



Consumer Staples Sector Report

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Investment Management Program 2024 Spring Semester



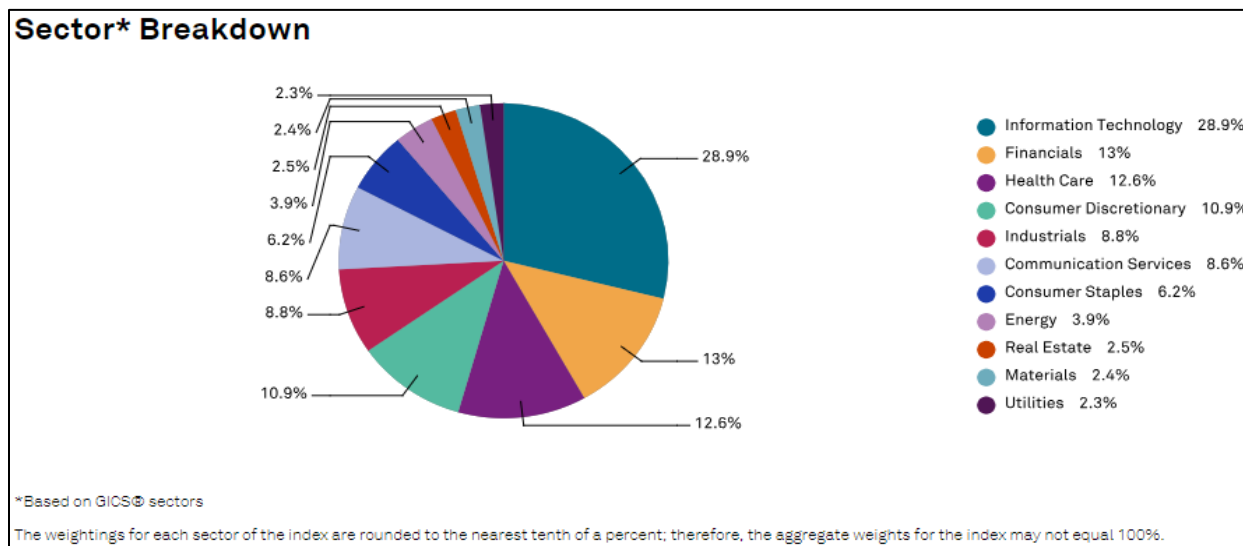
Introduction

The Consumer Defensive Sector, also well known as Consumer Staples, comprises companies involved in the overall production and distribution of essential goods and services in the global economy. This sector is mainly defined by its defensive characteristics, such as stability and resilience established by core consumer demand. In general, companies within this sector provide products such as food, beverages, household products, product distribution & retail, personal care products, and tobacco. Given these products' large necessity, this sector tends to serve as downside protection during periods of economic uncertainty, while simultaneously serving a conservative growth approach to investors. This equity sector report will comprehensively explore the consumer defensive sector. The attempt of this report is purely academic, with an effort to provide consensus on the sector's size, historical performance, and delve into financial and economic data to provide valuable insights.

The Wisman Fund Current Holdings

The Hershey Company (\$HSY), Proctor & Gamble Co. (\$PG)

Size and Composition



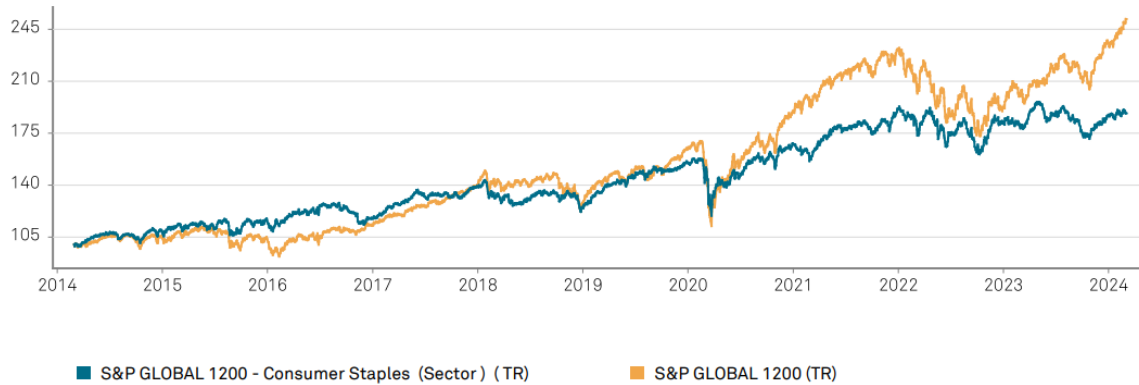
The sector weights are depicted as of December 29th, 2023. According to this graphical representation, consumer staples are weighted about 6.2% of the S&P 500 Index, a median percentage compared to all other sectors. In comparison, the Wisman Fund under-weighted the sector at 6.0%.

Historical Performance

Historical Performance

Depending on index launch date, all charts below may include back-tested data.

* Data has been re-based at 100



The graphical depiction above is a performance evaluation of the Consumer Staples Sector compared to the benchmark of the S&P 500. From a more historical perspective, consumer staples typically underperform the benchmark with brief periods of slight overperformance.

Equity Composition

Consumer Staples Select Sector SPDR® Fund XLP ★★★★★ Bronze

Quote Analysis Performance Sustainability Risk Price Portfolio People Strategy Parent

Holdings	% Portfolio Weight	First Bought	Market Value as of Feb 29, 2024	Cur	1-Year Return	Forward P/E	Equity Star Rating	Economic Moat	ESG Risk Rating Assessment	Sector
Procter & Gamble Co	14.72	Mar 31, 2002	2,223,869,884	USD	18.13	22.78	★★	Wide	BBB	Consumer Defensive
Costco Wholesale Corp	12.94	Apr 30, 2003	1,955,072,357	USD	60.55	47.62	★	Wide	BBB	Consumer Defensive
Coca-Cola Co	9.18	May 04, 2017	1,386,437,092	USD	4.26	21.19	★★★★	Wide	BBB	Consumer Defensive
PepsiCo Inc	8.93	May 04, 2017	1,349,499,789	USD	-0.31	20.20	★★★★	Wide	BBB	Consumer Defensive
Walmart Inc	4.93	May 04, 2017	744,609,221	USD	27.41	25.00	★★	Wide	BBB	Consumer Defensive
Mondelez International Inc Class A	4.35	Mar 31, 2007	656,655,612	USD	15.27	20.49	★★★★	Wide	BBB	Consumer Defensive
Philip Morris International Inc	4.17	Mar 31, 2008	629,422,682	USD	-2.60	14.10	★★★★	Wide	BBB	Consumer Defensive
Altria Group Inc	3.27	Mar 31, 2003	494,170,954	USD	-3.14	8.18	★★★★	Wide	BBB	Consumer Defensive
Colgate-Palmolive Co	3.22	Mar 31, 2002	486,526,272	USD	21.86	24.94	★★	Wide	BBB	Consumer Defensive
Target Corp	3.19	Jun 02, 2023	482,128,317	USD	-1.68	16.98	★★	None	BBB	Consumer Defensive

The following is the makeup of the Consumer Staples ETF, \$XLP, entailing the top ten constituents of the fund according to investment weights. Procter & Gamble Co., a current holding within the Wisman Fund, is featured as the most heavily weighted asset in the ETF.

Performance Metrics

Year-to-Date



A more recent analysis entails further underperformance of the sector from a YTD perspective, as \$XLP so far is posting a positive gain of 3.4% to \$SPY's 7.9% gain. So far, the sector is outperforming 2023 overall returns of -2.45% attributing to further contractionary policy set by the Federal Reserve – anticipation of decreasing Federal Funds rates.

Returns over Recessionary Periods

2000 to 2002



2007 to 2010



The graphs above both depict the outperformance of the consumer staples sector during the two most notable durations of a U.S. recession. The period from 2000-2002 entails causes from the dot-com bubble and the national declaration of war on Afghanistan and Iraq; 2007-2010 is a result of the makeup of the global financial crisis, with subprime delinquency rates reaching about 26% domestically. These charts emphasized the importance of the sector during economic uncertainty, allowing for reallocation in the goal of capital gain protection.

Overall Performance

Sector performance

As of Mar-01-2024 | *As of Mar-01-2024 4:58 PM ET |

Sector	Today*	1-month	3-month	YTD	1-year	5-year	10-year
S&P 500	+0.80%	+6.01%	+12.46%	+7.70%	+29.39%	+84.49%	+176.27%
Financials	-0.22%	+3.73%	+12.35%	+6.74%	+12.74%	+52.21%	+128.91%
Real Estate	+1.08%	+3.56%	+6.46%	-1.40%	+3.46%	+15.52%	--
Consumer Discretionary	+0.38%	+9.02%	+11.53%	+5.14%	+31.95%	+71.97%	+181.95%
Information Technology	+1.78%	+8.08%	+16.56%	+12.31%	+60.29%	+207.62%	+541.12%
Industrials	+0.36%	+7.36%	+13.65%	+6.37%	+20.46%	+60.26%	+129.49%
Materials	+0.39%	+6.68%	+6.93%	+2.49%	+7.42%	+60.74%	+86.43%
Consumer Staples	-0.04%	+2.08%	+6.00%	+3.49%	+4.95%	+40.99%	+81.87%
Health Care	+0.97%	+4.11%	+11.50%	+7.07%	+15.04%	+60.83%	+148.06%
Energy	+1.17%	+3.78%	+3.05%	+3.24%	+3.57%	+37.69%	+3.52%
Communication Services	+0.51%	+6.20%	+16.67%	+11.34%	+57.84%	+77.86%	+85.69%
Utilities	-0.72%	-0.20%	-1.61%	-3.25%	-5.28%	+8.32%	+52.43%

From Fidelity research, the chart reflects performance according to specified time horizons. On a 1-year basis, Consumer Staples posted a gain of 4.95%, with one of the poorest performances, and from a more recent basis, the sector is posting YTD returns of 3.49%, considered a median performance compared to its peer sector.

Industry Analysis

Industries in this sector

As of Mar-01-2024 | *As of Mar-01-2024 4:58 PM ET

Industries	Today* ↕	5-day ↕	1-month ↕	3-month ↕	YTD ↕	1-year ↕	5-year ↕	10-year ↕
Consumer Staples	-0.04%	-0.54%	+2.08%	+6.00%	+3.49%	+4.95%	+40.99%	+81.87%
Beverages	-0.60%	-1.79%	-0.47%	+0.25%	-1.00%	-1.03%	+37.31%	+91.68%
Consumer Staples Distribution & Retail	+0.60%	+1.30%	+7.40%	+19.61%	+10.81%	+23.72%	+84.21%	+143.10%
Food Products	-0.54%	-1.36%	-2.46%	-1.44%	-4.16%	-11.00%	+27.09%	+41.25%
Household Products	+0.04%	-0.87%	+1.44%	+4.04%	+7.64%	+13.70%	+46.95%	+80.56%
Personal Care Products	-0.37%	-1.31%	+0.86%	+3.26%	-5.73%	-45.17%	-20.82%	+9.43%
Tobacco	-0.14%	-1.47%	-0.13%	-3.45%	-2.61%	-9.21%	-7.27%	+20.06%

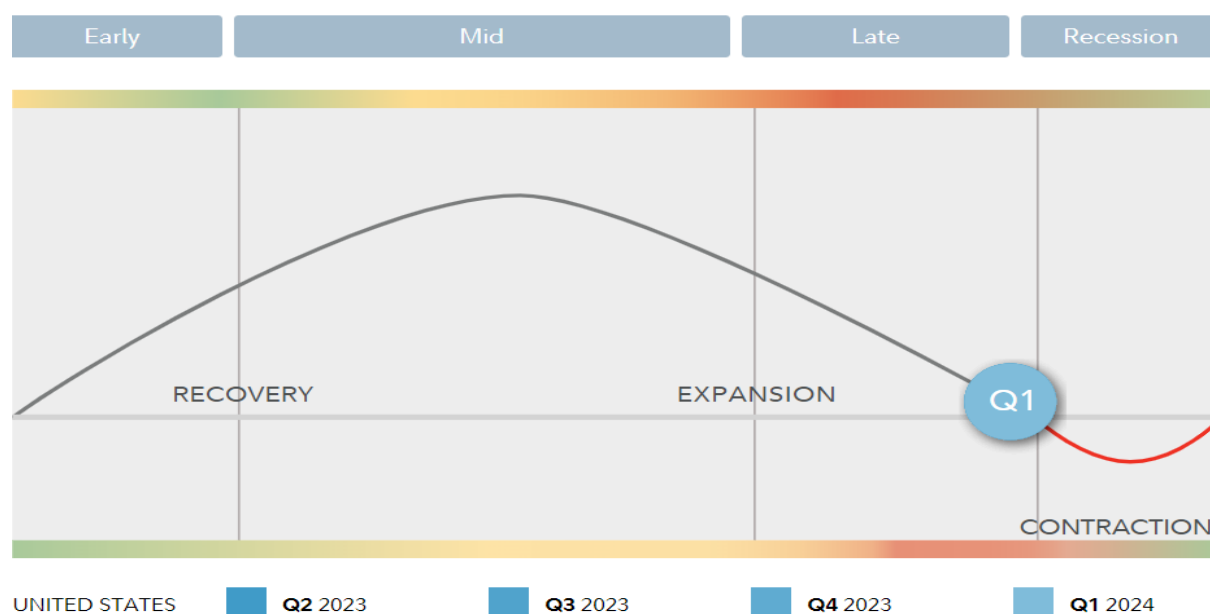
The composition of the Consumer Defensive reflects various subsectors such as Beverages, Consumer Staples Distribution & Retail, Food Products (\$HSY), Household Products (\$PG), Personal Care Products, and Tobacco. Most notably our holding within P&G entailed one of the highest-performing industries, Household Products, posting YTD and 10-year returns of 7.64% and 80.56% respectively.

Wisman Fund Holdings

Wisman Fund Returns		
	The Hershey Company (\$HSY)	The Proctor & Gamble Company (\$PG)
YTD Return	0.9%	8.4%
Holding Return	28.4%	108.6%
Time Horizon	4 yrs. 3 mo.	14 yrs. 3 mo.
Portfolio Weight	0.90%	2.28%
Sector Weight	28.3%	71.7%

Positions held in the Wisman Fund contain two securities such as The Hershey Company, and The Proctor & Gamble Company. Our holdings are split by performance, with PG outperforming the benchmark YTD gains of 7.9%, while HSY remains practically flat. Do note that the program has already executed two sale transactions in the sector due to underwhelming performance metrics.

Business Analysis



Business cycle

Historical performance of sectors during business cycle phases.

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

Historically, the Consumer Staples sector tends to seek a positive performance during late expansion periods entering a contracting economic outlook, in ties to slowed growth and a looming recession. Characteristics of the late business cycle include moderating growth, credit tightening, pressure on equity earnings, high-interest rates, and periods of rising inflation. Fidelity research has identified the United States in this current stage of the cycle for the past year, with Jerome Powell, the current Federal Reserve Board Chair aiming to decrease the economy into a “soft-landing,” by enacting policies to decrease PCE Core inflation measures to the 2% metric desired. Due to the sector’s non-cyclical nature, performance could aid in the outlook of the economy.

Product Segmentation

As I have mentioned previously, the sector is largely non-cyclical due to the dire need for products and consumer goods that are offered by companies within the sector, keeping demand relatively stable throughout various stages of the economic cycle. In general, investors turn to this sector as a defensive instrument and potential for portfolio diversification in comparison to more cyclical cycles.

Product Segmentation:

Beverages: A variety of offered beverages such as carbonated drinks, bottled water, hydration aids, and alcohol beverages. This section offers a diverse range of products to suit the consumers' necessities.

Consumer Staples Distribution & Retail: This segment consists of the landscape of essential goods in the world of retail, companies such as large grocery store chains, convenience stores, and warehouse clubs. The biggest challenge of such retailers is the adversity of very tight profit margins.

Food Products: This core of the sector features the production, processing, and distribution of essential food items. Consumers do have limited alternatives within this segment, such as the decision of name-brand versus generic products.

Household Products: These include cleaning supplies, paper goods, laundry detergent, first-aid supplies, kitchen products, and other commonly used items by homeowners that serve basic functions.

Personal Care Products: More focused on individual needs such as cosmetics, toiletries, hygiene products, and other items that vary by the consumer.

Tobacco: Include traditional cigarettes and other smokeless alternatives such as chewing tobacco, vape products, and nicotine salts.

Economic Analysis

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2023
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

The chart above details current projections by the Federal Reserve in factors such as Real GDP Growth, Unemployment Rate, PCE and PCE Core Inflation, and Federal Funds Rate Targets. Currently, the Federal Funds Rate remains high and into the near future, as the primary focus of the Fed is to lower PCE inflation measures to their target of 2%. Future figures such as the Unemployment Rate and Real GDP are expected to alter as the economy transitions through economic cycles and set monetary policies.

GDP:

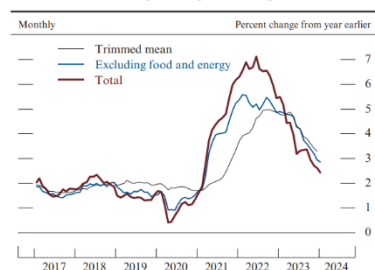
An official recession is notably characterized by two consecutive quarters of declining gross domestic product. From a freshly released report from the Federal Reserve, Real GDP increased at an annual rate of 4.0% in the second half of 2023 compared to 2.2% in the first, cumulating an increase of 3.1% for the year. 2023 exceeded September's projection by 0.5%.

Unemployment Rate:

The labor market remains relatively strong with unemployment hovering around 3.7% as of Jan. 2024, an increasing metric since Jan. 2023's 3.4%, directly in aim of the projections set by the Fed in the chart above.

Core PCE Inflation:

1. Personal consumption expenditures price indexes



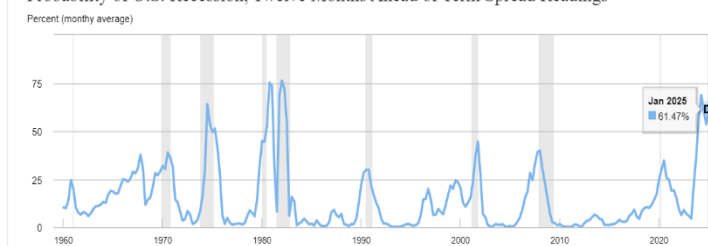
Core Personal Consumptions Expenditures is the price index that is preferred by the Fed, this is the measure of inflation that excludes food and energy prices. The current PCE clocked in at 2.8% at the end of February, showing the effectiveness of the imposed monetary policy. The Fed is currently holding the Effective Federal Funds rate at 5.25%-5.50% in its goal of Core PCE of 2% by 2026.

Inverted Yield Curve:

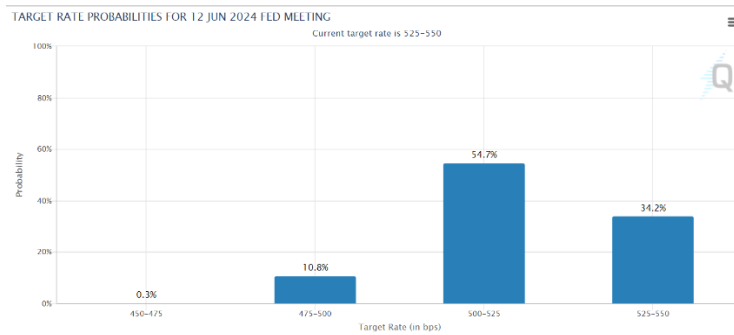


These two charts depict the current inverted yield curve of the 10-year Treasury maturity rate versus the 3-month rate – when short-term maturity produces a higher yield than long-term. This is a rare occurrence that has served a high accuracy rate in the prediction of a looming recession. A current prediction of 61.47% is in place for a recessionary period occurring during January 2025.

Probability of U.S. Recession, Twelve Months Ahead of Term Spread Readings



Federal Funds Rate:



Thus far, the earliest projection of a rate cut for the federal funds rate comes during the FOMC meeting on June 12th, 2024. Probability suggests that the Fed will remain stern on a 5.25%-5.50% effective FFR until the nearing end of Q2, as current projections of this hold are around 97% for the meeting on March 20th and ~77% on May 1st.

Financial Analysis

A financial analysis largely depends on fundamental metric valuations. These fundamentals can assist investors in determining the overall financial health and performance of a security. In general, the metrics used help determine companies' profitability, efficiency, stability, and comparability to the sector's and/or benchmark standards.

Financial Fundamentals

Return on Equity: A financial ratio measurement that identifies how efficiently a company can generate net income per one dollar of invested capital.

Return on Assets: Another financial metric used to evaluate the profitability of a company. ROA is commonly described as the efficiency of generating profits based on the utilization of a company's assets.

Profit Margins: Commonly used evaluation to determine the financial health of a company. In essence, profit margins provide insight into how effectively a company manages its business expenses to produce profitable returns from its operations.

Earnings Per Share Growth Rate: A metric used to evaluate the growth rate of a company's earnings per share over a specified period. EPS is a keen indicator of profitability, and its growth rate can emphasize a company's future growth and performance.

Financial Analysis		
	S&P 500	Consumer Staples
ROE	23.24	20.8
ROA	4.44	5.64
Profit Margin	10.7	2.84
EPS Growth Rate	3.20%	-1.68%

From the chart above, we can compare the financial fundamentals of the S&P 500 to the Consumer Staples sector. Based upon examinations of the data provided, the sector has par asset efficiencies in terms of ROE and ROA compared to the benchmark. More notably, the sector's Profit Margins can be analyzed due to the highly competitive landscape of the industry that historically produces minimal profit margins over consumer products and generally stable prices of these goods. EPS Growth Rate evaluation is due to low growth opportunities for slated companies; acquisitions and mergers can offer one opportunity to increase growth rates.

Financial Analysis		
	The Hershey Company (\$HSY)	The Proctor & Gamble Co. (\$PG)
ROE	50.33	31.72
ROA	16.29	12.15
Profit Margin	16.68	17.26
EPS Growth Rate	13.82	1.55

In general, our current holdings in the consumer staples sector have been successful in producing asset efficiencies compared to the S&P 500 and the sector. This solidifies quality profitability upon our security selection and the general attractiveness of these holdings' future performance.

Valuation Analysis

For this instance, a valuation analysis is the process of determining the present intrinsic value of a company and its security. The primary goal of conducting this analysis is to make informed financial decisions based on its valuation metrics. In this scenario, valuation ratios such as Price-to-Earnings, Price-to-Book, Price-to-Sales, and Dividend Yield to in our evaluation of intrinsic value.

Valuation Ratios:

Price-to-Earnings: One of the most frequently used financial metrics in the determination of a stock's valuation; Price-to-Earnings compares the current market price of a security to its Earnings Per Share. The ratio expresses how much an investor is willing to pay for each dollar generated by the company.

Price-to-Book: Also known as the Price-to-Book Value, this valuation provides insights into how the market values a company's assets to its currently traded price. The ratio equates to the current market price of the company's shares over its book value per share.

Price-to-Sales: An investment valuation ratio that demonstrates how the market values a company's sales to its stock's market price.

Dividend Yield: Simply, Dividend Yield expresses how much an investor can expect to earn for each dollar invested into a company.

Valuation Analysis		
	S&P 500	Consumer Staples
P/E	23.27	23.46
P/B	2.33	5.82
P/S	4.04	1.33
Dividend Yield	1.49%	2.64%

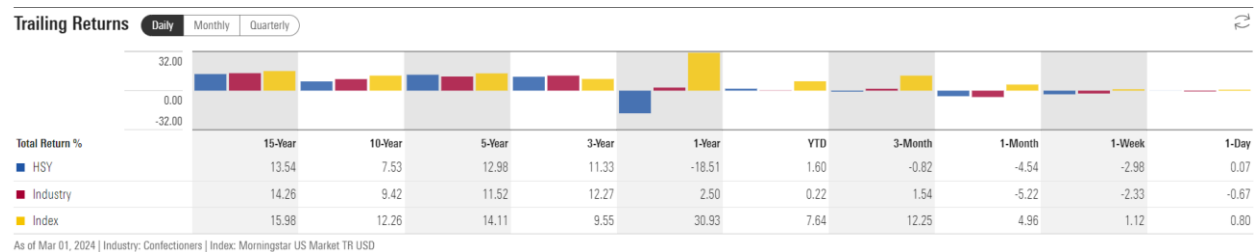
A formed analysis can be developed from the valuation metrics above that the consumer staples sector is considered generally near fair value compared to the benchmark. Historically, the sector does include lower valuations in comparison to other sectors, signaling a recent attractiveness to the sector in worries of economic uncertainty. Securities in the sector typically produce healthy returns in the form of dividends in the aid of establishing themselves as passive income included in portfolio diversification. Value-based investing incorporates a large amount of influence in terms of investment ideology in the sector.

Valuation Analysis		
	The Hershey Company (\$HSY)	The Proctor & Gamble Co. (\$PG)
P/E	20.76	26.73
P/B	9.38	7.87
P/S	3.46	4.70
Dividend Yield	3.11%	3.38%

In terms of a valuation analysis of our current holdings, \$HSY, and \$PG tend to follow suit in comparison to the sector, with an evaluation of near fair value. As I have mentioned previously, these holdings offer a healthy dividend income, with both companies allowing them to generate higher yields due to their large financial stability.

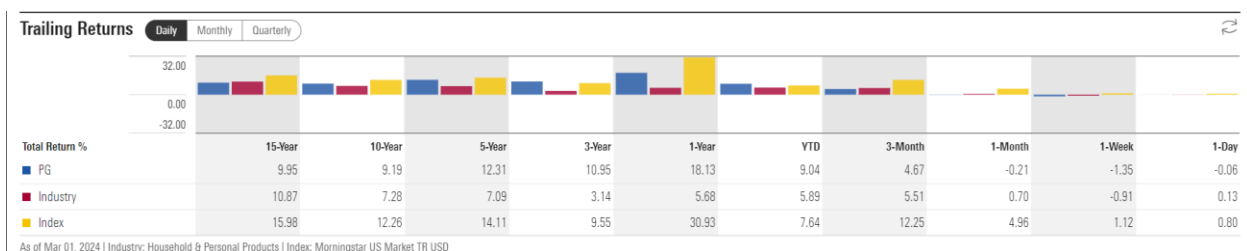
Price Returns

\$HSY



The Hershey Company can be evaluated as generating price returns relatively near the industry and the index over longer investment horizons. Although coming off a hot performance in 2022 that set all-time highs for the security, HSY has failed to replicate such returns for investors, as durations up to the 1-year mark have significantly underperformed.

\$PG



The Proctor & Gamble Company, the heaviest weighted security in the sector ETF of \$XLP, has successfully been able to produce conservative returns that hover around the average return of 10% for the S&P 500 Index. The Wisman Fund currently has an established weight of 71.7% in PG, and this holding has generated a YTD performance of 9.04%, outperforming returns of the industry's mean and the index.

Relative Market Analysis



Stemming from a strong end to the year 2023, the Market continues its Bull run coming into the year 2024, setting new all-time highs of the benchmark. The Relative Strength Index, or RSI, is a technical analysis that analyzes volatility in terms of an overbought or oversold consensus. As we can analyze from the graph above, via Bloomberg Terminal, the S&P 500 is relatively overbought, largely derived from securities that are in-trenched in the continued Artificial Intelligence Tech rally. If the pattern continues and this technical analysis proves true, the Consumer Staples sector could largely benefit from a short-duration market drop-off, increasing investment demand for the sector derived by logical investors that seek defensive instruments.

Recommendation

Following my analysis of the sector, I recommend the Wisman Fund *Market-Weights Consumer Staples* to the benchmark of 6.2%. Although considering that this sector historically underperforms the benchmark, I believe it would be wise to establish this weighting on current economic uncertainty and fear of a possible contraction nearing the year-end of 2024. This recommendation takes into fact of delayed rate cuts, with projections establishing a potential Federal Funds Rate cut by the end of Q2; considering the Wisman Fund's market weight of this sector will not take place until the end of the semester, which aligns with this possibility of a rate cut. Furthermore, Fidelity Research has provided returns during contraction phases of the business cycle, which Consumer Staples tends to outperform during these periods. If my analysis stands correct, I truly believe that the Wisman Fund can leverage current economic conditions with the establishment of early buy-ins of strong-performing securities; performance attribution of our portfolio is largely derived from security selection. And considering the recent performance of the sector, an uptick can be observed of slight pessimism in the market and increased attraction to the sector. In other considerations, an increased weighting of consumer staples would allow for a more diversified approach, where Information Technology currently has a portfolio weight of 40.30%. The market weight recommendation of the consumer staples sector would allow for a defensive strategy if a potential market downturn occurred.

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