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Monthly Insights: March Outlook

Consumer Discretionary Sector

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Sector Price Action & Performance Review: Consumer Discretionary Sector

Consumer Discretionary Select Sector SPDR Fund — Daily
50-day & 200-day Moving Averages
with MACD (12,26,9) & RSI (14)

226.73
215.96
201.70

Consumer Discretionary Select Sector SPDR Fund - Total Return Relative to S&P 500 (TR)

100.20

-1.33
-2.02
-3.35

36.14

The Discretionary Sector continued to retrace gains from Q4 of 2024. Relative to the S&P 500, Discretionary stocks have diverged widely over the past 6-months in both directions and now have zero progress to show for it.

We are remaining long the sector in March due to oversold conditions on the RSI and MACD studies (chart, panels 3 and 4) for the sector in aggregate which is driven by deep retracements in long-term leading stocks AMZN and TSLA. Both are near-term oversold in what had previously been long-term uptrends. We're looking for a bounce as interest rates have moved lower in the near-term and are one of the few sources of potential relief for a flagging consumer.

We would note that the noise around tariffs has been a lot of sound and fury, but while prices have corrected, actual execution of tariff policy remains to be implemented leaving some potential in both directions. With the sector and its strongest stocks already getting discounted, there is potential for upside surprise if the news proves less bearish than the rumor.

Outlook:

We start March out of the Consumer Discretionary Sector with an OVERWEIGHT allocation to the Consumer Discretionary Sector of 1.19% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark
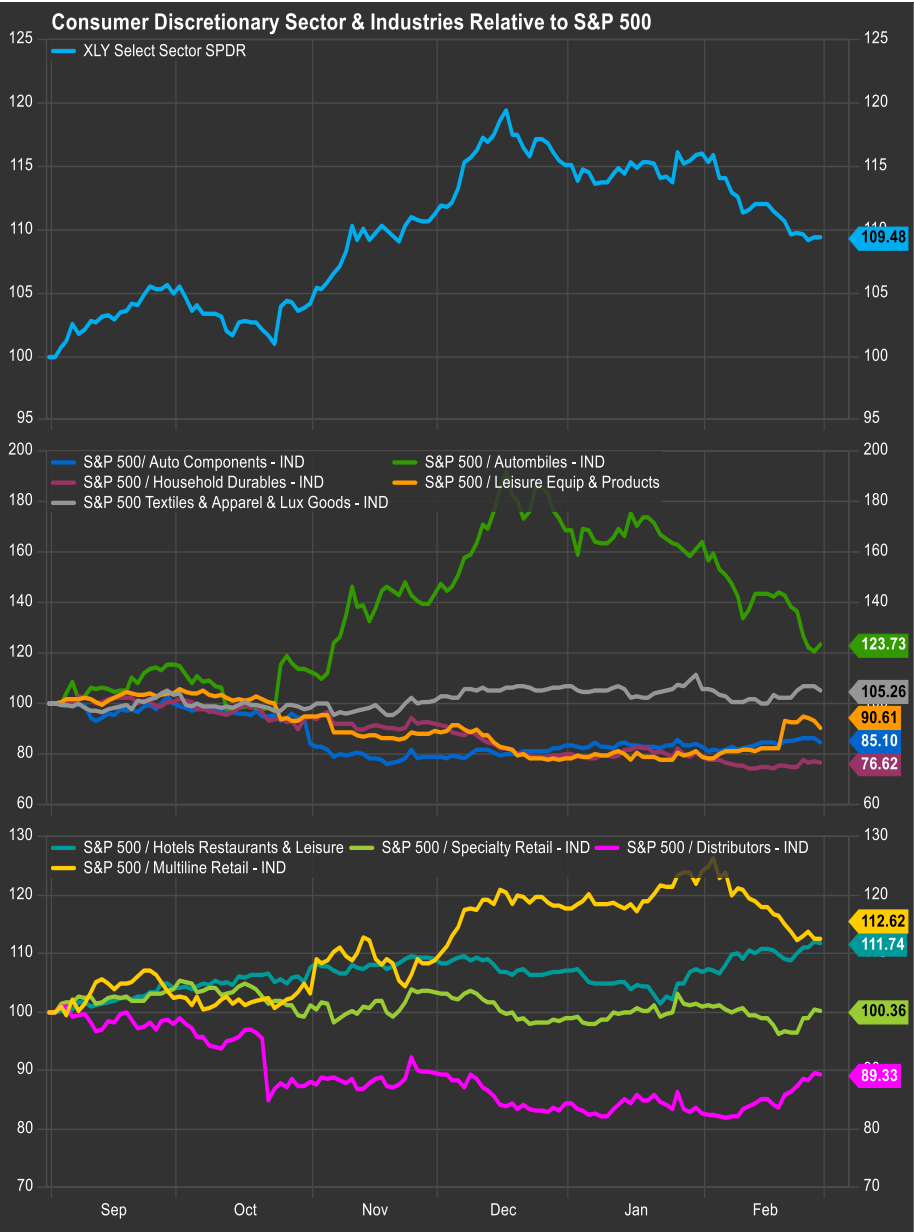
Fundamentals: Consumer Discretionary Sector
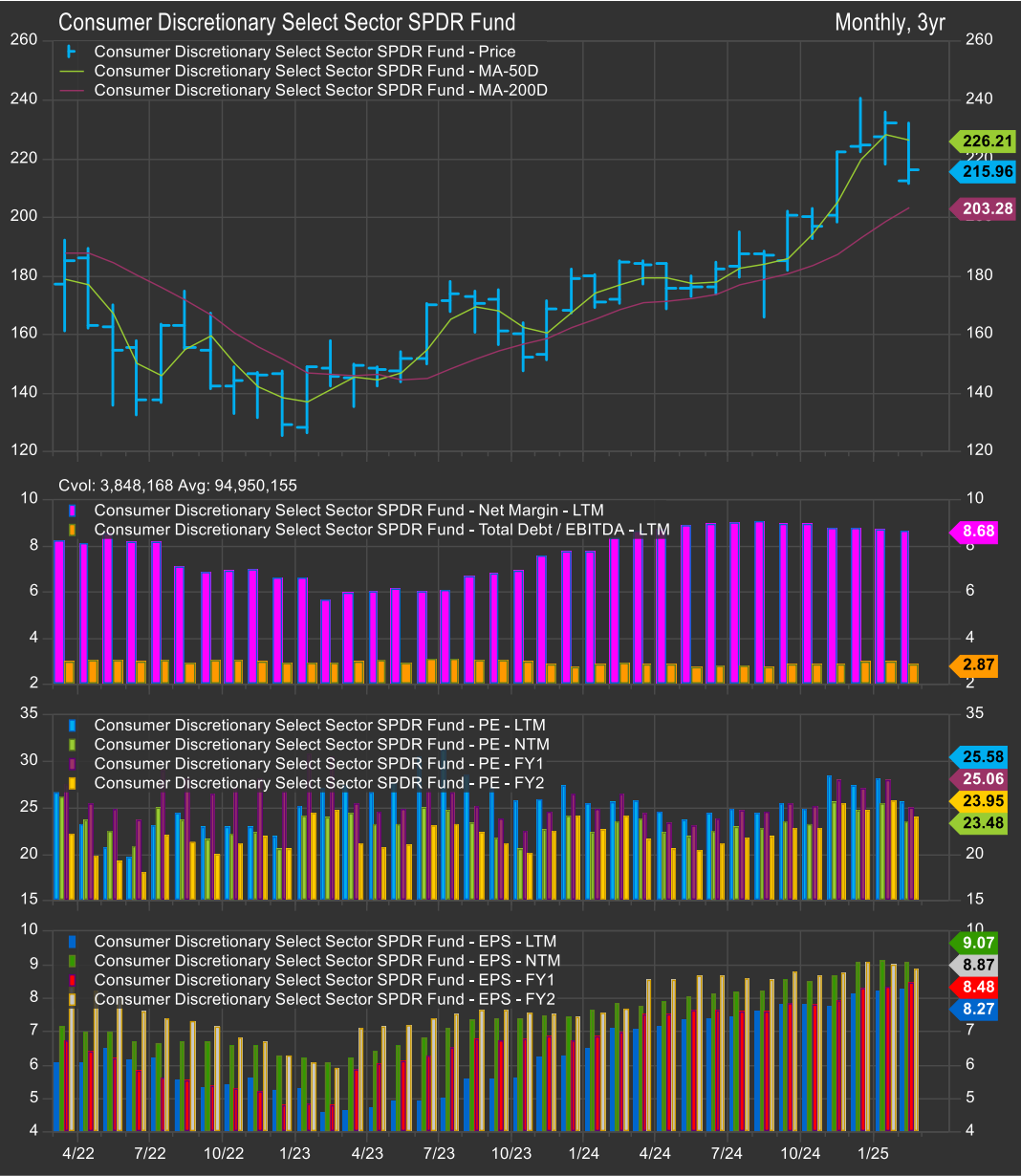
The chart (left) shows S&P 500 Consumer Discretionary Sector Margins, Debt/EBITDA, Valuation and Earnings

While several other sectors show margin contraction, the Discretionary sector has regained net margin levels from the pre-inflationary period (chart, panel 2)

Valuation (chart, panel 3) has become elevated in the near-term while out year consensus forward earnings projections have leveled off

Industry/Sub-Industry Performance and Breadth: Consumer Discretionary Sector

Consumer Discretionary Sector & Industries Relative to S&P 500

- XLY Select Sector SPDR — **109.48**

- S&P 500/ Auto Components - IND — **85.10**
- S&P 500 / Autombiles - IND — **123.73**
- S&P 500 / Household Durables - IND — **76.62**
- S&P 500 / Leisure Equip & Products — **90.61**
- S&P 500 Textiles & Apparel & Lux Goods - IND — **105.26**

- S&P 500 / Hotels Restaurants & Leisure — **111.74**
- S&P 500 / Specialty Retail - IND — **100.36**
- S&P 500 / Distributors - IND — **89.33**
- S&P 500 / Multiline Retail - IND — **112.62**

Market Internals — Daily, 6M

- Consumer Discretionary Select Sector SPDR Fund - Price — **215.96**
- Consumer Discretionary Select Sector SPDR Fund - MA-50D — **226.21**
- Consumer Discretionary Select Sector SPDR Fund - MA-200D — **203.28**

- % of Stocks Above 200-day Moving Average — **54.90**
- % of Stocks Above 50-day Moving Average — **45.10**

- Advancers — **19.61**
- Decliners — **-78.43**

Consumer Discretionary Industries (chart, left): Rotation away from AMZN and TSLA has been the story of 2025 YTD

Restaurant stocks have firmed in the near-term along with Apparel stocks and Distributors, but the main question is whether the Mega Cap. names are overdone to the downside in the near-term

Consumer Discretionary Sector Internals (chart, right): Internals are potentially showing a positive divergence vs. price as the average stock is having a better time than the MAG7 constituents are in the near-term

3/2/2025

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Top 10/Bottom 10 Stock Level Performers: Consumer Discretionary Sector

Symbol	Name	CHART_PATTERN	MktVal Co	Relative Earnings Growth vs. BMK	Valuation Adjusted Earnings Growth	Volatility Adjusted Income	Momentum Score	1-Month Excess Return vs. BMK	3-Month Excess Return vs. BMK	6-Month Excess Return vs. BMK	Near-term OB/OS
YUM	Yum! Brands, Inc.	Bullish Reversal	43,643.2	0.59	0.5	1.52	9.3	23.3	13.7	9.2	NT OVERBOUGHT
SBUX	Starbucks Corporation	Bullish Reversal	131,548.6	-0.41	-0.3	1.39	14.3	17.7	15.1	15.7	
TPR	Tapestry, Inc.	Bullish Reversal	17,683.3	1.56	2.2	0.54	69.5	17.5	41.4	105.7	
EXPE	Expedia Group, Inc.	Bullish Reversal	24,415.1	2.34	4.1	0.13	23.1	17.0	7.5	34.5	
DPZ	Domino's Pizza, Inc.	Consolidation	16,795.4	0.18	0.2	0.66	5.9	15.7	4.4	11.3	
HAS	Hasbro, Inc.	Consolidation	9,084.9	2.08	3.2	6.37	0.9	13.4	2.3	-10.0	
LKQ	LKQ Corporation	Downtrend	10,933.7	1.41	2.8	#N/A	-5.9	12.4	8.2	-5.7	
ORLY	O'Reilly Automotive, Inc.	Bullish Reversal	79,301.2	0.34	0.3	0.00	10.9	9.2	10.8	13.4	
BKNG	Booking Holdings Inc.	Uptrend	164,601.0	0.83	0.8	0.30	13.8	8.8	-3.4	22.0	
NKE	NIKE, Inc. Class B	Downtrend	93,825.8	-1.72	-1.2	0.94	-10.9	8.5	2.3	-10.3	

SBUX is a recent upgrade while travel stocks continued to be represented through EXPE and BKNG

On the bottom 10 list, homebuilders continue to retrace 2023-24 gains while AMZN and TSLA retain positive intermediate-term momentum while being sold in the near-term...for now, we are giving the longer-term bullish price structures the benefit of the doubt for those stocks and playing for a bounce

Cruise lines are a relatively new entrant to the decliners list

Symbol	Name	CHART_PATTERN	MktVal Co	Relative Earnings Growth vs. BMK	Valuation Adjusted Earnings Growth	Volatility Adjusted Income	Momentum Score	1-Month Excess Return vs. BMK	3-Month Excess Return vs. BMK	6-Month Excess Return vs. BMK	Near-term OB/OS
DECK	Deckers Outdoor Corporation	Support	21,151.2	0.84	0.9	0.00	-24.0	-33.7	-26.9	-19.1	NT OVERSOLD
TSLA	Tesla, Inc.	Support	942,375.2	1.64	0.4	0.00	13.3	-24.7	-11.6	35.2	NT OVERSOLD
NCLH	Norwegian Cruise Line Holdings Ltd.	Basing	9,995.5	0.74	1.7	0.00	1.7	-18.4	-15.2	19.0	NT OVERSOLD
CCL.U	Carnival Corporation	Consolidation	27,859.4	0.91	1.7	0.00	19.3	-12.1	-4.4	36.7	
LEN	Lennar Corporation Class A	Retracement	31,638.4	-0.55	-1.4	0.65	-32.0	-10.0	-27.8	-38.1	
DHI	D.R. Horton, Inc.	Retracement	39,960.7	-0.41	-1.0	0.48	-30.3	-9.9	-24.5	-39.2	
ULTA	Ulta Beauty Inc.	Support	16,989.0	-0.30	-0.5	0.00	-15.2	-9.6	-2.0	-7.3	
AMZN	Amazon.com, Inc.	Bullish Reversal	2,249,685.8	0.57	0.4	0.00	7.7	-9.1	3.6	17.1	
LULU	lululemon athletica inc.	Consolidation	42,654.8	0.68	0.7	0.00	9.1	-9.0	14.8	34.1	
PHM	PulteGroup, Inc.	Support	20,909.9	-0.63	-1.8	0.34	-23.5	-8.5	-23.8	-28.2	

Metrics:

(Formulas are in the appendix at the end of the report)

Cap. Weighted Earnings Growth

Higher score preferred when Large/Mega Cap stocks outperforming

Valuation Adjusted Earnings Growth

Higher scores preferred absent high momentum

Volatility Adjusted Income

Higher score preferred when equities and yields are moving lower

Momentum

Long higher scores, short lower scores

Economic & Policy Drivers: Consumer Discretionary Sector

Consumer Confidence and Spending Trends:
- The February Consumer Confidence Index fell sharply to 98.3 from 105.3, the largest monthly decline since August 2021, signaling growing consumer caution.
- The Present Situation Index dropped to 136.5, and the Expectations Index fell to 72.9, moving below the critical 80 threshold for the first time since June 2024, suggesting recession fears are rising.
- February's University of Michigan Consumer Sentiment Index also hit its lowest reading since November 2023, reinforcing concerns that consumers are becoming more hesitant on big-ticket discretionary spending.
- January personal spending rose 0.2%, but real spending adjusted for inflation showed signs of weakness, with consumers prioritizing essentials over discretionary purchases.

Inflation and Interest Rate Pressures:
- January core PCE inflation rose 0.3% m/m, keeping the y/y rate at 2.6%, above the Fed's 2% target and reducing expectations for near-term rate cuts.
- Elevated borrowing costs continue to pressure auto sales, home improvement, and travel-related discretionary spending, affecting companies like Tesla (TSLA), Home Depot (HD), and Marriott (MAR).
- Mortgage rates remain high, limiting home sales and renovations, a key headwind for discretionary home improvement retailers like Lowe's (LOW) and Home Depot (HD).

Trade and Tariff Uncertainty:
- Trump administration confirmed 25% tariffs on Canadian and Mexican imports will go into effect on March 4, alongside a new 10% tariff on Chinese goods.
- Tariffs raise costs for imported consumer goods and retail inventory, potentially impacting apparel, electronics, and home furnishings brands like Nike (NKE), Best Buy (BBY), and Williams-Sonoma (WSM).
- Apparel and footwear companies have flagged increased supply chain costs, which could lead to higher consumer prices or margin compression.

Retail and E-commerce Performance:
- Q4 retail earnings results were mixed, with discount retailers and off-price chains outperforming while higher-end retailers struggled.
- TJX Companies (TJX) beat Q4 estimates with 5% comp growth, benefiting from consumer trade-down behavior.
- Amazon (AMZN) and eBay (EBAY) flagged cautious Q1 guidance, reflecting weaker consumer spending on non-essential goods.
- Bath & Body Works (BBWI) guided below expectations, citing tariff-related cost pressures and a slowdown in discretionary fragrance spending.

Autos and Travel Weakness:
- Tesla (TSLA) shares fell sharply in February, driven by weak European sales (-45% YoY in January) and lower overall auto demand due to higher financing costs.
- Cruise lines and airlines saw mixed performance, with strong Q4 travel demand but signs of weakening consumer bookings for mid-2025.
- Marriott (MAR) and Hilton (HLT) flagged continued strength in business travel but slower-than-expected leisure demand growth

Appendix: Metric Interpretation/Description (All Data Sourced From FactSet Research Systems Inc.)

Valuation Adjusted Earnings Growth

    Higher scores with positive momentum preferred

Valuation Adjusted Earnings Growth (simple mean)

Relative Earnings Growth Multiple (vs. Benchmark)

Divided by

Rel. Valuation Multiple (vs. Benchmark)

Relative Earnings Growth Multiple:

Company Earnings Growth:

Consensus EPS Estimates for the next 4 Unreported Qtrs (FY1) / Restated LTM Annual Earnings

Divided by

Benchmark Earnings Growth:

Benchmark consensus mean EPS NTM / Restated Annual Benchmark EPS

Relative Valuation Multiple

Company NTM P/E / Index NTM P/E

Volatility Adjusted Income

    Higher score preferred when equities and yields are moving lower

Volatility Adjusted Income (simple mean)

Dividend Yield Multiple

Divided by

3yr Beta Vs. S&P 500

Dividend Yield Multiple

Stock Dividend Yield (Consensus NTM)

Divided by

S&P 500 Dividend Yield (Consensus NTM)

Appendix: Metric Interpretation/Descriptions

Cap. Weighted Earnings Growth

> Higher score preferred when Large/Mega Cap stocks outperforming

Cap. Weighted Earnings Growth

Consensus EPS Estimates for the next 4 Unreported Qtrs (FY1) / Restated LTM Annual Earnings * weight of each company in the universe 1-n

Momentum

> Long higher scores, short lower scores

Momentum (simple mean)

1-Month Excess Total Return (vs. S&P 500) * 0.1

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.3

Plus

6-Month Excess Total Return (vs. S&P 500) * 0.4

Plus

12-month Excess Total Return (vs. S&P 500) * 0.2

Metric Interpretation/Descriptions

Price Structure

We categorize stock chart patterns into 7 categories

Uptrend—Stock exhibits sustained outperformance

Bullish Reversal—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

Consolidation—Sideways price action, generally a bearish pattern in a bull market

Retracement—A sharp move lower in a previously strong chart

Distributional—A topping pattern

Downtrend—Sustained underperformance, lagging the benchmark by >15% per year

Support—Price has reached a level where major bottom formations or basing has occurred in the past

Basing—A protracted consolidation at long-term support

Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.