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Monthly Insights: February 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 and January was marked by consolidation.

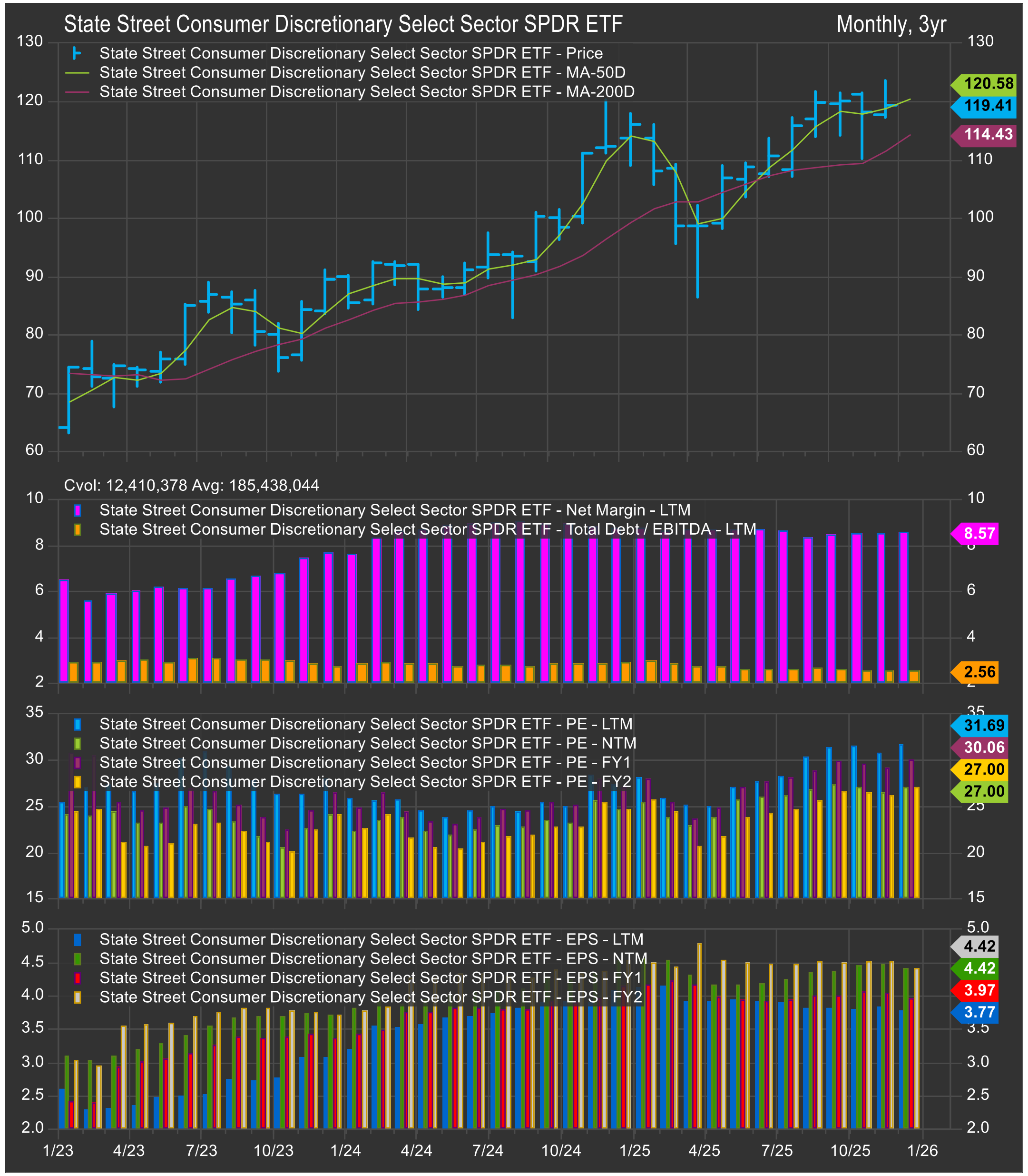
From a technical perspective, Discretionary stocks enter February in a neutral position with sector performance having oscillated in a tight range since March of 2025.

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 optimism on falling rates flowing from the Fed's policy intervention quickly hit a snag as Geopolitics complicated interest rate dynamics and rising commodities prices began to push rates higher to close out 2025.

We remain somewhat skeptical of the sector given continuing cost pressures from tariffs and structurally higher rates, and sluggish performance from its mega-cap. tent-pole stocks. With yields now moving higher we think the sector is likely to remain on the sidelines in the near-term.

We start January at MARKETWEIGHT vs. the Consumer Discretionary Sector with an allocation of 0.30% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Consumer Discretionary Sector

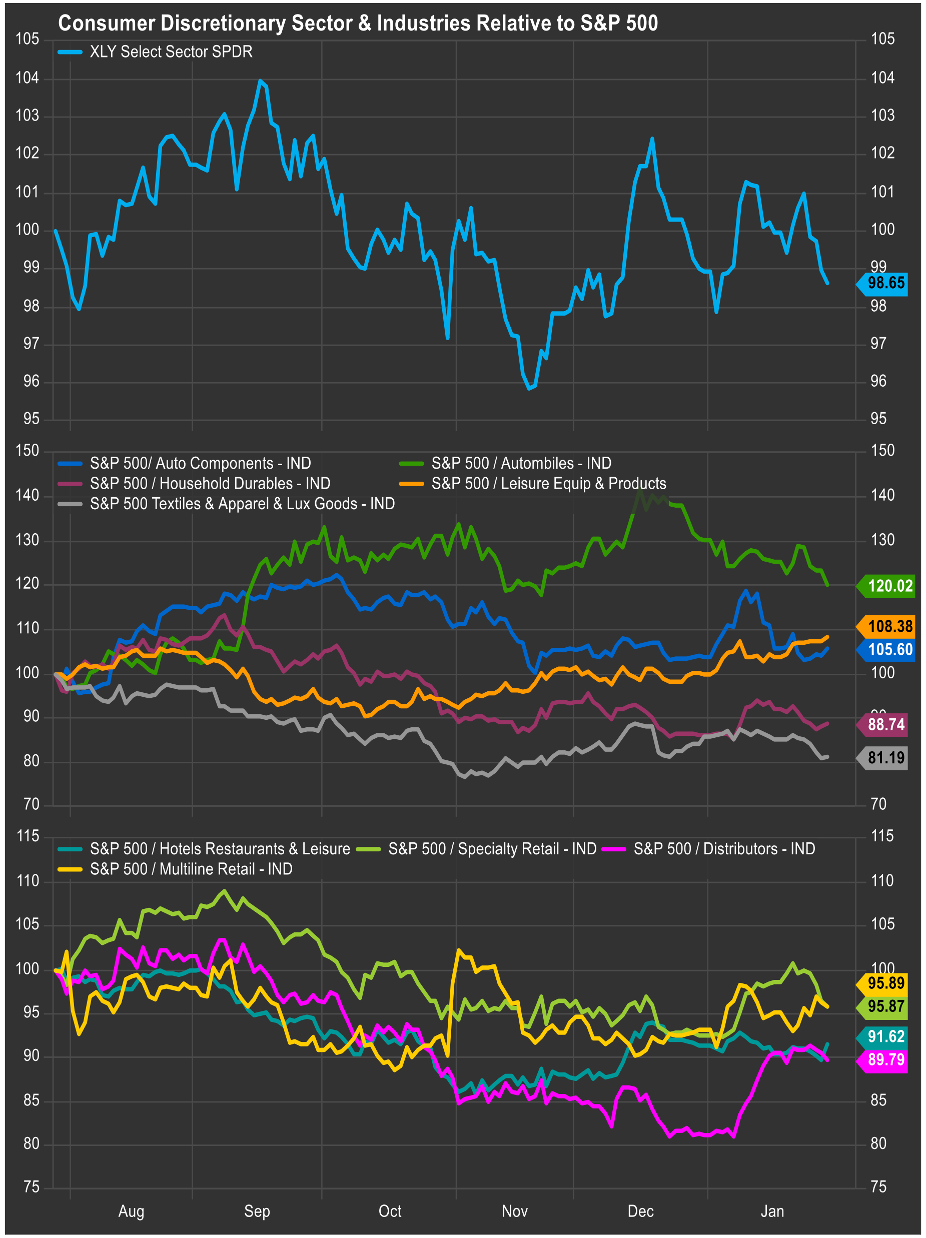


The chart (left) shows S&P 500 Consumer Discretionary Sector Margins, Debt/EBITDA, Valuation and Earnings

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 but aren't showing the kind of upside these valuation levels typically coincide with.

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



Consumer Discretionary Industries (chart, left): TSLA pushed the Auto Industry into further retracement while Distributors and Specialty retail stocks improved performance.

Durables were soft again while multi-line retail improved modestly into month's end.

Consumer Discretionary Sector Internals (chart, right): Market internal trends saw the **near-term series** hit 80% mid-month before the sector consolidated. We've gotten glimpses of strong performance, but nothing sustainable for more than a year despite the expansionary cycle and the bull market remaining intact.

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
SBUX	Starbucks Corporation	Bullish Reversal	108,412.2	1.51	7.3	1.8	1.10	11.1
EBAY	eBay Inc.	Bullish Reversal	43,016.8	0.65	2.7	0.8	1.09	10.9
GPC	Genuine Parts Company	Consolidation	19,478.3	0.66	5.3	2.0	0.69	10.4
POOL	Pool Corporation	Consolidation	9,628.2	0.89	-8.2	1.0	1.59	10.4
LOW	Lowe's Companies, Inc.	Consolidation	151,131.5	0.84	9.3	1.2	1.18	9.9
ORLY	O'Reilly Automotive, Inc.	Consolidation	85,566.8	1.22	3.4	0.0	0.26	9.1
AZO	AutoZone, Inc.	Consolidation	62,661.8	0.95	-0.5	0.0	0.20	8.9
WSM	Williams-Sonoma, Inc.	Consolidation	24,559.0	0.90	3.5	0.8	2.05	8.6
HAS	Hasbro, Inc.	Bullish Reversal	12,612.8	0.68	11.8	2.1	0.82	8.1
TSCO	Tractor Supply Company	Consolidation	29,136.2	0.95	-1.8	1.3	0.77	6.5

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
LULU	lululemon athletica inc.	Downtrend	20,233.5	0.58	-10.4	0.0	0.68	-14.5
MGM	MGM Resorts International	Downtrend	8,957.3	0.58	-8.7	0.0	1.87	-13.9
DASH	DoorDash, Inc. Class A	Support	83,973.1	2.49	-20.2	0.0	2.01	-12.4
WYNN	Wynn Resorts, Limited	Consolidation	11,736.6	0.80	-8.6	0.8	1.24	-10.0
TSLA	Tesla, Inc.	Bullish Reversal	1,434,958.0	7.94	-2.4	0.0	2.05	-10.0
NCLH	Norwegian Cruise Line Holdings Ltd.	Consolidation	9,464.8	0.32	-11.7	0.0	2.50	-9.6
EXPE	Expedia Group, Inc.	Bullish Reversal	31,096.3	0.58	12.3	0.3	1.81	-8.4
LVS	Las Vegas Sands Corp.	Bullish Reversal	41,420.0	0.75	1.2	1.4	1.45	-8.2
BKNG	Booking Holdings Inc.	Consolidation	163,916.0	0.76	-7.2	0.5	1.09	-7.3
CVNA	Carvana Co. Class A	Bullish Reversal	57,989.2	2.15	6.0	0.0	5.27	-7.3

SBUX demonstrated that the bad news was priced in and bounced sharply on its recent positive earnings report. Retailing and Distributors made up the highs list.

Casinos, travel and former momentum names are on the lows list, with DASH the latest to disappoint and LULU continuing to disappoint after being a darling in the previous cycle

AMZN remains in a middling sideways trend.

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

Macro Backdrop and Policy Transmission

Consumer Discretionary enters February with **supportive surface-level macro conditions**, but the sector's sensitivity to policy, rates, and confidence leaves it **exposed if any one pillar weakens**. While easing financial conditions, a softer dollar, and falling real rates have helped sentiment, these tailwinds are increasingly **well-priced** and vulnerable to reversal.

Policy remains a mixed influence. The administration's growth-forward posture and affordability rhetoric have not yet curtailed discretionary demand, but **tariff threats, trade uncertainty, and fiscal brinkmanship remain latent risks**, particularly for import-heavy categories. Meanwhile, consumer resilience is increasingly **narrowly distributed**—concentrated among higher-income households—raising questions about how durable aggregate discretionary growth can be if labor conditions soften or asset prices stall.

Importantly, Consumer Discretionary now sits at the intersection of **late-cycle confidence and early-cycle expectations**, a historically unstable position when financial conditions stop improving.

Subsector Performance and Fundamental Drivers

Recent performance has masked **growing internal fragility**. While leadership pockets remain intact, breadth within the sector is uneven and increasingly dependent on **idiosyncratic execution rather than broad demand strength**.

Autos and Auto-Related names have benefited from inventory discipline and easing financing conditions, but margins remain vulnerable to incentive normalization, wage pressure, and lingering electrification costs. The sector is less broken than feared—but far from structurally healthy.

Retail ex-Staples has stabilized, though much of the improvement reflects **cost control and inventory normalization rather than accelerating end demand**. Promotional pressure remains elevated beneath the surface, and pricing power is thinning outside of premium brands.

Consumer Services continue to benefit from experiential spending preferences, but growth is decelerating. Traffic trends are normalizing, and cost inflation—particularly labor—limits incremental margin expansion. The sector remains resilient, not immune.

Media and Entertainment remain structurally challenged. While cash flow optics are improving via cost cuts and content rationalization, **top-line visibility remains poor**, and competitive intensity continues to cap returns.

E-commerce and Internet Retail remain the strongest strategic segment, but even here expectations are elevated. Scale leaders are executing well, yet **valuation, regulatory risk, and rising fulfillment costs** leave less margin for error than earlier in the cycle.

Sector Positioning and Relative Performance Outlook

Consumer Discretionary's recent strength increasingly looks **front-loaded**. Relative to other cyclical sectors, the group is priced for continued easing in financial conditions and sustained consumer confidence—assumptions that are **becoming harder to underwrite**.

Compared with the other ten GICS sectors, Discretionary now screens as **one of the more sentiment-exposed areas of the market**, rather than a clear value or growth asymmetry. Upside remains possible, but risk-reward has deteriorated as macro optimism has been capitalized into prices.

If rates back up, labor data soften, or policy uncertainty intensifies, Consumer Discretionary is likely to **underperform both defensives and less consumer-dependent cyclicals**.

Subsector Leans

Autos & Auto-Related: Cautious — near-term stabilization is real, but margin and incentive risk rises quickly if demand wobbles.

Consumer Services (Travel, Leisure, Restaurants): Neutral — resilient demand, but slowing growth and rising costs cap upside.

Specialty & Apparel Retail: Selective / defensive bias — favor premium brands only; mass-market exposure remains vulnerable.

E-commerce & Internet Retail: Moderately constructive but crowded — execution strong, but expectations and valuations limit upside.

Media & Entertainment: Skeptical — improving cash flow does not solve structural growth challenges.

Bottom Line

Consumer Discretionary is **no longer an obvious leadership trade**. While conditions remain supportive for now, the sector is increasingly **priced for good news and vulnerable to disappointment**. Compared with other S&P 500 sectors, Discretionary is more likely to **lag on any macro wobble**, particularly if rates rise or consumer confidence fades. Exposure should be **selective, quality-biased, and actively managed**, rather than a broad beta allocation.

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.