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Monthly Insights: June Outlook

Consumer Staples Sector

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Sector Price Action & Performance Review: Consumer Staples Sector



The Staples have been retracing relative gains vs. the S&P 500 as equities have rebounded to the upside. Over the longer-term the price action for the index looks constructive with oscillators in a neutral position and MACD signaling a tactical buy.

Improving global trade sentiment in May has triggered rotation back out of defensive exposures, though concerns on inflation and slowing economic growth remain with us in this cycle.

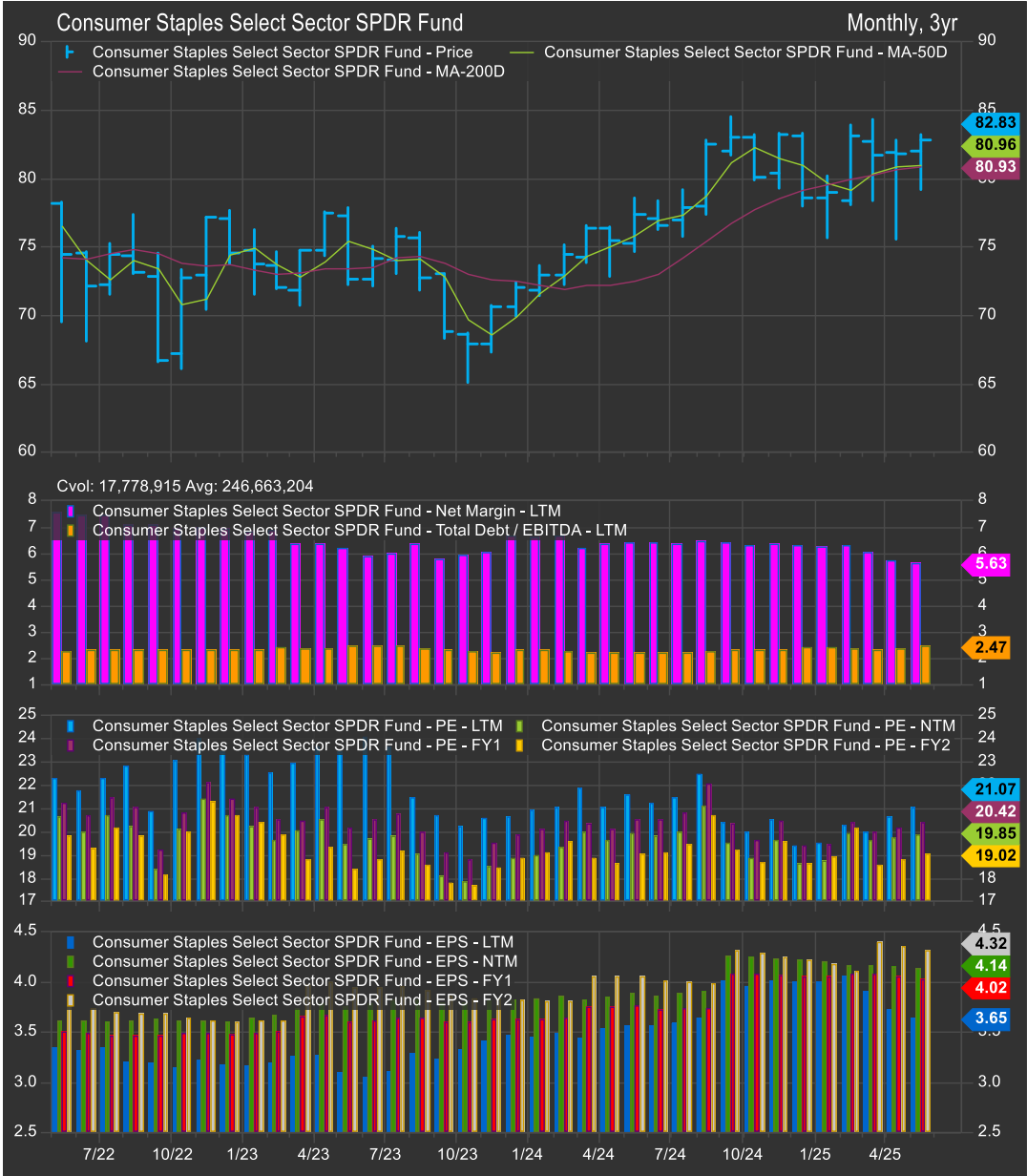
At the stock level, we continue to think WMT and COST are the best long-term exposures within the sector, and we note continued improvement in Tobacco stocks in 2025 and near-term improvement in dollar stores (DG, DLTR).

Fundamental dynamics are giving and taking from the sector as the consumer is pinched by higher costs and is trading down to discount retailing while high end staples brands are suffering as those consumers opt for cheaper private label equivalents.

With improving sentiment on global trade and some gathering consensus that the Fed will respond dovishly later in the year if consumer data weakens, we don't think this is a time for big defensive tilts in portfolio positioning. However, the Staples sector grades out as the best low vol. exposure in our sector work, and we are keeping a long position in the portfolio as a hedge against downside scenarios.

We start June with an **OVERWEIGHT allocation to the Consumer Staples Sector of **1.49%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Consumer Staples Sector



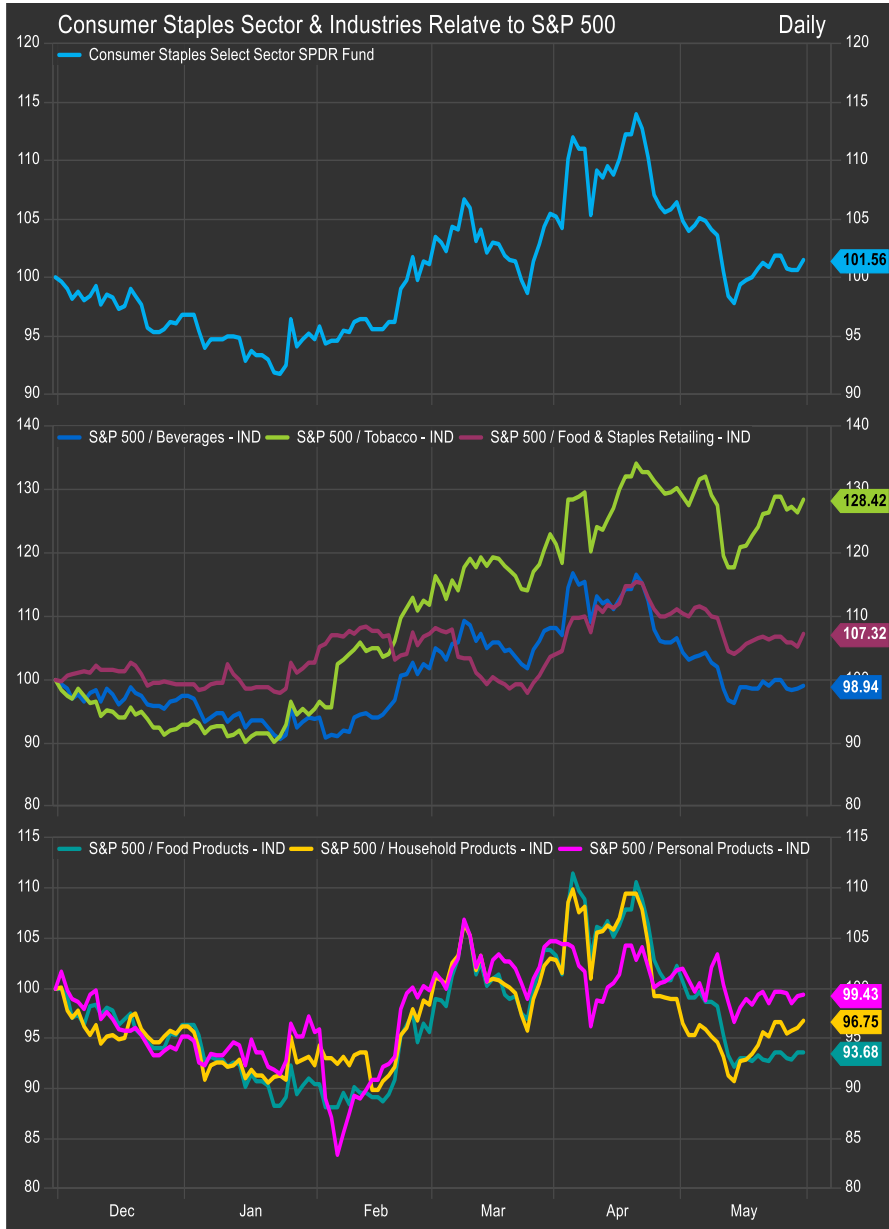
The chart (left) shows S&P 500 Consumer Staples Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins continue to contract for the sector(chart, panel 2)

Valuation (chart, panel 3) has also contracted, but remains close to the market multiple which is a little rich based on historical standards

The fundamental picture is solid with the potential for tailwinds if equities have a deeper correction, but we expect the sector is unlikely to outperform if equities as an asset class re-rate higher

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



Consumer Staples Industries (chart, left): Industry level relative curves are flattening out after continuing to pullback in May

Food & Staples Retailing continues to be setup as the long-term winning industry within the sector while Tobacco stocks have been notable outperformers YTD...they are now facing their first potential pivot lower in 2025

Consumer Staples Sector Internals (chart, right): Sector internals have been slow to improve despite the broad equity market recovery...this is to be expected as the average Staples stock typically outperforms when index level prices are moving lower

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

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
EL	Estee Lauder Companies Inc. Class A	Consolidation	16,083.2	1.30	-12.8	1.6	0.93	8.8
DLTR	Dollar Tree, Inc.	Bullish Reversal	19,035.2	0.66	12.5	0.0	0.88	5.5
KMB	Kimberly-Clark Corporation	Consolidation	47,728.4	0.79	4.2	2.3	0.43	3.7
MNST	Monster Beverage Corporation	Bullish Reversal	62,064.7	1.31	13.5	0.0	0.47	0.9
LW	Lamb Weston Holdings, Inc.	Consolidation	7,654.1	0.63	-19.2	1.7	0.65	-1.8
PM	Philip Morris International Inc.	Uptrend	276,857.7	0.92	34.2	2.0	0.57	-2.0
DG	Dollar General Corporation	Bullish Reversal	21,350.3	0.67	12.5	1.6	0.06	-2.5
PG	Procter & Gamble Company	Consolidation	395,196.0	0.97	-3.6	1.6	0.47	-2.6
WBA	Walgreens Boots Alliance, Inc.	Acquisition	9,715.3	0.30	4.8	4.8	0.79	-3.7
MDLZ	Mondelez International, Inc. Class A	Bullish Reversal	87,361.2	0.87	2.2	1.9	0.44	-3.7

Not many positives at the stock level during May. EL was the top performer but remains challenged longer-term. DG and DLTR continue early-stage bullish reversals and are now buy rated in our work

COST and WMT remain the strongest stocks in the sector...both were middle of the pack performers in May with each lagging the S&P 500 by 5% in the context of strong long-term trends

Food and Beverage stocks continue to be laggards now that investor are dumping low vol. exposure

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
TSN	Tyson Foods, Inc. Class A	Support	16,063.0	0.57	-10.8	2.3	0.73	-13.8
CLX	Clorox Company	Support	16,144.9	0.77	-15.2	2.5	0.88	-13.7
CAG	Conagra Brands, Inc.	Downtrend	10,821.8	0.39	-16.2	4.0	0.16	-13.3
KHC	Kraft Heinz Company	Downtrend	31,979.3	0.42	-16.1	4.0	0.27	-12.9
TAP	Molson Coors Beverage Company Class B	Support	10,331.2	0.35	-11.0	2.3	0.86	-12.3
KR	Kroger Co.	Consolidation	44,578.9	0.55	8.4	1.3	0.58	-12.2
CPB	Campbell's Company	Downtrend	10,188.9	0.46	-21.0	2.9	0.15	-11.6
MKC	McCormick & Company, Incorporated	Support	19,451.2	0.92	-8.1	1.6	0.82	-11.0
GIS	General Mills, Inc.	Downtrend	29,565.0	0.54	-16.0	2.9	-0.03	-10.3
STZ	Constellation Brands, Inc. Class A	Consolidation	31,987.1	0.56	-17.0	1.5	0.63	-10.0

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

Economic & Policy Drivers: Consumer Staples Sector

1. Consumer Trends: Private Label & Budget Caution Rising

With **wages stabilizing** and jobless claims creeping higher, more consumers began to trade down from premium brands to **private label and value-tier products**, especially in food, beverages, and personal care categories.

Executives and analysts noted **softness in discretionary categories** such as beauty and wellness, with several consumer staples brands calling out slower foot traffic and tighter promotional cycles.

Online price comparison tools and inflation-weary households continued to steer purchasing toward value-oriented retailers, undermining pricing power for premium CPG companies.

This trend appears **structural rather than temporary**, posing a threat to brand loyalty and margin durability for staples companies relying heavily on premium products.

2. Margins & Input Cost Pressures Persist

Labor costs and **freight expenses** stayed elevated, though not as disruptive as in 2022-2023. However, companies continued to cite **tariff uncertainty** and **rising commodity input costs** (notably in packaging, dairy, and agricultural inputs) as key headwinds.

For example, **Hormel (HRL)** reported weak U.S. retail results while calling out **tariff-driven cost pressures**, though noted stronger performance in foodservice and international segments.

Many companies flagged a **difficult cost environment**, where pricing actions were no longer enough to fully offset expenses without sacrificing volume.

Tariff risk again became a market focus after the U.S. Court of International Trade struck down certain IEEPA-based tariffs, only for a federal appeals court to **reinstate them temporarily**, keeping the sector under a **cloud of policy uncertainty**. Companies did not yet factor in tariff relief in earnings guidance, reflecting the legal and political complexity.

3. Supply Chain & Inventory Trends: Easing, But Still Uneven

Staples companies continue to grapple with **distribution bottlenecks** in key retail and wholesale channels, particularly when reliant on international suppliers.

Some firms flagged issues tied to **shipping delays**, **port congestion**, or **complex regulatory clearance** linked to new export controls and country-of-origin labeling.

Domestic transportation costs remained high due to fuel and labor issues, though May's pullback in crude prices may offer some relief moving into June.

4. Company Earnings: Mixed Trends With a Defensive Tilt

Costco (COST) reported **fiscal Q3 largely in line**, reflecting steady sales but modest pressure on gross margins as inflation narrowed the gap between branded and private-label margins. The company did not guide meaningfully higher despite strong foot traffic trends.

Hormel (HRL) results were **weaker on the retail side** but somewhat better than expected internationally and in foodservice. Tariff and labor costs were cited as key pressure points.

Bath & Body Works (BBWI), while more discretionary than core staples, reaffirmed full-year guidance but flagged **tariff impacts and sluggish demand trends**. The company signaled a more promotional environment heading into summer.

Best Buy (BBY) (again, not a core staple but relevant to household retail trends) highlighted softness in appliances and home goods — underscoring the **consumer pullback from non-essentials**.

Most companies **reiterated guidance** but **shied away from upward revisions**, indicating low visibility and cautious consumer behavior.

5. Macro & Policy Drivers: A Complex Backdrop

Personal income and spending data showed slower growth, with the April core PCE inflation rate expected at +0.1% m/m, down from +0.3% in March — a welcome disinflationary signal that could temper Fed hawkishness but also reflects **slowing consumer momentum**.

Jobless claims rose, and **continuing claims hit their highest since late 2021**, suggesting rising pressure on household budgets — a potential risk for staples spending volumes.

On policy: While **Fedspeak remained cautious**, the Fed's minutes leaned **modestly hawkish**, citing persistent inflation and emphasizing a **wait-and-see approach on rate cuts**, which could **sustain elevated borrowing costs** for leveraged CPG firms.

Global trade remains a watchpoint. The legal back-and-forth on tariffs contributed to **widespread planning challenges**, especially for companies with manufacturing exposure to Asia and Latin America. The administration's reference to using **Section 301 or Section 122** as fallback tariff authorities keeps policy uncertainty high.

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.