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Monthly Insights: July Outlook

Consumer Staples Sector

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Sector Price Action & Performance Review: Consumer Staples Sector



The S&P 500 Consumer Staples sector underperformed in June amid persistent pressure on consumer spending, margin compression risks, and a shift in purchasing behavior favoring private labels over branded goods. Despite a backdrop of declining Treasury yields and growing Fed rate cut expectations, the sector lagged broader benchmarks as investors rotated toward growth and cyclical exposures.

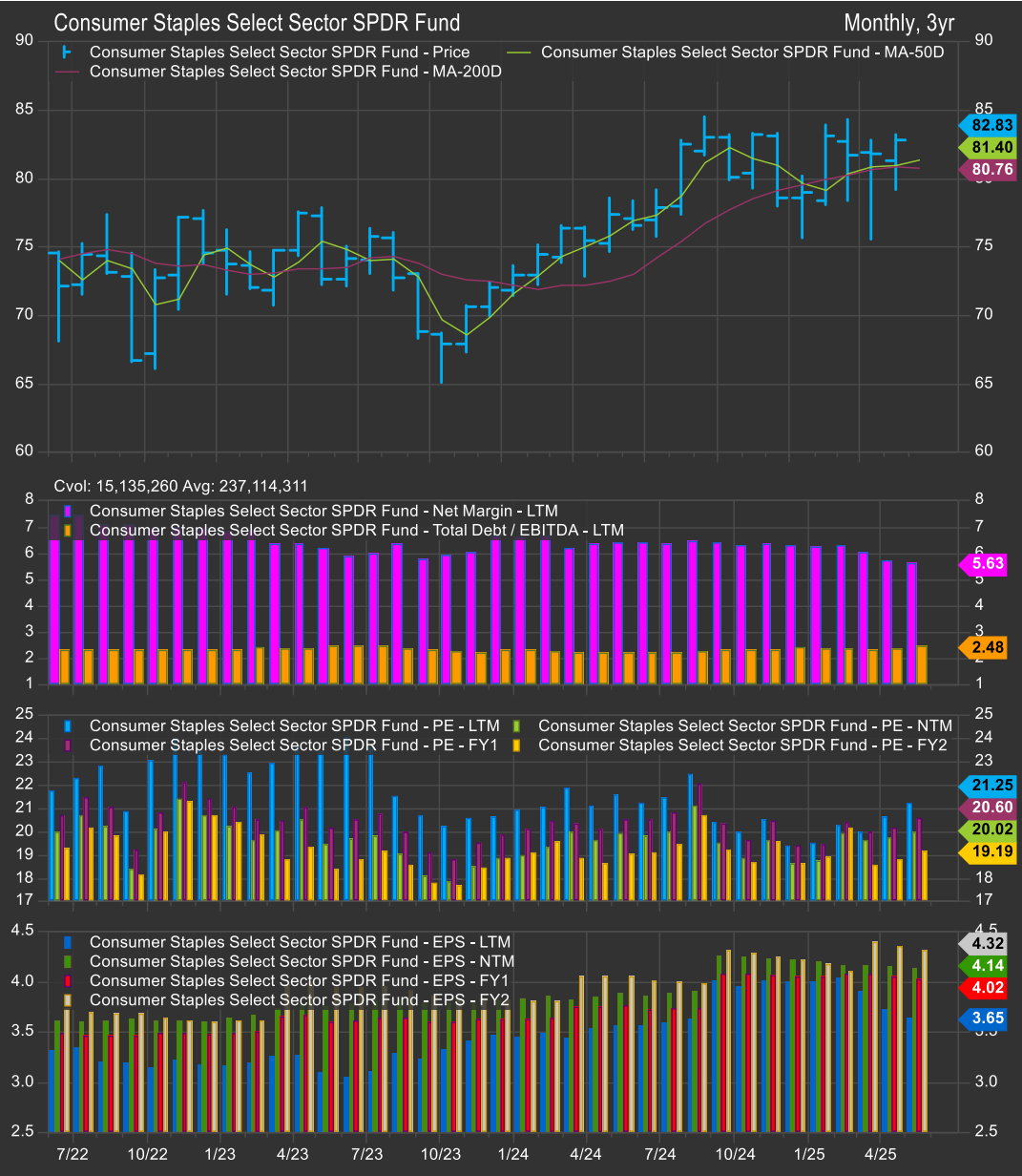
From a technical perspective, the staple sector enters July near oversold conditions. The MACD study is on a sell signal while the relative curve is near 52 week lows. The picture is consistent with a negative trend. And absent bearish catalysts we're expecting underperformance to continue.

At the stock level, our best. Ideas, Walmart and Costco have moved sideways and our potential accumulation opportunities in the near term.. The other area of strength within the sector has been big tobacco. Those stocks have also consolidated gains and are potential accumulation opportunities.

Stabilizing rates and lower expectations may provide a floor, but execution will matter. Companies with pricing flexibility, operational discipline, and exposure to resilient demand segments (e.g., warehouse clubs, discount retailers) are better positioned. Still, consumer staples remains a defensive laggard unless broader macro risk-off sentiment returns.

We start July with an **UNDERWEIGHT** allocation to the Consumer Staples Sector of **-0.89%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Consumer Staples Sector



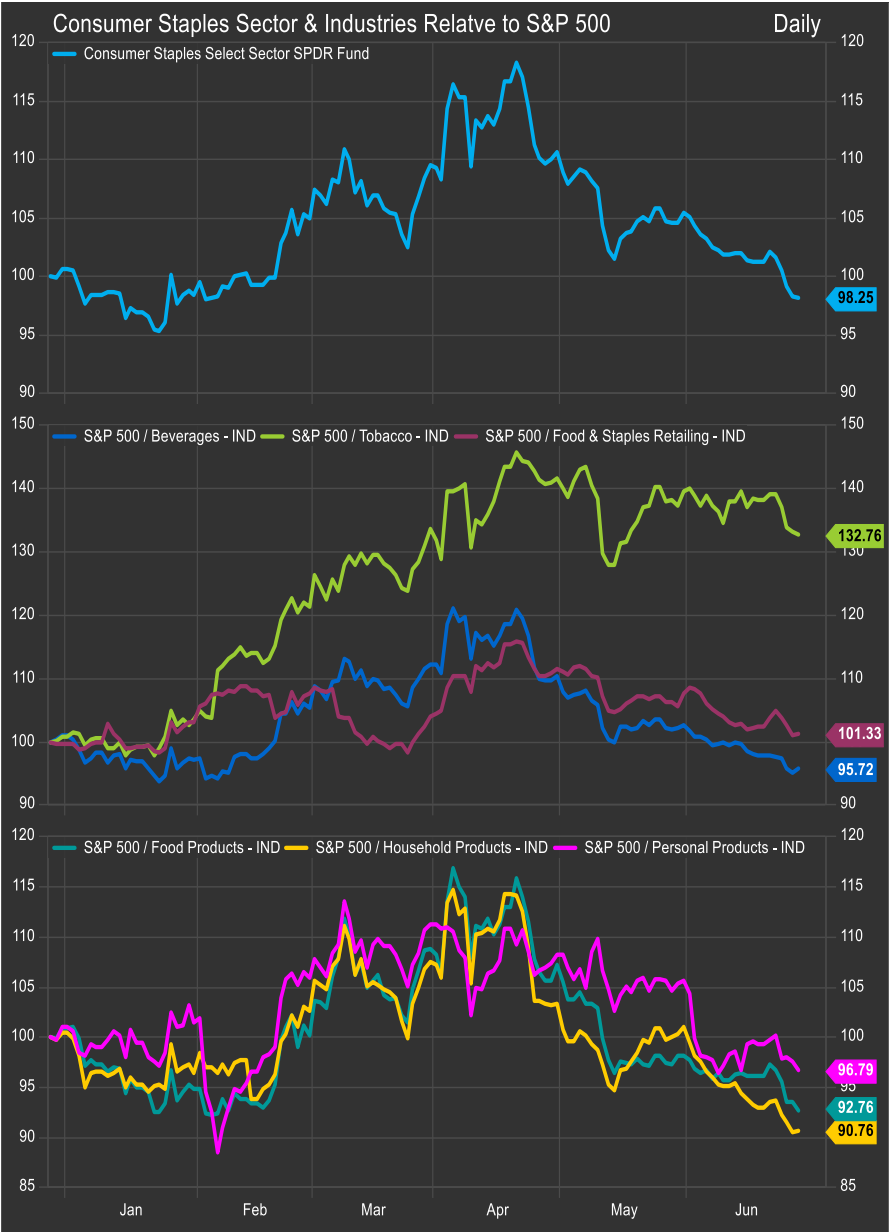
The chart (left) shows S&P 500 Consumer Staples Sector Margins, Debt/EBITDA, Valuation and Earnings

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): Staples stocks continued to give up ground relative to the S and P 500 in June. Each industry within the sector underperformed over the month. tobacco and food and Staples retailing remain the strongest industries in the sector And we're expecting those areas will be accumulated by investors in the near term.

Consumer Staples Sector Internals (chart, right): Internal trends have remained weak for the staple sector with less than 50% of staple stocks above their respective 50 day and 200 day moving averages.

We think equities would have to correct on the top line for the sector to gain ground versus the S&P 500.

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	18,757.9	1.47	11.9	1.3	1.00	16.5
DG	Dollar General Corporation	Bullish Reversal	25,187.1	0.77	24.8	1.4	0.09	12.1
DLTR	Dollar Tree, Inc.	Bullish Reversal	20,598.3	0.69	19.2	0.0	0.93	5.5
ADM	Archer-Daniels-Midland Company	Consolidation	24,973.8	0.49	0.3	2.7	0.80	2.5
HSY	Hershey Company	Support	24,712.9	1.09	-6.3	2.2	0.12	2.2
MKC	McCormick & Company, Incorporated	Consolidation	20,472.8	0.96	-8.6	1.6	0.75	1.9
KR	Kroger Co.	Consolidation	47,555.2	0.58	0.8	1.2	0.52	0.6
SY	Sysco Corporation	Consolidation	36,361.2	0.65	-5.6	1.8	0.83	-0.1
TGT	Target Corporation	Support	45,086.7	0.52	-13.4	3.0	1.31	-1.5
WBA	Walgreens Boots Alliance, Inc.	Acquisition	9,910.7	0.31	-2.1	4.3	0.81	-2.6

Higher beta names outperformed in June as investors rotated into risk on exposures

Dollar stores continued their bullish reversal while personal product stocks led by Este Lauder got a boost

Notably, sector leaders, Walmart and Costco, along with the Big Tobacco stocks, didn't gain any ground in June. However, they remain the strongest charts in the sector and among our best ideas is the stock level.

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	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
▼	▼	▼	▼	▼	▼	▼	▼	▼
BF.B	Brown-Forman Corporation Class B	Downtrend	12,659.6	0.64	-31.6	2.3	0.50	-26.2
SJM	J.M. Smucker Company	Downtrend	10,185.4	0.41	-22.8	3.0	0.26	-18.8
KVUE	Kenvue, Inc.	Consolidation	40,087.7	0.71	-17.0	2.6	0.93	-16.3
CAG	Conagra Brands, Inc.	Downtrend	9,738.2	0.36	-26.7	4.5	0.10	-15.1
STZ	Constellation Brands, Inc. Class A	Support	28,539.4	0.50	-21.9	1.7	0.59	-14.7
TAP	Molson Coors Beverage Company Class B	Downtrend	9,140.6	0.31	-24.5	2.6	0.79	-14.6
KMB	Kimberly-Clark Corporation	Downtrend	42,436.0	0.70	-15.0	2.6	0.47	-14.5
CPB	Campbell's Company	Downtrend	9,179.4	0.44	-26.3	3.3	0.11	-13.8
CLX	Clorox Company	Support	14,684.3	0.71	-24.4	2.7	0.80	-13.4
GIS	General Mills, Inc.	Downtrend	27,403.4	0.55	-20.1	3.2	-0.06	-10.3

Economic & Policy Drivers: Consumer Staples Sector

- **Macro Weakness Clouds Spending Outlook:** June's economic data signaled a **softening labor market** and renewed concerns around discretionary budgets. The **ADP private payrolls** report came in well below expectations (+37K vs. +130K), while the **ISM Services Index** slipped into contraction territory, with **new orders falling** to their lowest level since December 2022. The **Fed's Beige Book** noted "slight" declines in economic activity and consumer spending, adding that businesses remain cautious on hiring and capital outlays. This backdrop directly impacts staples demand, particularly for higher-margin branded goods.
- **Private Label vs. Brand Shift Intensifies:** Cost-sensitive consumers are increasingly shifting toward **private-label products**, a trend reinforced by recent retailer earnings. For example, **Dollar Tree (DLTR)** highlighted competitive pricing and product mix pressures in its Q1 update, noting a **weaker Q2 EPS guide** despite stronger comps. The move echoes broader trends where low-income consumers are trading down, leading to pressure on branded goods pricing power and promotional spending.
- **Margin Pressures Mount on Input Costs:** Staples companies continue to face rising **input costs from tariffs and labor**, while **pricing power is showing signs of fatigue**. The **ISM Services Prices Paid** index rose to its highest level since Nov. 2022, and multiple Fed officials flagged stagflation risks as businesses face cost increases without robust demand growth. While some companies like **Procter & Gamble (PG)** are proactively restructuring—PG announced plans to cut 15% of non-manufacturing roles globally—the cost-saving efforts underscore a more defensive industry posture.
- **Interest Rates and Household Wealth:** Despite falling yields in June (e.g., long-end Treasury yields down 10–11 bps on June 5), consumer staples failed to benefit materially. Rate relief was overshadowed by **sluggish real wage growth and pressure on household net worth**, which remains constrained by rising housing and insurance costs and reduced excess savings. As a result, **real consumption growth** has been decelerating, especially among low- and middle-income cohorts.
- **Rate Cuts Could Support Demand, But Lag Effect Matters:** With the market now pricing in nearly **60 bps of Fed rate cuts** by year-end, the macro setup is incrementally favorable. However, the **transmission to consumer wallets** will take time. Friday's **May employment report** will be key—if job growth and wage gains disappoint again, it could reinforce the trend of trading down to value offerings.
- **Private Label Gains to Continue:** Expect companies with strong **store-brand exposure** (e.g., **Costco**, which reported solid U.S. May comps of +5.5%) to outperform. Conversely, brands dependent on pricing power or premium positioning may face growing resistance unless they can demonstrate category-specific innovation or differentiation.
- **Margin Management Under Scrutiny:** July earnings season will bring heightened focus on **gross margin protection, promotional intensity**, and cost discipline. Companies that effectively offset input costs through automation, supply chain optimization, or SKU rationalization may be rewarded. Watch for commentary on tariff pass-through and trade policy impact, especially in categories like packaged food, household goods, and personal care.
- **Household Net Worth and Consumption Elasticity:** With housing market weakness persisting and job growth softening, consumer confidence is likely to remain under pressure. This makes **volume growth**, not just pricing, a key battleground for staples manufacturers. Categories like **pet care, tobacco, and cleaning supplies** may hold up better due to inelastic demand, while **beauty, OTC health, and premium beverages** could underperform.
- **Investor Positioning:** With capital flowing into AI, cyclicals, and short-squeeze themes in June, staples remain under-owned. A return to defensives could benefit the sector if macro conditions deteriorate further or if Fed commentary turns more dovish post-NFP.

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) * 0.2

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.5

Plus

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

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.