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Monthly Insights: January Outlook

Consumer Staples Sector

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Sector Price Action & Performance Review: Consumer Staples Sector



The Consumer Staples sector couldn't sustain a strong November into year end as the rally fizzled just below October highs. Yields have moved lower, but rotation has favored cyclical exposures over low vol. in the near-term.

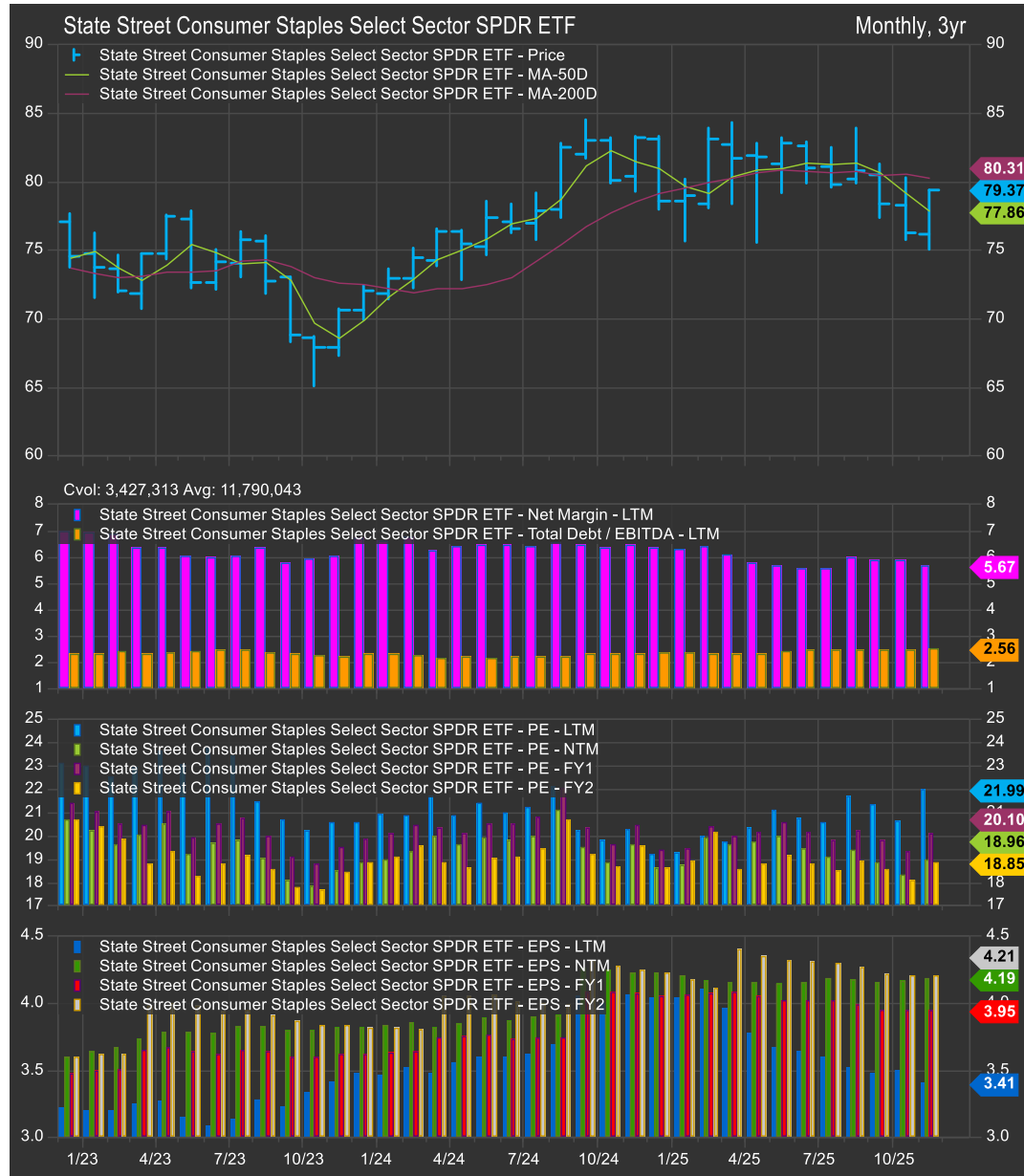
From a technical perspective the sector remains in a downtrend in both absolute and relative terms. At minimum, we need to see price on the XLP (chart, left) close above the \$80 level to indicate potential bullish reversal and/or a relative-high (panel 2) above October 2025 levels. With neither of those conditions met heading into January we are taking a negative outlook on the sector.

From a fundamental perspective, tariff driven cost pressures continue to suppress already thin margins. The consumer remains price sensitive and the "trade down" dynamic that boosted WMT and COST through most of this cycle has run its course relative to investor expectations.

Interest rate levels and Fed policy remain critical swing factors for the sector, but at present the economy seems to be muddling through with relatively stable interest rates. Given the weak technicals and the lack of catalysts for the sector we are starting 2026 on the sidelines.

We start January with out of the Consumer Staples Sector with an **UNDERWEIGHT allocation of -4.75% 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 compressed again in November(chart, panel 2)

Valuation (chart, panel 3) remains elevated on near-term weakness as the narrow margin sector has been squeezed by tariff implementation.

Valuations are cheaper than the S&P 500 multiple, but a near-term multiple > 20x isn't exactly cheap.

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



Consumer Staples Industries (chart, left): Near-term strength in Tobacco and Personal Products (EL) couldn't lift the sector which rolled over under renewed pressure on Retailing, Food and Household industries

Consumer Staples Sector Internals (chart, right): Internal trends have pivoted higher after the **near-term series** hit "wash out" levels at the beginning of November, but upside follow through hasn't materialized as the rally failed at a marginally lower high while our breadth series also made lower highs

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
DG	Dollar General Corporation	Bullish Reversal	30,270.7	0.78	24.4	1.2	0.37	24.7
EL	Estee Lauder Companies Inc. Class A	Bullish Reversal	26,232.5	1.70	16.2	0.9	1.39	12.5
DLTR	Dollar Tree, Inc.	Bullish Reversal	24,643.9	0.76	19.7	0.0	1.08	10.9
TGT	Target Corporation	Consolidation	44,420.3	0.52	3.8	3.1	1.44	7.3
HRL	Hormel Foods Corporation	Downtrend	13,296.1	0.66	-7.7	3.3	0.15	3.2
PM	Philip Morris International Inc.	Retracement	252,082.1	0.78	-4.8	2.3	0.22	2.8
MNST	Monster Beverage Corporation	Bullish Reversal	75,846.2	1.40	9.4	0.0	0.38	2.6
MKC	McCormick & Company, Incorporated	Downtrend	18,550.0	0.86	-2.9	1.7	0.39	2.2
WMT	Walmart Inc.	Uptrend	896,882.9	1.54	3.8	0.6	0.62	1.1
TSN	Tyson Foods, Inc. Class A	Consolidation	16,580.9	0.59	2.1	2.4	0.48	0.9

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
LW	Lamb Weston Holdings, Inc.	Downtrend	5,810.7	0.59	-29.9	2.4	0.85	-30.1
BF.B	Brown-Forman Corporation Class B	Downtrend	12,092.7	0.61	-8.9	2.4	0.46	-10.2
CLX	Clorox Company	Downtrend	12,111.4	0.63	-19.4	3.3	0.82	-8.9
CPB	Campbell's Company	Downtrend	8,392.5	0.45	-12.2	3.7	-0.22	-8.6
BG	Bunge Global SA	Consolidation	17,278.7	0.41	0.3	2.1	0.57	-7.9
KR	Kroger Co.	Consolidation	39,686.0	0.48	-11.6	1.4	0.36	-7.7
KMB	Kimberly-Clark Corporation	Downtrend	33,527.7	0.53	-18.8	3.3	0.26	-7.2
COST	Costco Wholesale Corporation	Retracement	385,207.6	1.67	-11.2	0.4	1.10	-5.9
KHC	Kraft Heinz Company	Downtrend	28,703.6	0.39	-8.8	4.4	-0.08	-5.9
SJM	J.M. Smucker Company	Downtrend	10,591.5	0.42	-8.4	2.9	0.22	-5.6

Dollar stores led the sector in December while TGT and WMT were positive on the month which is notable after a brutal 6+ months for Large Cap. Staples Retailing

Food and Household stocks lagged, led lower by LW

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

The S&P 500 Consumer Staples sector delivered **modest, defensive returns in 2025**, underperforming growth-oriented sectors but fulfilling its role as a **stability and income anchor** during periods of volatility. Performance was shaped by easing inflation, shifting consumer behavior, and margin normalization after several years of price-led growth.

Consumer Behavior and Volume Trends

A consistent theme throughout 2025 was **price-sensitive consumer behavior**. December commentary across staples companies highlighted consumers increasingly **buying on promotion, trading down within categories, and prioritizing essentials over discretionary upgrades**. While unit volumes stabilized in parts of food, beverage, and household products late in the year, growth remained uneven and heavily dependent on discounting.

Pricing Power and Margin Dynamics

Staples entered 2025 with elevated pricing from prior inflation cycles, but **pricing power faded as the year progressed**. December updates repeatedly pointed to **lower realized pricing, higher promotional intensity, and selective price rollbacks**, particularly in North American food and household categories. Input-cost deflation (freight, packaging, some ag commodities) provided partial margin relief, though savings were often reinvested to protect volumes.

Category-Level Divergence

Performance varied meaningfully within the sector:

Food and packaged goods faced the most pressure from value-seeking consumers and private-label competition.

Beverage and tobacco held up better due to brand loyalty and pricing discipline.

Staples retail and discount formats benefited from trade-down dynamics, while premium and specialty offerings lagged.

Defensive Rotation and Income Appeal

Consumer Staples periodically attracted flows during **risk-off episodes**, particularly when AI, cyclicals, or small caps sold off. Dividend stability and lower earnings volatility remained key supports, though rising real yields capped relative upside.

Policy and Macro Influences

Inflation and Real Income

Disinflation was a **double-edged sword** for staples in 2025. Slowing inflation improved real

household income and demand stability, but also **removed the pricing tailwind** that had driven revenue growth in prior years. December CPI and retail data reinforced this transition from price-driven to volume-driven fundamentals.

Monetary Policy and Rates

Restrictive policy from the **Federal Reserve** weighed on staples valuations by keeping real yields elevated. While staples are less rate-sensitive operationally, higher yields reduced the relative appeal of defensive dividends versus cash and short-duration fixed income through much of the year.

Regulatory and Cost Considerations

Staples companies continued to navigate **regulatory scrutiny around pricing practices, labeling, and consumer protection**, while labor costs remained sticky despite easing broader inflation. December commentary also noted ongoing investment in supply-chain resilience and automation to offset cost pressures.

2026 Outlook

Heading into 2026, the Consumer Staples sector is positioned for **low but steady growth**, with earnings visibility stronger than most cyclicals. Volume recovery remains the key swing factor. Any sustained improvement in real wage growth or moderation in interest rates would support demand, though **pricing-led growth is unlikely to return**. Margin expansion will depend on continued input-cost discipline and operating efficiency rather than top-line acceleration.

Investment Implications

Staples remain a portfolio stabilizer, not a growth engine, in the current macro setup.

Companies with strong brands and scale are best positioned to defend margins in a promotion-heavy environment.

Private-label competition and value channels will remain a headwind for mass-market packaged goods.

Dividend yield and balance-sheet strength remain key differentiators as rate policy evolves.

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.