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Monthly Insights: January Outlook

Consumer Discretionary Sector

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Sector Price Action & Performance Review: Consumer Discretionary Sector

The Discretionary Sector carried optimism around Fed easing into December, but the bullish impulse has run into resistance as the calendar turn to 2026. With a bullish reversal still intact, the sector has improved notably since mid-November. However, it remains to be seen whether one hawkish cut from the central bank is enough to catalyze sustained outperformance.

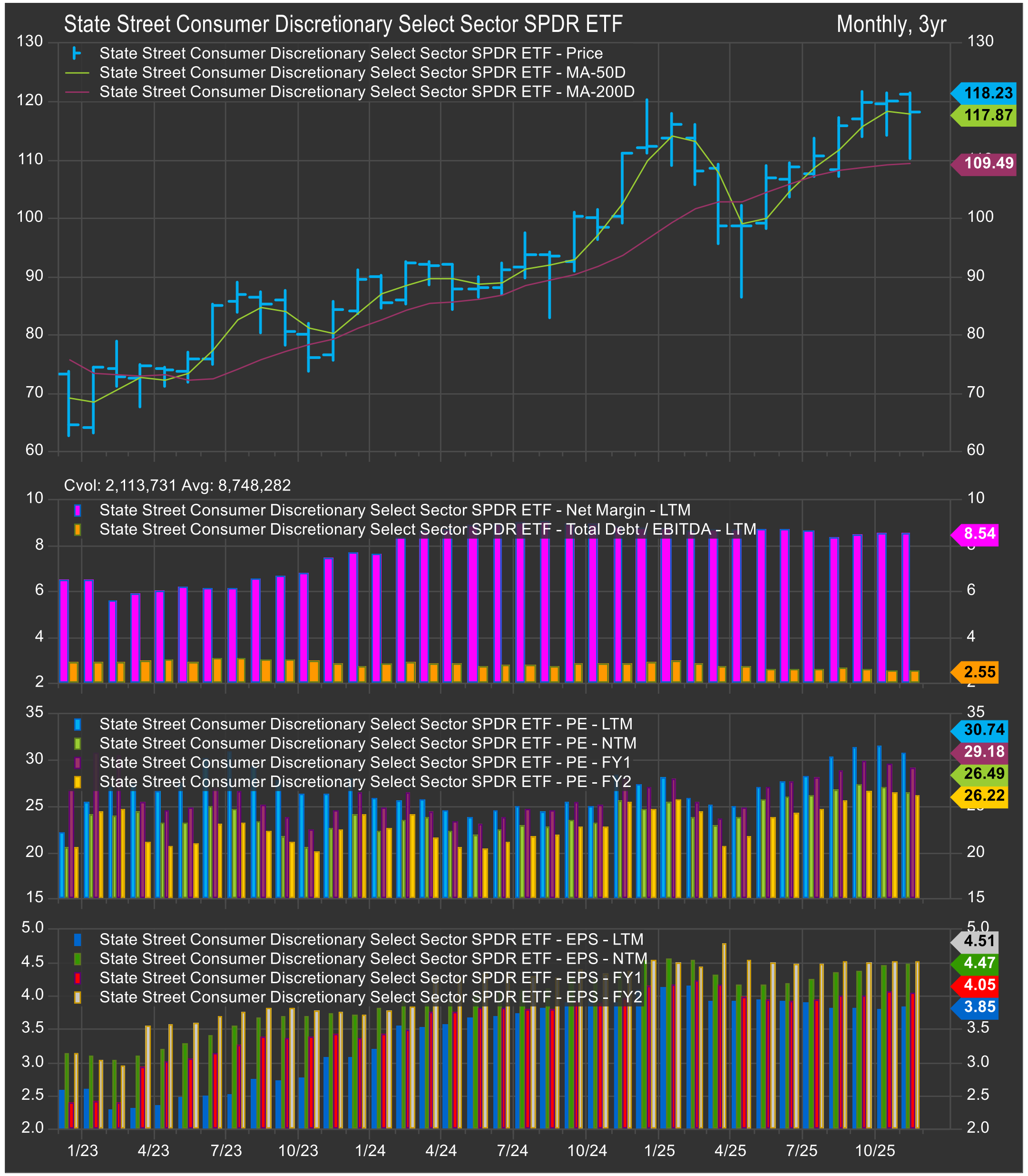
From a technical perspective, Discretionary stocks enter January pulling back from near-term overbought conditions. Price made a marginal new high in December, but that was accompanied by negative divergence in our momentum studies (chart, panels 3-4) which both made lower highs from September.

From a thematic perspective, the housing market remains frozen while Autos and Travel stocks were boosted by the Fed's intervention. Lower rates are seen as a boon to the sector, but we would caution that a shift towards a bullish housing cycle would likely trigger rotation away from companies that benefit from smaller scale discretionary spending.

We remain somewhat skeptical of the sector given continuing cost pressures from tariffs and structurally higher rates, but if yields continue to drift lower and employment re-accelerates as businesses get a better grip on the new normal with global trade, there is a path higher.

We start January at MARKETWEIGHT vs. the Consumer Discretionary Sector with an allocation of +0.18% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Consumer Discretionary Sector

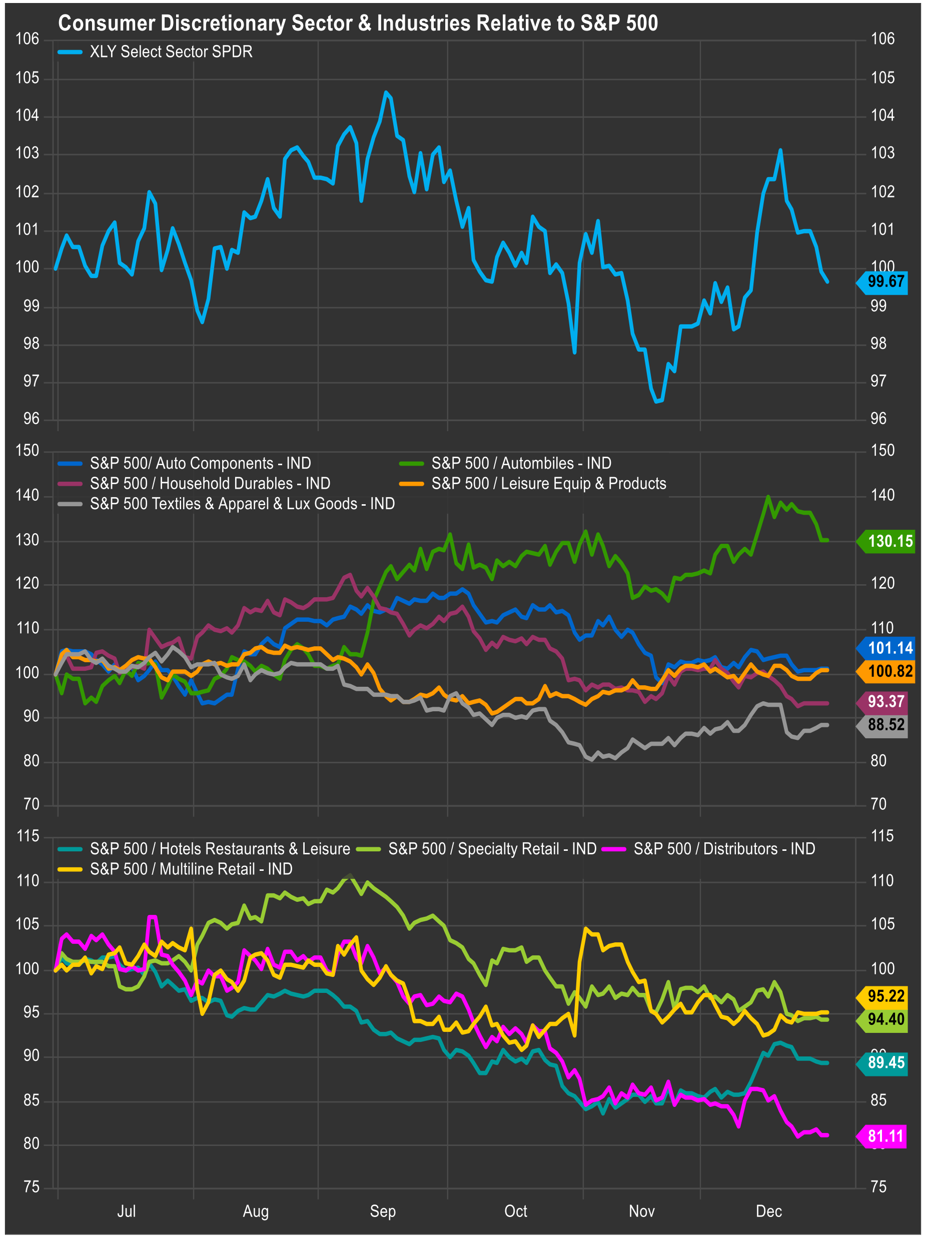


The chart (left) shows S&P 500 Consumer Discretionary Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins ticked lower in the near-term(chart, panel 2)

Valuation (chart, panel 3) remains at a premium to the S&P 500 and is a concern moving forward. Consensus forward earnings projections (panel 4) have held steady. We think the earnings outlook could be challenged if rates don't move materially lower from today as we remain skeptical that the housing market unlocks on only a marginal move lower from today's levels

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



Consumer Discretionary Industries (chart, left): Auto boosted the sector in December while Broadline retail was a market performer. Easing expectations weren't a panacea as Durables remained out of favor

Consumer Discretionary Sector Internals (chart, right): Market internal trends saw the near-term series hit below 20% several times (chart, middle panel) which is near our wash out level, and investors acted accordingly once easing was firmly on the table by snapping up out of favor Discretionary stocks…strong upside impulses usually move above the 80% so it remains to be seen whether the sector can build on its recent success with drivers other than an accommodative Fed

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
NCLH	Norwegian Cruise Line Holdings Ltd.	Consolidation	10,202.3	0.34	-0.9	0.0	2.73	20.5
TPR	Tapestry, Inc.	Uptrend	26,674.0	0.88	19.9	0.8	2.17	18.7
CCL.U	Carnival Corporation	Bullish Reversal	35,866.9	0.48	5.7	0.7	3.49	18.2
DECK	Deckers Outdoor Corporation	Consolidation	15,115.2	0.62	0.7	0.0	1.29	16.9
ABNB	Airbnb, Inc. Class A	Consolidation	58,103.7	1.06	6.1	0.0	1.36	15.8
DASH	DoorDash, Inc. Class A	Bullish Reversal	93,867.4	2.85	-8.4	0.0	2.15	15.5
CVNA	Carvana Co. Class A	Bullish Reversal	61,314.0	2.37	12.3	0.0	5.55	14.8
LULU	lululemon athletica inc.	Consolidation	23,844.9	0.68	7.3	0.0	0.89	14.5
GM	General Motors Company	Bullish Reversal	77,362.2	0.28	30.6	0.5	1.53	12.1
ULTA	Ulta Beauty Inc.	Bullish Reversal	26,823.1	0.87	9.9	0.0	1.23	11.3

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	Retracement	26,257.6	0.57	-21.1	1.3	1.55	-21.8
AZO	AutoZone, Inc.	Retracement	56,592.5	0.86	-20.0	0.0	0.21	-14.6
BBY	Best Buy Co., Inc.	Retracement	14,214.9	0.41	-12.9	3.7	1.55	-14.2
ORLY	O'Reilly Automotive, Inc.	Retracement	77,471.9	1.11	-14.5	0.0	0.26	-10.7
DHI	D.R. Horton, Inc.	Consolidation	42,629.2	0.49	-11.3	0.8	1.46	-9.1
TSCO	Tractor Supply Company	Retracement	26,848.2	0.88	-12.1	1.2	0.66	-8.2
PHM	PulteGroup, Inc.	Consolidation	23,134.7	0.43	-9.5	0.5	1.59	-7.4
POOL	Pool Corporation	Downtrend	8,542.4	0.79	-23.7	1.1	1.52	-6.8
WYNN	Wynn Resorts, Limited	Bullish Reversal	12,713.0	0.84	-4.1	0.7	1.12	-5.9
NKE	NIKE, Inc. Class B	Downtrend	72,797.9	1.20	-14.7	1.7	0.93	-5.6

Some retail and Travel names have improved across the past month

Several previous winners have corrected while tentpoles AMZN (+1.8%) and TSLA (-4.9%) were a mixed bag for the past month

DASH saw profit-taking but remains within the parameters of a bull trend…mass market Discretionary names are generally being faded in favor of off-price counter-parts.

Homebuilder performance will be a good bellwether going forward as a gage for conviction in Fed action. We're skeptical rates will go low enough to really move the needle on housing….

Metrics:

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueation

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

The S&P 500 Consumer Discretionary sector delivered **highly bifurcated performance in 2025**, with returns dominated by mega-cap, growth-oriented leaders while much of the traditional discretionary complex lagged. Index-level performance masked significant dispersion between **premium brands, e-commerce, and experience-driven categories** versus housing-, rate-, and affordability-sensitive segments.

Consumer Spending and Income Trends

U.S. consumer spending proved **more resilient than expected**, supported by wage growth, excess savings carryover, and a still-tight labor market. December data repeatedly highlighted **solid control-group retail sales**, even as headline consumer confidence surveys softened. This divergence underscored a key 2025 theme: consumers remained willing to spend, but were increasingly **value- and experience-focused**.

Housing and Big-Ticket Pressure

Higher interest rates weighed heavily on **housing-linked discretionary categories**, including homebuilders, furnishings, and housing-related retail. December earnings and guidance updates consistently pointed to **affordability constraints**, slower turnover, and downside risk to forward demand. This segment was among the weakest contributors to sector performance.

Experiences vs. Goods

A defining 2025 trend was continued **rotation toward services and experiences**. Travel, leisure, dining, and entertainment generally outperformed discretionary goods, with companies citing **strong bookings, pricing power, and sustained demand for experiences**. In contrast, discretionary goods faced normalization after pandemic-era pull-forward, promotional pressure, and inventory discipline.

Mega-Cap and Platform Concentration

Sector performance was heavily skewed by **large-cap platforms and premium global brands**, which benefited from scale, pricing power, and digital engagement. Smaller discretionary retailers and most-shorted names underperformed, particularly during periods of rising yields and tighter financial conditions.

Policy and Macro Influences

Monetary Policy

Restrictive policy from the **Federal Reserve** remained a **key headwind** for rate-sensitive discretionary segments in 2025. Elevated borrowing costs constrained housing activity and big-ticket purchases, even as everyday and experience spending held up. December market pricing reflected uncertainty around the timing and magnitude of future rate cuts, reinforcing selectivity within the sector.

Inflation and Pricing Power

Disinflation trends supported real income growth, but pricing power varied widely. Premium brands and experience providers maintained margins, while mass-market retailers increasingly relied on **discounting and promotions** to drive traffic, compressing margins.

Fiscal and Regulatory Backdrop

Fiscal policy was not a direct tailwind in 2025, but **stable employment and transfer income** helped sustain spending. Regulatory scrutiny around pricing practices, data usage, and consumer protection surfaced intermittently, particularly for digital platforms and intermediaries, adding idiosyncratic risk.

2026 Outlook

Looking ahead, the Consumer Discretionary sector enters 2026 with a **mixed but improving setup**. Any moderation in interest rates would disproportionately benefit housing-linked categories and big-ticket purchases. However, spending growth is likely to remain **uneven**, favoring companies with strong brands, pricing power, and exposure to services and experiences. Risks include labor-market softening, delayed rate relief, and heightened price sensitivity among lower-income consumers.

Investment Implications

Experiences, travel, and leisure remain structural winners, supported by consumer preference shifts.

Premium brands and large platforms retain pricing power in a slower growth environment.

Housing-linked and rate-sensitive discretionary segments remain vulnerable until financing conditions ease.

Value orientation and promotions will continue to pressure margins for mass-market retailers.

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.