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Monthly Insights: May Outlook
Consumer Discretionary Sector

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Sector Price Action & Performance Review: Consumer Discretionary Sector



The Consumer Discretionary Select Sector SPDR Fund (XLY) staged a strong April rebound after a weak first quarter, but the rally looks vulnerable if rates, fuel prices, and consumer costs remain elevated. XLY closed March 31 near **\$108.98** and traded near **\$116.78** on April 29, leaving the fund up roughly **7% month-to-date**. The move repaired some technical damage from the first quarter, but it has not removed the sector's larger macro sensitivity.

The key issue is that XLY's April rebound was built on renewed risk appetite, a bounce in mega-cap growth exposure, and expectations that the consumer would remain resilient. That is a fragile setup if higher gasoline, elevated borrowing costs, tariffs, and wage/input inflation pressure household budgets and company margins into May.

Technically, the ETF has improved, but not enough to support a broad overweight. A push toward the **\$120–125** area would suggest momentum is still intact, but failure near current levels would indicate that April was more of a relief rally than a durable leadership turn. Support near the low-\$110s becomes important. A break below that area would raise the risk that investors are again discounting weaker discretionary demand.

The sector's composition also increases risk. XLY is highly concentrated in **Amazon, Tesla, Home Depot, TJX, McDonald's, Booking Holdings, Lowe's, Starbucks, Marriott, and O'Reilly Automotive**. That means the sector is not simply a read on broad consumer strength. It is also a concentrated bet on e-commerce, electric vehicles, housing-linked retail, restaurants, travel, and a handful of mega-cap growth stories. If higher rates and fuel prices pressure household cash flow, the more cyclical parts of the sector could underperform even if a few large constituents remain resilient.

The May outlook for Consumer Discretionary is **negative**, with the sector best positioned as an **underweight** unless macro conditions improve. April's rebound was real, but it was driven more by risk appetite and mega-cap leadership than by a broad improvement in consumer fundamentals. Persistent higher rates, higher fuel prices, tariffs, wage pressure, food costs, insurance costs, and weak sentiment all argue against chasing the sector into May.

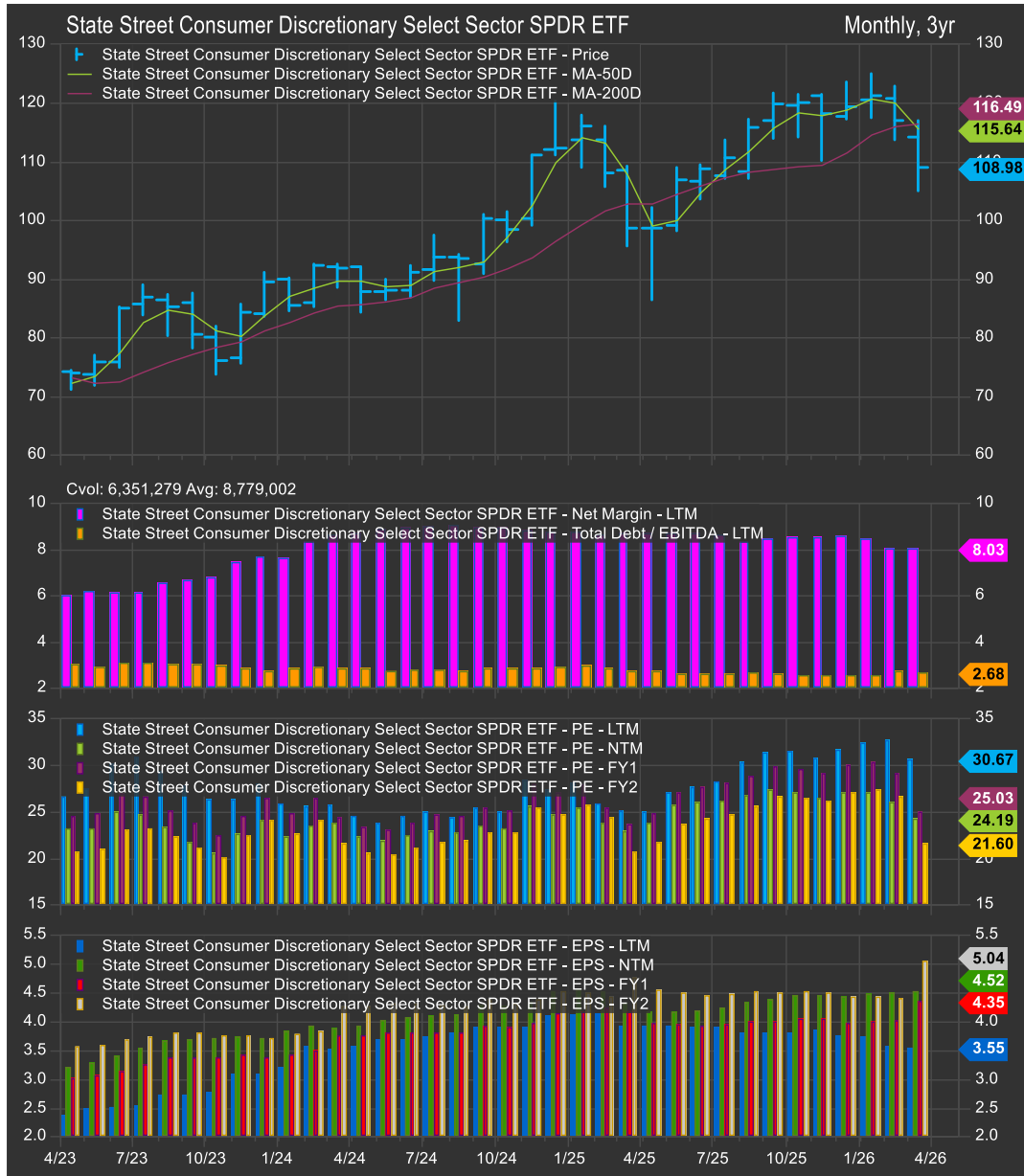
The best areas remain **Amazon, off-price retail, auto parts**, and select **value-oriented restaurants**. These groups have scale, convenience, replacement demand, or value positioning that can help them hold up in a pressured consumer environment.

The weakest areas are **autos, housing-linked retail, household durables, apparel and footwear, leisure products**, and discretionary travel. These categories are more exposed to financing costs, fuel prices, tariffs, promotions, and delayed purchases.

A more constructive view would require a clear improvement in the macro backdrop: lower Treasury yields, lower gasoline prices, better consumer sentiment, stable employment, lower tariff pressure, and confirmation that Amazon and Tesla can offset broader sector weakness. Until then, Consumer Discretionary should be viewed as a **selective stock-picking sector**, not a broad overweight.

We start May out of the Consumer Discretionary Sector with an underweight allocation of -9.83% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Consumer Discretionary Sector



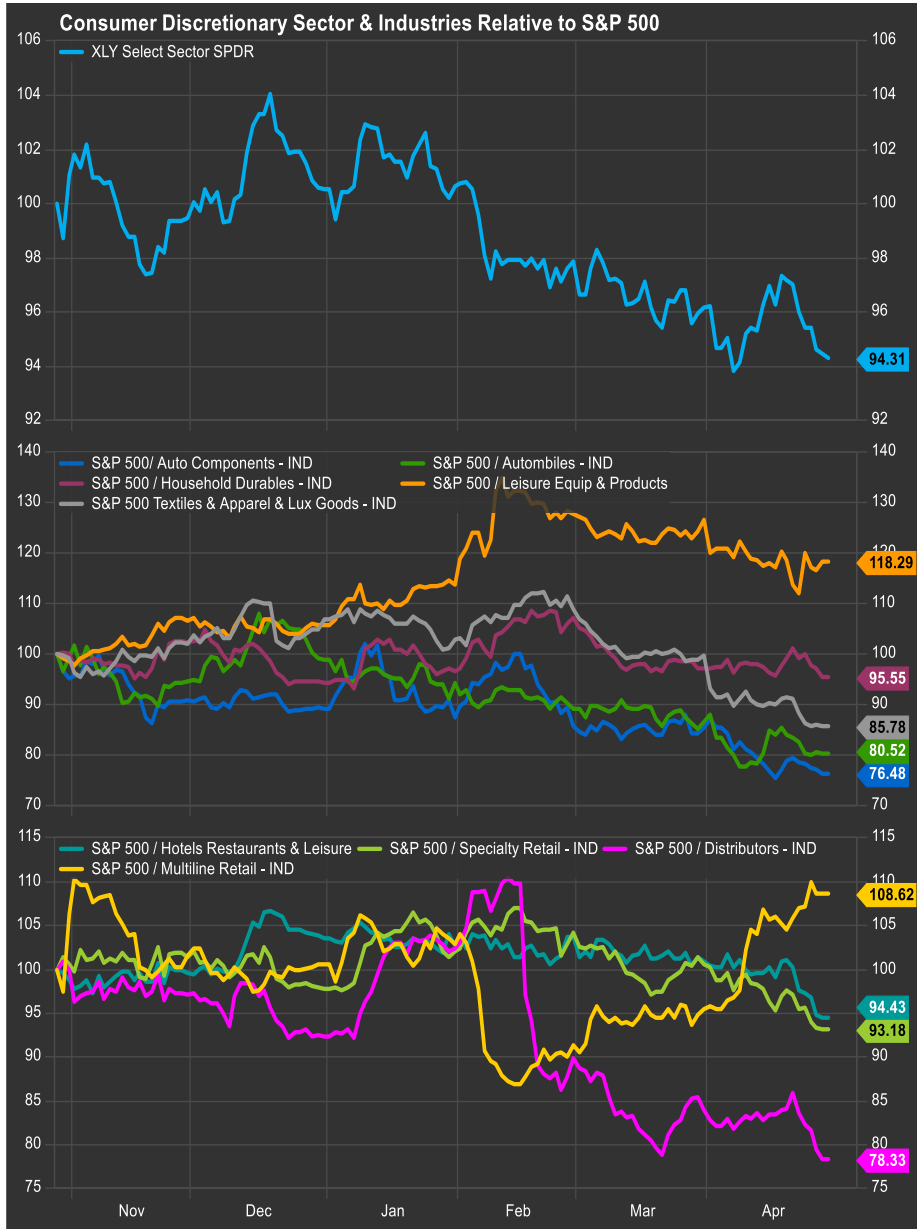
Consumer Discretionary fundamentals improved in April, but the quality of the improvement was mixed. The sector benefited from stronger equity risk appetite, an improving retail sales backdrop, better execution from select restaurant and travel companies, and continued investor enthusiasm for Amazon’s cloud, advertising, and artificial intelligence optionality. However, the sector remains exposed to weak consumer sentiment, higher gasoline prices, tariffs, mortgage-rate pressure, auto affordability, and discretionary spending fatigue.

The earnings setup is uneven. FactSet’s April 24 Earnings Insight showed the S&P 500 blended first-quarter earnings growth rate at **15.1%**, with 84% of reporting companies beating earnings estimates and 81% beating revenue estimates. Consumer Discretionary’s revenue-growth contribution was less compelling: FactSet’s April 17 update noted the sector’s revenue growth rate had decreased to **8.2% from 8.5%** since March 31. That leaves the sector supported by strong individual companies but not yet showing uniformly clean earnings breadth.

Company-level data show the dispersion. Tesla reported Q1 revenue of **\$22.39B**, with automotive gross margin of **21.1%** and automotive gross margin excluding regulatory credits of **12.5%**, highlighting both improvement and ongoing debate around the quality of margins, pricing, and the company’s strategic pivot toward artificial intelligence and robotics. Starbucks was a positive April surprise, reporting **6.2% global comparable-store sales growth, 9% revenue growth to \$9.5B**, and non-GAAP earnings per share of **\$0.50**, while raising fiscal 2026 guidance. Booking Holdings delivered solid Q1 growth, with gross bookings up **15%** and revenue up **16%**, but cut its annual revenue-growth outlook due to Middle East travel disruption.

The fundamental takeaway is that Consumer Discretionary is investable, but selective. The strongest areas are businesses tied to scale, convenience, digital engagement, value, travel platforms, and premium experiences. The weakest areas remain interest-rate-sensitive housing, lower-income consumer exposure, autos with affordability pressure, and discretionary categories exposed to tariffs and promotions.

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



Industry / Group	Approx. XLY Weight / Exposure	April Performance Trend	Fundamental Read	Macro / Policy Sensitivity
Broadline Retail	28.4%	Strongest structural growth exposure, dominated by Amazon	High-quality growth, but Amazon's capital-spending cycle and AWS execution matter as much as retail demand.	Sensitive to consumer spending, tariffs, fuel/shipping costs, AI capex returns, cloud demand, labor costs, and regulatory scrutiny.
Hotels, Restaurants & Leisure	22.8%	Mixed but improving	Restaurants with value, convenience, loyalty, and operational improvement are better positioned than weaker casual-dining or travel-exposed names.	Sensitive to gasoline prices, wages, food costs, travel disruption, consumer confidence, and geopolitical risk.
Specialty Retail	20.7%	Constructive but bifurcated	Off-price and auto parts are better positioned than rate-sensitive home improvement and discretionary apparel.	Sensitive to tariffs, wages, freight, housing turnover, gasoline, consumer credit, and promotional intensity.
Automobiles	20.7%	Volatile; heavily Tesla-driven	The auto group is less about broad consumer demand and more about Tesla execution, EV adoption, pricing, and software/robotics optionality.	Sensitive to interest rates, auto loan costs, tariffs, EV incentives, fuel prices, China competition, supply chains, and battery costs.
Household Durables	3.4%	Rate-sensitive and uneven	Long-term housing shortage helps, but near-term turnover remains weak.	Sensitive to mortgage rates, housing affordability, home equity, materials, tariffs, and consumer confidence.
Textiles, Apparel & Luxury Goods	3.0%	Mixed to weak	Brand strength matters, but weaker apparel names face private-label, discounting, and tariff pressure.	Sensitive to tariffs, China demand, currency, freight, cotton/synthetic inputs, and discretionary income.
Distributors	0.5%	Stable but small exposure	More resilient where tied to replacement demand rather than new discretionary purchases.	Sensitive to auto miles driven, freight, inventory, tariffs, and small-business demand.
Leisure Products	0.3%	Soft	Demand is highly cyclical and discretionary.	Sensitive to consumer confidence, financing costs, gasoline, and wealth effects.
Automobile Components	0.3%	Mixed	Better where aftermarket demand is recurring; weaker where original equipment exposure is high.	Sensitive to auto production, tariffs, labor, raw materials, and EV-content shifts.

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
CVNA	Carvana Co. Class A	Bullish Reversal	58,115.5	2.34	6.6	0.00	4.46	22.4
AMZN	Amazon.com, Inc.	Bullish Reversal	2,792,879.4	1.48	9.4	0.00	1.21	18.1
DASH	DoorDash, Inc. Class A	Retracement	70,502.0	2.57	-15.8	0.00	2.07	5.1
DHI	D.R. Horton, Inc.	Consolidation	44,354.7	0.65	1.9	0.83	1.72	4.4
EBAY	eBay Inc.	Bullish Reversal	44,961.3	0.76	1.6	0.88	0.86	1.9
ABNB	Airbnb, Inc. Class A	Consolidation	58,893.6	1.26	2.7	0.00	1.03	1.0
DECK	Deckers Outdoor Corporation	Consolidation	15,072.2	0.68	6.7	0.00	1.49	0.7
MAR	Marriott International, Inc. Class A	Bullish Reversal	94,933.1	1.41	12.7	0.57	1.12	0.7
SBUX	Starbucks Corporation	Consolidation	110,831.1	1.73	2.4	1.86	0.99	-0.1
RL	Ralph Lauren Corporation Class A	Uptrend	14,181.4	0.96	2.2	0.68	2.03	-0.3

AMZN was the big story of April for the Consumer Discretionary sector. With strong AI tailwinds the stock benefits from its hyper-scaler characteristics

The rest of the sector leaves much to be desired with homebuilders, apparel, cruise-lines and specialty retail names all down double-digits

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
TSCO	Tractor Supply Company	Downtrend	18,720.6	0.77	-36.6	1.95	0.95	-32.8
NKE	NIKE, Inc. Class B	Downtrend	54,013.5	1.18	-29.6	2.48	1.19	-24.5
BBY	Best Buy Co., Inc.	Downtrend	12,360.6	0.42	-17.4	4.83	1.49	-18.3
MCD	McDonald's Corporation	Retracement	207,838.9	1.02	-10.8	1.85	0.33	-16.6
NCLH	Norwegian Cruise Line Holdings Ltd.	Downtrend	8,104.2	0.38	-18.2	0.00	2.60	-16.0
LULU	lululemon athletica inc.	Downtrend	15,731.6	0.54	-21.2	0.00	0.85	-14.5
RCL	Royal Caribbean Group	Retracement	68,627.8	0.67	-14.7	1.29	2.36	-14.4
DPZ	Domino's Pizza, Inc.	Downtrend	11,324.3	0.81	-17.5	1.64	1.11	-14.4
NVR	NVR, Inc.	Downtrend	17,897.6	0.81	-16.3	0.00	1.37	-12.3
GPC	Genuine Parts Company	Downtrend	14,507.0	0.63	-21.4	2.88	1.02	-11.8

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 Discretionary Sector

Consumer Discretionary sits at the intersection of consumer income, confidence, credit, fuel prices, housing, tariffs, travel, and technology. April's macro backdrop was supportive enough to fuel a rebound, but not strong enough to remove the sector's risks. The sector worked because markets were willing to reward risk, Amazon and Tesla remained powerful index drivers, and retail sales were resilient. The concern is that many consumer indicators are still fragile underneath the surface.

1. Retail sales were strong, but not purely discretionary

The U.S. Census Bureau reported March retail and food-services sales of **\$752.1B**, up **1.7% month-over-month** and **4.0% year-over-year**. Total January-through-March sales were up **3.7%** from the same period a year earlier. This headline supports the idea that the consumer has not broken.

However, the quality of spending was less clean. Reuters noted that the March retail sales surge was boosted by higher gasoline receipts as fuel prices rose, and retail sales are not adjusted for inflation. That distinction matters for Consumer Discretionary. Higher nominal sales can coexist with weaker real unit demand, particularly in apparel, home goods, leisure, and restaurant traffic. For May, investors should focus less on headline sales and more on unit volumes, traffic, basket size, promotional intensity, and margin pass-through.

2. Consumer sentiment is a warning signal

The University of Michigan's April consumer survey showed the Index of Consumer Sentiment falling to **49.8** from **53.3** in March, while current conditions and expectations also declined. Weak sentiment does not automatically mean weak spending, but it changes spending behavior. Consumers become more price-sensitive, trade down, delay big-ticket purchases, and favor value formats.

This is why Consumer Discretionary leadership should remain narrow. Off-price retail, value restaurants, Amazon's convenience ecosystem, and replacement-demand businesses can still work. Big-ticket discretionary categories, luxury, leisure products, and housing-sensitive retail are more vulnerable if weak sentiment translates into lower traffic or higher promotions.

3. Gasoline and energy costs are a direct discretionary headwind

Energy inflation is one of the most important April-to-May risks. The March Consumer Price Index (CPI) showed energy prices up **10.9%** month-over-month and gasoline up **21.2%**. Higher gasoline prices act like a tax on the consumer, especially for lower- and middle-income households. They also raise delivery, freight, logistics, airline, restaurant, and retail operating costs.

For XLY, the impact varies by industry. Amazon faces shipping and logistics cost pressure, but can offset some of that through scale and advertising. Restaurants face both lower discretionary traffic risk and higher food/freight costs. Travel companies may see pressure if airfare rises or route capacity is disrupted. Autos can see mixed effects: higher fuel prices can support electric vehicle interest, but higher living costs can also reduce affordability for new vehicles.

4. The Federal Reserve and consumer credit remain central

The Federal Reserve (Fed) backdrop remains important because Consumer Discretionary is one of the most rate-sensitive sectors. Higher rates affect auto loans, credit-card balances, mortgage rates, housing turnover, home-improvement demand, and big-ticket financing. With oil-driven inflation complicating the Fed's ability to cut rates quickly, the sector's most cyclical industries remain vulnerable.

This matters most for autos, household durables, home improvement, leisure products, and lower-income consumer finance channels. It matters less for Amazon's e-commerce ecosystem, off-price retail, and quick-service restaurants, where convenience and value can help sustain demand.

5. Housing is still a constraint on home-improvement exposure

Mortgage rates remain high enough to limit housing turnover. Freddie Mac reported that the 30-year fixed-rate mortgage averaged **6.23%** as of April 23, down from **6.30%** the prior week and **6.81%** a year earlier, but still elevated by historical standards. Reuters also reported that U.S. single-family housing starts jumped **9.7%** in March to a 13-month high, but permits fell **3.8%** month-over-month and **7.9%** year-over-year, suggesting a less robust forward pipeline.

For Consumer Discretionary, this argues against a broad overweight to housing-linked retail. Home Depot, Lowe's,

furniture, appliances, and household durables can benefit from repair/remodel and aging housing stock, but the strongest cycles usually require better housing turnover and lower financing costs. Until that happens, the group should be selective rather than a leadership bet.

6. Autos: demand is resilient, but affordability and policy are major risks

Autos remain one of the sector's most important and volatile exposures because Tesla alone is nearly 18% of XLY. Cox Automotive forecast April new-vehicle sales at a **16.1 million seasonally adjusted annual rate (SAAR)** despite weak consumer sentiment and rising economic uncertainty. That suggests demand has not collapsed, but affordability remains a major issue.

Policy risk is also elevated. Kelley Blue Book noted that President Trump announced a **25% tariff on cars built outside the United States and many parts used in vehicles built domestically**, which can raise costs across the auto supply chain. At the same time, House Democrats urged the administration to keep restrictions on Chinese automakers, showing continued bipartisan concern about Chinese vehicle competition and national security.

For May, autos should be treated as a selective neutral. Tesla can outperform if investors reward margin improvement, robotics optionality, and artificial intelligence progress. But the broader auto complex remains exposed to high financing costs, tariffs, used-vehicle competition, affordability pressure, and policy uncertainty around electric vehicle incentives and China competition.

7. Tariffs are a margin and price-risk issue for retailers

Tariffs remain a meaningful overhang for retailers, apparel, footwear, furniture, autos, and imported consumer goods. The National Retail Federation (NRF) said 76% of voters were concerned about the impact of tariffs on prices, reflecting the political sensitivity around consumer-cost pressure. Federal Reserve research also found that tariff price pressures developed gradually through 2025, with the largest effects on goods imported from China and at least 30% pass-through to consumers between April and December 2025.

This is particularly important for apparel, footwear, home goods, furniture, specialty retail, and auto parts. Companies with strong brands, flexible sourcing, and pricing power can defend margins. Weaker retailers may need to choose between raising prices, losing volume, or discounting to protect traffic. That makes off-price retail relatively attractive and tariff-exposed discretionary retail less attractive.

8. Restaurants and travel: value works, but geopolitics matters

Restaurants are bifurcated. Starbucks' Q2 results showed that operational improvement and brand reinvestment can drive traffic even in a pressured consumer backdrop, with global comparable-store sales up **6.2%** and transactions driving growth. Yum Brands also beat estimates as value deals supported demand, with Taco Bell same-store sales up **8%** and KFC up **2%**. By contrast, Domino's cut its annual global sales outlook as inflation, transportation costs, and weaker consumer spending pressured demand.

Travel is also mixed. Booking Holdings reported strong first-quarter results, but lowered its annual revenue-growth forecast because the Middle East conflict reduced room-night growth and disrupted travel flows. For May, restaurants and travel can still be owned, but investors should favor value, loyalty, asset-light platforms, and strong brands while avoiding companies overly exposed to fuel, route disruption, or low-income discretionary spending.

9. Amazon, AI and concentration risk

Amazon is the sector's largest single driver. Its upcoming Q1 report is important not only for retail sales but also for Amazon Web Services (AWS), advertising, logistics margins, and capital spending. MarketWatch reported that analysts expect Amazon Q1 revenue of roughly **\$177.28B**, up nearly **14% year-over-year**, and earnings per share of **\$1.63**, while Amazon had guided Q1 sales of **\$173.5B to \$178.5B**. Barron's noted that investors are also focused on AWS growth and Amazon's large artificial intelligence capital-spending plan.

This gives Consumer Discretionary a technology-like quality. XLY can outperform even if the average discretionary consumer is mixed, as long as Amazon and Tesla work. But that also creates concentration risk. A disappointing Amazon print, weak AWS margin commentary, or skepticism around AI capex returns would pressure the whole sector.

Economic & Policy Drivers: Consumer Discretionary Sector (Cont'd)

Sector-Specific Drivers

Tesla — Idiosyncratic and Consequential Tesla's approximately **14–16% weight in XLY** makes it the sector's second-largest constituent and its most idiosyncratic driver. Tesla's 2026 weakness extends beyond the macro headwinds facing the sector broadly — it reflects a specific set of company-level challenges: intensifying competition from Chinese EV manufacturers (BYD in particular), margin pressure from price cuts needed to maintain market share, and a brand perception problem stemming from CEO Elon Musk's political visibility that has measurably reduced consumer consideration scores in key markets including Europe and coastal United States. These are structural concerns, not purely cyclical — making Tesla's underperformance a headwind to XLY that persists even if the macro environment improves.

E-Commerce and Retail Beyond Amazon, the broader e-commerce and retail landscape within XLY is navigating tariff cost pressures with varying degrees of supply chain flexibility. Off-price retailers — TJX Companies, Ross Stores — are structurally advantaged in a tariff environment because their opportunistic buying model allows them to source merchandise from distressed inventory rather than fixed supply chain commitments. Traditional specialty retailers and department stores with long-lead-time Asian sourcing are most exposed. Home improvement retailers — Home Depot, Lowe's — face tariff costs on Chinese-sourced tools and building materials but benefit from housing maintenance tailwinds as high mortgage rates suppress new construction and divert spending toward existing home improvement.

Restaurants and Leisure The restaurant and leisure subsector — McDonald's, Starbucks, Booking Holdings, Airbnb, Marriott — presents a more nuanced picture than goods-oriented discretionary. Restaurant traffic data has been resilient at the value end (McDonald's, Yum! Brands) but softer at casual dining and premium segments as consumers trade down. Travel and leisure demand has held up better than consumer goods spending — a phenomenon consistent with prior slowdown cycles where consumers protect experiential spending longer than goods purchases. Booking Holdings and Airbnb have shown relative resilience within XLY on the strength of continued international travel demand.

Luxury and Premium Brands Luxury and premium brand names within XLY have been among the month's most significant underperformers, reflecting both the consumer confidence deterioration and the specific exposure to Chinese consumer spending — a critical driver of global luxury demand that has been under pressure from China's own economic challenges independent of U.S. tariff dynamics. Premium athletic and lifestyle brands face the dual headwind of consumer trade-down risk and tariff-driven cost pressure on Asian-manufactured goods.

Automotive Auto manufacturers and dealers within the sector face a particularly complex tariff environment. Vehicle tariffs affect not just imported finished cars but also the components used in domestic assembly — making even "American-made" vehicles partially exposed to tariff cost increases through their supply chains. The practical consumer impact — higher vehicle prices at a time of already stretched auto loan affordability — is a meaningful demand headwind for new vehicle sales and the dealer network dependent on them.

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.