ETFSector.com

Monthly Insights: October Outlook

Consumer Discretionary Sector

Patrick Torbert, CMT

Editor & Chief Strategist

Sector Price Action & Performance Review: Consumer Discretionary Sector

Consumer Discretionary Select Sector SPDR Fund — Daily
50-day & 200-day Moving Averages
with MACD (12,26,9) & RSI (14)

240.76
230.95
217.91

Consumer Discretionary Select Sector SPDR Fund - Total Return Relative to S&P 500 (TR)

103.05

3.02
2.62
-0.40

60.05

Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep

The Discretionary Sector notched a second month of gains vs. the S&P 500 in September but haven't shown an ability to materially outperform the broad market since equities pivoted to the upside. This is contrary to the sector's historical position as a favorable bull market exposure.

From a technical perspective, breadth measures have slipped in the near-term despite the Fed signaling a dovish intervention with its policy rate. Homebuilders, which had outperformed in August, couldn't sustain gains through September as interest rates began backing up in the second half of the month.

From a fundamental perspective, the consumer remains very sensitive to the level of interest rates and we advise betting with the sector if rates move lower and against it if they move higher going forward. Employment reports paint a picture of a subdued holiday hiring season. While AI integration is at a phase where co.'s are projecting efficiencies down the road, but a continued need for head count at present.

At the industry level Autos and Auto components have benefitted from the current round of tariff implementation with the latter showing strength down the cap. tiers.

We've been underwhelmed by the sector's bullish pivot on Fed. policy, but we think drivers for outperformance remain in place given the Fed's goal of lowering rates and an economy still near full employment.

We start October long the Consumer Discretionary Sector with an OVERWEIGHT allocation of 1.95% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

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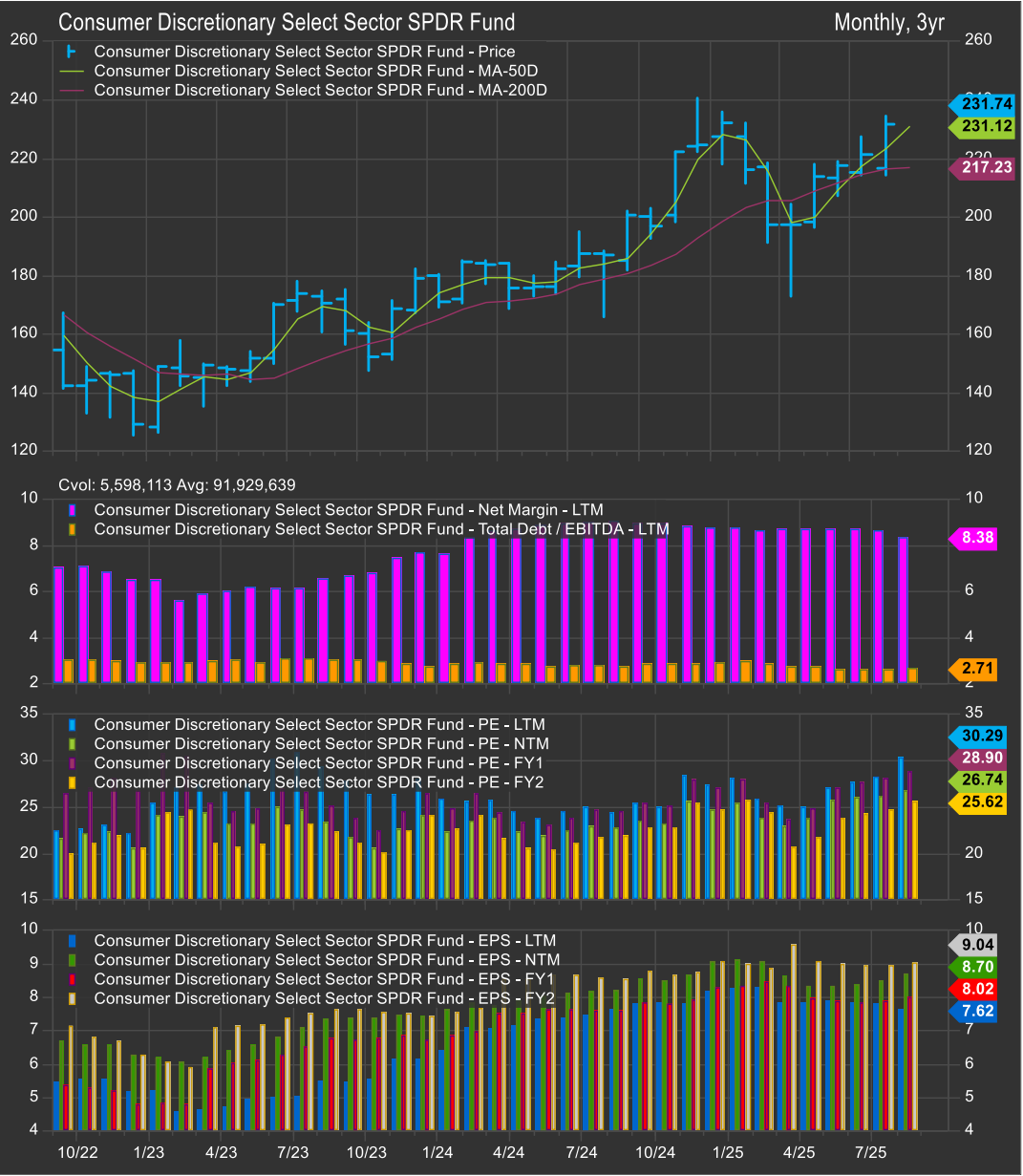
The chart (left) shows S&P 500 Consumer Discretionary Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins ticked lower over the past month (chart, panel 2)

Valuation (chart, panel 3) remains at a premium to the S&P 500 and is a concern moving forward. Consensu forward earnings projections (panel 4) have held steady, but projected Growth seems over-valued at these levels.

Industry/Sub-Industry Performance and Breadth: Consumer Discretionary Sector
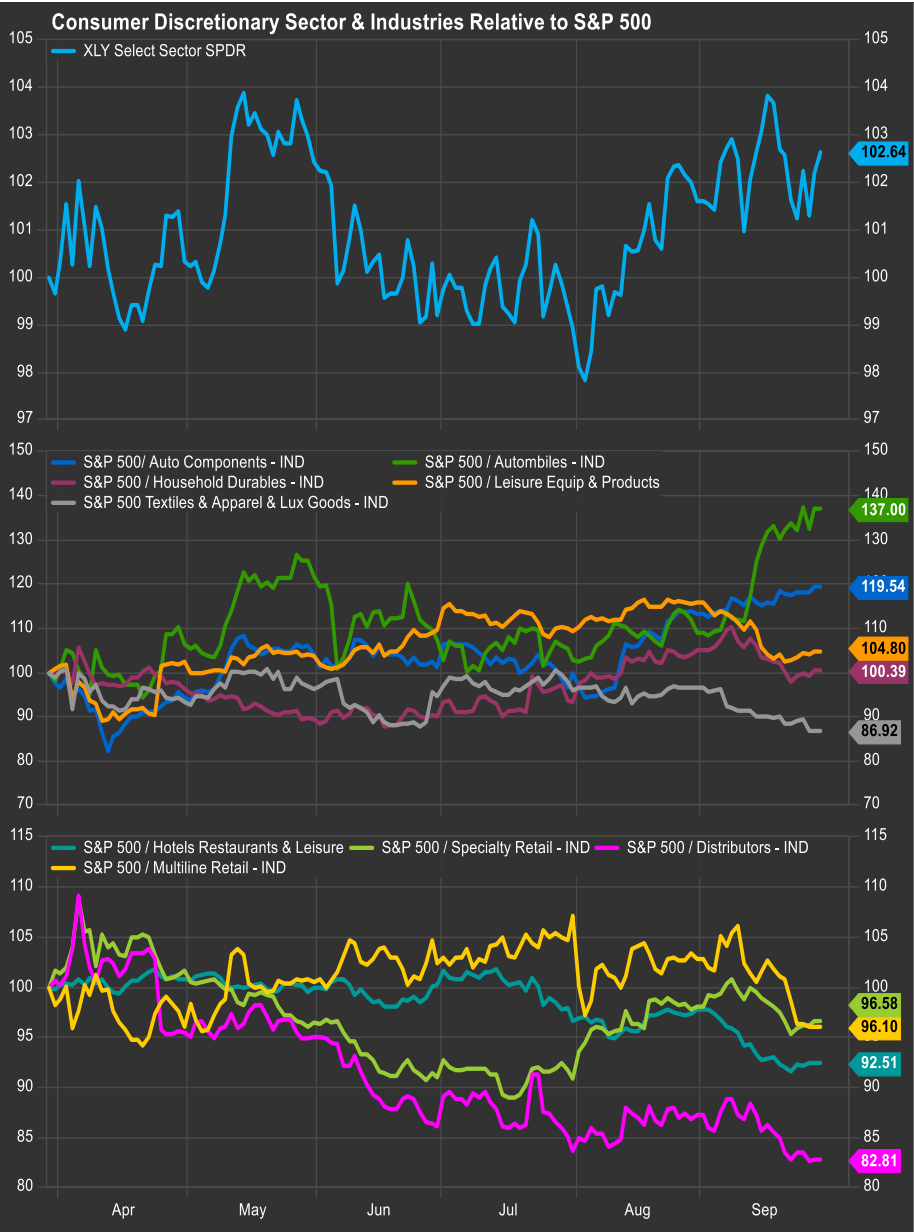
Consumer Discretionary Industries (chart, left): Durables took a step back in September while Auto related stocks continued to show strength. Retail stocks couldn't replicate August strength either but may offer a better entry point in October if the Fed continues to signal a dovish path for rates.

Consumer Discretionary Sector Internals (chart, right): Market internal trends deteriorated in September with the short-term series testing post-decline lows. The **longer-term trend measure** (chart, middle panel) remains in a strong position near the 70% level, but more stock level deterioration would be a concern

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
TSLA	Tesla, Inc.	Bullish Reversal	1,464,396.4	7.70	31.0	0.0	1.54	25.0
APTV	Aptiv PLC	Bullish Reversal	18,775.3	0.43	14.7	0.0	1.50	5.1
WSM	Williams-Sonoma, Inc.	Bullish Reversal	24,522.5	0.90	10.6	0.9	1.74	4.8
TPR	Tapestry, Inc.	Uptrend	22,695.9	0.78	17.5	0.9	2.12	4.4
BBY	Best Buy Co., Inc.	Consolidation	15,999.2	0.47	1.3	3.4	1.52	3.9
DASH	DoorDash, Inc. Class A	Uptrend	105,607.8	2.96	6.1	0.0	1.90	3.8
YUM	Yum! Brands, Inc.	Consolidation	42,379.7	0.95	-5.5	1.2	0.50	3.2
RL	Ralph Lauren Corporation Class A	Uptrend	12,071.1	0.81	8.6	0.8	1.86	2.8
GM	General Motors Company	Bullish Reversal	58,305.2	0.25	11.0	0.6	1.63	2.7
TJX	TJX Companies Inc	Uptrend	159,250.4	1.17	5.2	0.8	0.73	2.1

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
KMX	CarMax, Inc.	Downtrend	6,732.2	0.48	-41.5	0.0	1.79	-30.1
LULU	lululemon athletica inc.	Downtrend	20,004.4	0.55	-33.3	0.0	1.10	-16.3
NKE	NIKE, Inc. Class B	Consolidation	82,341.4	1.45	-11.3	1.5	1.33	-12.9
DECK	Deckers Outdoor Corporation	Support	15,690.3	0.64	-12.1	0.0	1.30	-12.8
RCL	Royal Caribbean Group	Uptrend	88,792.4	0.75	2.9	0.6	2.42	-12.7
MGM	MGM Resorts International	Consolidation	9,690.0	0.54	-6.4	0.0	1.79	-12.4
TSCO	Tractor Supply Company	Consolidation	29,952.9	1.00	-5.4	1.1	0.72	-12.1
DRI	Darden Restaurants, Inc.	Retracement	21,933.8	0.70	-18.9	2.1	0.71	-11.3
HAS	Hasbro, Inc.	Consolidation	10,600.2	0.59	-3.3	2.4	0.81	-9.7
LVS	Las Vegas Sands Corp.	Bullish Reversal	37,075.4	0.75	9.6	1.2	1.12	-8.7

The Fed's dovish intervention spurred interest in Homebuilders and Auto stocks with the latter continuing to gain vs. the S&P 500 in September. Auto components stocks like APTV have been tariff beneficiaries as well.

Casinos, Apparel and some leisure stocks make up the laggard bucket alog with KMX which missed on its recent quarter.

Metrics:

(Formulas are in the appendix at the end of the report)

<u>Valuation Multiple Relative to Index</u>

Premium (or discount) to benchmark valueation

<u>Momentum</u>

Long higher scores, short lower scores

<u>Dividend Yield Relative to Index</u>

Higher scores preferred when rates and equities are moving lower

<u>Near-term Overbought/Oversold</u>

Price is >10% away from the 50-day moving average Above/Below

<u>GREEN</u>|<u>RED</u>

Company scores positively|negatively for Elev8 Sector Rotation Model for April

Economic & Policy Drivers: Consumer Discretionary Sector

Large-cap Discretionary traded through a tug-of-war between firm consumption data and fresh policy frictions. On the supportive side, **August retail sales rose +0.6% m/m** (ex-auto +0.7%; control-group +0.74%), pointing to ongoing **consumer resilience** with notable strength in **nonstore/online** and **food services/drinking places**. Mortgage tailwinds improved at the margin: the **30-yr fixed rate fell for a fourth straight week to ~6.34% (lowest since Sep-2024)**, driving a **+58% w/w, +70% y/y** surge in refis, though **purchase applications rose just +0.3%**, underscoring affordability frictions. Housing prints were mixed—**new home sales surprised to the upside to the fastest pace since early-2022**, while **starts/permits missed**—supporting demand for select home improvement names but pressuring new-construction exposed categories.

Policy headlines added noise. The White House announced **new tariffs—30% on upholstered furniture**, **50% on select housing products**, and separate measures across other sectors—plus **Section 232 probes** into **robotics/industrial machinery**, and a formal **EU auto tariff set at 15%**, all relevant for global auto and home goods supply chains. Importantly, PMI commentary flagged **fewer firms able to pass through tariff-related cost increases**, implying margin discipline and mix/pricing strategies will be key near-term. Markets largely **ignored shutdown risk**, but acknowledged potential **data-release disruptions** and procurement delays.

Credit quality bears watching: reports highlighted **record student-loan delinquencies** and the **largest drop in U.S. consumer credit scores since the GFC**, a contrast to robust spending and a reminder that lower-income cohorts remain pressured even as headline growth holds up.

Demand & Category Trends

E-commerce & omni-retail. Online outperformed within August retail sales, and capital-markets activity stayed open for platform investments. **AMZN** headlines (FTC Prime settlement; ongoing logistics/network optimization) and **GOOGL/Meta** ecosystem changes matter at the margin for ad-driven demand capture.

Autos & EVs. Category was mixed: **TSLA** drew incremental positives (state approval to expand autonomous tests; supportive sell-side), while broader auto exposure digested policy shifts (EU auto tariff at 15%; various U.S. tariff proposals). Financing costs eased slightly as rates slipped, but affordability remains a constraint.

Home-related (improvement, furnishings, décor). Better new/existing home sales help traffic for big-box and pro channels, but **furnishings** faced direct tariff pressure (**30% on upholstered furniture**)—dragging names exposed to imports and promotional intensity (e.g., **W, RH, WSM**

flagged). Builder commentary (e.g., **LEN** Q3) emphasized incentives and margin caution.

Restaurants & leisure. Services spending was firm (food away from home up m/m), but selective softness showed up in casual dining misses and cautious guides (traffic/margin pressures), while **cruise/leisure** pockets outperformed episodically on pricing and booking commentary.

Margins, Input Costs, Capex, Utilization

Gross margin: Tariff pass-through looks **harder** per PMI anecdotes; expect continued **mix management, private-label penetration, and vendor negotiations** to protect merchandise margins. Freight/fuel volatility moderated vs 2024 peaks, but FX (firm USD at points) and category promotions remain swing factors.

Operating expense: Labor remains manageable but sticky; many large caps accelerated **automation and AI tools** (workforce scheduling, personalization, marketing mix), with upfront opex/capex but medium-term leverage potential.

Company Evidence

LEN: Q3 miss on home sales revenue/GM with **softer Q4 volume/margin guide**; emphasized incentives and production pullback amid affordability constraints—important read-through for big-ticket home and trade-up categories.

Furniture/home goods: W, RH, WSM traded off on **30% upholstery tariff** risk—elevated import dependence and promotional cadence in focus.

Risks & Watch-Items for October 2025

Policy/trade: Implementation details and timing for **furniture/housing-goods tariffs**; any expansion; EU/US auto tariff fallout; Section 232 probes.

Labor & wages: Holiday **seasonal hiring** tracking (lowest planned since 2009) and wage signals; any strike or contract-related supply disruptions.

Consumer credit: Trajectory of **delinquencies/credit scores**; BNPL and subprime exposure; issuer commentary on receivables quality.

Macro prints: JOLTS, ISMs, payrolls, PCE—does hard data stay firm while surveys soften? Mortgage-rate path and purchase activity.

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.