



Consumer Discretionary Sector Report

Sean Bernhardt

Investment Management Program 2021 Fall Semester



Introduction

Consumer Discretionary is defined as goods and services that are believed to be non-essential by consumers, but consumers will still buy them if they have enough disposable income. Examples of consumer discretionary products include durable goods, high-end clothing, entertainment, higher-end automobiles, and leisure activities. Typically, when the economy is performing well or growing, consumers are more likely to spend on consumer discretionary products. When the economy is not performing as well, consumers typically spend on consumer staples, or necessary goods and services.

Size and Comparison

- Market Cap of the Consumer Discretionary sector is \$9.13T as of 9/3/2021. There are 11 different industries within this sector: Auto Components(\$197.58 B), Automobiles(\$1.73T), Distributors(\$56.29B), Diversified Consumer services(105.40B), Hotels, Restaurant and Leisure(\$1.22T), Household Durables(\$461.08B), Internet and Direct Marketing Retail(\$3.02T), Leisure Products(115.30B), Multiline Retail(252.51B), Specialty Retail (\$1.11T), and Textiles, Apparel and Luxury Goods(\$854.53B).
- Largest Companies within this sector include Amazon(We own), Tesla, Home Depot, Nike, and Mcdonalds.
- As of August 31st the S&P Dow Jones Indices listed the weight for Consumer discretionary as 11.9%, where the Wiseman Fund is weighted at 16.3%. This shows that consumer discretionary is currently overweight compared to the market.
- Consumer Discretionary YTD ranges from 12.52% to 13.23% based on different sites. Using Fidelity many of the other industries within the sector have beaten the YTD of the Sector (Distirbutors 31%, Household Durables 32%, Speciality retail 22%). The S&P 500 index YTD change was 20.75%. The last three months is around 6.40% returns.

Business Analysis

- Currently we are still in an early business cycle with the potential to be moving into the mid-cycle environment within the next year. Consumer discretionary is a sector where it performs its best in the early cycle and historically underperforms. Consumer discretionary typically performs well in the early stages because employment rates are rising, interest rates are low, and the confidence of the consumer is high.

- External factors that affect consumer discretionary are the following: Income levels of consumers, unemployment rate, inflation, interest rates, Consumer spending with GDP, and Consumer confidence. Currently in the US employment rates are low and many businesses are struggling getting workers, and inflation and interest rates are going to be on the rise in the near future.
- Covid 19 could be a potential influence on this sector. Depending on how the Delta variant affects the nation it can influence and sway consumers confidence, unemployment rates, and the overall spending of consumers.

Economic Analysis

- The Consumer Discretionary sector is considered an offensive sector which means it does well in expansion periods and declines when there are challenging economic times and recessions. With the current situation of the Economy I do not see huge growth and it ends up leveling out through the next few months, so this sector could underperform.
- Factors such as prices of goods, inflation, and interest rates are all things that affect consumers' spending habits. These are things to look at the forecast because if they are rising then consumers will be less likely to spend on non essential items.
- The stocks we own in this sector are Amazon (Internet and Direct Marketing Retail industry), Penn National Gaming (Hotel, Restaurant, and Leisure Industry), Dominos Pizza(Hotel, Restaurant, and Leisure Industry), and TJX (Multiline Industry). We are not hitting some of the big returns in the other sectors so diversification could help with this.

Financial Analysis

- The average EPS for the Hotel, Restaurant & Leisure industry is \$1.94, ROI is -2.27%, ROE is 3.73%, and Revenue growth is 6.13%, and finally Dividend Yield is 1.69% as of September 8th. Penn National Gaming compared to this industry sits at EPS \$3.50, ROI is 6.70%, ROE is 20.06%, Revenue Growth of 4.37%, and no dividend yield. Dominos Pizza is also in this industry, EPS is \$12.40, ROI and ROE are not listed, and their dividend yield is 0.66% (Div per share is 3.76 from 2020-2021).
- The average EPS for the Internet & Direct Marketing Retail industry is \$35.10, ROI is 454.76%, ROE is 19.22%, and dividend yield is 0.51%. Amazon EPS is \$57.43, ROI is 16.46%, ROE is 31.23% and has no dividend payout.
- The average EPS for the Multiline Retail Industry is \$10.24, Revenue growth is 15.21%, ROI 15.25%, ROE is 52.92%, and dividend yield 1.09%. TJX Companies Inc is within this industry and their financial data includes, EPS \$2.07, ROI 13.35%, ROE 45.39%, and the dividend yield is 1.12% (Dividend is 1.04 compared to 2020 is 0.23).

Valuation Analysis

- Looking at the ratios of the Consumer Discretionary Sector and the industries we have stocks in, Consumer Discretionary has a P/E ratio from 2020 was \$34.91 with the forecast for this year sitting at \$28.33. In this sector overall, earnings seem to be gaining and growing but the prices of the stocks are not matching that growth.
- The Hotel, Restaurants and Leisure industry P/E ratio does not have a 2020 number but the forecasted P/E ratio for 2021 is \$123.44. This forecasted ratio is something to pay attention to as a high P/E can be an indicator of overvalued stocks. We have two stocks in this sector which one (DPZ) was overvalued as of September 10th. The Internet & Direct Marketing Retail industry had a 2020 P/E of \$47.76 and forecasted of \$46.52. The Multiline Retail P/E ratio was \$17.32 and a forecasted \$14.98.
- The Dividend yield for the Consumer discretionary sector is 1.54% and comparing this to the S&P 500 (1.37%) is slightly higher. Looking at the industries we have stocks in there is only one industry with a higher Dividend yield (Hotels, Restaurant & Leisure 1.69%). Looking into other industries with better Dividends yield could be an option.

Recommendation

- After going through each section analysis of the report I believe the Consumer Discretionary sector (16.8%) should be slightly underweight or matching the weight of the S&P 500 (11.9%). I feel overweighting the Consumer Discretionary back on the screen had a good outlook but since we are approaching a mid cycle in the near future the returns might not be as high.
- Also, we should investigate trying to diversify the industries of this sector because there are some other sectors that are having over 30% returns and getting into some of these stocks could provide better returns.
- With lessening our weight of this sector the cash we will get can be more focused on other sectors that have a better historic performance during mid cycle phases of the economy.

Historical Performance of Sectors across the business cycle

ECONOMIC GROWTH	EARLY: Rebounds	MID: Peaks	LATE: Moderates	RECESSION: Contracts
OUTPERFORM THE U.S. EQUITY MARKET	<ul style="list-style-type: none"> CONSUMER DISCRETIONARY FINANCIALS INDUSTRIALS INFORMATION TECHNOLOGY MATERIALS REAL ESTATE 	<ul style="list-style-type: none"> COMMUNICATION SERVICES INFORMATION TECHNOLOGY 	<ul style="list-style-type: none"> CONSUMER STAPLES ENERGY HEALTH CARE MATERIALS UTILITIES 	<ul style="list-style-type: none"> CONSUMER STAPLES HEALTH CARE UTILITIES
UNDERPERFORM THE U.S. EQUITY MARKET	<ul style="list-style-type: none"> ENERGY HEALTH CARE UTILITIES 	<ul style="list-style-type: none"> CONSUMER DISCRETIONARY MATERIALS UTILITIES 	<ul style="list-style-type: none"> CONSUMER DISCRETIONARY INFORMATION TECHNOLOGY 	<ul style="list-style-type: none"> COMMUNICATION SERVICES INDUSTRIALS INFORMATION TECHNOLOGY REAL ESTATE

In a Growing Economy

Consider **information technology**.

It has had the highest volatility relative to all sectors over the past 20 years, which could boost portfolio performance.

It has often outperformed during the early and mid phases of the business cycle when the economy is growing.¹

As the Economy Slows Down

Consider **consumer staples, health care, and utilities** sectors.

They usually outperformed during the late and recession phases of the business cycle when the economy is slowing or shrinking.¹

They have had the lowest volatility relative to all sectors over the past 20 years, which may lower portfolio risk.

Sector Breakdown



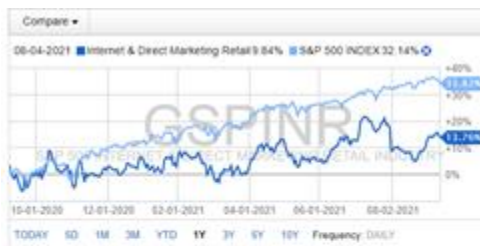
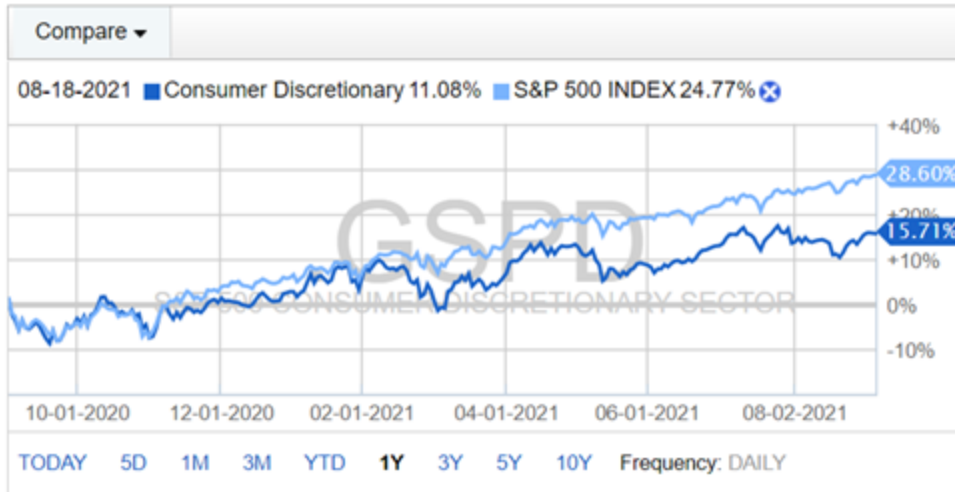
SECTOR	INDEX WEIGHT
Information Technology	27.9%
Health Care	13.4%
Consumer Discretionary	11.9%
Communication Services	11.5%
Financials	11.2%
Industrials	8.2%
Consumer Staples	5.8%
Real Estate	2.6%
Materials	2.6%
Utilities	2.5%
Energy	2.4%

Sector	Last % Change AS OF 02:41 PM ET 09/01/2021	Market Cap 09/01/2021	1-Year % Change 09/01/2021	Compare
Expand All Collapse All Communication Services 5 Industries	+0.62%	\$7.01T	+36.71%	<p>09-03-2021 ■ Multiline Retail 36.04% ■ S&P 500 INDEX 28.60%</p> <p>10-01-2020 12-01-2020 02-01-2021 04-01-2021 06-01-2021 08-02-2021</p> <p>TODAY 5D 1M 3M YTD 1Y 3Y 5Y 10Y Frequency: DAILY</p>
Consumer Discretionary 11 Industries	+0.47%	\$9.10T	+17.28%	
Consumer Staples 6 Industries	+0.52%	\$4.64T	+11.05%	
Energy 2 Industries	-1.64%	\$2.63T	+32.95%	
Financials 7 Industries	-0.50%	\$8.81T	+51.47%	
Health Care 6 Industries	0.00%	\$8.52T	+25.30%	
Industrials 14 Industries	-0.30%	\$5.93T	+32.76%	
Information Technology 6 Industries	+0.29%	\$16.09T	+28.72%	
Materials 5 Industries	-0.12%	\$2.73T	+33.58%	
Real Estate 2 Industries	+1.59%	\$1.76T	+31.52%	
Utilities 5 Industries	+1.47%	\$1.67T	+16.20%	
S&P 500 @ Index	+0.18%	--	+28.92%	

Industry Fundamentals AS OF 09/03/2021

P/E (Last Year GAAP Actual)	17.18
P/E (This Year's Estimate)	14.53
Enterprise Value	\$79.05B
EPS (TTM)	\$10.23
EPS Growth (TTM vs. Prior TTM)	53.25%
Revenue Growth (TTM vs. Prior TTM)	15.18%
Return on Equity (TTM)	52.91%
Return on Investment (TTM)	15.25%
Total Debt/Equity (TTM)	249.54
Dividend Yield	1.08%

Industry ▲	Last % Change 04:56 PM ET 09/10/2021	% CHANGE			
		YTD	1 - Year 09/10/2021	3 - Year	5 - Year
Consumer Discretionary	-0.57%	+12.23%	+19.60%	+59.26%	+135.36%
Auto Components	-1.21%	+12.14%	+50.29%	+47.30%	+88.81%
Automobiles	-1.91%	+7.79%	+40.24%	+17.68%	+7.65%
Distributors	-0.14%	+29.94%	+37.62%	+33.59%	+34.33%
Diversified Consumer Services	-7.26%	--	--	--	--
Hotels, Restaurants & Leisure	-0.30%	+10.04%	+24.84%	+41.01%	+90.09%
Household Durables	-0.68%	+27.18%	+35.81%	+68.55%	+54.33%
Internet & Direct Marketing Retail	-0.43%	+8.63%	+9.94%	+77.06%	+325.59%
Leisure Products	-0.01%	+4.79%	+25.08%	-13.21%	-26.86%
Multiline Retail	-0.60%	+19.22%	+37.15%	+71.59%	+122.39%
Specialty Retail	-0.08%	+22.66%	+25.50%	+58.75%	+125.38%
Textiles, Apparel & Luxury Goods	-0.16%	+13.05%	+42.66%	+48.91%	+94.23%
S&P 500 @ Index	-0.77%	+18.70%	+31.17%	+55.26%	+109.54%



Industry Fundamentals AS OF 08/18/2021

PE (Last Year GAAP Actual)	47.81
PE (This Year's Estimate)	46.38
Enterprise Value	\$1.14T
EPS (TTM)	\$35.09
EPS Growth (TTM vs. Prior TTM)	78.32%
Revenue Growth (TTM vs. Prior TTM)	52.14%
Return on Equity (TTM)	19.31%
Return on Investment (TTM)	476.87%

Industry Fundamentals AS OF 09/18/2021

PE (Last Year GAAP Actual)	16.97
PE (This Year's Estimate)	14.35
Enterprise Value	\$79.43B
EPS (TTM)	\$10.27
EPS Growth (TTM vs. Prior TTM)	52.97%
Revenue Growth (TTM vs. Prior TTM)	15.28%
Return on Equity (TTM)	53.50%
Return on Investment (TTM)	15.37%
Total Debt/Equity (TTM)	249.89
Dividend Yield	1.10%



Industry Fundamentals AS OF 08/18/2021

PE (Last Year GAAP Actual)	-
PE (This Year's Estimate)	123.34
Enterprise Value	\$87.10B
EPS (TTM)	\$1.94
EPS Growth (TTM vs. Prior TTM)	-10.94%
Revenue Growth (TTM vs. Prior TTM)	6.61%
Return on Equity (TTM)	2.49%
Return on Investment (TTM)	-2.80%
Total Debt/Equity (TTM)	-222.07
Dividend Yield	1.69%

