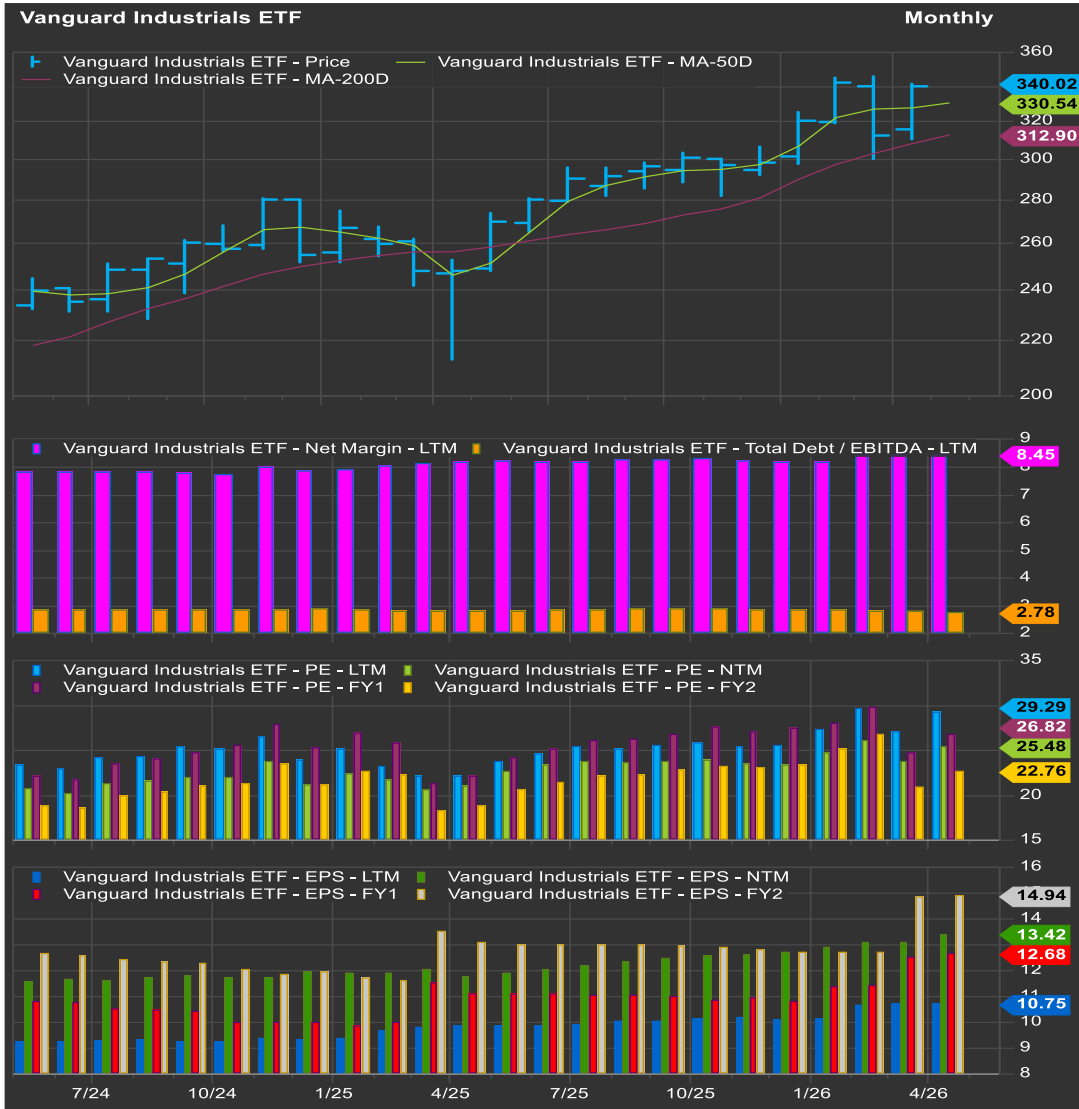


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Monthly Insights: June Outlook
Consumer Discretionary Sector

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Fundamentals: Consumer Discretionary Sector



Fundamentally, Consumer Discretionary is a high-dispersion sector. Vanguard's VCR profile shows **286 holdings**, a **28.7x P/E**, **4.6x P/B**, **19.6% return on equity** and **25.4% earnings-growth rate**. Those metrics are attractive from a growth standpoint, but the valuation is not cheap and the sector's concentration means that Amazon and Tesla heavily influence both absolute and relative performance. (fund-docs.vanguard.com)

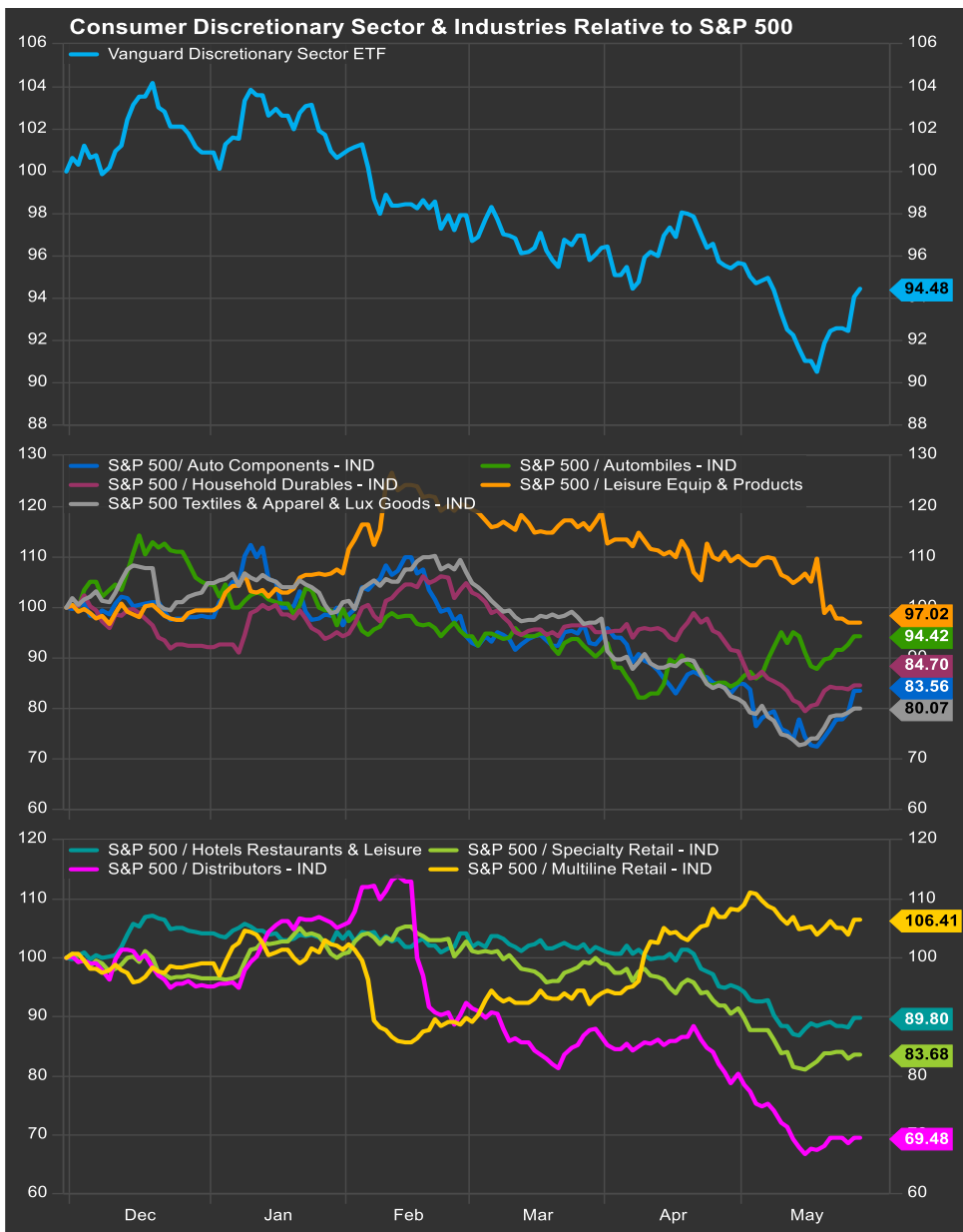
The sector's strongest fundamental areas are not the most economically fragile ones. Broadline retail benefits from scale, logistics, advertising, marketplace economics and cloud exposure in Amazon's case. Travel and leisure remain supported by higher-income households and a willingness to spend on experiences, though the sector is vulnerable to airfare, fuel and confidence. Restaurants are mixed: large brands with value menus, franchise scale and pricing power can hold share, while smaller operators are exposed to labor, food and traffic pressure. Auto parts and service are defensive within Discretionary because vehicle aging and repair demand can persist even when new vehicle purchases soften.

Autos are more complicated. FactSet showed strong Q1 EPS surprises from Ford and GM, but Reuters also reported that automakers are managing major tariff effects, with GM expecting tariffs to reduce profits by **\$2.5 billion to \$3.5 billion** this year and Ford pegging its net tariff cost at **\$1 billion**. That makes the auto sleeve a battleground between pricing, tariff relief, truck/SUV demand, EV incentives, raw-material costs and consumer financing. (reuters.com)

Home improvement and housing-linked discretionary are also mixed. The highest-quality home-improvement franchises remain structurally strong, but housing turnover is weak and mortgage rates are a constraint. Demand can hold up in repair and maintenance, but big-ticket discretionary projects are more vulnerable when rates, insurance, utilities and gasoline pressure household budgets.

Ticker	Price	1D	1W	1M	3M	6M	RSI	1M Flow	YTD Flow	1Y Flow
VCR	\$394.75	+0.48%	+2.68%	-0.06%	+1.78%	+6.73%	54.8	\$27.5M	-\$173.7M	-\$299.8M

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



Industry	Approx. Fund Weight	Fundamental Read	Macro / Policy Sensitivity
Broadline Retail	27.3%	Scale platforms dominate; ads, cloud and logistics support margins.	Consumer spending, tariffs, fuel, antitrust, AI/cloud capex.
Automobile Manufacturers	18.7%	Idiosyncratic; EV competition, pricing and affordability drive dispersion.	Rates, auto credit, EV policy, tariffs, battery supply chains.
Restaurants	9.8%	Traffic bifurcated by income; value menus matter.	Food/labor inflation, gasoline, wages, franchise rules.
Hotels, Resorts & Cruise Lines	8.5%	Travel demand resilient, but fuel and confidence matter.	Consumer confidence, fuel, FX, labor, geopolitics.
Home Improvement Retail	7.2%	Quality franchises; housing turnover is the constraint.	Mortgage rates, housing, weather, tariffs, big-ticket demand.
Apparel Retail	5.3%	Winners benefit from value/off-price and inventory discipline.	Tariffs, freight, wages, consumer trade-down.
Automotive Retail	4.1%	Parts/service are resilient; vehicle affordability is pressured.	Auto credit, used-car prices, rates, inventories.
Homebuilding	3.1%	Supply shortage supports demand, but affordability dominates.	Mortgage rates, labor, land, lumber, incentives.
Other Specialty Retail	2.1%	Highly stock-specific.	Sentiment, tariffs, inventories, promotion.
Apparel / Accessories / Auto Parts / Other	11.9%	Mixed exposure; select brands and parts suppliers can outperform.	Tariffs, labor, freight, input costs, confidence.

Top 10/Bottom 10 Stock Level Performers: Consumer Discretionary Sector

The sector came under pressure in April with distributors, specialty retail, travel, and auto-related retail names all down double-digits.

Bright spots were few and far between, but Auto stocks rallied with F trading into a bullish reversal.

Mega Cap. tent-poles AMZN and TSLA are no longer leadership, but AMZN remains constructive and TSLA is in an orderly consolidation

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

Symbol	Name	GICS Sector 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
F	Ford Motor Company	Consumer Discretionary	Bullish Reversal	62,151.8	0.44	11.8	2.73	1.31	23.8
TSLA	Tesla, Inc.	Consumer Discretionary	Consolidation	1,653,870.4	9.85	1.7	0.00	1.68	11.3
EBAY	eBay Inc.	Consumer Discretionary	Bullish Reversal	48,999.8	0.82	12.4	0.80	0.93	5.1
BBY	Best Buy Co., Inc.	Consumer Discretionary	Downtrend	13,598.3	0.46	-6.6	3.78	1.15	3.9
GM	General Motors Company	Consumer Discretionary	Consolidation	75,848.1	0.30	0.6	0.60	1.13	3.0
MAR	Marriott International, Inc. Class A	Consumer Discretionary	Bullish Reversal	101,746.9	1.50	5.6	0.53	1.09	2.3
DECK	Deckers Outdoor Corporation	Consumer Discretionary	Consolidation	15,883.8	0.71	-1.4	0.00	1.26	2.2
RCL	Royal Caribbean Group	Consumer Discretionary	Retracement	73,799.2	0.71	-11.2	1.28	1.83	1.4
WSM	Williams-Sonoma, Inc.	Consumer Discretionary	Consolidation	23,923.8	1.00	-4.6	1.03	1.64	0.9
CCL	Carnival Corporation Ltd.	Consumer Discretionary	Consolidation	38,704.1	0.55	-10.1	1.51	2.84	0.2

Symbol	Name	GICS Sector 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
POOL	Pool Corporation	Consumer Discretionary	Downtrend	6,720.5	0.76	-27.3	1.59	1.31	-22.5
AZO	AutoZone, Inc.	Consumer Discretionary	Retracement	49,883.2	0.85	-27.4	0.00	0.49	-20.0
TSCO	Tractor Supply Company	Consumer Discretionary	Downtrend	16,084.9	0.66	-41.3	2.24	0.40	-18.3
LULU	lululemon athletica inc.	Consumer Discretionary	Downtrend	14,325.2	0.49	-32.0	0.00	0.57	-15.8
LOW	Lowe's Companies, Inc.	Consumer Discretionary	Downtrend	121,444.0	0.80	-22.4	1.64	1.11	-15.5
CVNA	Carvana Co. Class A	Consumer Discretionary	Consolidation	52,289.1	1.99	-6.5	0.00	3.94	-15.2
DASH	DoorDash, Inc. Class A	Consumer Discretionary	Retracement	64,818.4	2.24	-20.6	0.00	1.90	-14.4
GPC	Genuine Parts Company	Consumer Discretionary	Downtrend	13,542.3	0.59	-23.8	3.12	0.90	-12.6
EXPE	Expedia Group, Inc.	Consumer Discretionary	Consolidation	25,940.8	0.51	-10.6	0.45	1.38	-12.6
GRMN	Garmin Ltd.	Consumer Discretionary	Consolidation	45,894.0	1.14	-8.9	1.26	0.97	-12.5

Economic & Policy Drivers: Consumer Discretionary Sector

The macro backdrop supports a modest overweight because the market is still risk-on and nominal spending is still positive. However, the sector is more exposed than most to the distribution of that spending. If higher-income households continue to spend, equity markets remain firm and employment does not weaken materially, Consumer Discretionary can participate in the bull market. If energy prices rise again, real income weakens further or credit stress rises, the sector's lower-quality areas will be vulnerable.

Inflation is the central macro variable. Gasoline, food and electricity inflation reduce the disposable income available for apparel, restaurants, travel, home projects and durable goods. At the same time, inflation can support nominal sales for companies with pricing power. The winners are businesses that can protect gross margin without losing traffic; the losers are businesses that must discount to maintain volume.

Rates are the second key variable. Mortgage rates near 6.5% weigh on homebuilders, home improvement, furniture and other housing-linked categories. Higher rates also affect auto affordability, credit-card balances and buy-now-pay-later behavior. The sector would benefit meaningfully from stable or lower rates, but sticky inflation reduces the probability of a near-term Fed easing impulse.

Policy risk is elevated. Tariffs directly affect apparel, furniture, auto parts, electronics, home improvement, toys, leisure goods and imported consumer products. Auto and EV policy affects Tesla, traditional automakers and battery supply chains. Antitrust policy matters for large platforms. Labor policy matters for restaurants, hotels and retailers. Travel policy, immigration and wage rules affect leisure and hospitality. Consumer-credit regulation can affect auto finance and discretionary financing channels.

Other key Narratives:

The first major narrative was earnings. Consumer Discretionary moved from being a macro concern to an earnings-revision beneficiary during Q1 reporting season. FactSet reported that the sector had the **second-largest positive aggregate EPS surprise** among S&P 500 sectors at **+39.8%**, behind only Communication Services. The largest contributors included Amazon, Ford, Norwegian Cruise Line, Expedia and General Motors. FactSet also noted that Consumer Discretionary's blended Q1 earnings-growth rate increased to **40.4% from 1.7%** since March 31, driven by positive EPS surprises from Amazon, Ford and GM. That was a meaningful narrative shift because it showed the sector could still generate earnings upside even as consumer sentiment weakened.

The second narrative was that the sector's earnings profile is increasingly dominated by a few large, idiosyncratic companies. Vanguard's VCR profile shows Amazon at **24.8%** of fund assets and Tesla at **16.4%**, with the top ten holdings representing **61.2%** of assets. The largest subindustry is **Broadline Retail at 27.3%**, followed by **Automobile Manufacturers at 18.7%**, Restaurants at **9.8%**, Hotels/Resorts/Cruise Lines at **8.5%**, and Home Improvement Retail at **7.2%**. That composition means VCR is not a generic consumer basket; it is a concentrated mix of platform economics, EV/autonomy optionality, travel, restaurants, home improvement and retail.

Amazon was central to the May narrative. Reuters reported that Amazon beat cloud-growth expectations, with AWS revenue rising **28% to \$37.6 billion**, while advertising revenue rose **24% to \$17.2 billion** and the company reiterated a very large AI investment program. This matters for VCR because Amazon is both the largest sector weight and a hybrid exposure: retail, advertising, logistics, cloud, AI infrastructure and platform monetization all influence its earnings power. In effect, part of the Consumer Discretionary sector is also a technology and AI-capex derivative.

Tesla created the opposite kind of narrative: still important for sector beta, but with much less fundamental clarity. Reuters reported that Tesla began 2026 with its weakest quarterly deliveries in a year, delivering **358,023 vehicles**, below consensus expectations, while producing about **50,363 more vehicles than it delivered**. Reuters separately reported that Tesla planned to lift 2026 spending by about a quarter as it funds AI, robotics and chips. That combination makes Tesla a difficult sector weight: the market is increasingly capitalizing AI/autonomy optionality, while the core auto business remains exposed to EV demand, pricing, incentives, competition and affordability. ([reuters.com](https://www.reuters.com)) ([reuters.com](https://www.reuters.com))

The third narrative was the widening gap between nominal spending and consumer stress. Census reported that April retail and food-services sales rose **0.5% month over month** and **4.9% year over year**, with retail trade sales up **5.2% year over year** and nonstore retailers up **11.1% year over year**. Those numbers support the sector's modest-overweight case because nominal demand is still growing and e-commerce/platform channels remain strong. But the data are not adjusted for price changes, so they should not be read as a clean real-volume acceleration.

The BEA personal income report shows why the consumer call needs to be selective. In April, personal income was essentially flat, disposable personal income fell **0.1%**, personal consumption expenditures rose **0.5%**, real PCE rose only **0.1%**, real DPI fell **0.5%**, and the personal saving rate declined to **2.6%**. This is not a collapse in spending, but it is a deterioration in spending quality: households are still spending, but they are doing so with less income support and less savings cushion. The fourth narrative was inflation pressure. April CPI rose **3.8% year over year**, while energy rose **17.9%**, gasoline rose **28.4%**, food rose **3.2%**, apparel rose **4.2%**, airline fares rose **20.7%**, and household furnishings and operations rose **3.9%**. For Consumer Discretionary, that mix is very important. Higher gasoline and food prices reduce discretionary income; higher apparel and home-furnishing prices can pressure volumes; higher airline fares may help travel revenue but also raise affordability concerns. Inflation is therefore both a revenue tailwind and a demand tax

Consumer confidence weakened in May, reinforcing the bifurcation theme. The Conference Board Consumer Confidence Index slipped to **93.1** from an upwardly revised **93.8**, while the Present Situation Index fell to **121.2** and the Expectations Index remained below the threshold typically associated with a more fragile outlook. The University of Michigan survey also showed inflation expectations moving higher, with year-ahead expectations at **4.8%** and long-run expectations rising to **3.9%**. The message is that consumers are still spending, but their forward-looking confidence is deteriorating. The fifth narrative was housing and rates. This matters because VCR includes home improvement retail, homebuilding and household-related categories.

New single-family home sales fell **6.2%** in April to a **622,000** annualized pace and were down **11.3% year over year**. Reuters attributed the weakness to higher mortgage rates and prices, with new-home inventory rising to **9.4 months of supply**. Freddie Mac's 30-year mortgage rate also rose to **6.53%**, a nine-month high, further constraining affordability and housing turnover. Finally, individual retail commentary highlighted the pressure below the mega-cap/platform layer. Reuters reported that Gap cut its annual sales forecast because of weaker discretionary spending, while apparel peers sold off as investors focused on consumer caution and inflation pressure. That is precisely why the sector should be a modest overweight rather than a broad overweight: the strongest index weights can support VCR, but lower-quality retailers and apparel names remain vulnerable. ([reuters.com](https://www.reuters.com))

Appendix: Sources (all chart sourced from FactSet Research Systems Inc.)

- **U.S. Census Monthly Retail Trade Report** — April retail-sales and nonstore-retail data.
- **BEA Personal Income and Outlays, April 2026** — real disposable income, real PCE and savings-rate pressure.
- **BLS CPI, April 2026** — gasoline, food, apparel, household furnishings, airline fare and consumer inflation data.
- **Reuters: Amazon tops cloud expectations on AI demand** — Amazon AWS, advertising and AI capex narrative.
- **Reuters: Tesla deliveries and inventory pressure** — auto / EV demand and affordability narrative.
- **Conference Board Consumer Confidence** — household sentiment and expectations data.
- **University of Michigan Surveys of Consumers** — consumer sentiment and inflation-expectations framework.
- **Reuters: Gap / apparel demand pressure** — apparel, discretionary-spend and lower-quality retail risk.
- **Freddie Mac PMMS** — mortgage-rate backdrop for housing-linked discretionary categories.

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.