Market Commentary Blog

Cash Flow *and Carey*

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8/1/23

Consumer Checkup: Aisle 7

Consumer Stocks vs. the S&P 500 Index

(YTD, 1-Year and Average Annualized Total Returns thru 7/28/23)

Period	S&P 500 Consumer Discretionary Index	S&P 500 Consumer Staples Index	50% Disc./ 50% Staples	S&P 500 Index
YTD	35.46%	3.93%	19.70%	20.46%
1-Year	11.31%	5.13%	8.22%	14.43%
3-Year	7.44%	10.39%	8.92%	14.27%
5-Year	9.87%	10.83%	10.35%	12.11%
10-Year	12.50%	9.38%	10.94%	12.58%
15-Year	14.51%	10.38%	12.45%	11.34%

Source: Bloomberg. 50%/50% combination reflects daily rebalancing. **Past Performance is no guarantee of future results.**

View from the Observation Deck

Today's post compares the performance of consumer stocks to the broader market, as measured by the S&P 500 Index, over an extended period. Given that consumer spending has accounted for nearly 68% of U.S. Gross Domestic Product (GDP), on average, since 2000, we think the performance of consumer stocks can offer insight into potential trends in the broader economy.

Driven by continued consumer spending and improving sentiment, Consumer Discretionary stocks posted YTD and 1-Year total returns of 35.46% and 11.31%, respectively.

The last time we posted on this topic (click here) we noted that Consumer Discretionary stocks had outperformed Consumer Staples as well as the S&P 500 Index by a significant margin in January 2023. That trend has continued, with Discretionary stocks outperforming Staples and the S&P 500 Index on a YTD basis through July 28, 2023 (see table). From our perspective, improving consumer sentiment could be a significant factor in these results. In July, The University of Michigan's Consumer Sentiment Index surged by 20.1 points, rising from a reading of 51.5 in July 2022, to 71.6 in July 2023, its highest level since October 2021. The sharp rise in sentiment can largely be attributed to the continued slowdown in inflation. Inflation, as measured by the 12-month rate of change in the Consumer Price Index (CPI), stood at 3.0% on June 30, 2023, down from its most recent high of 9.1% on June 30, 2022.

Over time, we expect Discretionary stocks to outperform their more conservative peers, but with the potential for increased volatility.

When we last posted on this topic, Consumer Staples reflected higher total returns than their Discretionary peers on a trailing 1-year, 3-year, and 5-year basis. As today's table reveals, Discretionary stocks now outperform Staples over the 1-year time frame. Recall that the total returns for the three and five-year periods include the depths of the COVID-19 pandemic as well as the S&P 500 Index's most recent bear market, which were times we would expect Staples to have an advantage in terms of total return.

Takeaway

From our perspective, the S&P 500 Consumer Discretionary Index is the beneficiary of lower inflationary pressures. The CPI stood at 3.0% on June 30, 2023, marking a stunning retreat from when it stood at 9.1% just a year earlier on June 30, 2022. Declining inflation has been a welcome relief to many Americans who, stretched thin by rising interest rates, plummeting savings, and record levels of credit card debt, are a significant driver of economic growth. Consumer spending accounted for 68.2% of U.S. GDP in the second quarter of 2023. Should the consumer remain healthy, the possibility of the U.S. experiencing a notable recession could be diminished. Stay tuned!