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Monthly Insights: September Outlook
Consumer Discretionary Sector

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Sector Price Action & Performance Review: Consumer Discretionary Sector



The Discretionary Sector firmed in August as near-term rotation away from AI themes benefitted other sectors on performance. While we began the month positioned for seasonal weakness in the sector, what we got was some buying as economic softness and a dovish message from the Fed out of Jackson Hole now has investors betting on continued recovery.

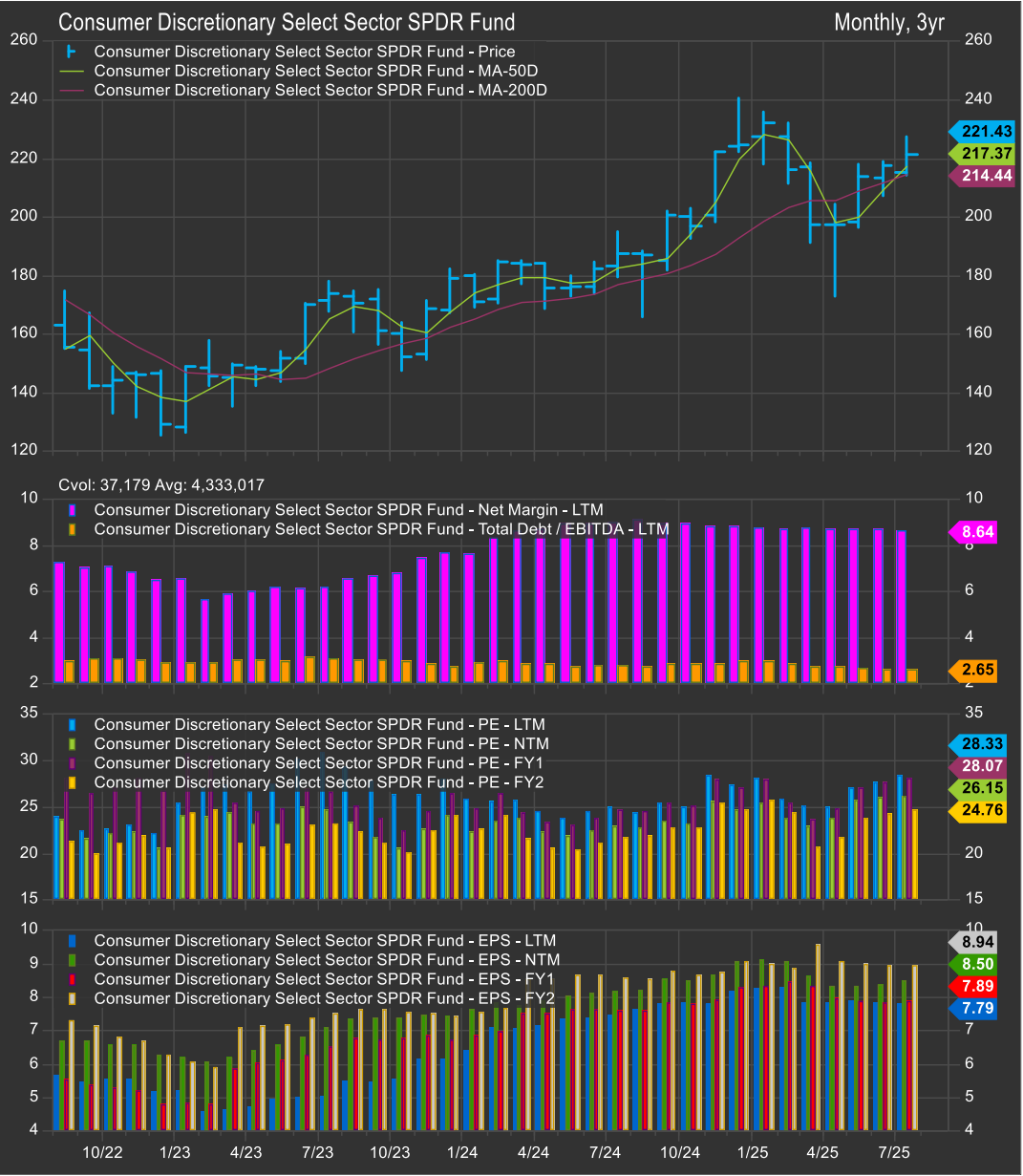
From a technical perspective, August's performance registers as a bullish reversal with the sector making a multi-month -relative high vs. the S&P 500. Our MACD oscillator study is on a tactical buy signal given the recent strength. An upside break-out above the \$240 level would project a longer-term upside target of \$290 for a little more than 20% potential upside.

With the Fed now signaling intent to lower its policy rate in the second half, yields on the 10yr and 2yr treasury have moved lower in August and that has fueled rotation into rate sensitive equities like Homebuilders, Leisure products and Auto stocks. Mag7 constituents TSLA and AMZN remain in bullish price structures as well, and continued expectations for rate cuts should provide a decent ramp for the sector to continue reflating in September despite some concerns on rich valuations.

Given an economy that remains near full employment and the emergence of more dovish expectations from Fed policy, we're expecting a continued rebound in Discretionary names.

We start September long the Consumer Discretionary Sector with an **OVERWEIGHT allocation of **4.04%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Consumer Discretionary Sector

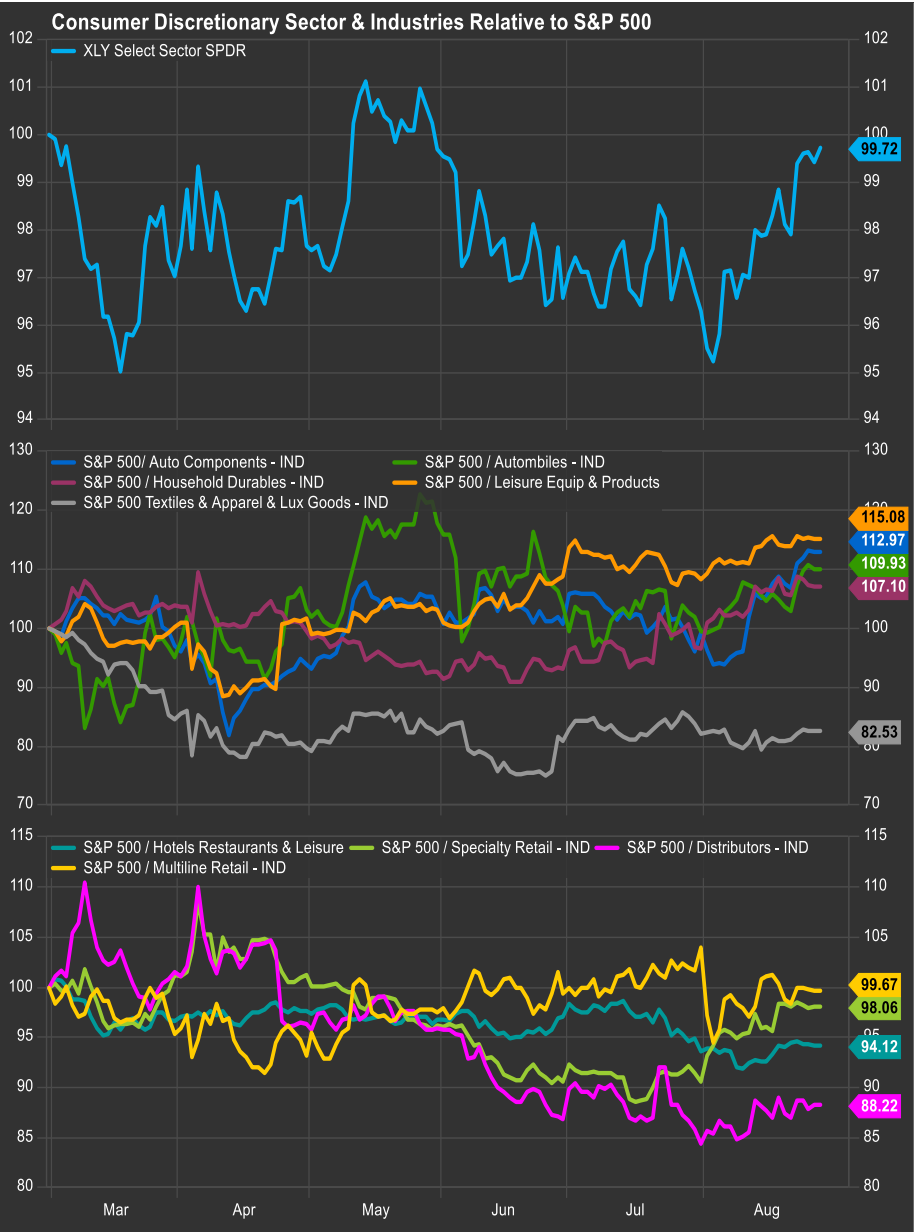


The chart (left) shows S&P 500 Consumer Discretionary Sector Margins, Debt/EBITDA, Valuation and Earnings

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, but project underwhelming growth expectations given the sectors high forward multiple

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



Consumer Discretionary Industries (chart, left): Rate sensitive industries outperformed in August as Powell’s Jackson Hole speech cited an intent to ease the policy rate in support of a softening employment picture

Consumer Discretionary Sector Internals (chart, right): Market internal trends strengthened for the sector in August, most notably the **longer-term trend measure** (chart, middle panel) is out to fresh 6-month highs which is a bullish technical development and confirms what had been a shaky recovery off the April lows

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
LEN	Lennar Corporation Class A	Bullish Reversal	34,353.4	0.57	11.4	1.0	1.39	14.0
DHI	D.R. Horton, Inc.	Bullish Reversal	49,935.7	0.56	22.8	0.6	1.44	14.0
EBAY	eBay Inc.	Bullish Reversal	42,807.2	0.65	21.5	0.8	1.36	13.5
LOW	Lowe's Companies, Inc.	Consolidation	144,968.4	0.81	5.5	1.2	0.96	12.5
EXPE	Expedia Group, Inc.	Bullish Reversal	25,081.6	0.53	12.8	0.3	1.68	11.7
WYNN	Wynn Resorts, Limited	Bullish Reversal	12,809.9	0.94	21.0	0.6	0.99	11.3
APTV	Aptiv PLC	Bullish Reversal	17,409.9	0.41	9.1	0.0	1.51	11.2
PHM	PulteGroup, Inc.	Bullish Reversal	25,851.9	0.46	17.0	0.4	1.48	11.0
BBY	Best Buy Co., Inc.	Consolidation	15,946.1	0.47	-3.6	3.5	1.51	10.3
TSLA	Tesla, Inc.	Bullish Reversal	1,127,617.0	6.39	-1.5	0.0	1.54	9.0

Recent indications that the Fed intends a dovish intervention in the second half of the year have motivated investors to position for reflation in Housing and Auto sales including LEN, DHI, PHM, TSLA and APTV

Laggards came from Retail, QSRs (Quick Serve Restaurants) and some Travel & Leisure names

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	57,188.7	1.27	-22.3	0.0	0.97	-10.4
CZR	Caesars Entertainment, Inc.	Downtrend	5,609.5	10.09	-16.3	0.0	2.49	-10.3
ABNB	Airbnb, Inc. Class A	Consolidation	55,716.0	1.14	-11.3	0.0	1.06	-9.7
TPR	Tapestry, Inc.	Uptrend	21,016.3	0.73	7.2	1.0	2.03	-8.4
DPZ	Domino's Pizza, Inc.	Consolidation	15,363.6	0.97	-13.9	1.0	1.38	-8.4
SBUX	Starbucks Corporation	Consolidation	99,643.1	1.34	-13.4	1.8	0.88	-8.1
LULU	lululemon athletica inc.	Downtrend	23,584.9	0.55	-36.2	0.0	1.08	-7.9
MAR	Marriott International, Inc. Class A	Consolidation	73,204.0	1.00	-8.2	0.6	1.31	-4.7
POOL	Pool Corporation	Consolidation	11,861.5	1.12	-6.5	0.8	1.21	-3.4
DASH	DoorDash, Inc. Class A	Uptrend	98,840.0	2.89	6.9	0.0	1.97	-3.3

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

Fed policy & financial conditions

Powell's Jackson Hole remarks leaned **more dovish** (rising downside risks to employment; tariff effects likely **short-lived**). Afterward, markets priced **~80–90% odds** of a September cut and **~50–55 bp** of total 2025 easing (varied through the month). Front-end Treasury yields fell ~10 bp on the day, the curve **steepened**, and the dollar **fell 1%**—a supportive backdrop for discretionary beta and housing-sensitive names.

Through the month, we saw **persistent curve steepening** (2Y/30Y spread pushed to ~130 bp, widest in ~4 years) and heavy Treasury supply (well-received 2Y/5Y auctions; 7Y ahead), which helped cyclicals but also underlined funding/term-premium risks.

Financial conditions otherwise oscillated with oil (+/–), the dollar (mixed), and risk appetite (small-cap and “most-shortened” baskets outperformed on the Powell day).

Consumer balance sheets & demand pulse

Confidence: Conference Board **97.4** (Aug), slightly ahead of estimates but down m/m; labor-market perceptions deteriorated for an **eighth** straight month; inflation expectations rose to **6.2%**.

Michigan (flash, mid-Aug): sentiment **58.6** (miss); **1-yr inflation expectations 4.9%**, **5–10 yr 3.9%**.

Retail sales (July): headline **+0.5% m/m** with **upward June revisions**; control group **+0.5%**. Back-to-school (BTS) commentary trended positive later in the month (e.g., **FIVE** upbeat).

Balance-sheet stress: reports noted **higher-score borrowers starting to miss payments**; record **home-purchase cancellation** rates were flagged; nevertheless, several large retailers cited a **resilient consumer**.

Housing/interest-sensitive channels

Housing starts (July): +5.2% m/m; permits fell (7th decline in 8 months).

New home sales (July): 652K SAAR, roughly in line; home price indices (Case-Shiller/FHFA) slipped m/m, aiding **shelter disinflation** narratives.

Mortgage rates/applications: 30-yr rate held near the **lowest level in ~10 months**; builders offered **more incentives** as the market cooled. (Direct weekly application data weren't included

in your notes; the rate backdrop plus incentives suggest mixed but stabilizing purchase interest.)

Implication: The set-up modestly helps home-linked discretionary (furnishings, home décor) if rates ease further—but tariff uncertainty on furniture complicates the read-through.

Tariff effects (front and center for Discretionary)

Furniture investigation (50 days): sector-specific probe aimed at reshoring; **WSM, RH, ARHS** cited as exposed; **ETD, LZB** seen as beneficiaries given North American production.

Broader tariff pulse: 50% punitive tariffs on **India** took effect; threats of **200%** on China without rare-earth magnet supply; retaliation risk on **digital taxes**; added items for **steel/aluminum** lists.

Pass-through showing up: Flash PMIs flagged **tariffs as a principal cause** of higher input costs; companies reported increased pass-through to customers (highest price pressures in years).

Company color: **WMT** warned of tariff headwinds even as U.S. comps rose **+4.6%**; **ANF** lifted expected tariff impact to **170 bp** on net sales (vs 100 bp prior); **URBN** guided to higher 2H tariff headwinds; **SJM** cut GM outlook on **green coffee** tariffs.

Earnings trends & subsector takes

Off-price/value: **TJX** beat/raised; **ROST** reinstated FY guide and cited a strong July/BTS start—consistent with ongoing **trade-down**.

Department stores: **KSS** +24% on beat/raise, GM expansion and cost control (short interest amplified move).

Apparel/footwear: **PVH** beat/raised (product initiatives, cost control); **ANF** beat/raised but flagged larger tariff hit; **GOOS** rallied on privatization interest; **AEO** popped on a Travis Kelce collab.

Staples-adjacent big box (mix matters): **WMT** EPS miss but stronger U.S. comps (+4.6%), e-comm acceleration; guidance nudged up; tariff caution.

Specialty: **ULTA** upgrade on expected margin re-expansion; **BJ** pressured on comp miss despite EPS beat.

Travel & leisure: airlines/lodging outperformed on easier financial conditions days; discrete prints mixed.

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.