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Monthly Insights: May Outlook

Consumer Discretionary Sector

Patrick Torbert, CMT

Editor & Chief Strategist

Sector Price Action & Performance Review: Consumer Discretionary Sector

The Discretionary Sector regained equilibrium after retracing post-election gains from December-March. Price is now attempting to rally from deeply oversold conditions on our MACD and RSI oscillator studies. We also note positive divergence formed on both studies from March-April as the sector made a new low in April and both MACD and RSI were at a higher low coincidentally.

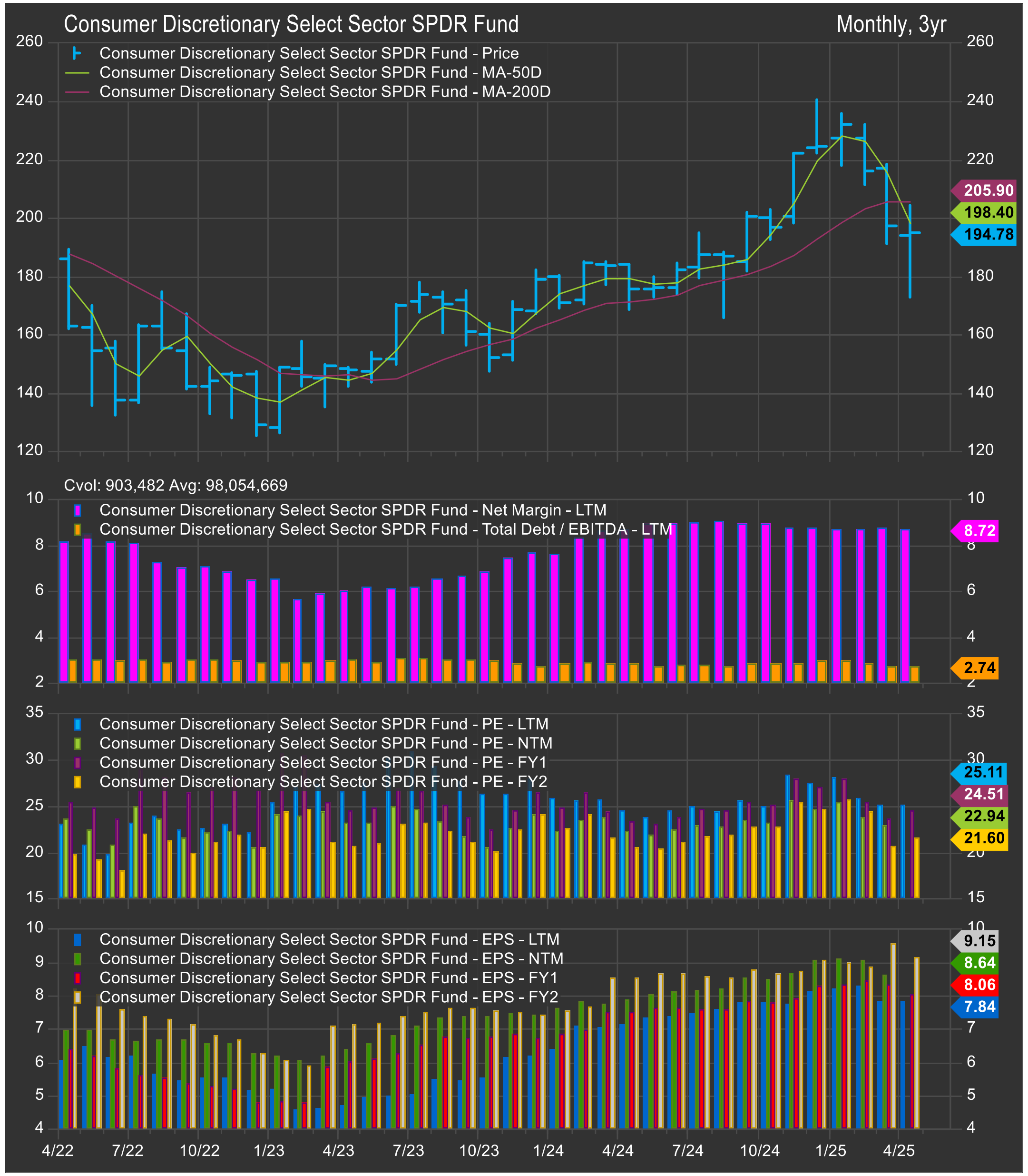
We note Mag7 constituents AMZN and TSLA have traded down to long-term support on their price charts and we're expecting some accumulation as equities attempt to bottom on conciliatory trade dynamics.

A big question for the sector will be the amount of economic damage already done by the initial round of tariff pronouncements and cooling of sentiment due to general uncertainty, however, we think any weakness in the data opens the door for the Fed. to play a more assertive role in support of the US consumer.

Headwinds remain for the sector, particular the overhang of stubbornly high interest rates which has negatively impacted the housing and auto markets. Uncertainty on global trade and higher input costs are not helping there, but we think that's ultimately an issue of interest rates needing to come down. With the trade war sparking increased potential for recession, we think there is a renewed opportunity for the Fed to go for the "soft landing" approach

We start May long the Consumer Discretionary Sector with an OVERWEIGHT allocation of +2.5% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Consumer Discretionary Sector

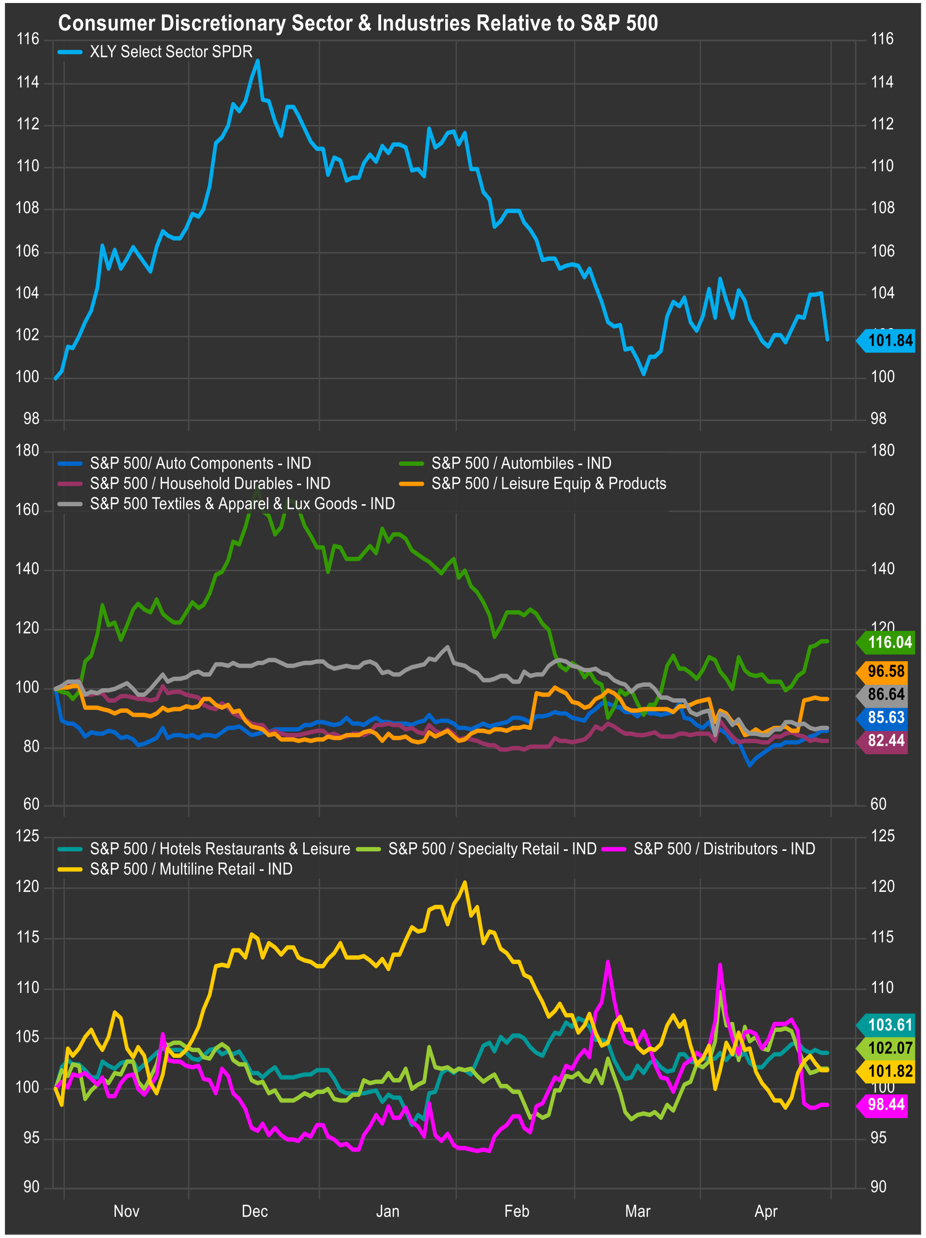


The chart (left) shows S&P 500 Consumer Discretionary Sector Margins, Debt/EBITDA, Valuation and Earnings

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) is contracting in the near-term from an elevated position while FY2 earnings projections have been strong so far in 2025 despite near-term turbulence on global trade

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



Consumer Discretionary Industries (chart, left): Big retracements at the industry level have seemingly run their course with TSLA showing signs of bullish reversal and AMZN near 6-month relative lows

Consumer Discretionary Sector Internals (chart, right): Market internal trends remain challenged for the sector with less than 35% of constituents above their respective 50-day moving averages and less than 30% above the 200-day m.a., nonetheless we saw a persistent bid across the sector as April came to a close

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
ROST	Ross Stores, Inc.	Consolidation	46,293.3	0.87	3.8	0.8	12.5	
TSLA	Tesla, Inc.	Bullish Reversal	939,319.5	4.82	10.6	0.0	11.1	NT OVERBOUGHT
DPZ	Domino's Pizza, Inc.	Bullish Reversal	16,895.8	1.09	14.8	0.9	10.6	NT OVERBOUGHT
CZR	Caesars Entertainment Inc	Downtrend	5,821.0	1.14	-24.0	0.0	9.3	
ULTA	Ulta Beauty Inc.	Consolidation	17,682.0	0.67	1.4	0.0	8.8	NT OVERBOUGHT
TJX	TJX Companies Inc	Uptrend	143,022.4	1.12	16.2	0.9	8.6	
BKNG	Booking Holdings Inc.	Uptrend	160,241.6	0.90	16.4	0.5	6.2	
MGM	MGM Resorts International	Downtrend	8,997.8	0.54	-14.0	0.0	5.0	
DASH	DoorDash, Inc. Class A	Bullish Reversal	76,136.6	2.93	21.5	0.0	5.0	
F	Ford Motor Company	Consolidation	39,642.8	0.36	1.1	4.3	4.7	

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
KMX	CarMax, Inc.	Support	9,903.1	0.69	-13.0	0.0	-14.4	
SBUX	Starbucks Corporation	Consolidation	96,381.1	1.05	-10.9	1.9	-12.9	NT OVERSOLD
LKQ	LKQ Corporation	Support	9,719.3	0.42	-0.4		-9.2	NT OVERSOLD
NCLH	Norwegian Cruise Line Holdings Ltd.	Support	7,704.6	0.32	-23.8	0.0	-9.0	
NKE	NIKE, Inc. Class B	Downtrend	67,788.0	1.19	-24.2	1.7	-8.8	NT OVERSOLD
BBY	Best Buy Co., Inc.	Downtrend	14,094.1	0.43	-16.2	3.8	-7.7	
LULU	lululemon athletica inc.	Support	31,337.4	0.73	-18.6	0.0	-7.2	NT OVERSOLD
TSCO	Tractor Supply Company	Consolidation	26,511.7	0.93	-6.9	1.2	-6.5	
POOL	Pool Corporation	Support	11,085.4	1.05	-14.3	0.9	-6.4	
CCL.U	Carnival Corporation	Consolidation	21,827.2	0.38	-10.0	0.0	-5.6	

We're seeing some bottom-fishing in TSLA, while the rest of the top performers represent a mix of strong and weak charts

DASH and BKNG remain top stock ideas for us and we think AMZN and TSLA are likely accumulation opportunities going forward

On the downside, we're seeing a mix of retail, restaurants and cruise lines on the list as well as car dealers and distributors

Metrics:

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueation

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

Economic & Policy Drivers: Consumer Discretionary Sector

1. Consumer Credit: Delinquencies Creeping Higher

April earnings from credit-sensitive names and updated consumer credit data revealed **building pressure in household balance sheets**:

Capital One (COF) and **Discover (DFS)** both reported Q1 results showing **rising delinquencies and net charge-offs**, though still below historical norms. Management flagged deteriorating credit trends in lower-income cohorts, particularly around discretionary spending.

Credit card delinquency rates are now at **2.7%**, up from 2.3% at year-end 2024. Analysts expect this to **approach 3% by Q3**, marking a return to pre-pandemic levels.

BNPL (buy now, pay later) platforms and store-branded cards also showed **slowing originations**, a sign of reduced credit appetite amid economic uncertainty.

While job markets remain resilient, tighter credit standards and **more cautious underwriting** are limiting access to financing, especially for subprime and near-prime consumers. This has implications for **mid-tier retailers, home improvement chains, and discretionary travel**.

2. Mortgage Rates & Housing-Linked Spending: A Drag on Big-Ticket Demand

The average **30-year mortgage rate hovered near 6.8%** in April, according to Realtor.com, a level that continues to **dampen housing turnover** and **renovation activity**.

Homebuilders (e.g., LGIH, DHI) have guided conservatively for Q2, citing **slower order flow** and **delayed closings**. LGI Homes specifically cited **tariff-related input cost increases** beginning in March.

Home-linked discretionary spending—furniture, appliances, décor—has underperformed broader retail sales in recent months. Companies like **Whirlpool (WHR)** and **Home Depot (HD)** have warned of **elongated consumer replacement cycles**.

Housing stagnation continues to drag on **durable goods demand** in the discretionary segment. While rates may decline later in the year, consumer hesitation and affordability pressures will remain key constraints.

3. Autos: Inventories Rising, Prices Softening, Tariff Relief Unclear

Auto-related discretionary demand saw **mixed developments in April**:

General Motors (GM) and **Ford (F)** reported Q1 beats, but GM suspended guidance and share repurchases ahead of White House auto tariff announcements. The industry remains highly exposed to Trump's **25% parts tariffs**, set to take effect in May.

April saw a **modest easing of tariffs** for certain auto parts, including a 15% offset for US manufacturers, but the overall **trade regime remains restrictive** and uncertain.

Inventory levels at dealerships are rising for non-luxury vehicles, leading to **discounting across several models**, especially EVs and compact SUVs.

Used car prices declined 1.2% in April (per Manheim Index), continuing a trend that began late in Q1.

Auto OEMs and dealers are walking a fine line between **protecting margins and preserving volume**. Consumers appear increasingly price-sensitive, especially in the face of **tight auto loan credit standards** and higher APRs, which now average **8.3% for new vehicles**.

4. Global Supply Chain Pressures Reemerging

The **trade war between the US and China** flared anew in April, leading to mounting concerns around **supply disruptions** for discretionary goods:

Apparel retailers, electronics sellers, and general merchandisers warned of **inventory pressures heading into summer**. Reports from Bloomberg and FT noted a **35% y/y decline in inbound container volumes** at the Port of Los Angeles beginning in May.

Brands like **Skechers (SKX)** and **Nike (NKE)** have leaned into **pricing power and regional diversification**, but acknowledged longer lead times and growing freight costs.

Several companies, including **HomeGoods and RH**, warned of **potential shipping constraints**, while retailers with **nearshore production (Mexico, Vietnam)** fared better.

Although most companies have built **2-3 months of safety stock**, economists warn that **Covid-style shortages** could reemerge if port congestion escalates. This backdrop makes **supply chain agility a competitive advantage** in H2.

5. Consumer Purchasing Power & Confidence: Mixed Signals

April's Conference Board Consumer Confidence Index fell to 86.0, the lowest since spring 2020. The **Expectations Index** fell to its lowest since 2011, reflecting concerns around tariffs, inflation, and job security.

The **University of Michigan's final April sentiment reading ticked up slightly**, but **1-year inflation expectations remain elevated at 6.5%**, the highest since 1981.

Wage gains have remained steady (+0.3% m/m expected in April jobs report), but **real disposable income growth has slowed** under pressure from food, shelter, and credit costs.

Retailers like **Walmart (WMT)** and **Dollar General (DG)** noted **a shift toward value-oriented consumption**, with more price-sensitive behavior in both online and in-store channels. This pattern favors **discounters, off-price chains, and mass retailers**, while creating headwinds for **premium apparel, furnishings, and dining**.

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.