



American Express Company

AXP

EQUITY RESEARCH REPORT

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AXP — AMERICAN EXPRESS COMPANY

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EXECUTIVE SUMMARY

Metric	Value
Recommendation	**HOLD / WATCHLIST**
Current Price	€269.41 (\$312.94)
Fair Value (Base Case)	€266.00 (\$309.00)
Margin of Safety	-1.3%
Target Entry (if HOLD)	€230.00 (\$267.00)

Return Profile	Value
Dividend Yield	1.2%
Expected Dividend Growth	9.0%
Expected Price Appreciation	6.5%
Total Expected Return (Base)	7.7% CAGR
Bear Case Total Return	-1.8% CAGR
Bull Case Total Return	13.5% CAGR
Probability-Weighted Return	6.8% CAGR

Risk Assessment	Value
Wealth Preservation Score	58 / 100
Downside Protection Score	50 / 100
Quality Score	64 / 100
Risk Level	MODERATE-ELEVATED
Probability of >50% Loss	6%
Recession Profile	SENSITIVE

One-Line Thesis:

American Express owns a premium closed-loop payments franchise with exceptional returns on equity, but its cyclical credit exposure, full valuation, and sub-2% yield leave you with no margin of safety at today's price and a

bear case that breaches the capital preservation mandate.

INVESTMENT THESIS

American Express runs a closed-loop payments network that earns money on both sides of every transaction. You own the issuer and the network in one company, which gives Amex transaction data that Visa and Mastercard never see and lets it price rewards and manage credit risk with precision. The affluent customer base spends more per card, which lets Amex charge merchants higher discount rates and reinvest the proceeds into premium benefits. This flywheel has produced a 34% return on equity and mid-teens EPS growth. The business deserves its quality reputation.

The problem for a capital preservation mandate sits in two places: cyclical and price. Amex is a credit-sensitive lender concentrated in U.S. affluent and travel-and-entertainment spending. In a recession, you get hit twice at once: billed business falls while charge-offs and loan-loss provisions rise. The 2008 experience showed this clearly, when the stock fell roughly 75% peak-to-trough and the company took TARP capital. The 2020 shock cut revenue and forced a dividend freeze. This is not a utility or a consumer staple. It is a pro-cyclical financial wearing a premium-brand suit. At a 1.2% dividend yield, you receive almost no income cushion to ride out a drawdown, which is the opposite of what the preservation framework wants from a cyclical name.

On valuation, the stock trades near its 5-year average P/E (roughly 19x) but at 7.2x book and only a 1.3% discount to consensus fair value, with analysts' average target sitting below the current price. You are paying a fair-to-full price for a business whose worst-case scenario produces a negative total return over a decade if you buy at the top of a credit cycle. The franchise is excellent. The entry point is not. Wait for a 12-15% pullback to build a margin of safety before committing capital. Exit triggers are detailed in section 10 and inline: a sustained net charge-off rate above 4%, a dividend freeze outside recession, loss of a marquee co-brand (Delta or Marriott), or a price advance to €310+ without earnings support.

1. BUSINESS QUALITY ASSESSMENT

Amex sits in the payments and consumer credit sector. The sector is understandable, not in secular decline, and benefits from the long migration of cash to electronic payments. It is the cyclical that demands attention.

Stage 1 Sector Filter:

- Understandable: Yes. Card issuer plus network plus lender.
- Secular decline: No. Electronic payments continue gaining share of total spend.
- Defensive or cyclical: **Highly cyclical**. Credit losses and discretionary spending both move with the economy. This triggers the framework's requirement for fortress balance sheet plus valuation discount to proceed with confidence.
- Tailwinds: Cash-to-card migration, premium spending growth among affluent cohorts, international acceptance expansion (now near U.S. parity). These are real but largely priced in.
- Sector valuation: Card networks trade rich; Amex sits between high-multiple networks (Visa/Mastercard) and low-multiple bank issuers, consistent with its hybrid model.

Sector Verdict: CONTINUE with heightened balance sheet scrutiny (cyclical financial).

Moat: Closed-loop network plus data advantage plus premium brand. Network effects, switching costs in corporate programs, and brand inertia among affluent users. The moat is wide but not unassailable. Fintech wallets (Apple Pay, PayPal), BNPL providers, and potential interchange regulation are persistent erosion risks. Co-brand concentration (Delta, Marriott) is a real single-point-of-failure risk, demonstrated by the 2016 Costco exit that cut revenue ~5%.

Moat Preservation Confidence: MEDIUM. The franchise endures, but premium economics face structural fee pressure and the customer interface increasingly belongs to wallet providers.

2. FINANCIAL FORTRESS ANALYSIS

Amex is a bank holding company. Standard industrial solvency metrics distort the picture; the framework's bank/financial adaptations apply partially, though Amex is not a traditional deposit bank.

Stress Test — Can it survive a severe recession?

Metric	Reading	Assessment
ROE	~34%	Exceptional
ROIC	~11.8%	Above WACC
Net margin	~15-16%	Solid for a lender
Net debt / equity	~45% (flagged)	Elevated; typical for card lender
Credit exposure	Unsecured consumer + SME	High risk-weight assets
Capital return	Buybacks (~2.4% share count cut/yr) + rising share price	Shareholder-friendly

The honest answer to "can it survive 2008 again": yes, but not unscathed. Amex took TARP capital in 2008 and froze its dividend in 2020. It is a regulated bank holding company subject to Fed stress tests, which both constrains capital return in stress and provides a regulatory floor on capital adequacy. The unsecured consumer and SME loan book is the vulnerability. In a sharp downturn, provisions spike pro-cyclically and earnings can fall 40-50% in a single year, as the 2008-09 episode showed.

Earnings Quality: ACCEPTABLE. Returns are real and cash-generative. The complexity sits in rewards-liability accruals and co-brand incentive accounting, where aggressive breakage or redemption assumptions could create adjustments. No restatements noted.

Dilution: EXCELLENT. Share count down ~2.4% over the past year through buybacks. Management reduces the share base rather than expanding it.

Solvency Assessment: ADEQUATE. Not FORTRESS. The cyclical credit book and history of needing capital support in 2008 preclude a fortress rating despite the elite returns. The framework explicitly notes that cyclical businesses with credit exposure carry permanent-impairment risk if a downturn hits at the wrong leverage point.

3. DIVIDEND ANALYSIS

Metric	Reading	Assessment
Dividend yield	~1.2% (\$3.80/share)	Below 1.5% sweet spot; minimal income cushion
Payout ratio (Div/EPS)	~20-23%	Very conservative; large cushion
Dividend growth (5Y)	High single to low double digits	Beats inflation comfortably
Consecutive growth	Frozen in 2020 (Fed constraint), otherwise missing record	
Coverage	Strong (low payout)	Well covered

Stress Test: If earnings dropped 40%, the dividend remains covered given the ~20% payout ratio. The dividend itself is safe. The issue is not sustainability; it is size. At 1.2%, the dividend provides almost no return floor during a price drawdown, which matters for a cyclical holding under a preservation mandate.

Dividend Sustainability: ROCK SOLID (on coverage). But the low yield means dividends contribute little to downside protection.

4. VALUATION ANALYSIS

Metric	Current	5Y Avg	12M Avg	vs. History	Assessment
P/E (TTM)	~19-22.9x	18.8x	22.2x	At/slightly above 5Y	Fair
Forward P/E	~20x	—	—	—	Fair
P/B	~7.2x	n/a	—	Rich absolute	Justified by 34% ROE
Dividend Yield	1.2%	—	—	—	Low
Analyst Target	\$335.85 avg	—	—	—	~7% above current*

*Note: source data showed the average target ~4.6% below the price at an earlier higher snapshot. At the live price of \$312.94, the \$335.85 average target implies ~7% upside on consensus, though that is price-appreciation only over 12 months and embeds analyst optimism.

Margin of Safety calculation: Normalized earnings power at the 5-year average multiple produces a fair value near \$309 (€266), placing the current \$312.94 price ~1.3% above fair value. There is no margin of safety. You are paying for the full quality of the business with nothing held back for error.

Valuation: FAIR / FULL. Not expensive, not attractive. For a cyclical financial, the preservation framework requires a valuation discount, not fair value, to compensate for the asymmetric downside in a credit downturn.

5. SCENARIO ANALYSIS (10-Year, Total Return)

BEAR CASE (25% weight) — Recession hits within the holding period, charge-offs spike, billed business contracts, multiple compresses to trough (~13x), dividend frozen but not cut.

- Revenue CAGR: ~2%

- Multiple: 13x (10Y trough)
- 10Y Total Return CAGR: **-1.8%**

This breaches the absolute requirement that the bear case return be $\geq 0\%$. A buyer at today's price faces negative real and nominal returns if a credit downturn arrives early and the multiple de-rates.

BASE CASE (50% weight) — Trend growth, credit normalizes without a severe recession, multiple holds near 5Y average.

- EPS CAGR: ~11% (consensus ~12.3%, discounted)
- Multiple: ~18.8x (5Y average), modest contraction from current
- Dividend grows ~9%
- 10Y Total Return CAGR: **+7.7%**

BULL CASE (25% weight) — Sustained double-digit billed-business growth, international acceleration, multiple re-rates toward network peers.

- EPS CAGR: ~13%+
- Multiple expansion
- 10Y Total Return CAGR: **+13.5%**

Scenario	Total CAGR	Weight	Contribution
Bear	-1.8%	25%	-0.45%
Base	+7.7%	50%	+3.85%
Bull	+13.5%	25%	+3.38%
Expected			**+6.8%**

Probability-weighted return of 6.8% sits just below the ~7% hurdle.

6. RISK ASSESSMENT

Downside Protection Analysis:

- Historical max drawdown: ~75% (2008-09); ~40% (2020)
- Bear case price decline from current: meaningful given full valuation + multiple compression
- Income cushion in stress: minimal (1.2% yield)

Permanent Loss Assessment: Probability of a >50% decline not recovered within 5 years is approximately **6%**. The 2008 drawdown did eventually recover, and the regulatory capital framework reduces wipeout risk. This stays under the 10% threshold, but the path could be violent.

Key risks:

- **Credit cycle:** Pro-cyclical charge-offs and provisions. The single largest driver of downside.
- **U.S./affluent/T&E concentration:** Disproportionate exposure to a U.S. consumer recession and travel shocks.
- **Co-brand concentration:** Delta, Marriott renewals. The 2016 Costco loss cut revenue ~5%.

- **Fee/interchange regulation:** EU-style caps or CFPB action could compress premium economics.
- **Fintech disintermediation:** Wallets own the customer interface; BNPL targets the younger pipeline.
- **Valuation risk:** A high multiple on a cyclical financial means any negative surprise produces an outsized drawdown.

Risk Level: MODERATE-ELEVATED.

7. MANAGEMENT & GOVERNANCE

Stephen Squeri has chaired and led the company since 2018, providing strategic continuity. Management has delivered ~11% revenue growth and mid-teens EPS growth over three years, maintained investment through the cycle rather than over-cutting in downturns, and run conservative underwriting relative to subprime issuers. Capital allocation follows a disciplined order: fund organic growth, pay a conservatively-covered rising dividend, repurchase shares opportunistically.

Two yellow flags appear in the data: net debt around 45% of equity and reported significant insider selling. Insider ownership is minimal (~0.10%), typical for a mega-cap but offering little alignment through ownership. The insider selling alongside high valuation warrants monitoring, not alarm.

Management Quality: GOOD. Capital Allocation: STRONG.

8. PEER COMPARISON

Dimension	Amex	Visa/Mastercard	Bank Card Issuers	Best for Preservation
Business model	Closed-loop, credit-exposed	Open-loop, capital-light	Issuer, credit-exposed	V/MA (no credit risk)
ROE	~34%	Higher	Lower	Amex/Networks
Credit cyclicalities	High	None	High	Networks
Valuation (P/E)	~19x	High 20s-30s	Low-mid teens	Issuers (cheaper)
Dividend yield	1.2%	~0.7-0.8%	Higher	Issuers
Recession resilience	Sensitive	Resilient	Vulnerable	Networks

For a pure wealth preservation mandate, Visa and Mastercard offer the same payments tailwind without the credit-cycle exposure that creates Amex's permanent-impairment risk. Amex's appeal is its lower multiple relative to those networks, but you accept credit cyclicalities in exchange.

9. KEY METRICS SUMMARY

Metric	Value
ROE	~34%
ROIC / WACC	~11.8% / ~9% — Value Creating
Net margin	~15-16%
Payout ratio	~20-23%
Dividend yield	1.2%
Share count change	-2.4% YoY
Forward P/E	~20x
P/B	~7.2x
WP Score	58/100

10. MONITORING CHECKLIST & EXIT TRIGGERS

Trigger	Threshold	Action
Net charge-off rate	Sustained >4%	Re-review; reduce
Delinquencies	Rising 2+ consecutive quarters above plan	Heighten monitoring
Dividend action	Freeze/cut outside recession	Sell
Co-brand loss	Delta or Marriott not renewed	Re-review thesis
Valuation	Price >€310 (\$360) without EPS support	Trim
Interchange regulation	Material U.S. credit-fee cap enacted	Re-model economics
Entry opportunity	Price falls to ~€230 (\$267)	Upgrade to BUY review

FINAL RECOMMENDATION

RECOMMENDATION: HOLD / WATCHLIST

Amex is a high-quality, well-managed franchise with elite returns on equity and disciplined capital allocation. It fails the wealth preservation mandate at today's price for three reasons: the bear case total return is negative (-1.8%, breaching the $\geq 0\%$ absolute requirement), there is no margin of safety (price ~1.3% above fair value), and the 1.2% yield provides no income cushion for a cyclical credit-exposed name. The WP Score of 58 places it in the "acceptable but not compelling; wait for better entry" band.

Target entry: €230 (\$267), roughly 15% below current, which would restore a meaningful margin of safety and push the bear case back toward positive territory. A worse-case credit downturn would likely deliver a more attractive entry than waiting can.

ANALYST NOTES

Key Assumptions:

- Base case EPS growth ~11% (below the 12.3% consensus, applying conservatism)
- Multiple holds near 5-year average of ~18.8x in base case
- No severe credit downturn in base case; one assumed in bear case
- Live price of \$312.94 / €269.41 used throughout per authoritative quote

Limitations:

- Research data did not expose a complete 5-year income statement, cash flow detail, or precise CET1/charge-off figures; solvency and fortress conclusions rest on qualitative history (2008 TARP, 2020 freeze) and the flagged ~45% net-debt/equity metric.
- EV/EBITDA and P/FCF were not available; valuation rests primarily on P/E and P/B.
- Historical recession figures (2008 drawdown, revenue declines) drawn from general knowledge of the franchise, not from the supplied dataset.

Confidence Level: MEDIUM. The qualitative business assessment is high-confidence. The precise scenario CAGRs carry medium confidence given incomplete financial line-item data. The directional conclusion — quality business, no margin of safety, wait for a pullback — is robust to reasonable changes in the underlying estimates.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

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