



Consumer Discretionary Sector Report

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Investment Management Program 2024 Spring Semester



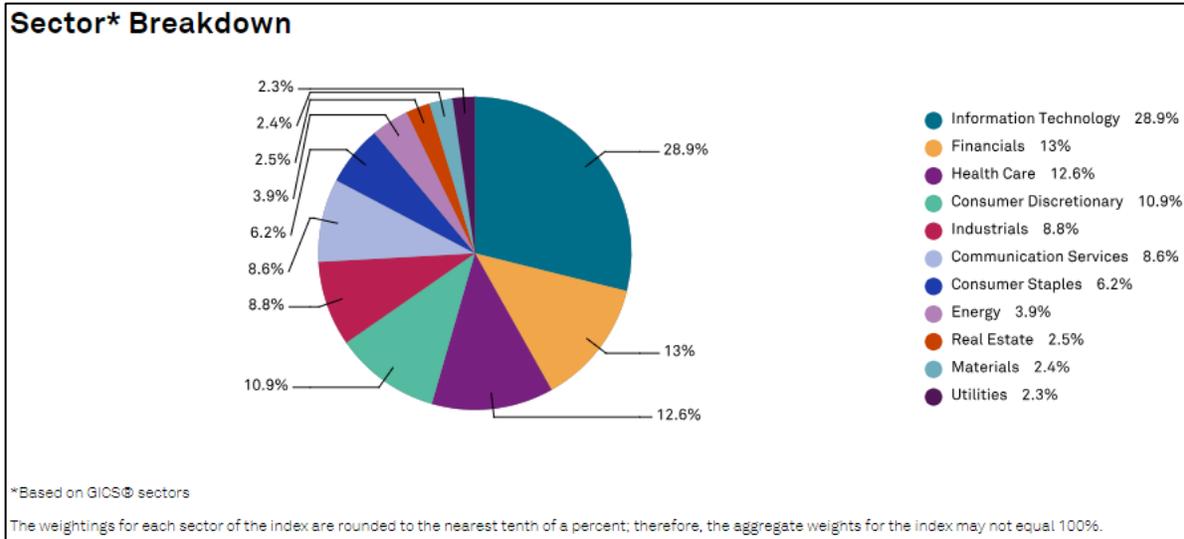
Introduction

The consumer discretionary sector encompasses a wide array of industries, including retail, automotive, hospitality, entertainment and more, offering goods and services considered non-essential but desirable by consumers. Its performance is cyclical, tied closely to consumer sentiment and economic conditions, with spending influenced by factors like employment, disposable income, and interest rates. Technological advancements and shifts in consumer behavior continually reshape the sector, with e-commerce and streaming services notably altering traditional business models. Within this sector, businesses range from those offering essential or recession-resistant products to those catering to luxury or niche markets, reflecting varying sensitivities to economic conditions.

Wisman Fund Current Holdings

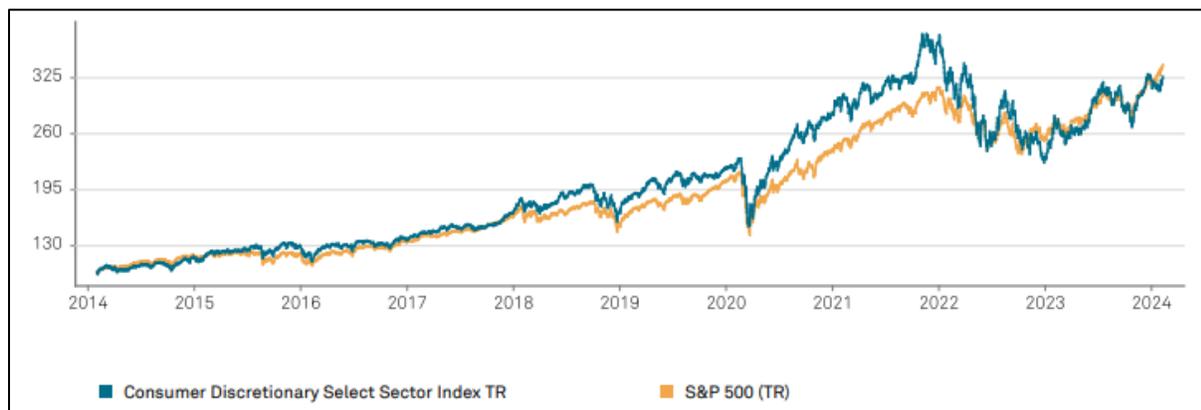
Amazon.com, Inc. (AMZN), The TJX Companies, Inc. (TJX)

Size and Comparison



As of December 29th, 2023, the consumer discretionary sector accounts for 10.9% of the S&P 500 index's market capitalization (see the figure above), making it the fourth-largest component in the Index, following Health Care, Financials, and Information Technology. The Wisman Fund weighs the consumer discretionary sector at 9.1%, which is underweighted compared to the S&P 500 index. The total market capitalization of the consumer discretionary sector is \$7.99 trillion (As of 2/21/2024).

Historical Performance



This graph shows the cyclical nature of the consumer discretionary sector in comparison to the S&P 500 index. (As of January 31, 2024)

Composition of Consumer Discretionary Sector

The consumer discretionary sector is made up of 10 different industries: Automobile Components, Automobiles, Broadline Retail, Distributors, Diversified Consumer Services, Hotels, Restaurants & Leisure, Household Durables, Leisure Products, Specialty Retail, Textiles, Apparel & Luxury Goods. The top ten weighted companies in the S&P 500 index are seen in the list below. Wisman Fund contains two of the top weighted stocks in the S&P 500 consumer discretionary sector, Amazon (AMZN) and TJX Companies (TJX).

Ticker	Name	Index Weight	Mkt. Cap (USD)
AMZN	AMAZON.COM, INC.	25.88%	1.81 T
TSLA	TESLA, INC.	13.96%	603.98 B
HD	THE HOME DEPOT, INC.	4.75%	369.07 B
MCD	MCDONALD'S CORPORATION	4.45%	216.21 B
NKE	NIKE, INC.	3.91%	160.22 B
LOW	LOWE'S COMPANIES, INC.	3.82%	133.49 B
BKNG	BOOKING HOLDINGS INC.	3.70%	122.56 B
TJX	THE TJX COMPANIES, INC.	3.26%	112.79 B
SBUX	STARBUCKS CORPORATION	3.15%	108.94 B
CMG	CHIPOTLE MEXICAN GRILL, INC.	2.07%	72.73 B

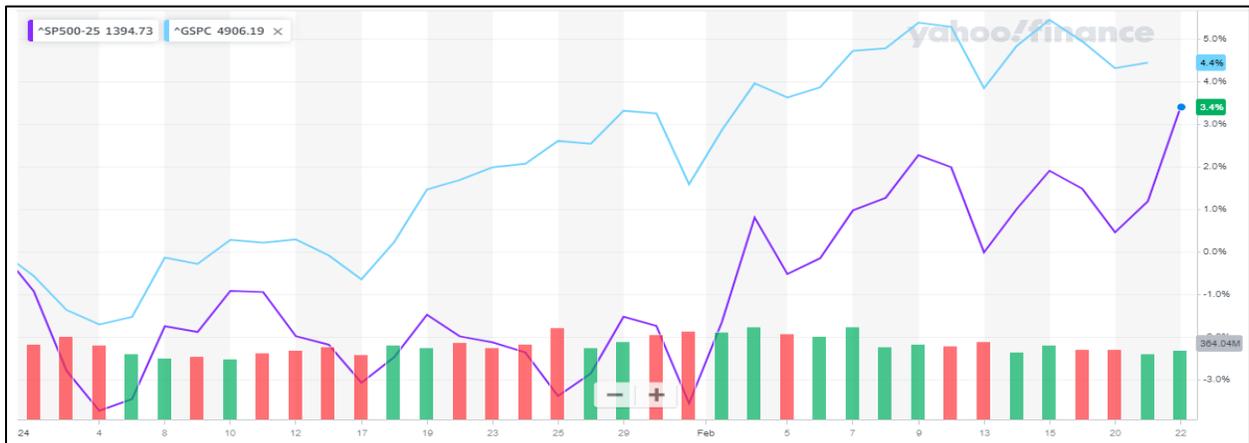
1 Year Price Returns

As of December 29th, 2023, 1-year returns for the consumer discretionary sector in the S&P 500 saw growth at 41.04%, from December 29th, 2022. Whereas the S&P 500 saw a staggering 24.58% increase over the past year. The consumer discretionary sector in the Wisman Fund accounts for 9.2% of the portfolio and has provided an overall weighted 1-year return of 3.40%. The graph below shows the overall performance data from Dec. 29th, 2022, to Dec. 29th, 2023. This illustrates the vast underperformance of the sector in terms of 1-year returns compared to the S&P 500 index. (^GSPC is the S&P 500 index ticker symbol, ^SP500-25 is the consumer discretionary sector ticker symbol)



YTD Price Returns

The consumer discretionary sector has been underperforming since the beginning of 2024. YTD returns for the sector in the S&P 500 grew 3.4%, while the S&P 500 grew 4.4%.



S&P 500 YTD Returns

The consumer discretionary sector has proven to be a relatively strong performer in the overall market, beating the S&P-500 Index. The sectors YTD returns have beaten the energy, materials, industrials, consumer staples, health care, financials, utilities, and real estate sectors.

S&P 500 RETURN YTD 2023	
12/31/2023	Price
	RETURN
Energy	-4.80%
Materials	10.23%
Industrials	16.04%
Consumer Discretionary	41.04%
Consumer Staples	-2.16%
Health Care	0.30%
Financials	9.94%
Information Technology	56.39%
Communication Services	54.36%
Utilities	-10.20%
Real Estate	8.27%
S&P 500	24.23%

The Wisman Fund

The securities from the consumer discretionary sector in The Wisman fund provided weighted 1-year returns as follows: AMZN = 3.12%, and TJX = .28%. The graph on the right shows the 1-year fluctuations and growth for the current holdings.



Industry Returns

Automobile Components: Manufacturers of parts and accessories for vehicles, supplying essential components to the automotive industry.

Automobiles: Companies involved in the manufacturing and distribution of automobiles, ranging from mass-market to luxury vehicles.

Broadline Retail: Retailers offering a wide range of products across various categories, catering to diverse consumer needs.

Distributors: Businesses engaged in the distribution and wholesale of goods, serving as intermediaries between manufacturers and retailers.

Diversified Consumer Services: Companies providing a range of consumer services beyond retail, such as education, consulting, or personal care.

Hotels, Restaurants & Leisure: Entities operating in the hospitality and leisure sectors, including hotels, restaurants, theme parks, and entertainment venues.

Household Durables: Manufacturers of durable goods for household use, such as appliances, electronics, and furniture.

Leisure Products: Producers of recreational items and equipment, including sports gear, camping supplies, and toys.

Specialty Retail: Retailers focusing on niche markets or specialized products, often providing unique or premium offerings.

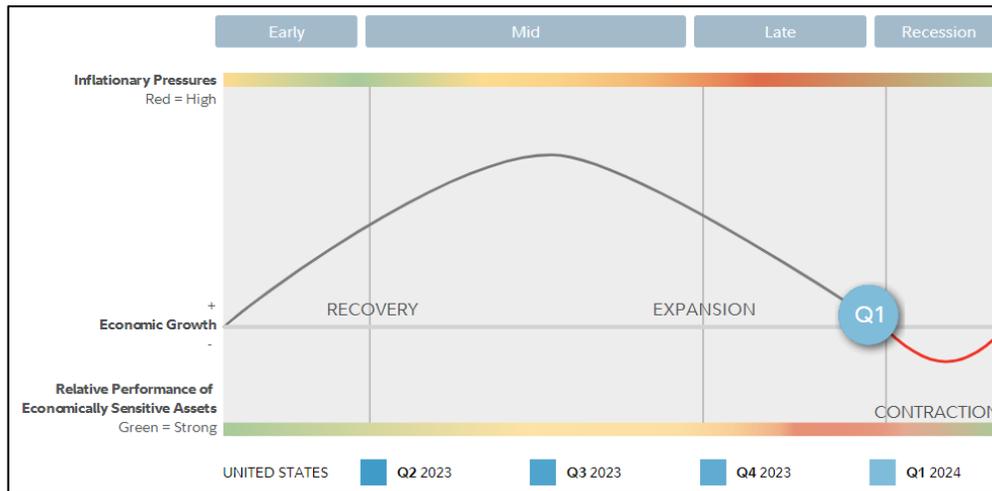
Textiles, Apparel & Luxury Goods: Companies involved in the production and retail of textiles, clothing, and high-end luxury items, encompassing fashion brands and haute couture.

Industries	YTD	1-Year	5-Year
Consumer Discretionary	3.40%	29.72%	68.81%
Automobile Components	-13.69%	-31.49%	-6.11%
Automobiles	-17.45%	-0.61%	-8.91%
Broadline Retail	14.50%	63.18%	169.33%
Distributors	2.93%	-8.04%	36.12%
Diversified Consumer Services	--	--	--
Hotels, Restaurants & Leisure	4.14%	21.22%	49.64%
Household Durables	1.18%	48.82%	114.12%
Leisure Products	-1.78%	-11.07%	-48.83%
Specialty Retail	6.44%	19.10%	97.80%
Textiles, Apparel & Luxury Goods	-3.52%	-10.12%	-2.35%

Business Analysis

Economic Cycle

Fidelity indicates that the US economy is in the very late expansion stage of the economic cycle, as seen in the graphic directly below.



The late expansion stage of the economic cycle marks a period of maturation in economic growth, where expansion persists at a reduced pace. It is distinguished by low unemployment rates, mounting inflationary pressures, elevated interest rates, potential fluctuations in the stock market, and a heightened emphasis on bracing for the forthcoming economic downturn.

Business Cycle

As seen below, data for the performance of the consumer discretionary sector is relatively pessimistic during late (contractionary) periods. The sector is linked to economic cycles and tends to perform well during the early stage. The consumer discretionary sector tends to do well when the economy is doing well and vice versa. As the economy progresses further towards a recession, the sector may experience a downturn, highlighting its cyclical nature, although during a recession the sector may actually see small gains as shown below.

Sector	Early	Mid	Late	Recession
Financials	+			-
Real Estate	++	-	+	--
Cons. Disc.	++		--	
Info Tech.	+	+	-	--
Industrials	++			--
Materials	+	--		-
Cons. Stap.	--	-	+	++
Health Care	--			++
Energy	--		++	--
Comm. Serv.		+		-
Utilities	--	-	+	++

Consumer Discretionary Sector in the Economy

The consumer discretionary sector is essential to the global economy due to its role in

Relationship with the Economy: A thriving consumer discretionary sector is often a sign of economic growth and development, as it typically means consumer confidence is up. The consumer discretionary sector is labor-intensive, leading to job creation and it's also driven by competition leading to innovations.

SWOT Analysis: Consumer Discretionary Sector

- **Strengths (Internal):**
 - *High Demand for Diverse Products:* The sector covers a wide range of products and services, including apparel, electronics, leisure, entertainment, and luxury goods, catering to diverse consumer preferences and lifestyles.
 - *Innovation and Differentiation:* Companies within the sector continuously innovate to differentiate their products and services, driving consumer interest and loyalty. This fosters competition and encourages companies to stay ahead of market trends.
 - *Consumer Spending Trends:* Consumer discretionary spending tends to be resilient, even during economic downturns, as consumers prioritize certain discretionary purchases, leading to relatively stable demand compared to other sectors.
 - *Global Reach and Market Expansion:* Many companies within the consumer discretionary sector have a global presence, allowing them to capitalize on emerging markets and diversify their revenue streams.

- **Weaknesses (Internal):**
 - *Sensitivity to Economic Conditions:* Consumer discretionary spending is highly sensitive to economic conditions, such as changes in employment, income levels, and consumer confidence. Economic downturns can lead to reduced consumer spending on non-essential items, impacting companies within the sector.
 - *Cyclical Nature:* The sector's performance is cyclical, with fluctuations in demand tied to broader economic cycles. This cyclical nature can make revenue and earnings unpredictable for companies within the sector, posing challenges for financial planning and investment.
 - *Fashion and Trend Risks:* Companies in segments like apparel and fashion are vulnerable to changing consumer preferences and trends. Failure to anticipate or adapt to shifts in fashion and lifestyle trends can result in inventory write-downs and decreased sales.
 - *Supply Chain Disruptions:* The consumer discretionary sector relies on complex global supply chains, making companies vulnerable to disruptions such as natural disasters, trade tensions, and transportation bottlenecks, which can impact production and distribution.

- **Opportunities (External):**
 - *E-Commerce Growth:* The rapid growth of e-commerce presents significant opportunities for companies within the consumer discretionary sector to expand their online presence and reach new customers, particularly as consumer shopping habits continue to evolve.
 - *Emerging Markets:* Rising incomes and changing consumer preferences in emerging markets offer opportunities for companies to expand their market reach and tap into growing consumer demand in regions such as Asia, Latin America, and Africa.
 - *Health and Wellness Trends:* Growing consumer interest in health and wellness presents opportunities for companies to develop and market products and services catering to this trend, such as athleisure wear, organic foods, and wellness tourism.
 - *Technological Advancements:* Technological innovations such as artificial intelligence, augmented reality, and 3D printing offer opportunities for companies to enhance product offerings, improve operational efficiency, and personalize the consumer experience.

- **Threats (External):**
 - *Economic Downturns:* Economic recessions or downturns can lead to reduced consumer spending on discretionary items, impacting companies' revenue and profitability within the sector.
 - *Competitive Pressures:* Intense competition within the consumer discretionary sector can lead to pricing pressures, eroding profit margins, and market share loss. Additionally, the rise of direct-to-consumer brands and private labels presents challenges for established companies.
 - *Regulatory Risks:* Companies within the sector may face regulatory risks related to product safety, environmental sustainability, labor practices, and data privacy, which could result in fines, litigation, or reputational damage.
 - *Geopolitical Uncertainty:* Geopolitical events, trade tensions, and policy changes can create uncertainty and disrupt global supply chains, affecting production costs, pricing, and market access for companies within the consumer discretionary sector.

Economic Analysis

This economic analysis will consider important factors like PCE Inflation, Unemployment, the FED interest rate and monetary policy.

- *Inflation:* The PCE (Personal Consumption Expenditures) inflation rate is at 2.8%, which is above the Federal Reserve's target of 2%, but lower than the 3.3% projection. This indicates that there is currently elevated inflation in the economy. The FED acknowledges this and expresses its commitment to returning inflation to its 2% objective.
- *Unemployment:* The unemployment rate is at 3.8%. This suggests a very tight labor market with low levels of unemployment, which is typically associated with a strong job market.
- *Economic Activity:* The Federal Reserve indicates that economic activity has been expanding at a solid pace. This is a positive sign for the overall health of the economy, although it mentions that job gains have slowed in recent months. Despite this slowdown, the job market remains strong. 2023 percent change in GDP was well above the September projection.
- *Monetary Policy:* The Federal Reserve has decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. This suggests that the FED is holding interest rates steady at a relatively high level, likely to combat inflation. The Fed also mentions its commitment to reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, which is a part of its strategy to normalize its balance sheet.

The table below acknowledges changes, and projections in real GDP, unemployment, PCE inflation and core PCE inflation.

Percent															
Variable	Median ¹					Central Tendency ²					Range ³				
	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8	2.5-2.7	1.2-1.7	1.5-2.0	1.8-2.0	1.7-2.0	2.5-2.7	0.8-2.5	1.4-2.5	1.6-2.5	1.6-2.5
September projection	2.1	1.5	1.8	1.8	1.8	1.9-2.2	1.2-1.8	1.6-2.0	1.7-2.0	1.7-2.0	1.8-2.6	0.4-2.5	1.4-2.5	1.6-2.5	1.6-2.5
Unemployment rate	3.8	4.1	4.1	4.1	4.1	3.8	4.0-4.2	4.0-4.2	3.9-4.3	3.8-4.3	3.7-4.0	3.9-4.5	3.8-4.7	3.8-4.7	3.5-4.3
September projection	3.8	4.1	4.1	4.0	4.0	3.7-3.9	3.9-4.4	3.9-4.3	3.8-4.3	3.8-4.3	3.7-4.0	3.7-4.5	3.7-4.7	3.7-4.5	3.5-4.3
PCE inflation	2.8	2.4	2.1	2.0	2.0	2.7-2.9	2.2-2.5	2.0-2.2	2.0	2.0	2.7-3.2	2.1-2.7	2.0-2.5	2.0-2.3	2.0
September projection	3.3	2.5	2.2	2.0	2.0	3.2-3.4	2.3-2.7	2.0-2.3	2.0-2.2	2.0	3.1-3.8	2.1-3.5	2.0-2.9	2.0-2.7	2.0
Core PCE inflation ⁴	3.2	2.4	2.2	2.0		3.2-3.3	2.4-2.7	2.0-2.2	2.0-2.1		3.2-3.7	2.3-3.0	2.0-2.6	2.0-2.3	
September projection	3.7	2.6	2.3	2.0		3.6-3.9	2.5-2.8	2.0-2.4	2.0-2.3		3.5-4.2	2.3-3.6	2.0-3.0	2.0-2.9	
Memo: Projected appropriate policy path															
Federal funds rate	5.4	4.6	3.6	2.9	2.5	5.4	4.4-4.9	3.1-3.9	2.5-3.1	2.5-3.0	5.4	3.9-5.4	2.4-5.4	2.4-4.9	2.4-3.8
September projection	5.6	5.1	3.9	2.9	2.5	5.4-5.6	4.6-5.4	3.4-4.9	2.5-4.1	2.5-3.3	5.4-5.6	4.4-6.1	2.6-5.6	2.4-4.9	2.4-3.8

Financial Analysis

These financial fundamentals are used together to assess the financial health and performance of a company. Analysts often consider them alongside other metrics, industry benchmarks, and qualitative factors to form a comprehensive view of a company's financial situation and prospects. It's important to note that the interpretation of these metrics can vary depending on the industry, company size, and economic conditions, so they should be analyzed in context.

Financial fundamentals

Why these factors?

- **ROE:** a financial ratio that shows how much net income a company generates per dollar of invested capital. It helps investors understand how efficiently a firm uses its money to generate profit.
- **EPS Growth Rate:** the net income generated in a given period as allocated to each common share outstanding.
- **ROA:** measures how efficient a company's management is in generating profit from their total assets on their balance sheet.
- **Profit Margin:** represents the portion of a company's sales revenue that it gets to keep as a profit, after subtracting all of its costs.

	S&P 500	Consumer Disc. Sector
ROE	23.24%	22.94%
EPS Growth Rate	3.20%	4.06%
ROA	4.44%	6.45%
Net Profit Margin	10.70%	8.36%

The S&P 500 outperforms the Consumer discretionary sector in terms of ROE. However, it lags in terms of EPS Growth Rate, ROA, and Net Profit Margins. These differences may be attributed to the specific characteristics and challenges within the sector, such as volatility in commodity prices and global economic conditions.

Major Companies

	AMAZON.COM, INC. (AMZN)	TESLA, INC. (TSLA)	THE HOME DEPOT, INC. (HD)
ROE	17.49%	27.95%	1151.32%
EPS Growth Rate	3233.33%	18.78%	7.47%
ROA	6.14%	15.88%	20.60%
Net Profit Margin	5.29%	15.50%	10.22%

These major companies in the S&P 500 index consumer discretionary sector tend to outperform the market and the sector on almost every front.

Valuation Analysis

Valuation ratios, including metrics like the P/E ratio, P/B ratio, P/S ratio and DY play a crucial role in evaluating a company's worth. These ratios are evaluated in conjunction with other financial indicators, industry benchmarks, and qualitative factors to develop a comprehensive understanding of a company's financial standing and future potential.

Why these ratios?

- *P/E*: a way to value a company by comparing the price of a stock to its earnings.
- *P/B*: measures the market's valuation of a company relative to its book value.
- *P/S*: an investment valuation ratio that shows a company's market capitalization divided by the company's sales for the previous 12 months.
- *DY*: a financial ratio that tells you the percentage of a company's share price that it pays out in dividends each year.

	S&P 500	Consumer Disc. Sector
P/E	23.27%	26.63%
P/B	4.04	7.93
P/S	2.33	1.94
Dividend Yield	1.51	0.84

The consumer discretionary sector has a higher P/E and P/B ratio potentially indicating the market is more attractive in price relative to earnings and book value. These ratios could conclude that the sector is overvalued.

Major Companies

	AMAZON.COM, INC. (AMZN)	TESLA, INC. (TSLA)	THE HOME DEPOT, INC. (HD)
P/E	60.34%	44.64%	24.62%
P/B	9.00	9.77	357.14
P/S	3.19	6.92	2.44
Dividend Yield	0.00	0.00	2.42

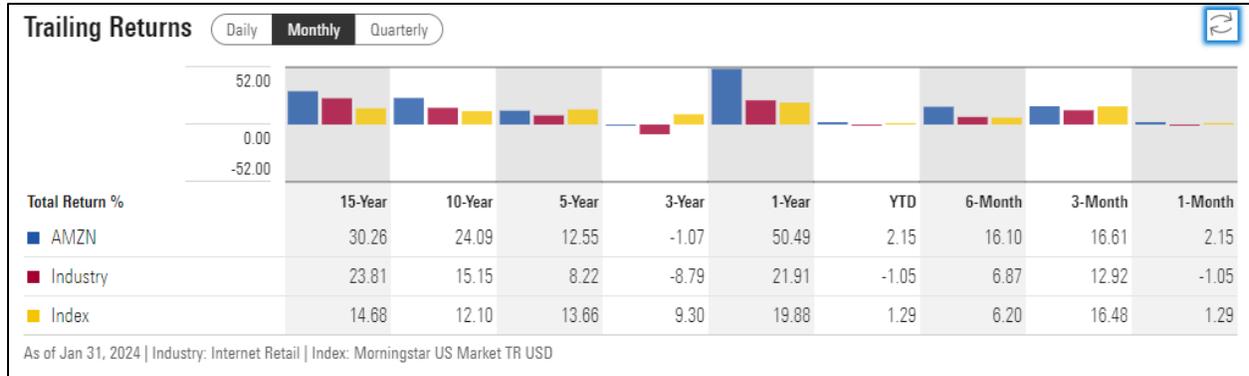
These major companies show an evaluation of expected growth in regard to the market and sector comparison. Despite the attractive nature of these individual companies, it is important to remember that the overvaluation and the current economic outlook suggest that these stocks rely heavily on the economy and consumer confidence.

Current Holdings Trailing Returns

Why Trailing Returns?

Trailing returns on an absolute basis can give you an idea of how much an investment has grown on a nominal basis, which can be compared to the benchmark. Trailing returns relative to a benchmark can tell you if an investment has outperformed or underperformed the benchmark over the measured time horizon.

Amazon.com Inc. (AMZN)



AMZN demonstrated remarkable performance, particularly in the 1-Year Return, consistently outperforming both its industry peers and the broader market. AMZN, over the long-run, significantly outperforms the industry and index.

TJX Companies Inc. (TJX)



TJX has also demonstrated strong performance, particularly in the 3 to 15 Year Return range, consistently outperforming both its industry peers and the broader market. TJX, in the short term has been relatively equal to the market and index, slightly falling behind.

Recommendation

Based on the current market conditions and historical performance, we recommend the following actions regarding the Wisman Fund's allocation within the consumer discretionary sector:

Consumer Discretionary Sector: Considering the cyclical nature, economic outlook, historical data, current financial data, and the SWOT analysis, the consumer discretionary sector should be **equal-weighted**. The weight of the sector in the S&P 500 Index as of January 31st, 2024, was 10.3%. It is recommended that the fund find a target weight around 10.3%. Equal weighting this sector will help mitigate potential risks associated with the sector's underperformance in recessionary periods.

	Amazon.com Inc. (AMZN)	TJX Companies Inc. (TJX)
1 Year Return	80.88%	17.85%
Holding Return	391.56%	71.95%
Total Time Held	7 yr. 9 mo.	4 yr. 8 mo.
Portfolio Weight	6.98%	1.09%
Sector Weight	86.49%	13.51%
Market Cap (Size)	1.81 T	112.79 B

The Wisman Fund holdings in Amazon.com Inc. (AMZN) and TJX Companies Inc. (TJX) are very strong positions in the consumer discretionary sector. Year after year these two stocks have performed very well in the IMP portfolio. The IMP cohort should look to equal weight this sector by purchasing more of these stocks or incorporating other similar stocks. If change were to be made to this decision, it would be to maintain the weight of the sector by holding the current shares.

Sources

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