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Monthly Insights: March Outlook

Consumer Staples Sector

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Sector Price Action & Performance Review: Consumer Staples Sector



The Staples sector executed the first leg of a potential longer-term bullish reversal in February. The relative performance curve (chart, panel 2) made a new high above the November '24 high while price is testing into overhead resistance at the \$84-85 level

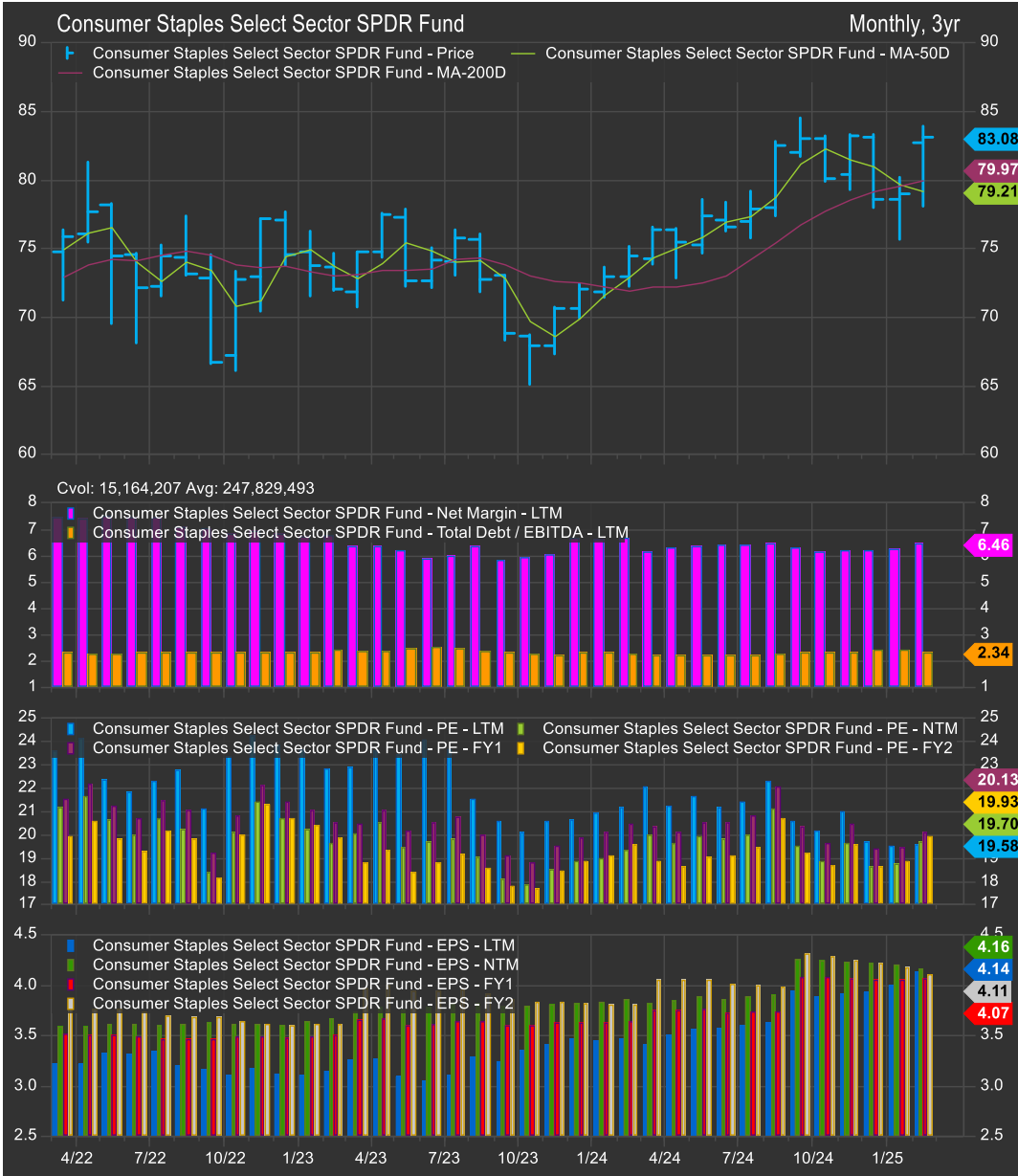
Oscillator work is overbought in the near-term, but the MACD study continues on a buy signal while the RSI study peaked in the near-term above its November high which intimates the potential for continued momentum to gather behind the sector

Economic and earnings data has skewed somewhat to the softer side to start 2025 and with rates moving to near-term lows, the sector is likely seen as a haven if prolonged rotation away from Growth and AI themes does materialize

Outlook:

We start March out of the Consumer Staples Sector with an **OVERWEIGHT** allocation to the Consumer Staples Sector of **2.38%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Consumer Staples Sector



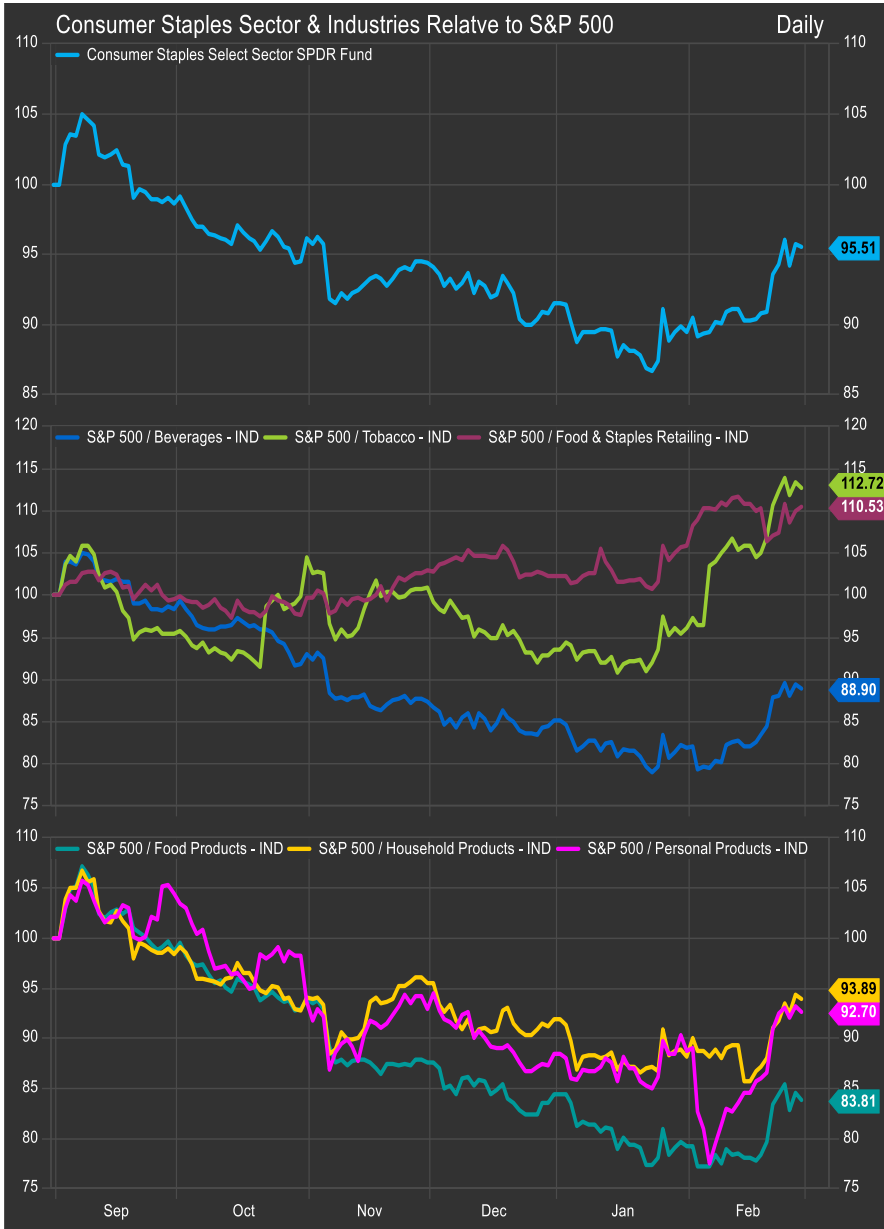
The chart (left) shows S&P 500 Consumer Staples Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins remain firm (chart, panel 2)

Valuation (chart, panel 3) has fluctuated throughout the year, but present earnings trends have been improving even as consensus forward expectations are contracting.

The fundamental picture is solid with the potential for tailwinds if equities have a deeper correction

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



Consumer Staples Industries (chart, left): Staples had previously been carried by just two stocks (WMT & COST), but February saw the rest of the sector catch a bid and all 6 industries outperformed during the month

At the risk of stating the obvious, the MAG7 stocks in aggregate are much bigger than the entire staples sector (plus the Utilities & Real Estate sectors for good measure). If money is coming out of those stocks, a lot of smaller companies are likely to see their shares pushed around as that capital is re-allocated

Consumer Staples Sector Internals (chart, right): % of stocks above their 50-day moving average, a proxy for trend strength is among the highest readings across the 11 sectors...one of the few areas of the US equity market where interest is increasing

Top 10/Bottom 10 Stock Level Performers: Consumer Staples 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
PM	Philip Morris International Inc.	Bullish Reversal	241,438.2	2.19	2.4	3.87	29.3	22.1	19.5	22.3	NT OVERBOUGHT
HSY	Hershey Company	Consolidation	25,526.0	-1.68	-1.4	13.58	-9.0	18.1	0.5	-15.5	
KO	Coca-Cola Company	Bullish Reversal	306,274.2	0.78	0.8	4.41	3.0	15.9	11.8	-6.5	
MDLZ	Mondelez International, Inc. Class A	Consolidation	83,083.1	-0.58	-0.6	3.78	-10.7	14.6	-0.1	-15.8	
TAP	Molson Coors Beverage Company Class B	Bullish Reversal	11,817.5	0.72	1.8	2.27	2.5	14.2	2.0	10.1	
MNST	Monster Beverage Corporation	Consolidation	53,148.2	0.86	0.7	0.00	0.6	14.1	-0.5	9.0	
KVUE	Kenvue, Inc.	Bullish Reversal	45,105.3	4.37	5.0	1.40	4.3	13.3	-0.8	3.5	
KMB	Kimberly-Clark Corporation	Consolidation	47,102.5	0.00	0.0	7.48	-0.1	11.4	3.4	-6.8	
COST	Costco Wholesale Corporation	Uptrend	465,476.8	0.38	0.2	0.24	12.9	11.2	9.6	11.2	
TSN	Tyson Foods, Inc. Class A	Consolidation	17,554.6	2.33	3.4	2.79	-4.5	11.2	-2.9	-11.6	

Food and Beverage stocks finally outjumped a lowering bar on their earnings while also benefitting from high volatility adjusted income characteristics

The news wasn't all good, but 10 stocks outperformed the S&P 500 by 10% or more in February and only 2 underperformed by that much

Many of these stocks are rallying from long-term downtrend price structures, we'd expect some more near-term upside

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
LW	Lamb Weston Holdings, Inc.	Support	7,398.8	-1.47	-2.3	3.77	-32.5	-11.8	-31.6	-21.4	NT OVERSOLD
EL	Estee Lauder Companies Inc. Class A	Consolidation	16,839.4	1.13	0.8	1.68	-26.6	-11.2	-1.4	-28.0	
TGT	Target Corporation	Support	56,928.3	-0.10	-0.2	1.75	-19.4	-9.4	-3.2	-26.6	
HRL	Hormel Foods Corporation	Downtrend	15,718.2	0.40	0.5	6.64	-14.6	-4.3	-9.0	-17.1	
ADM	Archer-Daniels-Midland Company	Downtrend	22,642.2	0.82	1.8	3.28	-20.5	-3.9	-11.8	-28.2	
STZ	Constellation Brands, Inc. Class A	Downtrend	31,713.7	1.69	3.3	2.15	-30.3	-1.8	-24.8	-33.4	
BG	Bunge Global SA	Downtrend	9,939.1	-0.09	-0.2	2.34	-25.2	-1.3	-15.3	-32.3	
DLTR	Dollar Tree, Inc.	Consolidation	15,667.7	-8.48	-16.7	0.00	-25.3	-1.1	2.3	-30.1	
WBA	Walgreens Boots Alliance, Inc.	Bullish Reversal	9,229.2	-4.49	-15.3	5.27	-3.6	-0.2	18.3	10.0	
CLX	Clorox Company	Consolidation	19,265.7	8.53	9.3	2.34	-6.3	0.5	-5.3	-5.0	

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 Staples Sector

Consumer Spending and Pricing Power:

- While January's personal spending rose 0.2%, real spending adjusted for inflation showed a shift toward essentials over discretionary goods, benefiting consumer staples companies.
- February's Consumer Confidence Index dropped to 98.3 from 105.3, the largest decline since August 2021, reinforcing concerns that consumers are becoming more price-sensitive.
- Retailers signaled increased price resistance among lower-income consumers, with a greater focus on private-label products and discount retailers benefiting at the expense of premium brands.
- Keurig Dr Pepper (KDP) and Monster Beverage (MNST) reported strong sales momentum, suggesting that beverage demand remains steady despite pricing pressures.

Inflation and Cost Pressures:

- January core PCE inflation rose 0.3% m/m, keeping the y/y rate at 2.6%, reinforcing concerns that inflation remains persistent.
- Food inflation remains a concern, particularly for companies in packaged goods, as input costs for grains, dairy, and meats increased due to supply chain disruptions and tariff-related concerns.
- Coca-Cola (KO) and PepsiCo (PEP) flagged higher raw material costs in their earnings calls, with both companies noting higher aluminum and packaging costs could weigh on margins.

Trade and Tariff Uncertainty:

- Trump administration confirmed 25% tariffs on Canadian and Mexican imports, set to take effect on March 4, along with a 10% tariff on Chinese imports.
- These tariffs increase the cost of key raw materials such as aluminum, sugar, and packaging materials, raising production costs for food, beverage, and household goods companies.
- Bath & Body Works (BBWI) noted that tariff-related cost pressures factored into its weaker-than-expected FY25 guidance.
- Kraft Heinz (KHC) and General Mills (GIS) expressed concerns about potential price hikes as import costs rise, particularly for packaged foods that rely on globally sourced ingredients.

Retail and E-commerce Trends:

- Earnings results showed continued strength for warehouse clubs and discount retailers, as Walmart (WMT) and Costco (COST) outperformed, benefiting from trade-down spending patterns.
- E-commerce demand remains solid for staples, with Amazon (AMZN) reporting higher grocery sales, but margins remain tight due to fulfillment costs.
- Packaged food companies saw mixed performance, as Hormel (HRL) and Conagra (CAG) flagged some volume declines, despite successful pricing strategies.

Regulatory and Policy Developments:

- Trump administration signaled a review of SNAP (food stamp) eligibility requirements, which could reduce government support for lower-income consumers and impact grocery sales.
- The FDA is reviewing potential new regulations on sugar content in packaged foods and beverages, which could affect companies like Mondelez (MDLZ), Hershey (HSY), and PepsiCo (PEP).
- Consumer advocacy groups have pushed for greater transparency on food labeling and sustainability practices, which may increase compliance costs for food manufacturers.

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.