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Monthly Insights: October 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 5th consecutive month in September and is now at fresh 52-wk lows vs. the benchmark S&P 500.

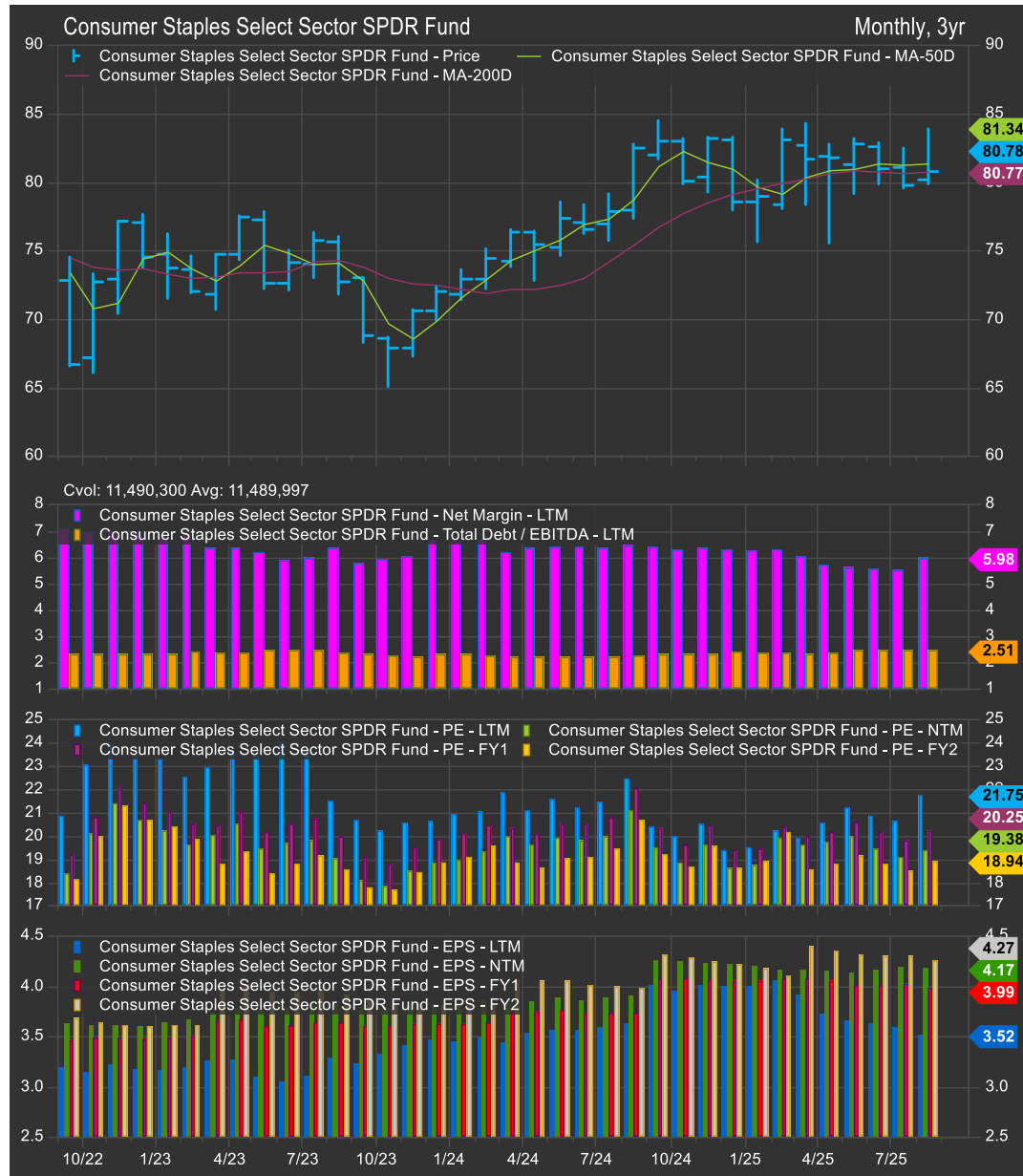
From a technical perspective, the sector is now the weakest as scored by our trend following and stock-level process. Despite oversold conditions, the MACD oscillator remains on a sell signal. Sector Breadth is also the weakest among the eleven GICS sectors with less than 20% of constituents above their respective 50-day moving averages.

From a fundamental perspective input costs have been pressured to the upside by tariffs. The US consumer remains in a constrained position due to higher than usual interest rates, inflation cost overhang from the pandemic and post-pandemic years and tariff related price hikes. We saw several companies miss badly on earnings with TGT, DLTR and DG notable decliners.

Dovish Fed policy was supposed to be a boon to lower vol. sectors, but investor risk appetite has been flush and the Fed's announcement of lower rates was met with a risk-on rotation that put the Staples sector further in the rearview mirror.

We start October out of the Staples Sector with an **UNDERWEIGHT allocation to the Consumer Staples Sector of **-4.95%** 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 bucked a 6-month trend and firmed in September (chart, panel 2)

Valuation (chart, panel 3) spiked in the near-term as several co.'s missed on their earnings

Valuations are cheaper than the S&P 500 multiple, but out year Growth projections lag. This is a common picture at the sector level outside of Tech and Comm. Services

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



Consumer Staples Industries (chart, left): The sector continued its post-April-low plunge in September. Each industry within the sector also underperformed, trading to 6-month relative lows in the process.

The sector is now the weakest in the S&P 500 based on our process and indicator inputs.

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
WMT	Walmart Inc.	Uptrend	822,479.3	1.47	1.1	0.6	0.65	5.0
CLX	Clorox Company	Support	15,214.1	0.79	-6.9	2.7	0.93	3.2
MNST	Monster Beverage Corporation	Bullish Reversal	63,799.8	1.27	-1.5	0.0	0.46	3.1
HSY	Hershey Company	Consolidation	27,861.1	1.15	2.0	2.0	0.14	2.2
GIS	General Mills, Inc.	Downtrend	26,718.8	0.54	-10.1	3.3	0.06	1.1
MDLZ	Mondelez International, Inc. Class A	Consolidation	81,984.4	0.79	-11.6	2.1	0.40	1.1
SYN	Sysco Corporation	Consolidation	39,184.7	0.70	-0.3	1.8	1.06	0.7
SJM	J.M. Smucker Company	Consolidation	11,651.1	0.47	-1.1	2.7	0.32	0.0
CPB	Campbell's Company	Downtrend	9,559.6	0.52	-9.0	3.3	0.09	-0.9
MO	Altria Group, Inc.	Uptrend	110,385.6	0.48	1.7	4.2	0.49	-1.7

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
KVUE	Kenvue, Inc.	Downtrend	31,511.1	0.60	-30.8	3.4	0.78	-22.4
STZ	Constellation Brands, Inc. Class A	Downtrend	23,353.5	0.44	-27.8	2.0	0.56	-19.0
DLTR	Dollar Tree, Inc.	Bullish Reversal	19,389.2	0.62	-9.0	0.0	0.99	-17.8
KDP	Keurig Dr Pepper Inc.	Downtrend	34,640.1	0.48	-27.8	2.4	0.35	-14.5
TAP	Molson Coors Beverage Company Class B	Downtrend	8,436.4	0.32	-18.8	2.7	0.68	-12.2
TGT	Target Corporation	Downtrend	39,919.0	0.46	-19.3	3.4	1.31	-11.6
DG	Dollar General Corporation	Bullish Reversal	22,477.2	0.63	-12.4	1.6	0.36	-10.9
MKC	McCormick & Company, Incorporated	Downtrend	17,627.9	0.81	-20.8	1.8	0.73	-8.3
CHD	Church & Dwight Co., Inc.	Support	21,120.9	0.95	-18.5	0.9	0.64	-8.1
BF.B	Brown-Forman Corporation Class B	Downtrend	12,750.7	0.65	-12.7	2.3	0.58	-8.0

WMT paced the sector with a 5% gain over the S&P 500 in September while Food Product co.'s also showed a bit of a bounce

The sector traded to new lows on the back of continued weakness in off-price retail as TGT, DG and DLTR ran into trouble on earnings

Overall the sector remains weak and unlikely to outperform unless top-line price action pivots to a correction

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

Staples traded against a mixed macro backdrop: **core PCE rose +0.2% m/m, +2.9% y/y (Aug)**, broadly steady and consistent with **modest disinflation; August retail sales beat (+0.6% m/m; ex-auto +0.7%; control-group +0.74%)**, signaling resilient consumption, particularly in **nonstore/online** and **food services**. Mortgage rates fell for a fourth straight week to ~**6.34%**—a tailwind for household cash flow—yet **purchase applications barely rose (+0.3%)**, underscoring ongoing affordability pressure on lower-income cohorts. Credit quality flashed caution: reports pointed to **record student-loan delinquencies** and the **largest drop in U.S. consumer credit scores since the GFC**, a reminder that value/promo sensitivity remains elevated even as headline spending holds up.

Policy noise stayed high. New U.S. tariff actions centered on **heavy trucks, housing goods, upholstered furniture (30%)**, and a floated but later **downplayed pharma tariff at 100%** (administration guidance suggested **EU pharma at 15%**, not 100%). PMI commentary highlighted **rising input costs tied to tariffs** and **less ability to pass them through**, a critical watch-item for branded CPG margins into holiday resets. Government-shutdown risk remained largely ignored by markets but could disrupt near-term **data releases** and **federal procurement**.

Demand & Category Trends

Grocery / Mass Club. Traffic remained healthy at scale players, supported by **share gains**, membership economics, and **“choiceful”** baskets (trade-downs/trade-ups coexisting). **COST** cited **membership fee tailwinds** and a **~1% comp lift** from extended hours, with steady inflation messaging and ongoing mix strength in staples-leaning categories.

Packaged Food & Beverages. Pricing power has normalized from 2022–24 peaks; elasticity improved but varies by category. Tactical promotion is back, especially where private label regained share. Select chocolate/confectionery saw improving sentiment (**HSY** upgrade), while beverages were mixed (**KDP** downgrade on merger optics/valuation).

Personal Care / Household. Consumers stayed brand-selective but value-conscious; replenishment categories held up, with unit trends tied to promo intensity and innovation cadence.

OTC / Consumer Health. **KVUE** headlines (Tylenol–autism discourse; potential labeling scrutiny) kept litigation/label risk in focus, though near-term science updates were framed as limited. Category demand remains steady, but regulatory optics are an overhang.

Margins, Input Costs, Capex & Utilization

Gross margin: Commodity and freight volatility moderated vs 2024, but **tariff-linked costs** and FX pockets (firm USD at times) added noise. PMI anecdotes indicated **tighter pass-through**; expect margin protection via **mix, pack-price architecture, private label management, and**

trade terms.

Operating expense: Wage inflation cooled from prior peaks but remains sticky; big caps continued **store/process automation and AI-assisted labor scheduling, demand forecasting, and promo optimization** to protect SG&A leverage.

Capex / Supply Chain: Capex stayed **targeted** (DC modernization, cold-chain, digital, membership). Inventory discipline remained tight heading into holiday resets; import-exposed SKUs face **lead-time risk** if tariff regimes expand.

Capacity utilization: Generally healthy at scale manufacturers and distributors; selective **line changeovers** and SKU rationalization kept throughput efficient.

Company Level

COST: Beat on Q4 EPS/revenue; emphasized **share gains, membership fee momentum**, and a **“choiceful” consumer**.

HSY: Upgrade to Buy (GS) on H2 market-share improvement potential.

KDP: Downgraded to Underperform (BNP Exane) on merger optics and valuation caution.

KVUE: Rebounded after a sharp drop tied to White House commentary about acetaminophen; management reiterated disagreement and pointed to **independent science** showing **no causal link**.

Risks & Watch-Items for October 2025

Tariffs & pass-through: Any broadening of tariffs to staple inputs/finished goods; retailer response to price lists; elasticity and **private-label share** shifts.

Consumer credit: Direction of **delinquencies** and credit-score deterioration; potential hit to discretionary baskets adjacent to staples.

Holiday calendar: Seasonal hiring plans (flagged as weakest since 2009) may constrain service levels; watch **promotion depth** and **ad load** as brands fight for share.

Regulatory/Legal: OTC labeling/litigation developments; food-label and health-claim scrutiny; antitrust and platform policy that could affect **retail media** and **digital shelf** dynamics.

Macro prints: JOLTS, ISMs, payrolls, PCE—confirmation that disinflation persists without a sharp labor slowdown (ideal for staples multiples).

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.