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Monthly Insights: August Outlook

# Consumer Discretionary Sector

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# Sector Price Action & Performance Review: Consumer Discretionary Sector



The Discretionary Sector remained in a holding pattern in July as investors focused on continued accumulation of Technology shares to the exclusion of other typically high beta exposures.

Relative to the S&P 500, Discretionary sector performance was incrementally lower. The lack of buyer interest is becoming a concern to us as Mag7 components TSLA and AMZN are no longer trading with strong upside momentum. This has exposed the lack of new growth catalysts for the sector with homebuilders still challenged and home related retail also in a funk.

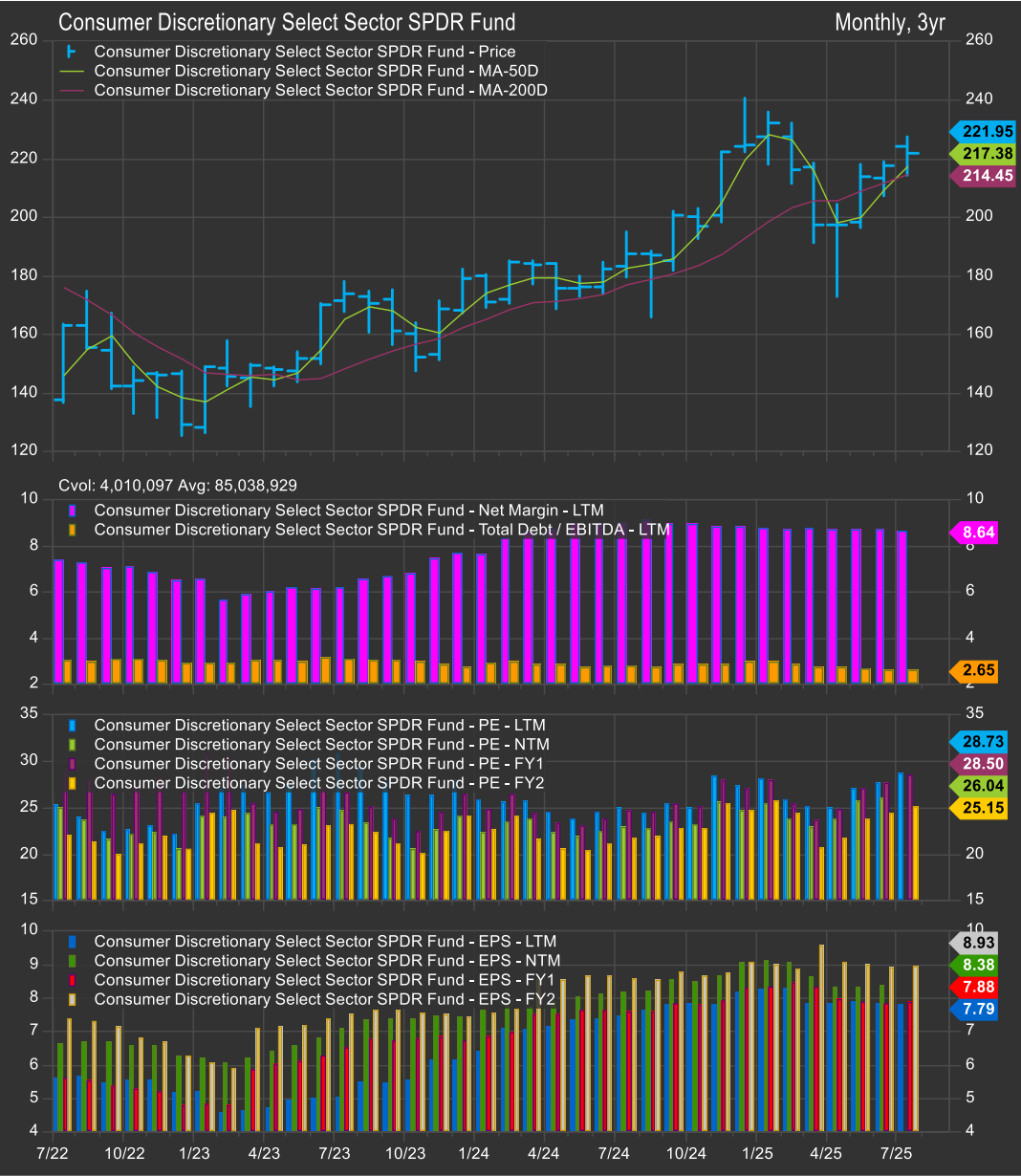
Consumer credit gages like credit card and loan delinquencies are ticking higher, but employment remains strong despite stagnating wage growth.

Fed policy in the second half of the year will be pivotal to the sector's prospects. It has become consensus that lower rates are key to unlocking the residential real estate market. However, the Fed's recent meeting along with Chairman Powell's somewhat hawkish tone don't portend lower rates anytime soon.

Despite the ongoing bull trend for equities, we've taken our Discretionary exposure to a tactical underweight in favor of some lower vol. in our Elev8 portfolio for August.

**We start August tactically short the Consumer Discretionary Sector with an **UNDERWEIGHT** allocation of **-2.27%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Consumer Discretionary Sector

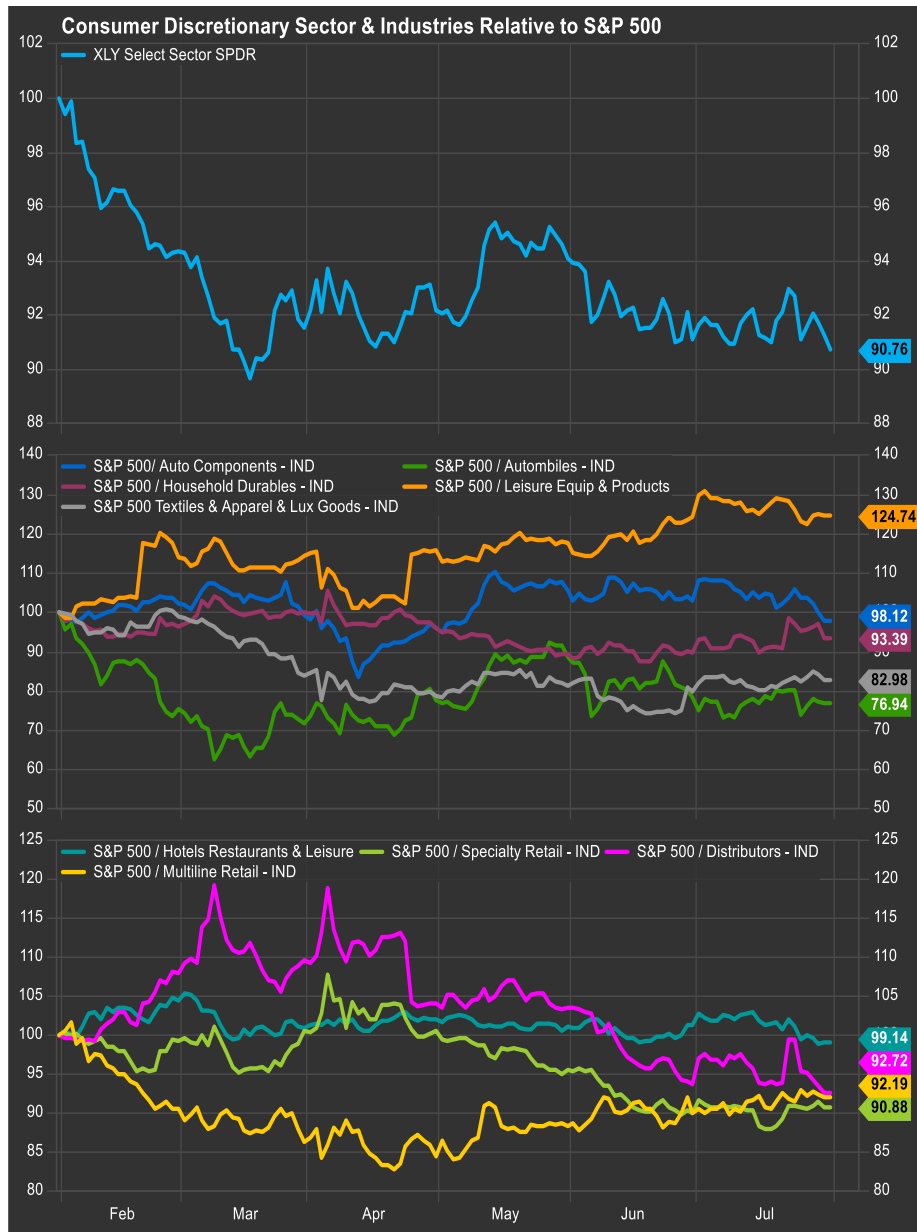


The chart (left) shows S&P 500 Consumer Discretionary Sector Margins, Debt/EBITDA, Valuation and Earnings

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) remains at a premium to the S&P 500 and is a concern moving forward while consensus forward earnings projections (panel 4) have held steady

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



**Consumer Discretionary Industries** (chart, left): TSLA has pivoted lower in the near-term, dragging down the Auto Sector while Distributors and Specialty Retail Industries remain weak as well

AMZN continues to steadily improve off the April lows, but outperformance has been muted there and unable to push the sector higher in aggregate

Textiles and Household Durables names have shows some improvement in the near-term, we like the former more than the latter at present.

**Consumer Discretionary Sector Internals** (chart, right): Market internal trends Consolidated in June and we're looking for the next upside catalyst to spur accumulation

# 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	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
TPR	Tapestry, Inc.	Uptrend	22,305.9	0.79	33.4	0.8	1.91	20.0
LVS	Las Vegas Sands Corp.	Bullish Reversal	35,929.0	0.73	22.3	1.2	1.09	15.3
NCLH	Norwegian Cruise Line Holdings Ltd.	Consolidation	10,459.7	0.41	8.9	0.0	2.37	12.7
MHK	Mohawk Industries, Inc.	Consolidation	7,537.2	0.49	0.9	0.0	1.51	12.4
WYNN	Wynn Resorts, Limited	Bullish Reversal	11,436.1	0.86	18.3	0.6	0.99	12.2
GRMN	Garmin Ltd.	Uptrend	46,075.2	1.17	6.1	1.0	0.97	11.6
DHI	D.R. Horton, Inc.	Bullish Reversal	43,928.5	0.49	4.8	0.7	1.48	11.2
WSM	Williams-Sonoma, Inc.	Consolidation	23,014.2	0.85	3.3	0.9	1.80	11.1
TSCO	Tractor Supply Company	Consolidation	31,064.6	1.06	4.0	1.1	0.63	10.0
ULTA	Ulta Beauty Inc.	Bullish Reversal	23,085.4	0.84	14.8	0.0	0.88	8.8

TPR paced the sector in July with a 20% excess return above the S&P 500 while casinos (WYNN, LVS) and specialty retail (ULTA, TSCO, WSM) and Durables (DHI, GRMN, MHK) rounded out the list of outperformers

Quick serve restaurants, Distributors were notable laggards.

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
CMG	Chipotle Mexican Grill, Inc.	Support	59,508.5	1.34	-26.5	0.0	1.10	-22.7
LKQ	LKQ Corporation	Downtrend	7,839.7	0.37	-28.0		1.08	-21.2
KMX	CarMax, Inc.	Downtrend	8,864.8	0.58	-23.8	0.0	1.77	-14.6
LULU	lululemon athletica inc.	Retracement	24,556.7	0.57	-32.5	0.0	1.15	-12.2
DRI	Darden Restaurants, Inc.	Retracement	23,726.3	0.76	-8.8	2.0	0.74	-8.8
BBY	Best Buy Co., Inc.	Downtrend	14,041.9	0.42	-13.9	3.9	1.58	-5.9
YUM	Yum! Brands, Inc.	Consolidation	40,354.9	0.91	-8.3	1.3	0.59	-5.5
BKNG	Booking Holdings Inc.	Uptrend	181,925.5	0.95	0.6	0.5	1.22	-5.1
CZR	Caesars Entertainment Inc	Downtrend	5,920.9	2.99	-13.2	0.0	2.50	-4.6
APTV	Aptiv PLC	Consolidation	14,857.9	0.36	1.0	0.0	1.58	-4.1

## 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 Discretionary Sector

## Tariffs Reshape Import Strategy, Margins Under Pressure:

July's announcements of **35% tariffs on Canadian goods, 30% on Mexico, 25% on India, and 50% total on Brazil** disrupted global sourcing strategies for apparel, autos, home goods, and specialty retail.

Retailers and automakers flagged a **ramp in logistics and component input costs**, especially for tariffed categories like furniture, clothing, and electronics.

**Brands with diversified or domestic manufacturing bases outperformed** peers heavily reliant on tariff-affected imports.

Companies continued to emphasize “**near-shoring**” in Latin America and “**reshoring**” in U.S. **border states** as long-term solutions.

## Labor Market Tightness and Wage Inflation Persist:

July's ADP report (+104K) and hourly earnings (+0.3% m/m) reflect **continued labor tightness**, particularly in hospitality, automotive services, and logistics.

While some retailers have leveraged **productivity tech (AI checkout, automated fulfillment)** to offset costs, **labor-intensive service chains face operating margin pressure** heading into Q3.

## Consumer Resilience Holding, But Signs of Rotation Appear:

July retail sales suggest **steady top-line demand**, but signs of **consumer substitution from premium to value tiers** have increased.

Pending home sales and elevated financing rates are **weighing on discretionary big-ticket categories** (appliances, furniture, autos).

Travel and entertainment spending **remains solid**, though several management teams noted a **slowdown in U.S. traffic vs. international demand**.

## Earnings Season Themes and Sector-Level Takeaways

**Q2 earnings generally met or exceeded expectations**, with ~80% of discretionary companies beating EPS consensus, but **guidance commentary skewed cautious** for Q3:

**Retailers:** Focus was on **inventory management, margin preservation, and ad spend**

**optimization**. Advertising and loyalty platform spend is being rerouted through **AI-enhanced personalization tools**, which are yielding higher ROAS.

**Autos:** Mixed results as **tariff exposure, recall activity, and leasing mix** affected margins. Companies with **EV rollout delays or concentrated exposure to tariffed markets** underperformed.

**Leisure & Travel:** Strength held up in Q2 with **cruise lines, theme parks, and dining chains posting high-single-digit revenue growth**, but comps are getting tougher and **consumer discounting expectations rising**.

**Housing-related Discretionary (furnishings, decor):** Weakness remained due to **elevated mortgage rates and housing market softness**.

## AI, Omnichannel, and Automation Trends

**AI-powered personalization and dynamic pricing are widespread:**

Q2 commentary highlighted **widespread AI integration in e-commerce, marketing attribution, and supply chain automation**.

Department stores and platforms are experimenting with “**AI-curated bundles,**” **virtual shopping assistants, and automated return logistics**, aimed at improving conversion rates and profitability.

**Omnichannel performance remains bifurcated:**

Companies with **strong online and in-store integration** saw better traffic retention than pure-play e-tailers or legacy brick-and-mortar.

**Digital ad rates remain efficient** due to AI optimization, though some brands flagged **rising customer acquisition costs (CAC)** in heavily competitive segments (athleisure, electronics, skincare).

# 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.