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Monthly Insights: April Outlook

Consumer Discretionary Sector

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Sector Price Action & Performance Review: Consumer Discretionary Sector



The Discretionary Sector continued to retrace gains from Q4 of 2024. Amazing to think that Discretionary stocks will start April of 2025 having been a market performer over the past 12 months given all the volatility. The initial signs of a rally were abruptly snuffed out on Friday March, 28. Price now enters a zone of support between \$170-190 as proxied by the XLY ETF (chart, left)

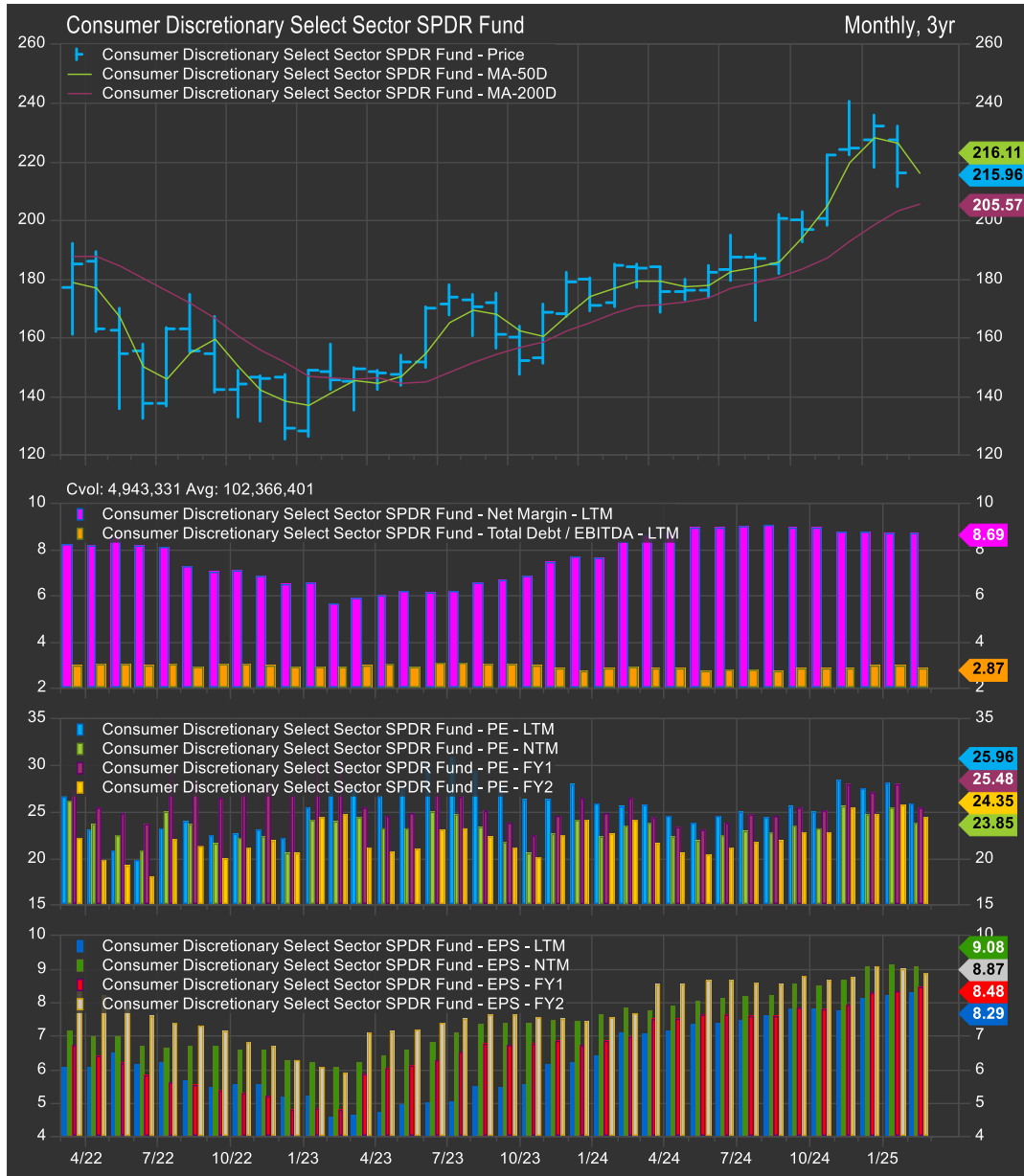
Last month we stayed in the sector due to near-term oversold conditions. Since then, equities have gone unambiguously into correction mode to the extent that we think there is more downside in the near-term.

On the macro level we are concerned that interest rates have stopped falling despite continued weakness for equities. The implementation of tariffs on top of an economy that was not particularly robust at the outset isn't a playbook the equity market likes. That present reality against the previous setup of post-election exuberance has us where we are now. Equities are oversold, but several planks of the "soft landing" narrative are getting pulled out from under us at a quick pace. Tariffs are inflationary and complicate any dovish inclinations at the Fed which leaves investors to reprice the probability of recession.

While there is always potential for abrupt change where the Trump Administration is involved, the present circumstances leave the consumer facing high prices, high mortgage rates and employers who are likely tightening their belts as they face uncertainty.

We start April out of the Consumer Discretionary Sector with an **UNDERWEIGHT allocation to the Consumer Discretionary Sector of **-10.37%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Consumer Discretionary Sector

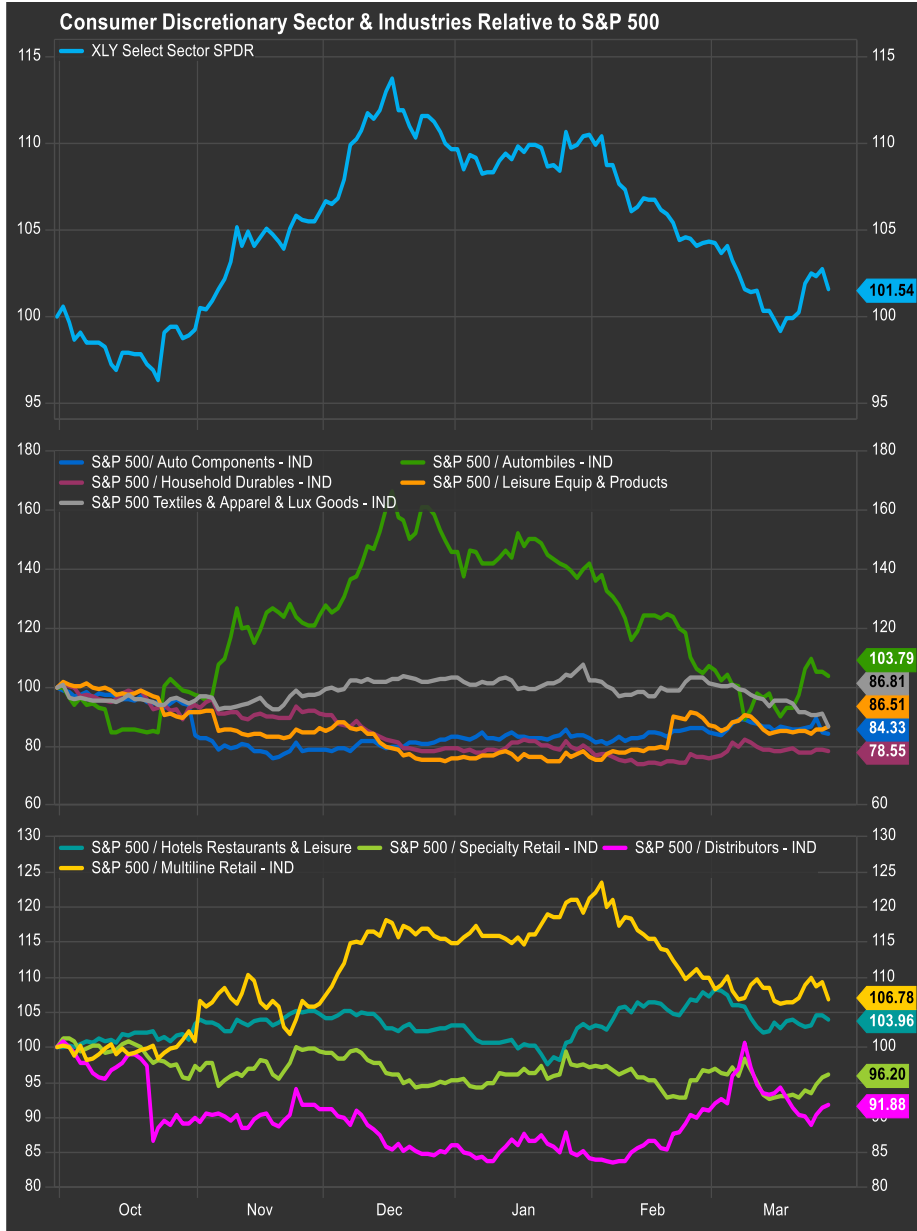


The chart (left) shows S&P 500 Consumer Discretionary Sector Margins, Debt/EBITDA, Valuation and Earnings

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

What's become problematic for the Discretionary Sector is there isn't a backstop of low beta, income stocks in the sector that outperforms when things get tough so we've seen the sector wilt with its mega-cap. leaders.

Consumer Discretionary Sector Internals (chart, right): It's been a weak bounce for the sector since bottoming out in mid-March. With prices failing at the 200-day moving average, we think there's more downside ahead

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

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
AZO	AutoZone, Inc.	Bullish Reversal	63,083.8	0.95	18.6	0.0	14.1	
EBAY	eBay Inc.	Bullish Reversal	31,296.6	0.50	12.7	1.1	10.4	
ORLY	O'Reilly Automotive, Inc.	Bullish Reversal	80,626.1	1.25	21.5	0.0	8.7	
DRI	Darden Restaurants, Inc.	Bullish Reversal	24,030.3	0.78	20.6	1.8	8.5	
F	Ford Motor Company	Downtrend	37,836.0	0.28	-4.5	4.3	7.9	
MCD	McDonald's Corporation	Bullish Reversal	219,403.9	0.99	6.6	1.5	6.3	
YUM	Yum! Brands, Inc.	Bullish Reversal	43,472.9	1.01	14.3	1.2	5.8	
DHI	D.R. Horton, Inc.	Retracement	39,702.3	0.38	-19.2	0.8	5.5	
LKQ	LKQ Corporation	Consolidation	10,753.2	0.46	3.7		5.5	
NVR	NVR, Inc.	Retracement	21,322.4	0.56	-14.8	0.0	5.3	

Automotive Retail names ORLY and AZO are what gets bought when things are going wrong

NKE remains in free fall while we think there's a likelihood that previous strong tends RL, WSM and TPR get accumulated on their recent pullbacks...in the meantime, it's auto parts and quick-serve restaraunts

Metrics:

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valuation

Momentum

Long higher scores, short lower scores

Dividend Yield Relative to Index

Higher scores preferred when rates and equities are moving lower

Near-term Overbought/Oversold

Price is >10% away from the 50-day moving average Above/Below

GREEN|RED

Company scores positively|negatively for Elev8 Sector Rotation Model for April

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
CZR	Caesars Entertainment Inc	Downtrend	5,442.4	0.89	-30.8	0.0	-16.6	NT OVERSOLD
RL	Ralph Lauren Corporation Class A	Uptrend	8,602.0	0.63	5.6	1.0	-14.0	NT OVERSOLD
DECK	Deckers Outdoor Corporation	Retracement	16,931.9	0.67	-31.8	0.0	-13.8	NT OVERSOLD
NKE	NIKE, Inc. Class B	Downtrend	74,760.6	1.22	-22.9	1.5	-13.7	NT OVERSOLD
LULU	lululemon athletica inc.	Distributional	33,854.7	0.77	-10.6	0.0	-13.7	NT OVERSOLD
BBY	Best Buy Co., Inc.	Consolidation	15,313.7	0.46	-17.6	3.5	-12.2	NT OVERSOLD
WSM	Williams-Sonoma, Inc.	Uptrend	19,635.5	0.75	-2.5	1.2	-12.1	NT OVERSOLD
TPR	Tapestry, Inc.	Uptrend	14,542.8	0.54	31.8	1.3	-11.2	NT OVERSOLD
CCL.U	Carnival Corporation	Consolidation	23,180.5	0.41	1.1	0.0	-10.8	NT OVERSOLD
NCLH	Norwegian Cruise Line Holdings Ltd.	Consolidation	8,424.9	0.35	-12.6	0.0	-9.5	NT OVERSOLD

3/30/2025

Economic & Policy Drivers: Consumer Discretionary Sector

Inflation & Consumer Pricing Trends

Core PCE (Feb): Increased by 0.3% month-over-month; year-over-year rose to 2.7% from 2.6%, aligning with expectations → suggests persistent inflation in services.

CPI (Feb): Core CPI reflected a slowdown in housing elements, though there was a rebound in insurance and airfare costs.

Retailers report a decline in pricing power and heightened promotional activities, particularly in the apparel and home goods sectors.

Wage Growth, Employment & Sentiment

Initial Jobless Claims: Remain stable (~224K), close to pre-COVID levels → indicating a tight labor market.

Consumer Confidence (Mar): Decreased to 92.9, marking the fourth consecutive drop; the future expectations index fell to 65.2, the lowest in 12 years.

UMich Sentiment (Flash): Dipped to its lowest since March 2022; inflation expectations for 1Y/5Y both saw an uptick.

Loan Rates & Credit Access

Auto loan and mortgage rates remain high (30-year fixed around 6.65%).

Lenders (e.g., COF, DFS) reported rising delinquency rates; regional banks are tempering expectations for consumer loan growth in 2025.

Mortgage affordability is noted as a **headwind for the housing market**, while the affordability of cars impacts sales volumes.

Tariffs & Trade Policy

Trump's 25% auto tariffs (announced 27-Mar) will apply to all vehicles manufactured outside the US starting 3-Apr; other sectors such as pharmaceuticals and lumber were also mentioned.

2-Apr "Liberation Day" reciprocal tariffs are anticipated to impact Mexico, China, and the EU — posing risks to discretionary imports (e.g., apparel, electronics, and home goods).

Retailers (LULU, DLTR, NKE) have highlighted foreign exchange and tariff risks in their forecasts.

Uncertainty surrounding potential retaliation from **Canada, EU, and Mexico** has resulted in **increased input cost assumptions and concerns over inventory management.**

Retail Earnings Highlights:

LULU: Exceeded EPS/revenue expectations but missed guidance due to FX/tariff implications and a cautious global consumer outlook.

DLTR: Surpassed EPS and comparable sales expectations; announced the sale of Family Dollar for \$1 billion; flagged tariff exposure.

FIVE: Reported strong Q4 comparable sales, guided for steady Q1, incorporating tariff challenges into FY25.

OLLI, SIG, ULTA: Achieved solid EPS and margin performance on lower expectations and loyal customer bases.

CHWY, BRZE: Showed positive net additions and trends in eCommerce adoption.

Consumer Trends:

Brands reported **growth at both ends of the market**, while mid-tier retail faces pressure.

Trade-down behavior is accelerating, as noted by DG, WMT, and even NKE in their guidance.

Housing:

New Home Sales (Feb): Reached 676K SAAR, consistent with consensus.

Pending Home Sales: Increased by 2.0% month-over-month (Feb), exceeding expectations.

Lennar (LEN): Provided a cautious Q2 gross margin outlook; continued reliance on incentives; noted housing affordability as a macro concern.

KB Home (KBH): Missed Q1 EPS expectations, with weak orders; lowered FY25 guidance amid affordability issues and a “soft” consumer market.

Autos:

TESLA: Mixed performance year-to-date; EU sales declined for the second consecutive month; stock volatility due to geopolitical and competitive factors.

GM/F/others: Auto tariffs present a significant challenge; GM fell 7.4% following tariff announcements. Ferrari plans to raise US prices by 10%.

Consumer affordability is deteriorating due to rising rates and tighter lending conditions.

Appendix: Metric Interpretation/Descriptions

Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

Valuation Multiple Relative to Index

(Company Price/NTM EPS)/ (Index Price/NTM EPS)

Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

Dividend Yield Relative to Index

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

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.