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Monthly Insights: July Outlook

Consumer Staples Sector

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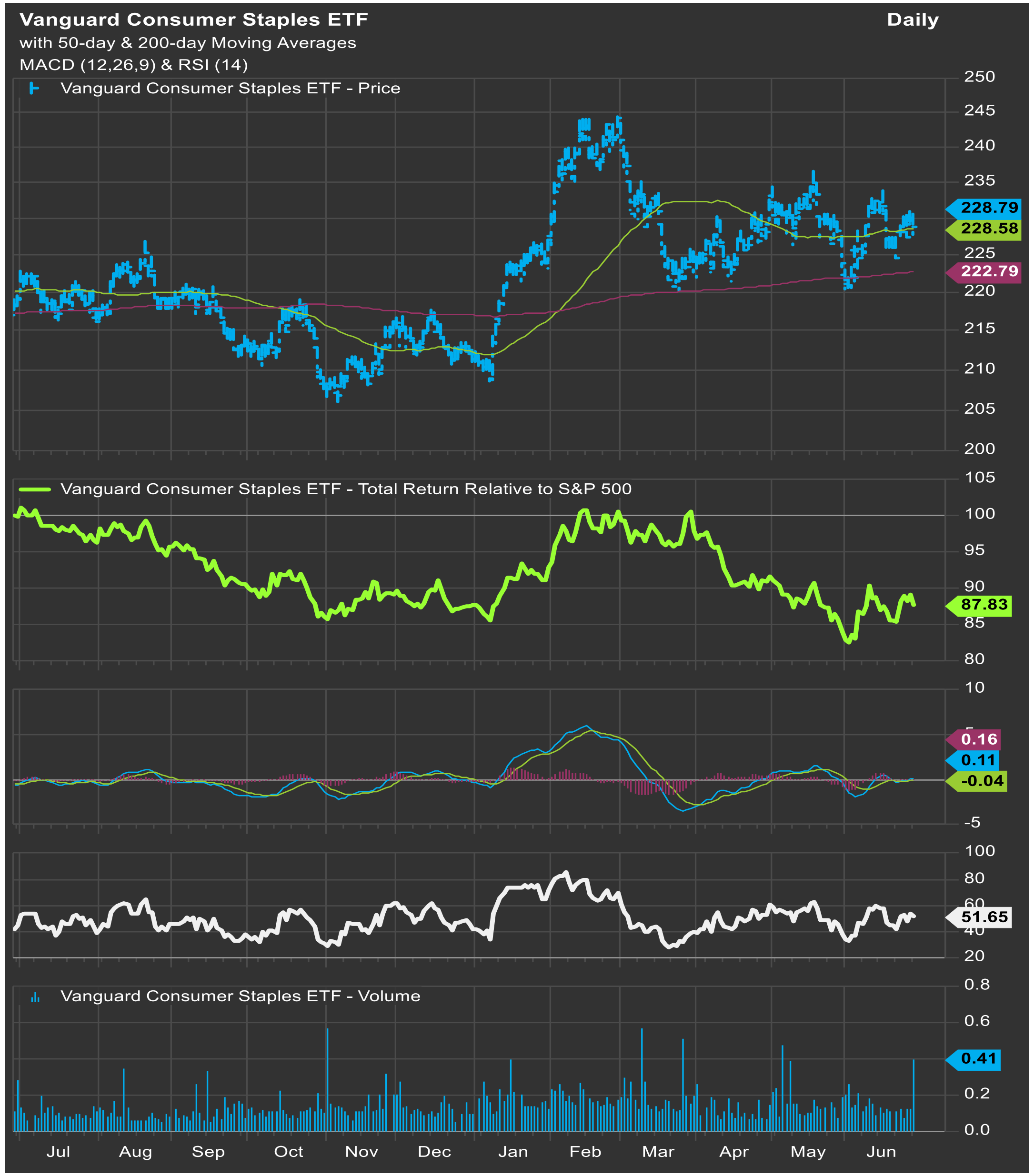
Sector Price Action & Performance Review: Consumer Staples Sector



Consumer Staples enters July with **improving relative stability, but uneven industry quality**. VDC gained **0.4%** over the past month while the S&P 500 proxy fell **2.9%**, and the ETF is up **8.8% over six months**. The model's positive score reflects this defensive reversal setup: Staples has not been a primary leadership sector, but it has started to work as investors rotate away from crowded Technology and Communication Services exposure.

The strongest industry-level performance came from **Beverages**, **Household Products**, **Tobacco**, and select **Consumer Staples Distribution & Retail**. Keurig Dr Pepper, Monster, Coca-Cola and Brown-Forman drove the Beverages group higher, while Kimberly-Clark, Procter & Gamble and Church & Dwight supported Household Products. The stock-level message is clear: investors favored low-beta, dividend-supported, defensive businesses where pricing power, brand strength and input-cost relief can support margins.

The most mixed area is **Food Products**. Hormel, J.M. Smucker, McCormick, General Mills and Conagra outperformed, but Bunge, Hershey, Tyson and ADM lagged. The group is cheap and dividend-heavy, but still has negative average momentum. The weakest names were **Estée Lauder, Bunge, Kroger, Hershey, Tyson, Costco, ADM, Walmart, Mondelez and PepsiCo**.

July Outlook

The July outlook for Consumer Staples is **modestly constructive**. The model ranks the sector **5th**, the ETF outperformed the S&P 500 over the past month, and the sector provides useful downside ballast if growth leadership remains volatile. However, Staples should not be treated as a major alpha engine because earnings growth is modest, valuation is above historical averages and analyst enthusiasm is low.

The best July opportunities are in **Beverages, Household Products, Tobacco and selected trade-down retail**. Beverages have the strongest industry-level excess return and improving chart patterns. Household Products provide the cleanest low-beta defensive exposure. Tobacco offers dividend support and low beta, but policy risk needs to be monitored. Dollar Tree, Dollar General and Target show that trade-down and value messaging remain powerful.

The industries to treat more carefully are **Food Products, Grocery Retail and Personal Care**. Food Products are cheap and dividend-supported, but the group still has negative average momentum and remains exposed to private-label pressure, GLP-1 behavior shifts and commodity-cost timing. Grocery retail faces promotional pressure and basket-size risk. Personal Care is bifurcated, with prestige beauty still vulnerable.

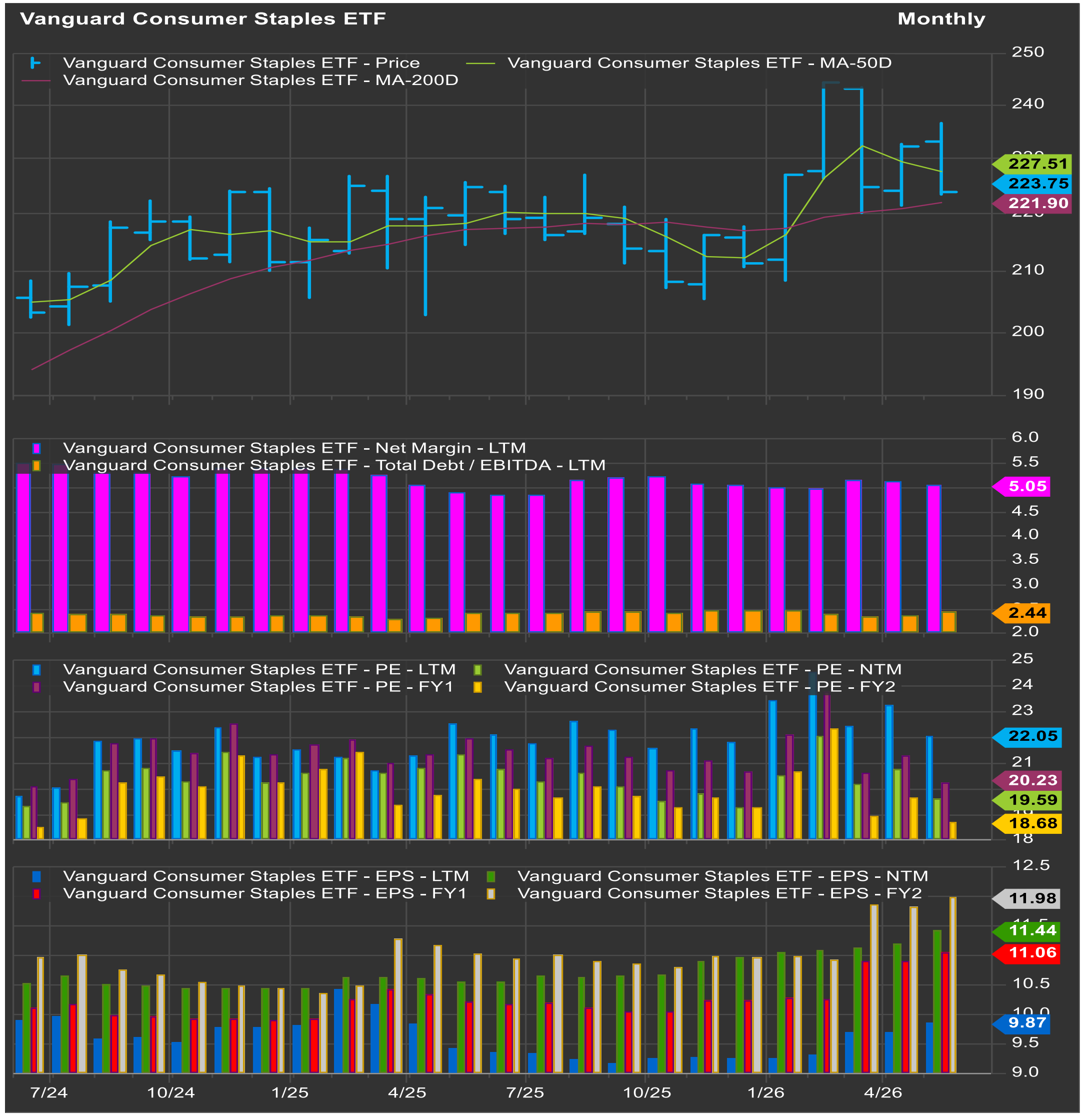
Upside case: oil and commodity prices continue correcting, input costs ease, consumers keep trading down, and Q2 earnings show margin improvement from productivity rather than price increases. In that scenario, Staples can continue to outperform as a defensive rotation sleeve.

Downside case: lower inflation undermines pricing power faster than costs fall, retailers become more promotional, private-label share gains accelerate, and premium defensive valuations compress. In that scenario, the highest-multiple names — especially Costco and Walmart — could remain relative laggards even if their businesses stay healthy.

Bottom line: Consumer Staples is a useful July defensive allocation, but it should be implemented selectively.

We start July with an underweight allocation of -0.83% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Consumer Staples Sector



The fundamental backdrop is stable but not exciting. FactSet's June 26 Earnings Insight shows Consumer Staples expected to deliver **4.9%** year-over-year Q2 earnings growth, down from **6.5%** at the start of the quarter. Revenue growth is expected to be **7.7%**, up from **6.9%** at the start of the quarter. That is a classic Staples setup: revenue is resilient, but earnings growth is not accelerating enough to justify aggressive multiple expansion.

Valuation is a constraint. FactSet shows Consumer Staples trading at **21.8x forward earnings**, above its five-year average of **20.8x** and ten-year average of **20.1x**. It also shows the sector with the **lowest percentage of Buy ratings** among S&P 500 sectors at **43%**. That does not mean Staples should be avoided; it means the market already recognizes the defensive quality and is less enthusiastic about upside.

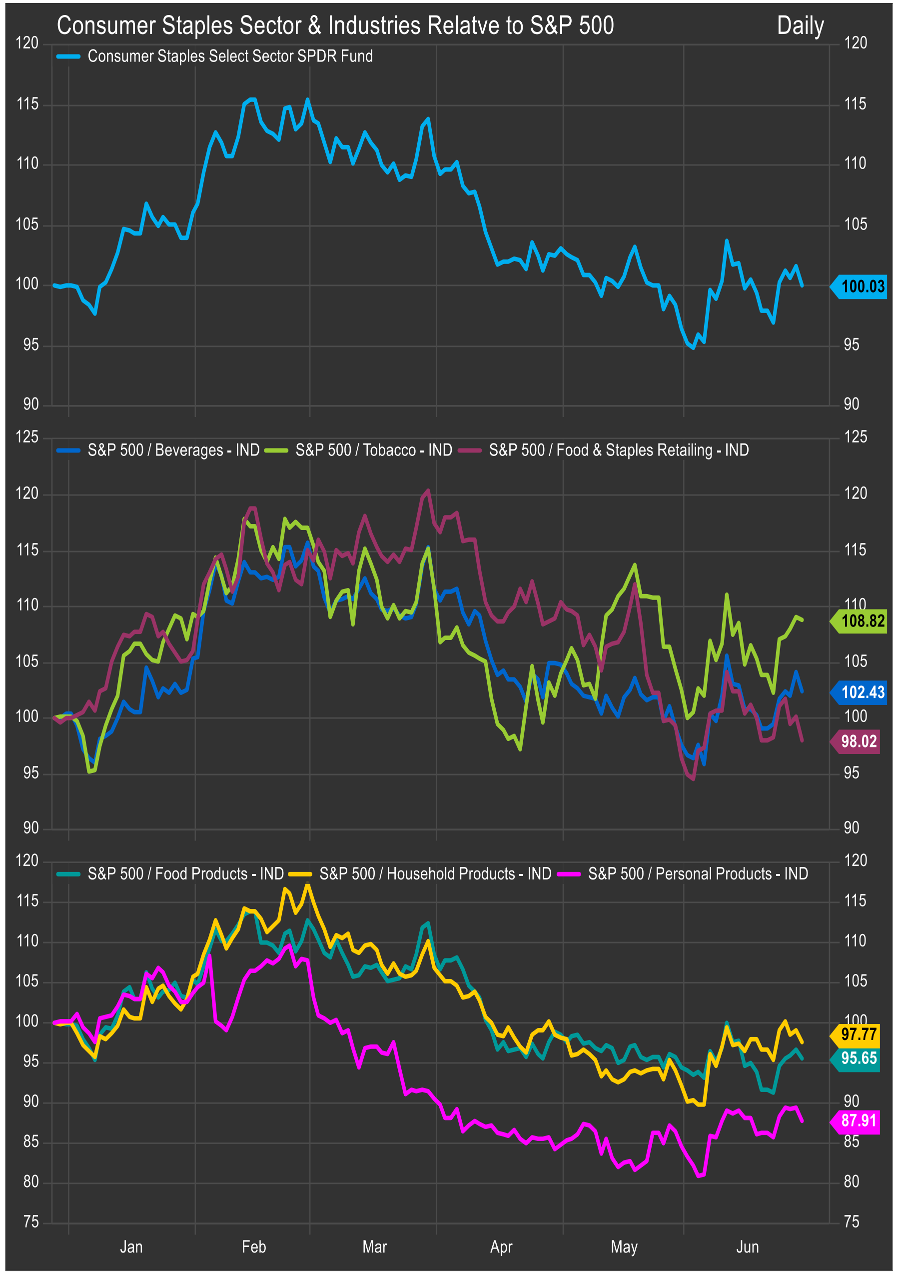
Guidance is supportive enough for a defensive allocation. FactSet's FY 2026/2027 guidance chart shows Staples companies with a **65% positive / 35% negative** guidance split, which is much better than Utilities, Materials or Consumer Discretionary. That supports the idea that Staples can provide earnings stability even if it is unlikely to lead the index on growth.

The macro backdrop cuts both ways. BLS reported food at home prices up **2.7% year over year** in May, with nonalcoholic beverages up **5.8%** and fruits/vegetables up **6.1%**. That helps nominal revenue, but it also reinforces consumer price sensitivity. Food away from home rose **3.5% year over year**, which can support at-home eating and packaged food demand if consumers trade down from restaurants.

The consumer remains resilient, but still budget-aware. BEA reported real PCE up **0.3%** in May and a personal saving rate of **3.0%**, while Census reported May retail and food-services sales up **0.9% month over month** and **6.9% year over year**. Food and beverage store sales were essentially flat sequentially but up year over year, while grocery sales were also steady sequentially. That supports Staples revenue stability, but not a volume boom.

Ticker	Exposure	Price	1D	1W	1M	3M	6M	RSI
VOO	S&P 500	$670.26	-0.7%	-2.4%	-2.9%	+13.0%	+6.0%	44.9
VDC	Consumer Staples	$229.65	+1.1%	+1.6%	+0.4%	+3.6%	+8.8%	57.5

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



Indicator	Latest Reading	June Message	Investment Interpretation
Consumer Staples model score	**0.46**	Positive	Staples ranks 5th of 11 sectors.
Consumer Staples model rank	**5 / 11**	Constructive	Quant signal favors Staples as a defensive/reversal sector.
Model profile	**Oversold / Reversal**	Rebound setup	The model is identifying relative mean reversion, not sustained momentum leadership.
VDC 1M return	**+0.4%**	Outperformed	Staples beat the S&P 500 proxy by roughly 330 bp over one month.
VDC 3M return	**+3.6%**	Modestly positive	Sector is participating, but not aggressively leading.
VDC 6M return	**+8.8%**	Solid defensive performance	Six-month profile supports Staples as portfolio ballast.
VDC RSI	**57.5**	Healthy	Positive but not tactically overbought.
Food at home CPI	**+2.7% y/y**	Pricing still positive	Food inflation supports nominal sales but keeps consumers price-sensitive.
Food away from home CPI	**+3.5% y/y**	At-home trade-down support	Restaurant inflation can help at-home food demand.
BEA real PCE	**+0.3% m/m**	Consumer still spending	Real consumption remains positive, but savings remain thin.
Personal saving rate	**3.0%**	Limited cushion	Supports value/discounter demand and trade-down behavior.

Top 10 Stock Level Performers: Consumer Staples Sector

Symbol	Company	Sector	Industry	Pattern	1M Excess	Valuation Rel.	Momentum Score	Div Yield Rel.	Beta
HRL	Hormel Foods	Consumer Staples	Food Products	Consolidation	+15.0%	0.85	6.0	3.16	0.22
KDP	Keurig Dr Pepper	Consumer Staples	Beverages	Bullish Reversal	+14.6%	0.69	13.6	2.01	0.36
SJM	J.M. Smucker	Consumer Staples	Food Products	Bullish Reversal	+13.6%	0.57	9.9	2.72	0.47
KMB	Kimberly-Clark	Consumer Staples	Household Products	Consolidation	+13.3%	0.72	3.1	3.36	0.38
DLTR	Dollar Tree	Consumer Staples	Consumer Staples Distribution & Retail	Consolidation	+12.3%	0.85	2.3	0.00	0.84
MNST	Monster Beverage	Consumer Staples	Beverages	Bullish Reversal	+12.2%	1.97	16.4	0.00	0.63
SYY	Sysco	Consumer Staples	Consumer Staples Distribution & Retail	Consolidation	+11.8%	0.83	-2.1	1.84	0.81
TGT	Target	Consumer Staples	Consumer Staples Distribution & Retail	Bullish Reversal	+11.8%	0.81	12.2	2.29	0.92
MKC	McCormick	Consumer Staples	Food Products	Consolidation	+11.7%	0.79	-12.2	2.63	0.63
DG	Dollar General	Consumer Staples	Consumer Staples Distribution & Retail	Consolidation	+11.4%	0.78	-7.1	1.41	0.40

The top table is a **defensive value and trade-down** list. Most of the winners have below-index valuation multiples, high dividend-yield multiples or low beta. Hormel, Smucker, Kimberly-Clark, Dollar Tree, Target, McCormick and Dollar General all trade below the index valuation multiple. That tells us investors were not chasing expensive defensive growth; they were buying recovery, value and cash-flow durability.

Beverages are the cleanest relative-strength pocket. Keurig Dr Pepper and Monster both have bullish reversal patterns and positive momentum scores, while Coca-Cola also outperformed outside the top 10. BLS data show nonalcoholic beverage prices rising faster than the broader food-at-home basket, which helps nominal revenue for beverage companies but also keeps volume sensitivity in the debate.

The discounter signal is also important. Dollar Tree and Dollar General both outperformed as investors priced continued trade-down demand. Reuters reported that Dollar Tree raised its annual profit forecast on resilient demand for affordable essentials, while Dollar General flagged pressure on core low- and middle-income shoppers but raised its profit forecast on cost controls.

Bottom 10 Stock Level Performers: Consumer Staples Sector

Symbol	Company	Sector	Industry	Pattern	1M Excess	Valuation Rel.	Momentum Score	Div Yield Rel.	Beta
EL	Estée Lauder	Consumer Staples	Personal Care Products	Consolidation	-8.4%	1.26	-6.6	1.29	1.76
BG	Bunge Global	Consumer Staples	Food Products	Consolidation	-8.0%	0.54	-13.3	1.87	0.31
KR	Kroger	Consumer Staples	Consumer Staples Distribution & Retail	Downtrend	-6.6%	0.54	-23.2	1.83	-0.18
HSY	Hershey	Consumer Staples	Food Products	Support	-6.4%	0.97	-19.2	2.26	-0.06
TSN	Tyson Foods	Consumer Staples	Food Products	Consolidation	-2.1%	0.67	-13.4	2.52	0.15
COST	Costco Wholesale	Consumer Staples	Consumer Staples Distribution & Retail	Consolidation	-1.6%	2.12	-9.4	0.40	0.59
ADM	Archer-Daniels-Midland	Consumer Staples	Food Products	Bullish Reversal	-1.4%	0.76	0.7	1.91	0.60
WMT	Walmart	Consumer Staples	Consumer Staples Distribution & Retail	Support	+0.0%	1.88	-11.3	0.62	0.40
MDLZ	Mondelez	Consumer Staples	Food Products	Consolidation	+0.1%	0.94	-4.0	2.46	0.18
PEP	PepsiCo	Consumer Staples	Beverages	Support	+0.3%	0.79	-12.4	3.03	0.29

The bottom table shows why Staples should be used selectively rather than broadly. Costco and Walmart are high-quality defensive retailers, but both carry premium valuation multiples and weak near-term momentum scores. Costco's underperformance is not a business-quality issue; it is a valuation and expectation issue after strong prior performance.

Kroger is the clearest grocery warning. It has a cheap valuation multiple and a healthy dividend-yield multiple, but the stock is in a **Downtrend** with a **-23.2** momentum score. Reuters reported that Kroger's CEO said customers are shopping more selectively, generating too many promotional trips and not enough full-basket trips. That is exactly the kind of price-sensitive behavior that can cap grocery margins.

Food Products laggards are mostly commodity or brand-friction names. Hershey is at support with a deeply negative momentum score as cocoa and chocolate pricing remain an issue. Reuters reported earlier this year that cocoa costs had squeezed Hershey gross margin, even as wholesale prices eased from prior peaks; later Reuters coverage noted that cocoa futures had fallen nearly 70% from late-2024 records, but it can take months for price changes to filter through retail shelves.

Economic & Policy Drivers: Consumer Staples Sector

Consumer Staples Distribution & Retail

This industry is the center of the trade-down theme. Dollar Tree, Target and Dollar General all posted strong excess returns, while Walmart and Costco lagged because expectations and valuation were already high. Census/FRED data show May food and beverage store sales at **$85.6B**, grocery sales at **$77.2B**, and general merchandise sales at **$79.3B**, all broadly steady sequentially. That is a stability signal rather than an acceleration signal.

The policy overlay is important. Higher gasoline and food costs pressure low-income households, while SNAP changes add another headwind. Dollar General said lower- and middle-income households remain under pressure from gasoline and inflation, and its CFO pointed to SNAP cuts as another pressure point for low-income shoppers. That supports value retail traffic, but it also means basket size and mix can remain challenged.

Food Products

Food Products are cheap, dividend-heavy and still technically mixed. Hormel and Smucker were the strongest names, but Bunge, Hershey, Tyson and ADM lagged. The industry's average dividend-yield multiple is **3.28x** the index, but average momentum is still **-6.7**, which means the market is paying for stabilization rather than growth.

The key debate is volume versus price. Food-at-home inflation is still positive, but consumers are pushing back after years of price increases. Smucker's outlook shows both sides: easing coffee costs and cost savings can support margins, but management also flagged private-label pressure, healthier-product shifts and GLP-1-related changes in consumer behavior.

Beverages

Beverages were the strongest industry in average 1-month excess return. Keurig Dr Pepper and Monster are the clearest chart improvements, while Coca-Cola has the best quality/defensive read-through. Coca-Cola raised its annual earnings target earlier in the quarter and said consumer conditions were mixed, with some consumers resilient and others pressured by inflation and uncertainty.

Input costs remain a concern. Coca-Cola highlighted packaging exposure tied to PET resin and aluminum, and BLS reported nonalcoholic beverages rising **5.8% year over year**. That supports pricing but keeps elasticity risk alive if consumers continue to trade down.

Household Products

Household Products are a useful defensive sleeve. Kimberly-Clark, Procter & Gamble, Church & Dwight and Clorox all outperformed, and the industry has a low average beta of **0.47** with a dividend-yield multiple above **2.3x** the index. This is the cleanest "quality defensive" industry in Staples.

The issue is not demand collapse; it is valuation and pricing headroom. Many household-product companies already used price increases to offset prior inflation, so future margin expansion depends more on productivity, mix and input-cost relief than on another round of aggressive pricing.

Personal Care Products

Personal Care is the least attractive Staples industry in this report. Estée Lauder was the worst-performing Staples stock in the file, with a **-8.4%** one-month excess return, a high **1.76** beta and negative momentum. Kenvue was better, with a bullish reversal pattern, but the industry is too small and too bifurcated to justify broad enthusiasm.

The category has two different drivers: prestige beauty and everyday personal care. Prestige beauty remains exposed to China, travel retail and premium discretionary demand, while everyday personal care has a more defensive profile. For July, Kenvue-style defensive personal care looks more attractive than Estée Lauder-style prestige beauty risk.

Tobacco

Tobacco has the best dividend support in Staples, with a **3.29x** average dividend-yield multiple and low average beta. Philip Morris and Altria both outperformed, with Altria showing a bullish reversal pattern.

The policy backdrop remains active. FDA guidance issued in May described enforcement priorities for certain electronic nicotine delivery systems and oral nicotine pouch products marketed without premarket authorization, while Reuters reported earlier in the quarter that FDA reviews of nicotine pouch products were slowed by concerns about youth and non-user risks. That leaves Tobacco attractive for income, but still exposed to nicotine-pouch regulation and product-authorization risk.

What Shaped the Consumer Staples Narrative in June

June's Staples narrative was **defensive rotation plus trade-down confirmation**. The sector did not surge, but it outperformed the S&P 500 as investors moved away from high-multiple growth and toward companies with resilient demand, cash-flow stability and lower beta.

The strongest stock signals were in value, beverages, household products and discounters. The weakest stock signals were in grocery, commodity-linked food, prestige personal care and expensive defensive retail. That is a useful distinction for July: the sector's defensive attributes are working, but not all defensive businesses are being rewarded.

The macro backdrop remains supportive for Staples relative performance but not for explosive earnings growth. Consumers are still spending, but savings are thin, food inflation remains positive, and companies are still dealing with freight, packaging, commodity, tariff and labor-cost pressure. The market is rewarding companies that can combine value, pricing discipline and productivity rather than companies that rely only on pricing power.

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

ETFInsight v8 Sector Model Workbook, June 26, 2026 — Vanguard sector ETF returns, RSI readings, sector selection scores, macro indicator readings, rates, credit, commodities, volatility and breadth data.

FactSet Earnings Insight, June 26, 2026 — S&P 500 and Consumer Staples Q2 earnings-growth estimates, revenue-growth estimates, guidance profile, forward valuation, target-price context and analyst-rating backdrop.

BLS CPI, May 2026 — food-at-home inflation, food-away-from-home inflation, nonalcoholic beverage prices, grocery category inflation, energy prices and personal-care price pressure.

BEA Personal Income and Outlays, May 2026 — real PCE, personal saving, disposable personal income, spending growth and household cash-flow backdrop.

U.S. Census Bureau / FRED Advance Monthly Retail Trade Tables, May 2026 — food and beverage store sales, grocery-store sales, health and personal-care store sales, general merchandise sales and retail spending context.

Reuters: Walmart sticks to conservative annual targets as fuel shock dents U.S. spending, May 21, 2026 — value retail demand, grocery pricing, delivery/fuel cost pressure, e-commerce growth and consumer trade-down behavior.

Reuters: Dollar Tree raises annual profit forecast on steady demand, May 28, 2026 — discount retail demand, multi-price strategy, gross-margin improvement, tariff refund treatment and trade-down consumer behavior.

Reuters: Dollar General flags strain on core shoppers, lifts profit forecast, June 2, 2026 — low-income consumer pressure, SNAP sensitivity, higher fuel costs, rural shopping behavior and cost-control-driven earnings support.

Reuters: Kroger flags rising inflation as consumers curb spending, June 18, 2026 — grocery price cuts, promotional trips, basket-size pressure, identical-sales outlook and grocery-competition backdrop.

Reuters: Coca-Cola raises annual adjusted profit forecast, April 28, 2026 — beverage demand, packaging-cost sensitivity, consumer resilience and inflation pressure.

Reuters: J.M. Smucker forecasts upbeat annual profit as coffee costs ease, June 9, 2026 — packaged-food margin recovery, coffee-cost deflation, at-home eating demand, private-label pressure and GLP-1 consumer-behavior risk.

Reuters: Hershey sees strong 2026 even as cocoa costs weigh, February 5, 2026 — cocoa-cost pressure, pricing actions, gross-margin pressure and confectionery input-cost backdrop.

Reuters: As cocoa prices melt down, real chocolate is making a comeback, May 20, 2026 — cocoa-price decline, chocolate demand recovery, recipe reformulation, retail-price timing and confectionery margin implications.

FDA Enforcement Priorities for Certain New Tobacco Products Marketed Without Premarket Authorization, May 2026 — nicotine pouch and e-cigarette enforcement policy, regulatory framework and product-authorization backdrop.

Reuters: U.S. nicotine pouch fast-track scheme slowed by worries over youth and new users, April 1, 2026 — tobacco-policy uncertainty, FDA product-review delays, nicotine pouch regulation and alternative nicotine growth risk.

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.