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Monthly Insights: May Outlook

Consumer Staples Sector

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Sector Price Action & Performance Review: Consumer Staples Sector



The Consumer Staples Select Sector SPDR Fund (XLP) produced a modest positive April, but the move lacked the kind of upside momentum seen in more cyclical and earnings-sensitive sectors. XLP closed March 31 at **\$81.98** and was trading near **\$83.04** on April 29, leaving the ETF up roughly **1.3% month-to-date on price**. The fund rallied to an April high near **\$83.86** on April 24, but it has not decisively broken out of the range that has defined much of the month.

Technically, XLP is in a mixed but stable position. The fund remains above its 20-day and 200-day moving averages, but below its 50-day moving average, while the 14-day Relative Strength Index (RSI) is neutral. That suggests Staples are not technically broken, but they are also not showing the kind of strong relative momentum that would justify a broad overweight in a risk-on market.

The sector composition also reinforces the defensive but low-growth profile. State Street data show XLP's largest industry weights are **Consumer Staples Distribution & Retail at 34.04%**, **Beverages at 19.57%**, **Food Products at 16.50%**, **Household Products at 16.23%**, **Tobacco at 10.16%**, and **Personal Care Products at 3.50%**. Top holdings include Walmart, Costco, Procter & Gamble, Coca-Cola, Philip Morris, Mondelez, Altria, PepsiCo, Colgate-Palmolive, and Target.

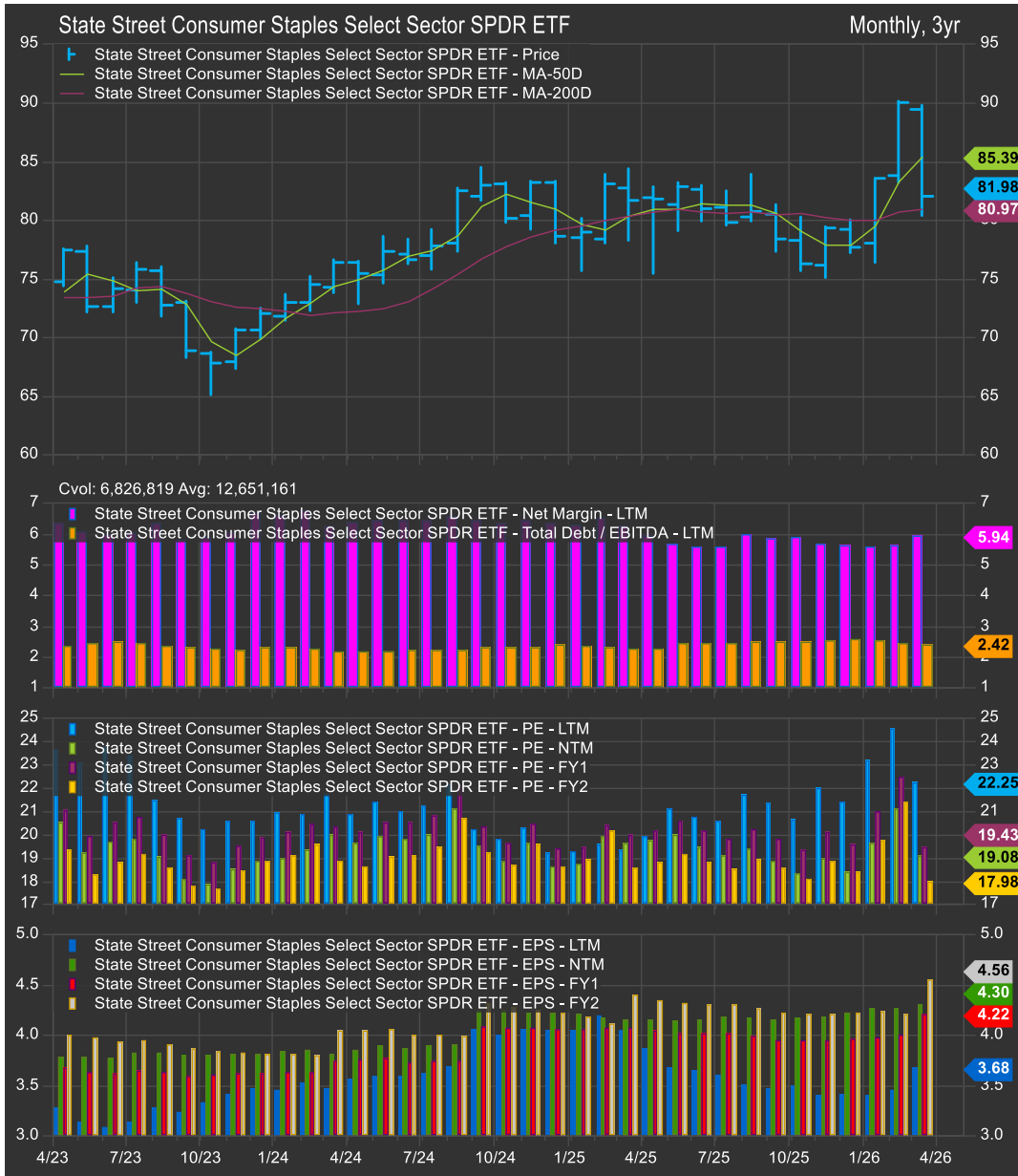
The May outlook for Consumer Staples is **underweight in a base-case risk-on market**. The sector has defensive stability, but it lacks the earnings acceleration, operating leverage, and policy upside visible in stronger cyclical and growth-oriented sectors. XLP's technical setup is stable but not leadership-quality, and the sector's valuation case is less compelling when broader S&P 500 earnings growth remains strong.

Within the sector, the best exposures are **Consumer Staples Distribution & Retail** and **Beverages**. Walmart, Costco, and other scale retailers can gain share if consumers trade down, while Coca-Cola-style beverage leaders still offer global brand strength, volume growth, and cash-flow durability. **Household Products** deserve a market-weight stance because quality is high but margin pressure is visible. **Food Products** and weaker branded Consumer Packaged Goods (CPG) companies remain underweight because pricing power is fading, private-label competition is rising, and volume recovery remains uneven.

The main reason to upgrade Staples would be a clear deterioration in investor risk appetite. If oil prices stay elevated, consumer sentiment weakens further, geopolitical risk rises, credit spreads widen, or high-beta leadership breaks down, Staples could regain tactical appeal as a defensive hedge. In that environment, XLP could move from underweight to market weight or even a short-term overweight. But absent a more defensive tape, the sector looks more like a **portfolio stabilizer** than a source of market leadership.

We start May out of the Consumer Staples Sector with an underweight allocation of -4.89% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Consumer Staples Sector

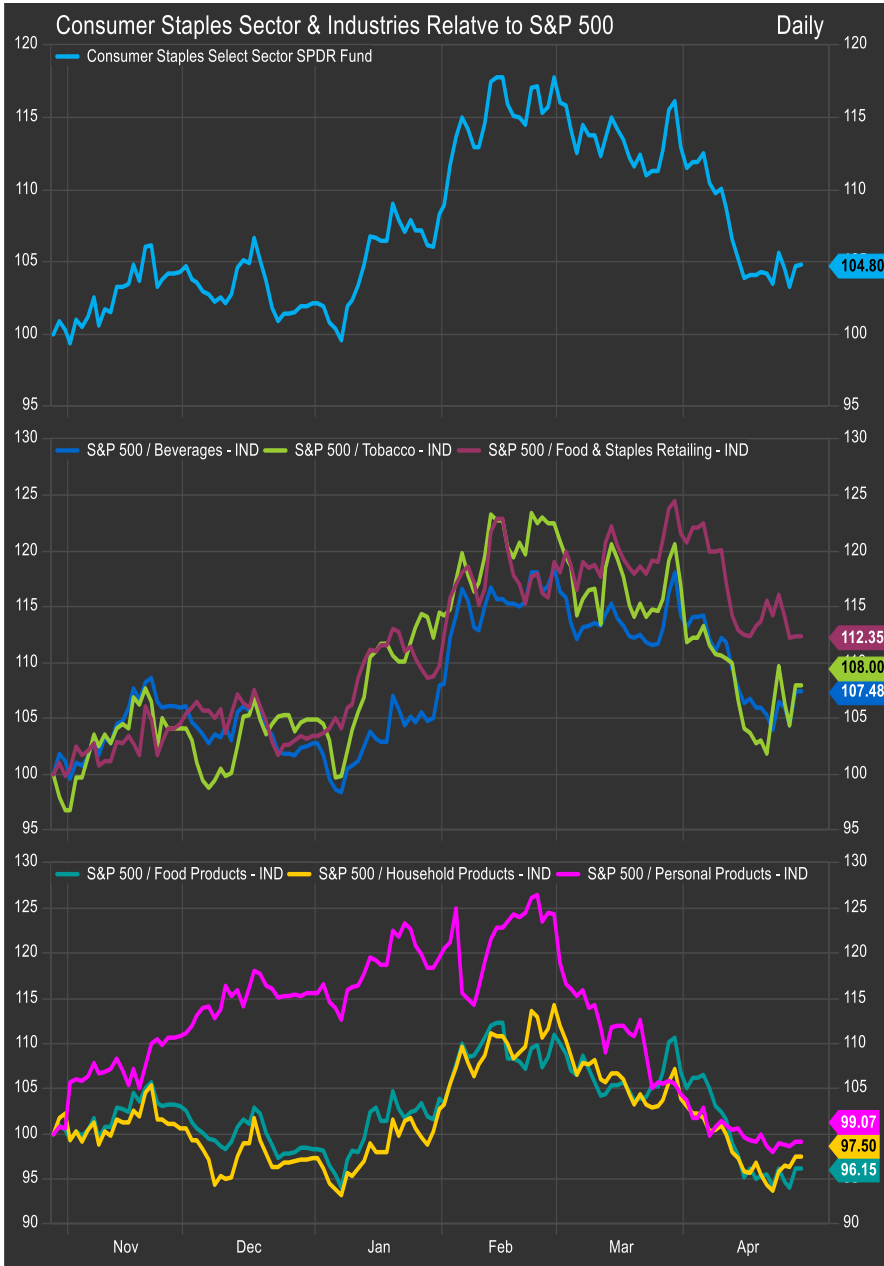


Consumer Staples fundamentals were respectable but not compelling enough to support a broad sector overweight. The sector offers durable demand, pricing power in select categories, strong cash generation, and dividends, but earnings growth remains modest versus the broader S&P 500. FactSet's April 24 Earnings Insight showed the S&P 500 reporting **15.1% blended year-over-year earnings growth** for Q1 2026, with Information Technology, Materials, Financials, and Industrials leading the growth profile. Staples was not among the leadership sectors, which matters in a market still willing to reward earnings acceleration.

Company results showed the same split between resilience and limited upside. Procter & Gamble reported fiscal third-quarter net sales up **7%**, organic sales up **3%**, diluted earnings per share (EPS) up **6%**, and core EPS up **3%**, while maintaining its fiscal-year guidance. However, the company also flagged tariff costs, commodity headwinds, reinvestment spending, and EPS results likely trending toward the lower end of guidance. Coca-Cola was a stronger bright spot, with Q1 net revenue up **12%**, organic revenue up **10%**, global unit case volume up **3%**, and comparable EPS up **18%**; the company also raised its comparable EPS growth outlook to **8-9%** for 2026. PepsiCo remained more moderate, guiding to **2-4% organic revenue growth** and **4-6% core constant-currency EPS growth**, implying reported net revenue growth of **4-6%** and core EPS growth of roughly **5-7%** for fiscal 2026.

The investment problem is valuation and opportunity cost. Staples can work as a volatility buffer, but in a market where Financials, Technology, Materials, and AI-linked cyclicals are delivering stronger earnings momentum, the sector's lower growth and premium defensive valuations make it harder to justify an overweight unless risk appetite deteriorates.

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



Industry / Group	Approx. XLP Weight	April Performance Trend	Key April Drivers	Fundamental Read	Macro / Policy Sensitivity
Consumer Staples Distribution & Retail	34.0%	Best structural growth profile inside Staples, but valuation-sensitive	Walmart and Costco continued to benefit from traffic, value-seeking consumers, grocery scale, membership models, and strong execution. Costco reported March net sales of \$28.41B, up 11.3%, with total comparable sales up 9.4%.	Strongest secular setup in the sector because scale retailers can take share, invest in price, and monetize membership, advertising, data, and e-commerce.	Sensitive to wage trends, consumer confidence, gasoline prices, food inflation, shrink, tariffs, and lower-income consumer stress.
Beverages	19.6%	Relative winner	Coca-Cola's strong Q1 results supported the group, with volume growth, pricing/mix, concentrate sales, and international execution driving upside. Innovation and affordability packs helped defend demand.	High-quality global brands, strong margins, and durable cash flow. Better pricing power than many packaged-food peers.	Sensitive to currency, sugar taxes, aluminum and packaging costs, emerging-market demand, and consumer trade-down.
Food Products	16.5%	Mixed to weak	Packaged food companies remained pressured by volume elasticity, private-label competition, commodity volatility, and limited incremental pricing power.	Defensive demand is intact, but growth is low and pricing-led revenue is harder to sustain.	Sensitive to food commodity costs, freight, packaging, tariffs, private-label share gains, and consumer trade-down.
Household Products	16.2%	Stable but not exciting	Procter & Gamble showed broad-based category growth, but margin pressure from tariffs, commodities, reinvestment, and mix limited enthusiasm.	High-quality cash-flow compounders, but earnings growth is modest and valuation support depends on defensiveness.	Sensitive to tariffs, resin/pulp/chemical inputs, freight, foreign exchange, and promotional intensity.
Tobacco	10.2%	Defensive, income-oriented, but structurally constrained	High dividend yields and pricing power helped support the group, while regulatory risk and volume decline remained persistent overhangs.	Cash flow remains resilient, but long-term volume pressure and regulatory scrutiny limit multiple expansion.	Sensitive to nicotine regulation, excise taxes, litigation, illicit-market enforcement, and reduced-risk product adoption.
Personal Care Products	3.5%	Mixed	Category demand is stable, but performance varied by brand strength, emerging-market exposure, China trends, and input costs.	Better companies can compound through premiumization and innovation, but the industry lacks broad earnings acceleration.	Sensitive to emerging-market demand, currency, beauty trends, packaging costs, and retailer bargaining power.

4/29/2026

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
EL	Estee Lauder Companies Inc. Class A	Downtrend	19,060.6	1.28	-21.9	1.34	1.87	2.5
CASY	Casey's General Stores, Inc.	Uptrend	28,998.4	1.87	20.5	0.21	0.18	-2.3
KDP	Keurig Dr Pepper Inc.	Consolidation	39,170.5	0.58	1.8	2.35	0.18	-2.4
MNST	Monster Beverage Corporation	Consolidation	75,484.6	1.56	-3.6	0.00	0.53	-4.7
TGT	Target Corporation	Bullish Reversal	57,576.1	0.74	15.9	2.46	1.04	-6.1
PG	Procter & Gamble Company	Consolidation	347,357.1	1.00	-3.2	2.05	0.58	-6.9
WMT	Walmart Inc.	Uptrend	1,017,198.8	2.02	5.0	0.54	0.56	-8.3
KO	Coca-Cola Company	Bullish Reversal	337,230.4	1.12	1.9	1.97	0.24	-8.7
SJM	J.M. Smucker Company	Downtrend	10,456.9	0.46	-7.9	3.15	0.48	-9.2
STZ	Constellation Brands, Inc. Class A	Consolidation	26,753.9	0.62	-1.9	1.96	0.27	-9.5

With the exception of one stock (EL), the entire sector skewed to the downside underperforming the S&P 500.

Food product stocks were the hardest hit with HSY, CAG and SYY coming under pressure on input and shipping costs, but household and retailing names weren't spared either.

April was a rout for low vol. exposures as AI FOMO dominated trading.

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
HSY	Hershey Company	Consolidation	27,826.7	1.00	-9.0	2.18	0.11	-24.2
SYY	Sysco Corporation	Consolidation	35,083.9	0.71	-14.8	2.11	0.91	-21.8
CAG	Conagra Brands, Inc.	Downtrend	6,827.3	0.40	-21.6	7.06	0.12	-20.8
KR	Kroger Co.	Consolidation	40,999.7	0.60	-4.0	1.54	0.04	-20.8
DLTR	Dollar Tree, Inc.	Consolidation	19,378.6	0.68	-17.9	0.00	1.13	-20.4
HRL	Hormel Foods Corporation	Downtrend	11,726.6	0.67	-15.2	3.95	0.28	-18.5
CPB	Campbell's Company	Downtrend	6,123.9	0.45	-24.8	5.47	0.23	-17.1
CLX	Clorox Company	Downtrend	11,680.1	0.71	-14.9	3.72	1.07	-16.3
GIS	General Mills, Inc.	Downtrend	18,545.4	0.50	-21.9	5.05	0.24	-15.2
MKC	McCormick & Company, Incorporated	Downtrend	13,739.9	0.76	-19.2	2.68	0.77	-14.9

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

The macro backdrop for Consumer Staples in April was **stable but not leadership-quality**. The sector benefited from essential demand, resilient grocery and household-product consumption, and selective strength in value-oriented retail and global beverages. However, the broader market continued to reward higher-beta earnings growth, artificial intelligence-linked capital spending, Financials, Industrials, and cyclical. That left Staples in a difficult relative position: fundamentals were durable, but the sector did not offer enough earnings acceleration to justify a broad overweight unless investor risk appetite deteriorates.

1. Consumer spending remains resilient, but quality is mixed

The consumer backdrop was not recessionary, but it was uneven. The U.S. Census Bureau reported that March 2026 retail and food-services sales rose **1.7% month-over-month** to **\$752.1 billion**, a strong nominal spending figure. However, the data are not adjusted for price changes, which matters because higher gasoline, freight, food, and imported-goods costs can inflate sales without necessarily signaling stronger real demand.

For Consumer Staples, this supports a **bifurcated consumer thesis**. Scale retailers such as Walmart and Costco benefit when households prioritize groceries, household goods, and value formats. Beverage and household-product leaders can still defend demand through brand strength and distribution. But weaker packaged-food and branded Consumer Packaged Goods (CPG) companies remain vulnerable to volume softness, private-label competition, and consumer resistance to additional price increases.

2. Sentiment is weak, which helps defensiveness but hurts volume quality

Consumer confidence deteriorated sharply in April. The University of Michigan's consumer sentiment index fell to **49.8**, while year-ahead inflation expectations rose to **4.7%** and longer-run expectations rose to **3.5%**. This matters because Staples can benefit from defensive rotation when consumers feel pressured, but weak sentiment also changes buying behavior.

The key issue is not whether consumers still buy staples; they do. The issue is **what they buy, where they shop, and how much pricing power brands retain**. Weak sentiment increases trade-down risk, supports private label, shifts traffic toward value retailers, and makes promotional intensity more likely. That is constructive for Consumer Staples Distribution & Retail, but less attractive for Food Products and weaker premium brands.

3. Inflation is no longer a clean tailwind

Earlier in the inflation cycle, Staples companies benefited from strong pricing. In April, that narrative looked less favorable. The March Consumer Price Index (CPI) showed food prices unchanged month-over-month, with food-at-home prices down **0.2%**, while energy prices rose **10.9%** and gasoline prices rose **21.2%**.

For Staples, this is a margin and revenue-quality challenge. Slower grocery inflation reduces the pricing tailwind that lifted revenue over the past several years. At the same time, higher energy prices raise freight, packaging, distribution, and input costs. This squeezes companies from both sides: less ability to push price, but more pressure on costs. The risk is greatest for packaged food, household products, and personal care companies that face resin, pulp, aluminum, sweetener, packaging, and logistics exposure.

4. Food and commodity costs remain uneven

The United States Department of Agriculture (USDA) reported that all-food prices were **2.7% higher year-over-year** in March, but the underlying categories were highly divergent. Sugar and sweets remained elevated, farm-level cattle prices were still materially higher year-over-year, egg prices were falling sharply as supply recovered, milk prices were lower year-over-year, and fresh vegetable prices remained volatile.

This divergence is important for industry positioning. Beverage companies face sweetener, aluminum, packaging, and freight risk. Packaged-food companies face commodity and promotional pressure. Protein-related food companies face cattle and input-cost volatility. Household-product companies face resin, pulp, chemicals, and logistics. The lack of a single clean commodity trend makes stock selection more important than broad sector exposure.

5. Tariffs are a meaningful margin risk

Tariffs are a direct macro-policy headwind for Staples because the sector relies on global sourcing,

packaging materials, imported inputs, and complex supply chains. Federal Reserve research estimated that tariffs implemented through November 2025 raised core goods Personal Consumption Expenditures (PCE) prices by **3.1%** through February 2026 and added **0.8 percentage points** to core PCE prices overall.

Company commentary confirms the pressure. Procter & Gamble said it expects roughly **\$400 million after-tax** of fiscal 2026 tariff costs, along with approximately **\$150 million after-tax** of commodity-cost headwinds. This is one reason the sector should not be treated as a simple defensive haven. If companies absorb tariff costs, margins suffer. If they pass them through, volume and brand loyalty may weaken. If they offset them through promotions or productivity, the earnings benefit may be delayed.

6. Policy scrutiny is rising around pricing, fees and food affordability

Consumer Staples companies are operating in a politically sensitive environment because food, household goods, and everyday necessities are central to the cost-of-living debate. The Federal Trade Commission (FTC) requested public comment in April on unfair or deceptive fee practices in online food and grocery delivery services, highlighting concerns that unclear or late-disclosed fees may distort competition and harm consumers.

That scrutiny matters for grocery retailers, delivery platforms, and retailers with growing digital grocery businesses. It does not necessarily impair the strongest scaled retailers, but it could limit fee flexibility, advertising practices, delivery economics, or pricing architecture over time. More broadly, the political focus on grocery affordability can make aggressive pricing actions harder to sustain.

7. Food labeling and health regulation remain long-term watch items

The Food and Drug Administration (FDA) continues to advance food-labeling priorities. The FDA has proposed front-of-package nutrition labeling that would place simplified nutrition information on the front of most packaged foods, and its 2026 Human Foods Program priorities continue to include front-of-package nutrition labeling.

For branded CPG companies, this is a manageable but important long-term risk. Strong brands can reformulate, innovate, and reposition portfolios. Weaker brands with high exposure to sugar, sodium, or less-favorable nutrition profiles may face more pressure from consumers, retailers, and regulators. This is another reason to favor companies with innovation budgets, premium positioning, and clear volume growth rather than price-only revenue growth.

8. Supplemental Nutrition Assistance Program policy matters for food retail

Supplemental Nutrition Assistance Program (SNAP) policy is another important variable for food retailers and packaged-food companies. The USDA has proposed stricter SNAP retailer stocking requirements, which could raise compliance burdens for smaller retailers and potentially shift share toward larger grocery chains and mass merchants with broader food assortments.

For large-cap Staples retailers, SNAP policy can be a relative advantage if tighter rules favor scale, assortment, and compliance capacity. However, any reduction in benefits, tighter eligibility, or restrictions on eligible foods could pressure lower-income spending and category mix. That would likely favor value retailers over premium branded products.

9. Tobacco remains defensive, but regulatory risk caps the multiple

Tobacco retains income and defensive appeal because of pricing power and cash flow, but regulation remains a structural ceiling on valuation. The prior federal plan to ban menthol cigarettes was withdrawn in 2025, reducing one major near-term regulatory threat, but nicotine regulation, excise taxes, litigation, illicit-market enforcement, and reduced-risk product adoption remain ongoing issues.

For Staples investors, Tobacco can still serve as a dividend and defensive sleeve, but it is not a clean growth story. The group is best treated as selective income exposure rather than a broad sector leadership candidate.

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.