

Research @ Citi Podcast, Episode 70: Consumer — From a Want to a Need

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Transcript:

Anne Malone (0:00)

Welcome to the Research @ Citi podcast. I'm Anne Malone, the North America Head of Equity Research at Citi. With me on the podcast today, I'm pleased to introduce Paul Lejuez. He's the U.S. Head of Consumer, covering the retail stocks. Paul just came back with the team from the Citi Global Consumer Conference from a warmer site in Miami, and he'll provide us with insights, what everyone's talking about, what we're thinking ahead in '26. Welcome, Paul, and thanks for coming on.

Paul Lejuez (0:25)

Thank you.

Anne Malone (0:27)

Following on almost every other podcast we've had that has any mention of the consumer, it's always the *resilient* consumer. So you were with a lot of corporates, you were with a lot of clients. Does that still hold true? Is the consumer still resilient?

Paul Lejuez (0:42)

Yeah, I think it's certainly a word that we hear thrown around a lot by a lot of different companies. I think it's probably been a surprise to many out there that the consumer has held up as well as they have. And we've certainly heard a lot of companies talk about a K-shaped economy, the idea that those at the upper income range are performing better, spending more than those in the lower income range.

But generally — and we can talk about the direction where employment's going — if we look at the employment reports over the past several years, employment's been pretty good. And I think that's really key to the consumer holding up as well as they have. If we dig in a little bit to the upper-income, even middle-income consumer, there's certainly been a wealth effect. When we think about household assets, you've got stock market has performed well over the last several years, home prices are up over the past several years. And that gives the consumer a lot of confidence to spend some of their earnings on a week-in, week-out basis.

If they know that they've got some of that wealth building up in the market, in their homes, we certainly, again, see that more in the middle- and upper-income side of the spectrum. But it's a real dynamic, I think, within the world of retail that's keeping a lot of the companies that we cover really operating very smoothly and performing very well.

Anne Malone (2:14)

How do you reconcile that with the headlines that we're living in fear of inflation? And then we can also talk to all the other concerns that we can have about world war, etc. But how do you reconcile that with the conversations about inflation all the time? How does the consumer absorb that?

Paul Lejuez (2:32)

Yeah, I think there are a lot of different headlines — whether it's inflation, whether it's geopolitical unrest, whether that's global or domestic. I think there are a lot of things on the consumers' minds. And I think when you look at surveys — whether it's consumer confidence surveys, or you look at some of the companies that we cover, they do their own surveys — there are often signs of stress and concern.

But what ultimately has proven out is that the consumer is doing something different than what they're saying, right? They're talking about being nervous. They express caution. But at the same time, there is that resilience, to go back to that word. And I think it does come back to having that spending power, having a job, being gainfully employed, seeing that wealth effect work in their benefit, that is causing consumers to do things different than what they might be saying in some of these surveys.

Anne Malone (3:32)

So it's the opposite of “do what I say, not what I do” when you start and think about it. As an analyst, what is your biggest concern that could change that? Is it inflation? Is it world turmoil? Is it employment?

Paul Lejuez (3:48)

I'd say it's employment. I think inflation was certainly a big dynamic in the retail universe with the onset of tariffs. We saw a lot of our companies that predominantly source from overseas get hit with big tariffs. They, as a collective group, did try to pass through higher price points to the consumer and surprisingly were more successful than most, I think, would have guessed. Now, ultimately, consumer wallets aren't infinite. There will need to be choices made. But as we look at what happened through the back-to-school and holiday season, the pricing actually stuck a little bit more than most would have expected.

So, inflation certainly always on our minds. And I think there is a cumulative effect of inflation that we have to be mindful of — that perhaps consumers react initially, they

absorb it, but over time they're less able to absorb it. So I think we've been thrown that curveball, consumers have done a good job hitting that curveball. And so, as I sit here today and think about what could change, what's the real area of concern, I'd say it's more on the employment front. And if we start to get unfavorable data on employment, that would be the bigger issue than inflation at this point.

Anne Malone (5:09)

So if I look forward, was the biggest topic in this gathering? Is it AI or its derivative specific here, agentic commerce? Is that the hot topic?

Paul Lejuez (5:22)

Certainly one of them. The conference did take place at a time when oil prices were ripping higher. And so in all of our meetings, it was certainly a topic of conversation in terms of what companies were seeing at the time — if they were able to share — as a result of higher oil prices, prices at the pump.

We had Walmart there at the conference. You know, they're always a good bellwether because they are the largest retailer, certainly in our universe, just about in the U.S. And they weren't seeing anything that would have indicated a shock at the time. They acknowledged that it was fluid and things were changing by the day, but there was nothing that they had to report that would have implied there was some sort of consumer shock as a result of higher oil prices and prices at the pump.

But to the AI question, absolutely. It was something that pretty much every company is being asked: What does AI mean for you? And I think for the majority of the companies in my universe — and we cover 40 companies across a lot of different subsectors of retail — the majority of the companies talk about AI as something that will improve their efficiency. I think that's probably the default answer. And most are acknowledging that it's changing by the day in terms of what it means for commerce.

But most think about AI and AI investment as something that can improve their efficiency, whether it's on the supply chain, whether it's planning and allocation, pricing. Whether it's administrative, back office, call center, those are the opportunities that companies are really focused on.

Again, just to go back to Walmart — who's, again, just such a big player in the space — they probably think about it a little bit differently. They've got their Sparky app within their Walmart app that is agentic in many ways.

Anne Malone (7:32)

Can you explain in simple terms what is agentic commerce and then dig in a little to what you think of it and how it comes to play?

Paul Lejuez (5:22)

Sure. So Sparky is an AI tool that you can ask within the Walmart app, you know, questions about a recipe. You know, “How do I make a chili?” And it will give you all of the ingredients that you would need for a chili, and it would suggest certain things that you would buy to actually prepare that meal. That's an AI-powered tool that Walmart has within the Sparky app.

For it to get to a point where it's agentic ... agentic more is the idea that without your input, there would be a quote-unquote agent acting behind the scenes to basically predict what you want and send it to you without you even having to do anything. And that could be something as simple as sending you milk and paper towels and your everyday essentials on a weekly basis, without you even having to go in and do it.

Anne Malone (8:49)

That's what I want out of my spouse, right?

Paul Lejuez (8:51)

Exactly.

Anne Malone (8:53)

I want someone in my life who's doing that for me, right?

Paul Lejuez (8:56)

Agentic can take the place of a lot of things, and maybe that would even be one of them.

Anne Malone (9:00)

So it makes it captive, right? If I have the right app, I assume it is suggesting my outfits to me, and it is shopping at that specific app. So that's the point? It's going to connect me better and automate my purchases?

Paul Lejuez (9:18)

In theory. We're nowhere near that point right now. I think we're probably some time away from somebody saying, “Hey, this agent, you know me so well, you can send me a new outfit every month or every week.” I think we're still a little bit of some time away from that happening, certainly at scale, but the capability is going to be there. I think you're more likely to see agentic AI agents be used more for everyday essentials and consumables.

You know, you can't ignore the fact that sometimes people do like to shop, right? There is a sport aspect, treasure-hunt aspect, discovery aspect to shopping that AI and agentic doesn't take away. We had a company at our conference — you know the off-pricers, TJX being the largest? They are certainly of the view that if agentic was a concern to disrupt the off-price model, we would have already seen that with the rise of

e-com. But people like going into the stores. People like seeing what is new. People like flipping through the racks. It is a way that some people relax. It's immediate gratification. And I don't think that business model is at all at risk as a result of agentic shopping.

Anne Malone (10:48)

If you look ahead, though ... let's call it “store of the future,” for lack of a better word. I'll come up with something wittier. But does that mean that I get the treasure-hunt idea? Does this mean the big get bigger, like the general store is back? I want to be able to buy clothes and peanut butter and tires and a hair dryer? Or is it just margins improve? Because, heck, I need fewer salespeople. What do you think it means longer-term for the world of consumer?

Paul Lejuez (11:19)

I think initially, certainly there's an aspect of those that have the dollars to invest will be in a more favorable position. But over time, does that mean that every retailer is going to have better margins? Probably not, because the nature of the competition would suggest that maybe there's an advantage early on where you can leverage and take some costs out of the system. But over time, it probably works its way through to pricing through to the consumer, ultimately.

Anne Malone (12:08)

So I have a consumer who's willing to spend. I have agentic AI that's going to help. What concerns, what headwinds are there?

Paul Lejuez (12:18)

I think from a macro perspective, there are always concerns that exist. Obviously, we're living in ever-changing times. So as it relates to the consumer, I think there's always a focus on unemployment. There's always a focus on the housing market, the stock market. I think there is a general concern out there: Does AI become so prevalent that it can displace a lot of workers and actually lead to a rise in unemployment?

That would be certainly something that would be a bit of a curveball to the retail companies that that we cover, if in fact we're suddenly faced with higher unemployment. I think that that absolutely is a dynamic that we're paying attention to — and I'm sure our retailers are paying attention to — in terms of AI itself. You know, is there a return on some of this investment?

Keep in mind, we used to live in a world with just stores and no e-com. And as e-com grew as a percentage of sales, that meant that pretty much every company — not all, but pretty much every company — had to invest a lot of money in an e-com infrastructure. And there really wasn't a great return on that investment. That was the

price to pay. That was the price to play, right? Everybody had to do it, or else you fall behind.

And so, as we think about AI and the risks, we have to think about how much money is everybody spending, and is there a return that will be earned on that spend? Or is it just another form of being a price to play?

Anne Malone (14:00)

Back-to-school, holiday times ... in the world of retail, what is the next data point that you'll get? Or is it earnings?

Paul Lejuez (14:09)

Look, back-to-school and holiday are always the key periods you think about high level from a retail landscape. But as we move along in this environment of so many different news items out there, a lot of things going on the macro front. We've got tariffs getting shot down and then getting put back in different forms. We've got refunds. That's a big topic of conversation right now. I'd say as we move into the first quarter, earnings season, as we're still a little bit away from that, really kicks in in a big way.

In May, in the retail universe, we're on a month lag. I think people will be very focused on, What are the refund benefits that these companies are getting? Is it getting offset by perhaps some pressure from higher energy prices? What wins out and what is happening on the tariff front, and how will these companies maybe alter their pricing as a result of the changing tariff landscape, if at all?

Anne Malone (15:17)

And just to be clear: On refunds, you're talking about tariff refunds, right? We're not talking about tax season.

Paul Lejuez (15:22)

I was actually talking about tax season, because from a consumer perspective, with the One Big Beautiful Bill we are expecting to see an increase in refunds. I think there are different estimates out there for how big that's going to be. And so first, we want to see, are the consumers that are receiving these refunds taking them to stores and spending them? Or, for whatever reason, are they saving them, maybe paying off some debt? Does some of the benefit that they get on the refund side make them not go out and spend something at our stores, but rather helps them fund some of the pressures in other areas, like higher energy prices?

Anne Malone (16:00)

A podcast or two ago, we got a chance to talk to Filippo about the survey on GLP-1s and spending. And I wanted to label it, *Is It Time to Panic Yet?* Just because it seems like

there can be a real change with the lower costs and the pills. What's your take on retail? Is this fast fashion's holy grail? Are we all going to be thinner and buying more clothes?

Paul Lejuez (16:25)

I cover food retail, and we cover a lot of apparel players. And so I think it's a little bit of a different story. I think all the food players certainly have their eyes on this dynamic. I would certainly much rather be a food retailer that also sells other items like apparel and general merchandise so that if there are dollars freed up from spending less on food, those dollars can be spent in other parts of the store that actually have higher margins.

I think in the world of apparel, we can't ignore the fact that people are often shrinking in size. And in some ways, it turns apparel from a want into a need because you can't walk around with clothes that don't fit. You just don't want your pants falling down. So, I think there's probably been some tailwind to the players in our universe throughout this past year. And I think it's only likely to continue with the pill form.

Anne Malone (17:30)

Those numbers are crazy over the next decade of how many it could be, indeed. And I'll avoid the joke of wanting to walk around with your pants falling down. Thank you, Paul.

This podcast was recorded on March 16, 2026. Be sure to join us for our next Research @ Citi podcast with Dan Tobon, our Global FX strategist, who'll outline nine potential wildcards which could radically affect the U.S. and the global economy this year.

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Disclaimer (19:18)

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