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Monthly Insights: September Outlook

Consumer Staples Sector

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Sector Price Action & Performance Review: Consumer Staples Sector



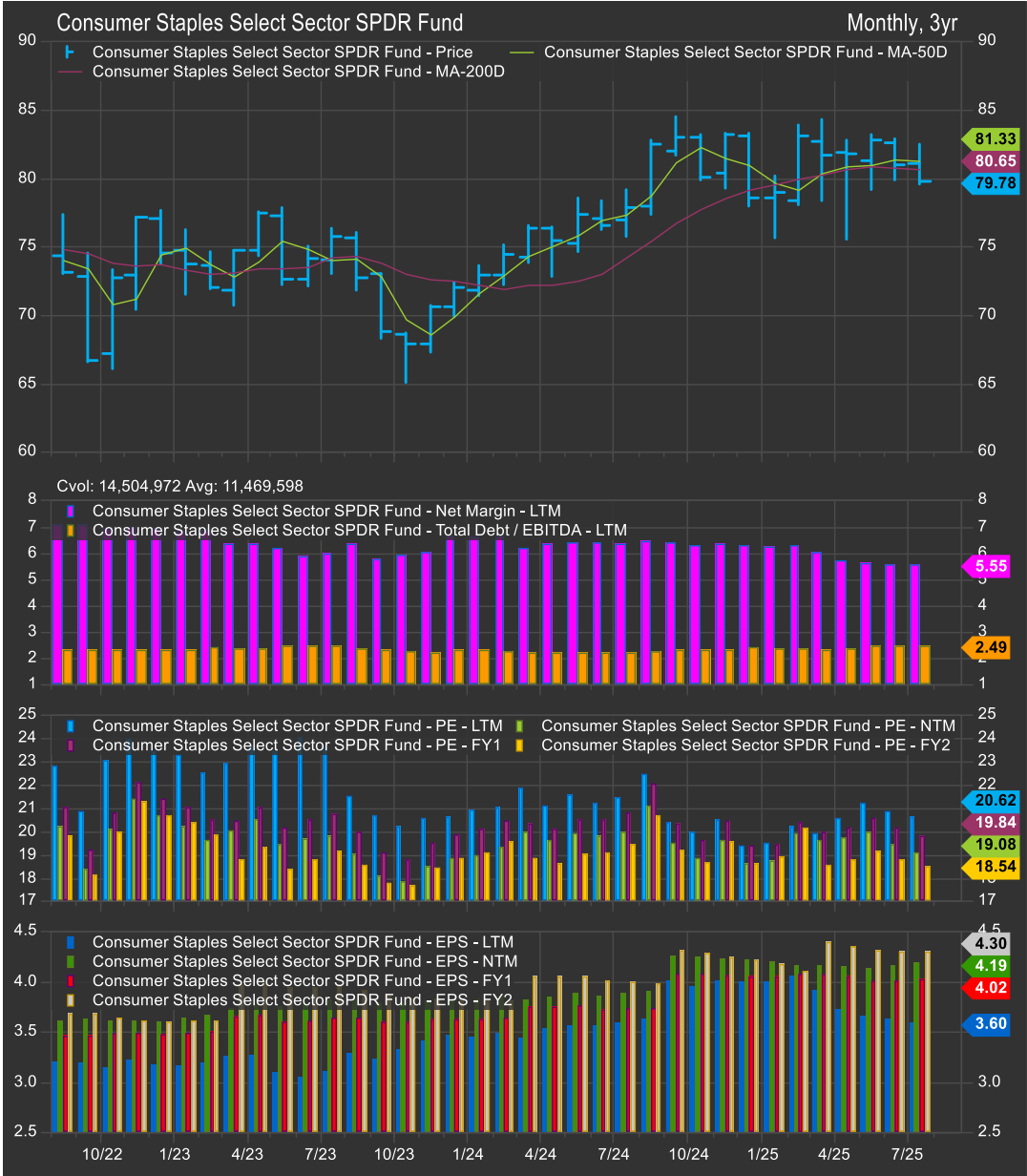
The S&P 500 Consumer Staples sector underperformed for the 4th consecutive month in August despite some buying to start the month. Oscillator studies are at near-term oversold levels, but the technicals for the sector remain weak. Staples finished the month at fresh relative lows or the year while in absolute terms, price remains below February highs despite the S&P 500 breaking to fresh all-time highs in June and continuing in its long-term price uptrend.

At the industry level, the pockets of strength that had been propping up the sector like big box retailers COST and WMT and Tobacco stocks have seen profit taking since investors began rotating out of lower vol. sectors in April.

Tariff concerns have prevented the sector from reflatting with the rest of the equity market as Staples co.'s typically operate low margin businesses and there's high price sensitivity among consumers. For much of the cycle we had seen trade-downs to discount and private label brands as a boon to several companies operating in the sector, but cost pressures crimped even those.

We start September out of the Staples Sector with an **UNDERWEIGHT allocation to the Consumer Staples Sector of **-5.25%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Consumer Staples Sector



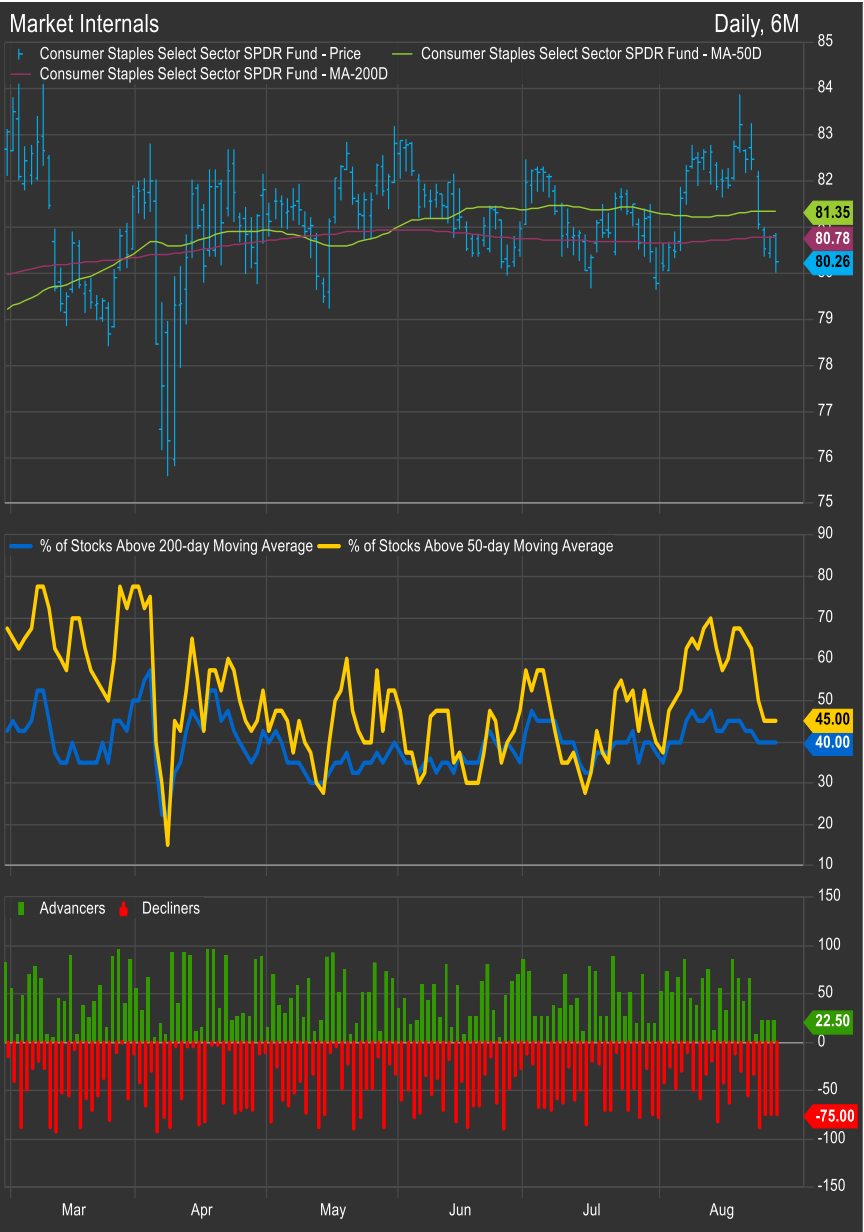
The chart (left) shows S&P 500 Consumer Staples Sector Margins, Debt/EBITDA, Valuation and Earnings

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

Valuation (chart, panel 3) has also contracted, but the discount is not large enough to add shine to very lackluster consensus forward earnings growth projections for the sector

The fundamental picture is solid with the potential for tailwinds if equities go into consolidation after their big run-up from April – July.

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



Consumer Staples Industries (chart, left): Every industry within the Staples sector moved lower vs. the S&P 500 in August, despite the month historically coinciding with weak seasonal dynamics

COST and WMT continue to lag in the near-term though while Household, Food and Personal products also made fresh relative lows for 2025 in August

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

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
ADM	Archer-Daniels-Midland Company	Bullish Reversal	30,129.9	0.56	19.1	2.2	0.75	12.7
MO	Altria Group, Inc.	Uptrend	111,561.6	0.48	7.3	4.1	0.45	9.4
BG	Bunge Global SA	Consolidation	16,939.3	0.42	2.9	2.2	0.83	9.0
TSN	Tyson Foods, Inc. Class A	Consolidation	16,411.2	0.58	-4.6	2.3	0.71	4.9
DG	Dollar General Corporation	Bullish Reversal	24,471.9	0.73	9.2	1.4	0.36	1.8
PEP	PepsiCo, Inc.	Consolidation	202,130.6	0.71	-0.1	2.5	0.41	1.4
EL	Estee Lauder Companies Inc. Class A	Bullish Reversal	21,702.9	1.70	18.2	1.1	1.28	0.9
KMB	Kimberly-Clark Corporation	Consolidation	43,201.1	0.69	-12.0	2.5	0.55	0.7
PM	Philip Morris International Inc.	Retracement	255,576.4	0.82	-9.2	2.3	0.60	0.5
MNST	Monster Beverage Corporation	Bullish Reversal	60,274.9	1.21	-5.3	0.0	0.53	0.2

ADM was a big winner in August trading into a bullish reversal pattern on a >12% excess return

Tobacco stocks firmed after some discounting from April – June

KDP and MDLZ logged double-digit declines, the former on a poorly received merger with JDE Peete’s

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
MDLZ	Mondelez International, Inc. Class A	Consolidation	79,914.1	0.77	-15.3	2.1	0.42	-14.1
KDP	Keurig Dr Pepper Inc.	Support	40,372.7	0.56	-17.4	2.1	0.35	-12.2
KVUE	Kenvue, Inc.	Consolidation	39,820.7	0.76	-18.1	2.7	0.79	-9.9
CLX	Clorox Company	Support	14,551.2	0.77	-18.3	2.8	0.88	-9.7
STZ	Constellation Brands, Inc. Class A	Downtrend	28,290.7	0.49	-17.9	1.7	0.53	-9.6
TGT	Target Corporation	Downtrend	44,509.7	0.51	-12.2	3.1	1.26	-8.2
LW	Lamb Weston Holdings, Inc.	Support	7,895.8	0.76	-3.6	1.8	0.73	-7.9
KR	Kroger Co.	Consolidation	44,945.4	0.54	-7.1	1.3	0.51	-6.0
CHD	Church & Dwight Co., Inc.	Downtrend	22,662.9	1.03	-14.0	0.8	0.66	-5.6
CL	Colgate-Palmolive Company	Retracement	68,254.2	0.88	-13.9	1.6	0.38	-5.5

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

August recap: macro & policy drivers

Rates & Fed policy: Powell's Jackson Hole speech leaned more dovish, boosting broad cyclicals late month, but **Staples underperformed** (21-Aug -1.18%, 25-Aug -1.62%) as investors rotated into higher-beta exposures.

Tariffs: Ongoing tariff developments were a headwind — expansion of steel/aluminum duties, a 50% India tariff, and broader talk of fiscal dominance all raised concerns over **input cost inflation**. Consumer goods companies noted pressures in commentary.

Inflation dynamics: Flash PMIs flagged the **highest services prices since 2022**, while Philly Fed survey showed **input costs at multi-year highs**. For Staples, this raised renewed focus on pricing power vs. consumer pushback.

Subgroup themes: Discounters (WMT), grocers, and household products weighed on the group. Tobacco and beverages also weaker. Resilience seen in select food retailers (SFM +1.8% on buyback news).

Company updates

WMT: Q2 EPS miss, though US comps +4.6% beat. Raised FY sales growth outlook. Stock sold off on **tariff warnings** and elevated expectations (-4.5%).

COTY: -21.6% after FQ4 EPS miss and cautious 1H26 margin guidance; flagged tariffs and macro headwinds driving cautious retailer ordering.

EL: -3.7% on weaker FQ4 guide; cited \$100M tariff hit in FY26, China softness, and global travel retail weakness offsetting fragrance strength.

SFM: +1.8% on \$1B buyback authorization.

KO: Reported exploring sale of Costa Coffee UK chain.

PEP: Flagged a 10% price increase for concentrate products starting September, reflecting cost pass-through.

Consumer fundamentals

Consumer balance sheets: Resilient but stretched. Big-box and discounters

cited **trade-down trends**, while off-price retailers (TJX, ROST) reported solid traffic.

Credit/delinquencies: Reports flagged more stress at lower-income households; WMT noted tariff-driven cost adjustments impacting middle/lower-income consumers.

Housing & mortgage backdrop: **Housing starts +5.2% in July**, but permits fell again — mixed read-through for durable goods demand. Mortgage rates high, refinancing limited, pressuring household liquidity.

Tariffs & input costs

Food and ag: Tariff-related cost concerns notable — Brazilian coffee beans (Trump's 50% tariff) led US buyers to shun imports. US copper wire and packaging input tariffs also flagged.

Retailer commentary: Several companies said they do not expect to broadly raise prices, but investors concerned margins may be pressured in H2.

September outlook — key watch points

Tariffs: Pricing power vs. tariff headwinds key. Watch consumer acceptance of **price hikes (e.g., PEP concentrate)**.

Fed easing: A September cut (~80–90% odds) could ease financing costs but risks stoking inflation expectations.

Consumer demand: Back-to-school trends constructive, but holiday spend outlook cautious given tariff drag.

Earnings revisions: Staples lagged in EPS revisions vs. other sectors; September may bring more cautious commentary on tariffs and consumer trade-down.

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.