

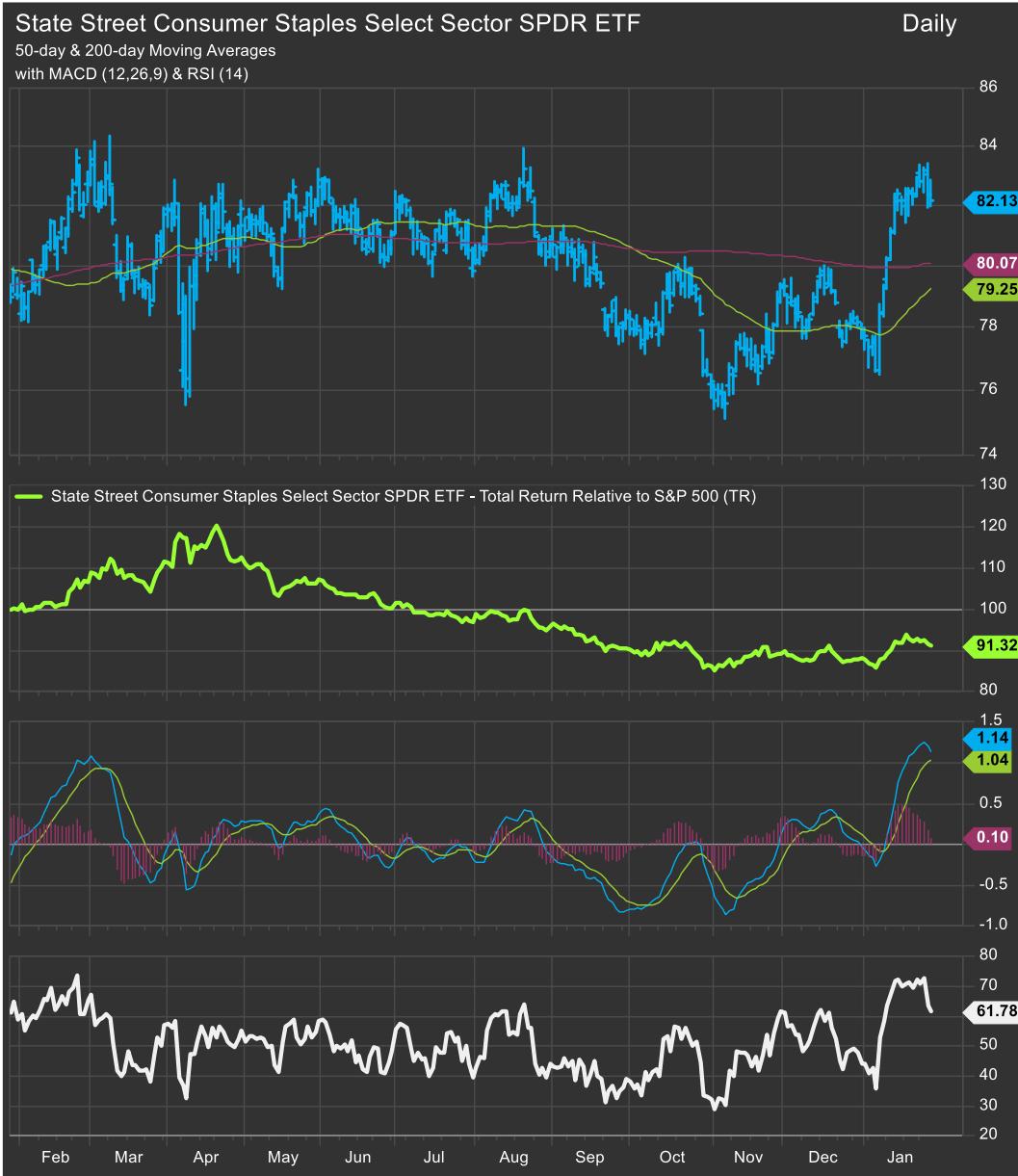
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Monthly Insights: February Outlook

**Consumer Staples Sector**

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## Sector Price Action & Performance Review: Consumer Staples Sector



The Consumer Staples sector finally caught a bid in January as slumbering giants WMT and COST finally had delivered earnings that were able to clear the lowering bar of expectations.

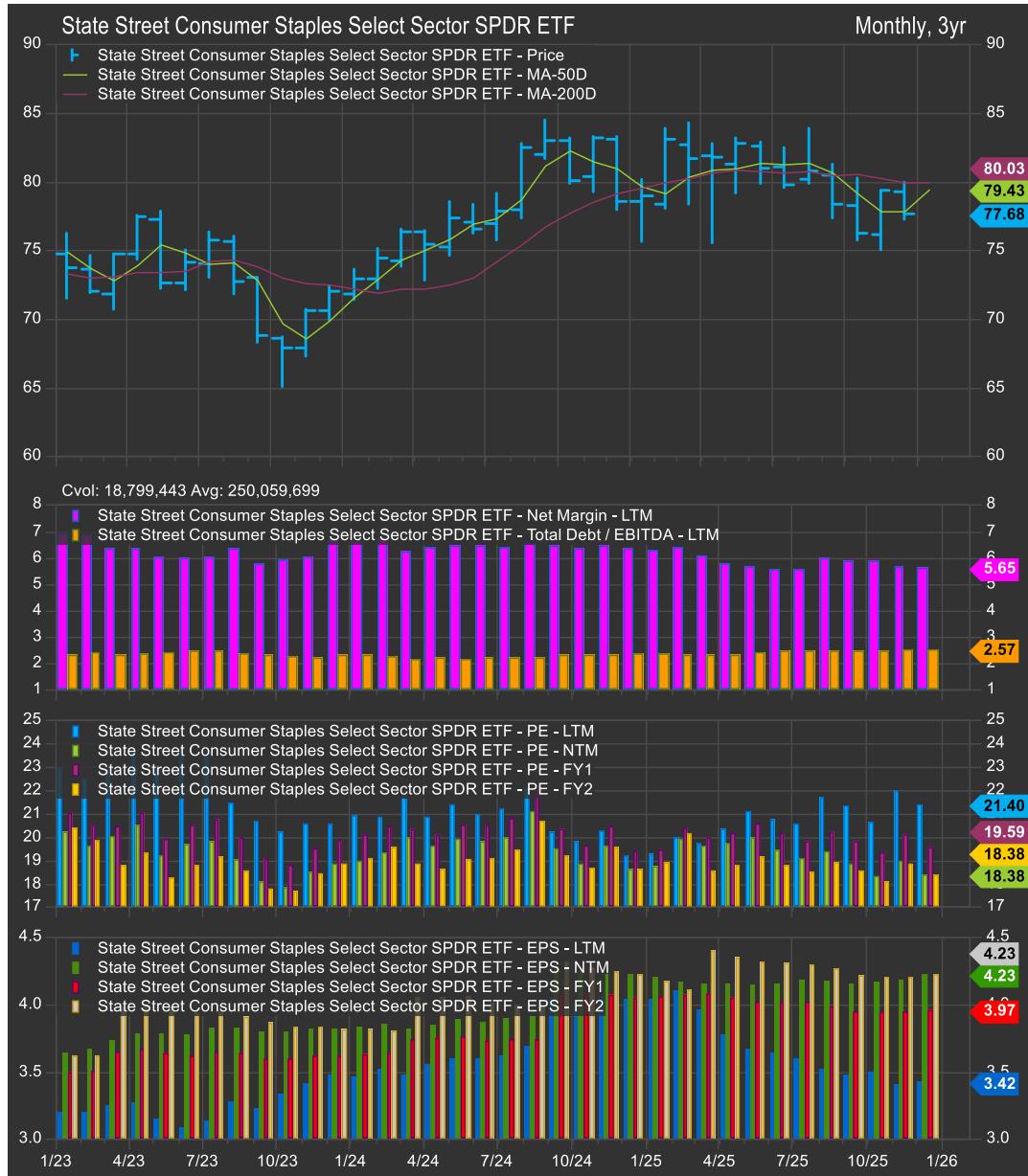
From a technical perspective January's near-term strength is potentially the start of a bullish reversal, but a move above \$84 on the XLP price chart would be required to confirm. Regardless, our oscillator studies have jumped to overbought levels not seen since February 2024 when equities corrected materially. At present we aren't looking for a big correction, but we do think the sector's de-rate from April through November may have gone too far, and there's some more potential reflation ahead.

From a fundamental perspective, tariff driven cost pressures continue to suppress already thin margins. The consumer remains price sensitive and the "trade down" dynamic is still in force. We aren't keen on legacy brand driven franchises like P&G, but food and beverage stocks as well as personal products have some tailwinds from the Natural Resources and EM Bull trades.

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. It's been hard to find sustainable buying power for low vol. concerns, but the Consumer Staples sector is our defensive hedge for January.

**We start January with an out-of-benchmark allocation of 0.14% 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 December (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 Food & Staples Retailing, Tobacco and Personal Products (EL) finally lifted the sector to a gain vs. the S&P 500 in January

**Consumer Staples Sector Internals** (chart, right): Internal trends have pivoted higher after the **near-term series** made a 12-month high in January of 2026. We think there's more potential for the sector to reflate if the Fed can resuscitate the consumer at least to a certain degree.

# 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 Iidx	1-Month Excess Return vs. BMK
BG	Bunge Global SA	Bullish Reversal	22,294.5	0.52	26.7	1.6	0.59	28.7
ADM	Archer-Daniels-Midland Company	Bullish Reversal	32,390.4	0.63	12.4	2.0	0.70	15.6
SYY	Sysco Corporation	Consolidation	39,989.7	0.69	7.5	1.7	0.70	12.6
STZ	Constellation Brands, Inc. Class A	Consolidation	27,349.7	0.51	8.7	1.8	0.27	12.4
CLX	Clorox Company	Consolidation	13,271.5	0.68	-4.1	3.0	0.86	10.9
PM	Philip Morris International Inc.	Bullish Reversal	278,000.1	0.85	13.5	2.1	0.25	10.1
TSN	Tyson Foods, Inc. Class A	Bullish Reversal	18,284.9	0.64	17.2	2.1	0.43	9.5
COST	Costco Wholesale Corporation	Consolidation	426,460.9	1.83	2.7	0.4	0.96	9.2
MO	Altria Group, Inc.	Consolidation	105,974.5	0.45	2.9	4.7	0.15	8.8
LW	Lamb Weston Holdings, Inc.	Downtrend	6,314.9	0.64	-20.2	2.2	1.14	7.1

Food stocks topped both the leader and laggard lists. BG, SYY and ADM led the sector higher while Mega Cap. players COST and WMT also rebounded in the near-term.

To the downside, MKC, GIS and KDP were off the most.

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Iidx	1-Month Excess Return vs. BMK
MKC	McCormick & Company, Incorporated	Downtrend	16,603.7	0.79	-11.2	2.1	0.39	-10.4
GIS	General Mills, Inc.	Downtrend	23,664.4	0.48	-9.3	3.6	-0.06	-5.2
KDP	Keurig Dr Pepper Inc.	Consolidation	36,287.8	0.49	-11.1	2.3	0.07	-4.9
DLTR	Dollar Tree, Inc.	Bullish Reversal	23,683.4	0.72	4.4	0.0	1.07	-4.7
KHC	Kraft Heinz Company	Downtrend	27,450.9	0.38	-11.1	4.6	0.01	-4.7
CPB	Campbell's Company	Downtrend	8,043.7	0.43	-12.4	3.9	-0.09	-3.5
KR	Kroger Co.	Retracement	39,122.7	0.47	-9.8	1.4	0.26	-3.0
KMB	Kimberly-Clark Corporation	Downtrend	33,033.2	0.53	-15.6	3.5	0.33	-2.2
B.F.B	Brown-Forman Corporation Class B	Downtrend	12,261.2	0.62	-8.3	2.3	0.41	-0.3
KVUE	Kenvue, Inc.	Consolidation	33,223.6	0.63	3.6	3.1	0.55	0.1

## 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

Consumer Staples entered 2026 positioned as a traditional **defensive, low-volatility ballast**, but January trading has highlighted that the sector is **no longer insulated from macro and policy crosscurrents**. Falling Treasury yields and a softer dollar would normally support Staples multiples, yet those tailwinds have been offset by **persistent margin and demand concerns**, leaving the group directionally lagging during periods of equity strength.

Policy influence is more indirect than in Health Care, but still meaningful. The administration's affordability focus has reinforced **price sensitivity among lower-income consumers**, limiting pricing power in packaged food, household products, and select beverage categories. At the same time, tariff uncertainty and renewed trade rhetoric have reintroduced **input-cost risk**, particularly for agricultural commodities, packaging, and transportation. These dynamics have capped operating leverage and constrained earnings revisions despite easing financial conditions.

## Subsector Performance and Fundamental Drivers

Performance dispersion within Consumer Staples has widened as investors differentiate between **pricing durability and volume resilience**.

Food Products and Packaged Goods have been among the weakest subsectors. While pricing actions over the past two years protected margins, volumes remain fragile, and elasticity is becoming more evident as consumers continue to trade down. Cost inflation has moderated, but the benefit is increasingly being competed away through promotions and private-label encroachment.

Household Products face a similar challenge. Input costs are easing, yet retailers are pushing back on pricing, compressing incremental margins. Brand strength still matters, but growth is increasingly defensive rather than expansionary.

Beverages have been mixed. Global brands with exposure to international demand and premium categories have held up better, aided by the weaker dollar. However, carbonated soft drinks and beer remain vulnerable to volume stagnation and higher promotional intensity.

Staples Retailers and Discounters have been relative bright spots. Traffic trends remain stable, private-label penetration is rising, and value positioning continues to resonate in a cost-conscious environment. These names are benefiting from consumer trade-down rather than top-line acceleration.

Tobacco remains a yield-driven allocation. Cash flow visibility is intact, but regulatory overhangs and limited growth optionality continue to restrict multiple expansion.

## Sector Positioning and Relative Performance Outlook

Looking into February, **Consumer Staples are unlikely to lead the market unless risk sentiment deteriorates meaningfully**. While the sector can still outperform during sharp risk-off episodes, its relative appeal fades quickly when growth, momentum, or cyclical reasserts leadership.

Unlike prior cycles, Staples are not benefiting from a clear inflation hedge or strong pricing power tailwind. As a result, the group risks **lagging both growth-oriented sectors and higher-quality cyclicals**, particularly if economic data remain resilient and real rates stay contained.

### Subsector Leans

**Staples Retailers & Discounters: Constructively bullish**, benefiting from consumer trade-down, stable traffic, and improving private-label economics.

**Beverages: Selectively bullish**, favoring global brands and premium exposures with FX tailwinds and brand resilience.

**Household Products: Neutral-to-bearish**, with easing costs offset by retailer pricing pressure and limited volume growth.

**Food & Packaged Goods: Bearish**, as pricing power fades, volumes remain weak, and competition intensifies.

**Tobacco: Yield-supportive but structurally constrained**, suitable for income-focused strategies rather than total return leadership.

### Bottom Line

Consumer Staples remain a **defensive allocation of last resort rather than a proactive positioning choice**. The sector is likely to **lag the S&P 500 during risk-on environments** and only outperform meaningfully if macro conditions deteriorate. Investors should emphasize **value-oriented retailers and globally diversified brands**, while avoiding areas where pricing power has already peaked and volume pressure is building.

# 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.