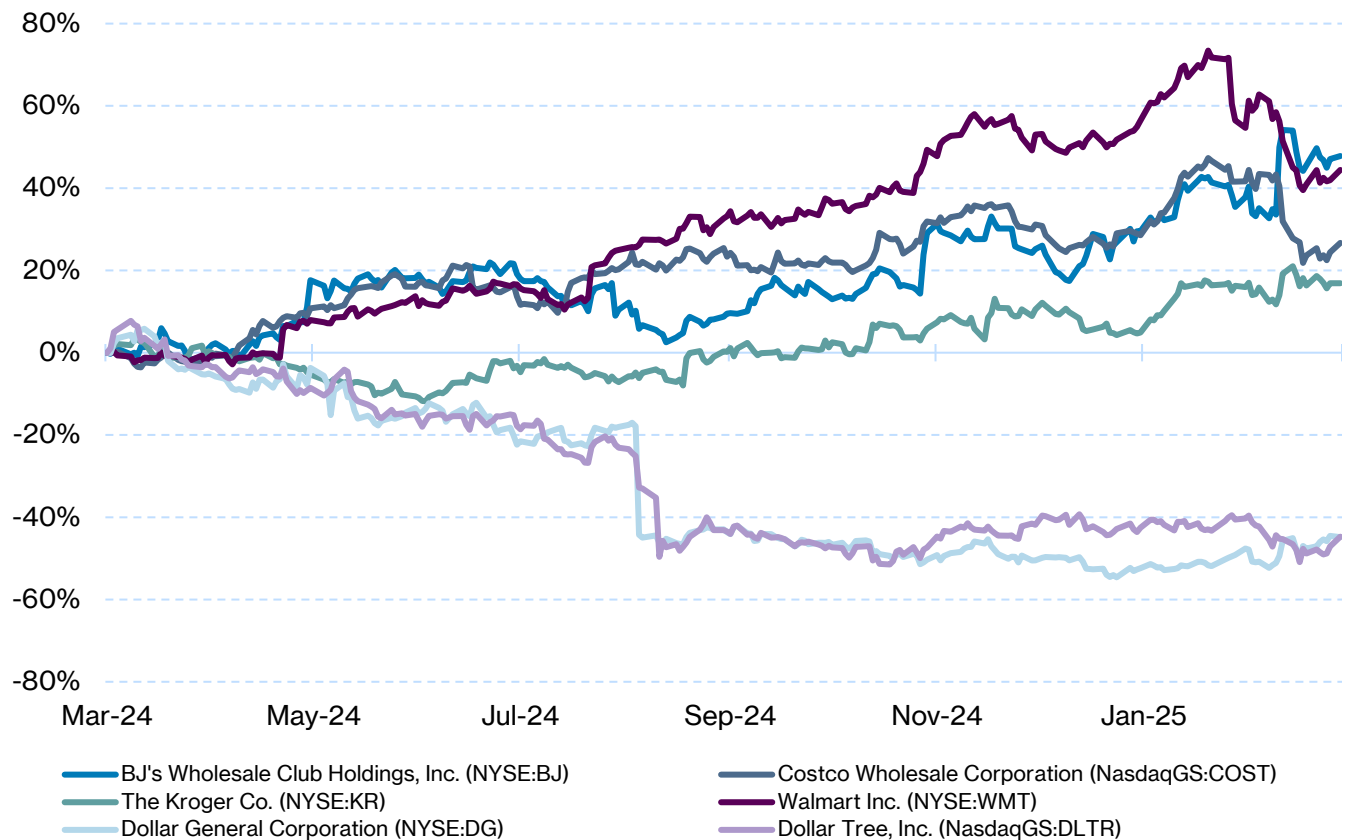
Walmart, Inc. (WMT 85 **)** is the largest retailer in North America and a major player internationally. Our opinion is Buy. We see WMT growing operating margins over the next few years from robust sales growth in all three segments (Walmart U.S., International, Sam's Club), improved sales mix (e.g., general merchandise, advertising, membership fees, fulfillment services, data analytics), and automation/technology initiatives. E-commerce profitability is also rapidly improving as Walmart scales its Walmart+ subscription business (leading to densification and lower fulfillment unit cost). Share repurchases should limit downside risk, noting \$4.5 billion was repurchased in FY 25 (Jan.), up from \$2.8 billion in FY 24. Our 12-month target is \$114, 40x our FY 27 EPS of \$2.85. While WMT's five-year average forward P/E is about 25x, WMT shares once traded at above 40x forward earnings back in the late 1990s/early 2000s. We see WMT's premium valuation supported by the growth of its higher-margin services business and productivity initiatives (e.g., automation).

Dollar General Corporation (DG 85 *)** is among the largest discount retailers in the U.S., with over 20,000 stores across the country. Our opinion is Hold. The last few years have been quite challenging, as weaker spending among DG's core low-income households have pressured sales, while margins have been trending downwards due to higher wages, increased supply chain costs, and more store reinvestments (e.g., maintenance expenses). FY 26 (Jan.) will likely be another challenging year given the weak macro environment. With tariffs potentially driving higher retail prices, DG's core customer could see even tighter spending. That said, we think valuation limits downside risk, and margins have potential to expand over the next several years. Our 12-month target of \$83 represents 15x our FY 26 EPS of \$5.50, below the historical 19x average. The discount reflects weak comparable sales and structurally higher costs eroding margins from 8%+ pre-pandemic to under 5% in FY 25. DG's valuation has re-rated lower to align with slower-growing food retailers.

Dollar Tree, Inc. (DLTR 71 *)** is an operator of discount stores under the banners Dollar Tree and Family Dollar. Our opinion is Hold. There is a lot of uncertainty regarding the future of the Family Dollar banner,

which is currently under strategic review (acquired in 2015 for \$9 billion). In Dollar Tree, recent macroeconomic pressures on consumer spending have overshadowed the early success of the company's multi-price point product rollout. Overall, we think DLTR needs to rethink its long-term store expansion strategy following aggressive expansion over the past several years. We think DLTR will need to reinvest more in wages, labor hours, and store remodels, which could hurt its long-term unit economics. Our 12-month target of \$75 is 12x our FY 26 (Jan.) EPS of \$6.24 vs. the 19x long-term average, justified by weakness/uncertainty in both Dollar Tree and Family Dollar.

Relative Performance



Source: S&P Global Market Intelligence (3/25/2024 to 3/24/2025).

Implications*

Positive implications: CFRA sees an improvement in company fundamentals, which could include (but are not limited to) improved pricing, strengthening backlog, market share gains, cost improvements, a more favorable regulatory environment, or improving demographic trends, over the next 12 months.

Negative implications: CFRA sees a weakening in the company's fundamentals, which could include (but are not limited to) weaker pricing, reduced backlog visibility, market share losses, cost inflation, unfavorable regulatory climate, or demographic headwinds, over the next 12 months.

* The categorization of positive or negative implication may not include every qualitative or quantitative factor that is used to undertake a full analysis of a company's financial picture as other factors may need to be analyzed, and is not intended to be investment advice and should not be interpreted as such. These categorizations represent the current good-faith views of the authors at the time of publication and these views are subject to change without notice of any kind.

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