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TRIVARIATE RESEARCH

THE CONSUMER CONUNDRUM: WHICH STOCKS MAKE SENSE TODAY?

ADAM S. PARKER, Ph.D., FOUNDER

adam@trivariateresearch.com
646-734-7070

CHANG GE, ANALYST

chang@trivariateresearch.com
614-397-0038

MAXWELL ARNOLD, ANALYST

maxwell@trivariateresearch.com
347-514-1234

RYAN MCGOVERN, DIR. OF RESEARCH SALES

ryan@trivariateresearch.com
973-271-8017

COLIN COONEY, HEAD OF SALES

colin@trivariateresearch.com
617-910-7934

BACKGROUND AND INVESTMENT CONCLUSIONS

Background: One of the biggest macro investment controversies is the state of the US consumer. Jobs data remain relatively strong, but confidence is low. The stocks exposed to the Consumer have materially lagged. Hence, we investigate the Consumer Discretionary and Consumer Staples sectors in today's research.

We continue to recommend investors' Underweight Consumer Discretionary: Consumer confidence, due to tariffs, is incredibly low. Since 1978, the Michigan Consumer Sentiment Index was only lower than this most recent data point during the throes of COVID! The result has been a very sharp underperformance by the Consumer Discretionary sector year-to-date.

What would it take to get bullish?: In several, but not all previous cycles, there was an inverse relationship between confidence and the stocks, but that historically has been the result of buying the stocks early in an interest rate cycle when the economy is close to bottoming and about to accelerate. But we don't think consumer macro conditions are that close to bottoming, as we are just starting to see the initial signs of stress on the consumer. For example, 90-day credit card delinquencies are just starting to tick up but are still below the 2014-2019 averages.

Is the Fed cutting bearish?: The perception about forward interest rates has shifted, so the reaction of higher markets and hawkish data is now statistically significant and positively related, as opposed to being negatively correlated three years ago. Our view is this makes sense - the market and interest rates will go up if economic data are surprisingly good at this point in the cycle. But that also means that a weakening set of jobs data that encourages the Fed to cut interest rates will likely be punished, not rewarded.

Consumer Staples dispersion: The equally-weighted Consumer Staples stock is DOWN year-to-date, but on a cap-weighted basis, the sector is up, with Philip Morris up over 40% this year. The result is that while Staples are generally considered defensive and have been the best performing sector year-to-date in the S&P500 (up 5.5%), on an equally-weighted basis the sector is down. We analyzed previous months when the S&P500 was down 5% or more (as was the case in March when the S&P500 was down 5.7%) and 83% of the months the Staples outperformed averaging 3.2% outperformance during these months.

INVESTMENT CONCLUSIONS

Weak Staples revisions: We have seen very few positive upward revisions for Consumer Staples. In fact, in March we saw the lowest percentage of positive earnings revisions in the Consumer Staples sector for any month in the last 25 years, before some improvement closer to long-term averages in April. Normally, Consumer Staples have above-average earnings estimate achievability when the market slows. That has not been the case so far this year.

Jobs data will matter the most: While it is well-known jobs data lag, so by the time we see weak unemployment data we likely have already seen it from the companies, we have not yet seen mass layoffs. Importantly, February and March jobs reports were revised lower, so it is still possible the Fed will cut interest rates in June if we get a weaker jobs report, but it is now less than a .5 probability for June, with four cuts still in the “WIRP” by year-end. Wages ticked up last month but are down meaningfully from highs. Unemployment remains at 4.2%, which is still relatively low by historical standards. **Our guess is Powell will focus on jobs as the most important economic gauge, and that the Fed will cut less than what’s currently in the price.**

Revenue and margins: Expectations for revenue growth for the median Consumer stock are now below long-term averages, and are particularly low in Food Products and Beverages, in part due to anti-obesity drugs, and in Autos (due to tariffs). No industries are expected to have average revenue growth, yet both trailing and forecasted gross margins are above long-term averages in every Consumer industry except Beverages, Distributors, Personal Care Products, Household Durables, and Household Products. **Gross margins do not seem to be mean reverting in the Consumer Discretionary sector, and while there are some logical reasons for this, our conclusion is broadly that margins are at risk.**

Running sector neutral in Consumer could be challenging: We have seen three periods in the last seven years where more than ½ of all the Consumer stocks have lagged the S&P500 by more than 20%! The only way to do well in Consumer is with sub-industry bets. For example, out of 27 Automobile Components stocks, 22 lagged by 20% or more, and none beat by that much in the last year.

INVESTMENT CONCLUSIONS

Where do you focus for alpha?: Taking the 16 different Consumer industries, we ranked them all 1 through 16 on level and change of company-specific risk (CSR), level and change of pairwise correlation, level and change of valuation dispersion, and the % beating or lagging by 20% or more in the last 12 months. Our conclusion was that Broadlines Retail, Hotels, Restaurants and Consumer Staples Distribution & Retail have more and increasing opportunities for alpha generation than Household Products, Household Durables, and Leisure Products which are more group or beta calls today.

Factor efficacy: We evaluated over 200 common factors in our factor library to see which metrics were efficacious at security selection in Consumer Staples. Buying stocks that were cheap on free cash flow yield and shorting those that were expensive has worked well over time. Change in free cash flow yield (buying those that are getting cheaper and shorting those that are getting more expensive) also adds value, but in aggregate level matters more than change when it comes to free cash flow and Consumer Staples valuation. Change in free cash flow yield worked for picking winners from losers in the Consumer Discretionary sector from 1999-2015 but has added limited value in the last decade. Avoiding businesses with high SG&A-to-sales has really worked since COVID.

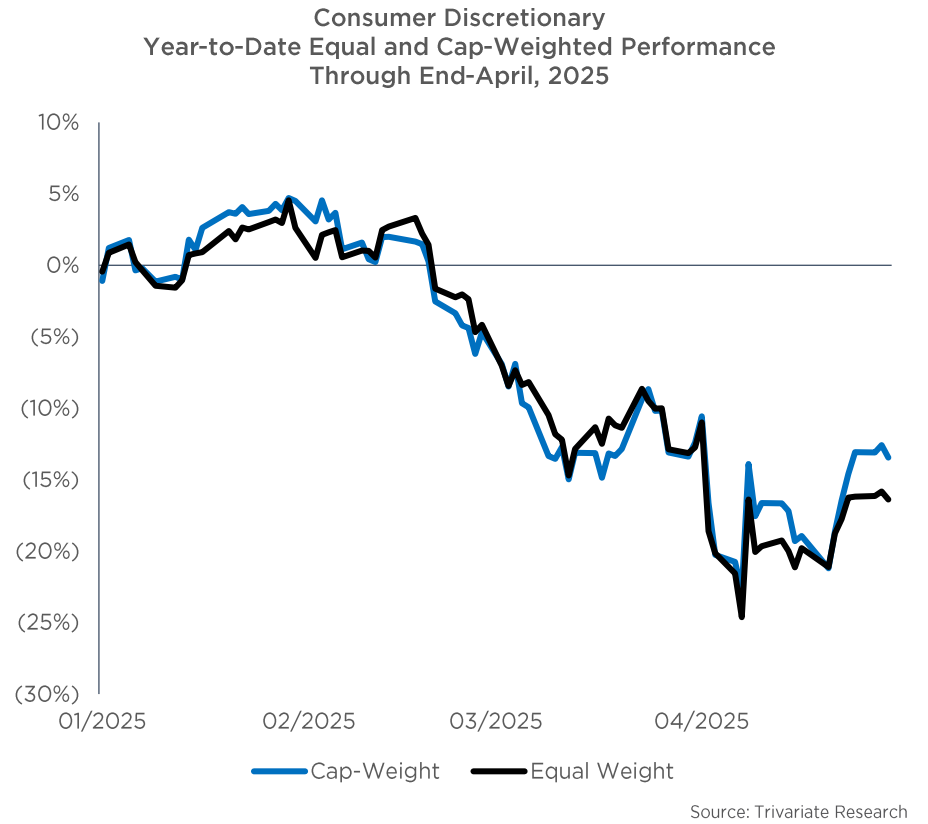
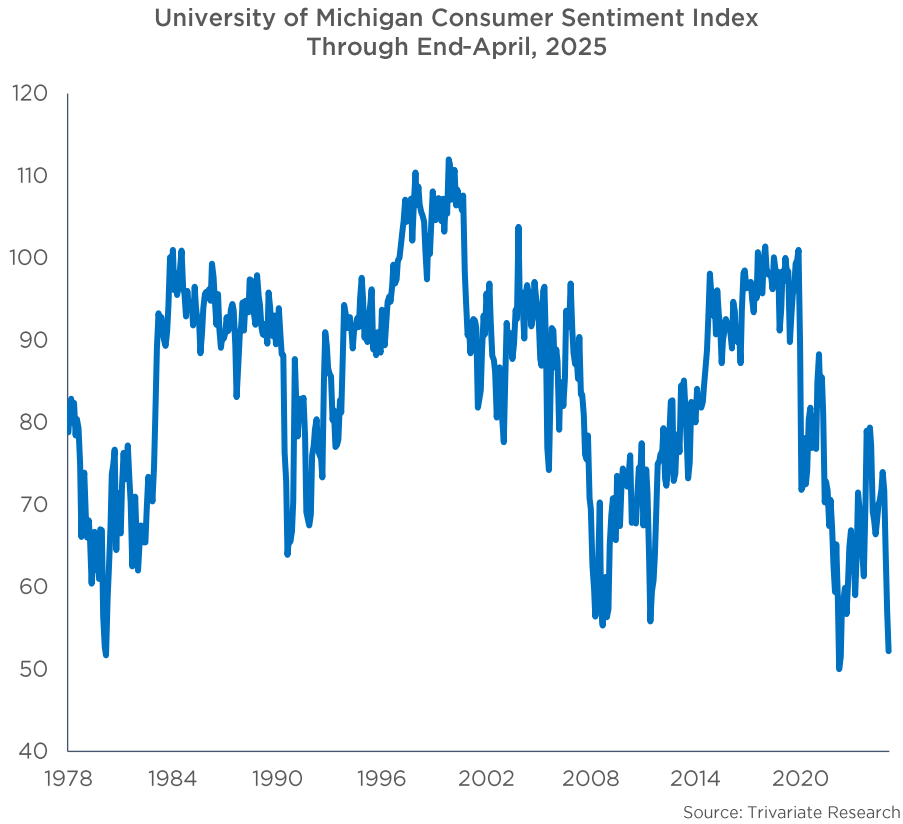
Valuation: Current levels are above longer-term averages in several areas on price-to-forward earnings, but cheaper than much of history on free cash flow yield. The median Food Products stock is cheap. WMT, COST, and KR have gotten expensive, fueling a large disconnect between the valuation of the cap-and-equally-weighted Consumer Staples Distribution & Retail stock. The cap-weighted FCF yield of the Beverages industry is the lowest it has been in 25-years.

Stock ideas: We offer long / short Consumer Staples (Slide 24) and Consumer Discretionary (Slide 25) stock ideas, based on metrics that were effective or growth themes we find are attractive long-term. For any bespoke work on other trends like inventory or pricing, please don't hesitate to contact us.

CONCLUSION: Underweight Consumer Discretionary, Market-Weight Consumer Staples.

CONSUMER CONFIDENCE AND DISCRETIONARY STOCKS ARE BAD

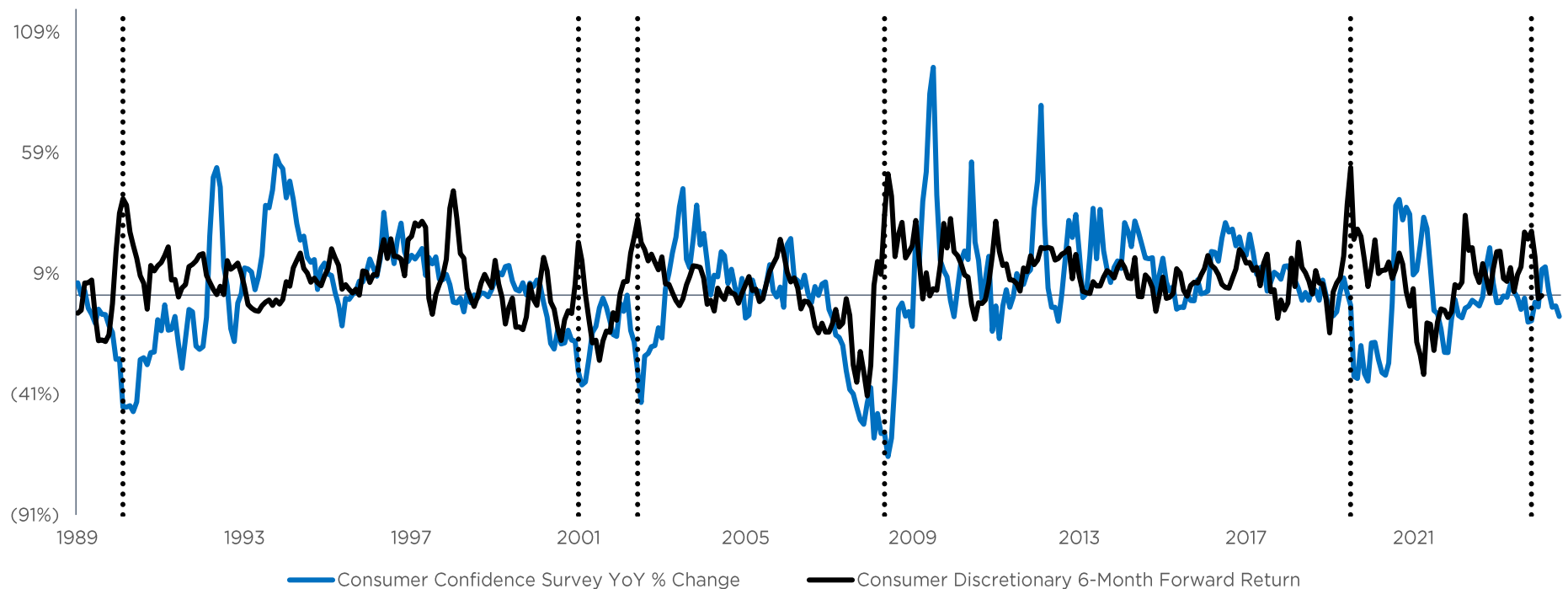
Consumer confidence, due to tariffs, is incredibly low. Since 1978, the Michigan Consumer Sentiment Index (left) was only lower than this most recent data point during the throes of COVID! The result is very sharp underperformance by the Consumer Discretionary sector. We have ranked the Consumer Discretionary sector as our biggest underweight sector recommendation all year (right).



STOCKS HISTORICALLY BOTTOM WHEN CONFIDENCE BOTTOMS

Many investors have asked us what would it take for us to get bullish on the sector. In several, but not all previous cycles, there was an inverse relationship between confidence and the stocks, but that historically has been the result of buying the stocks early in an interest rate cycle when the economy is close to bottoming and about to accelerate.

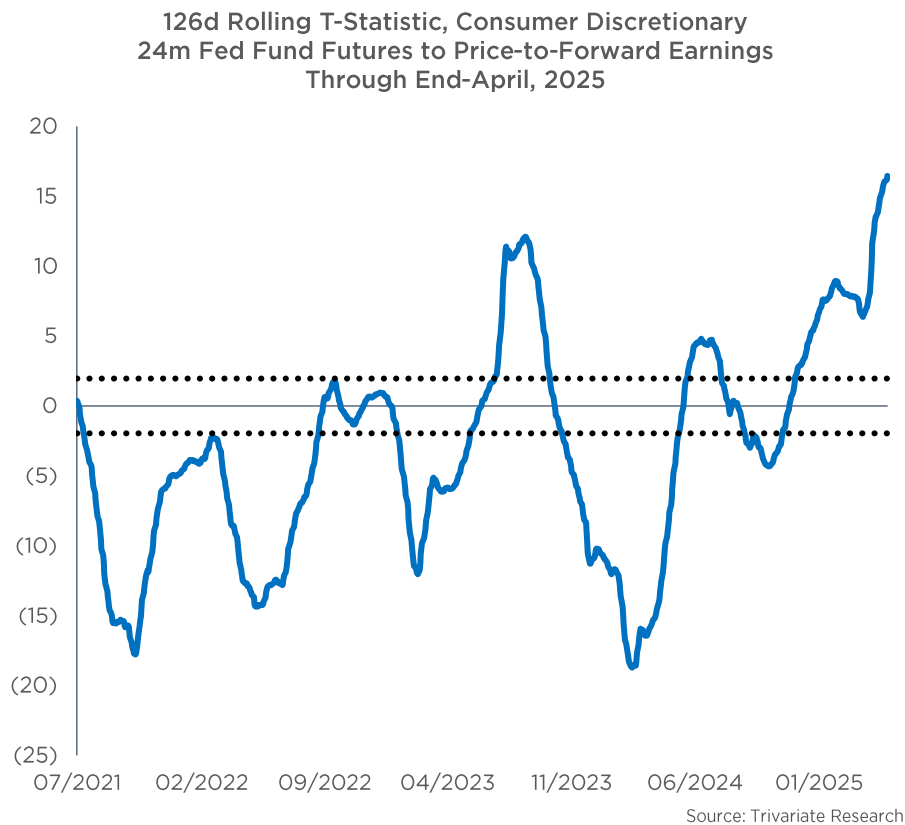
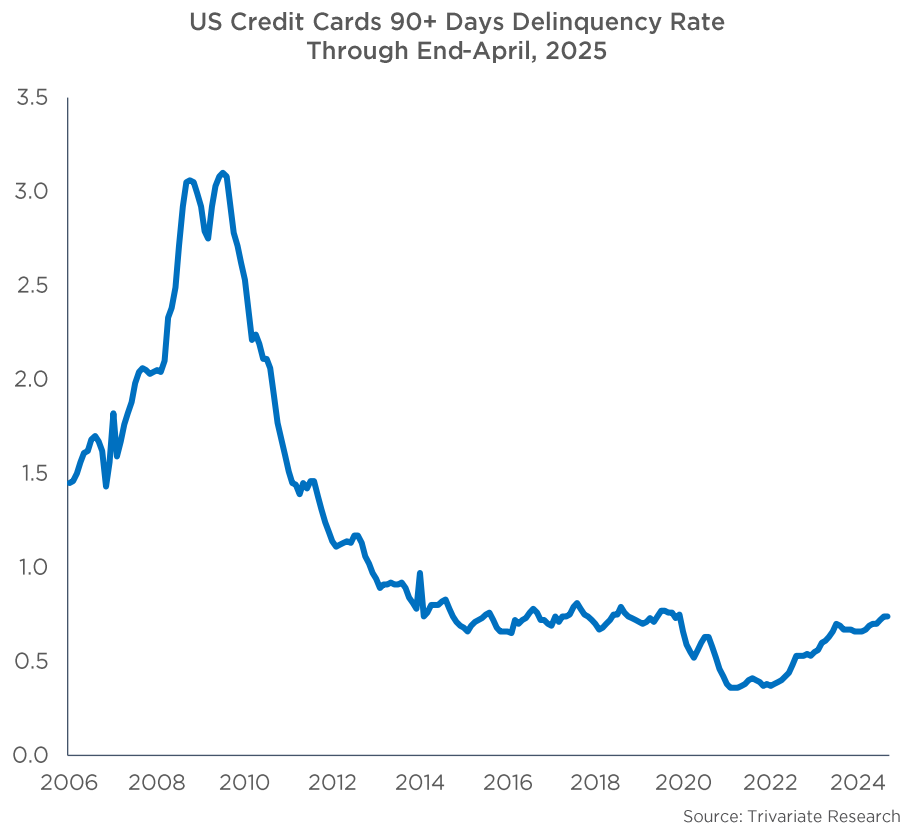
Consumer Confidence vs. Discretionary 6-Month Forward Performance
Through End-April, 2025



Source: Trivariate Research

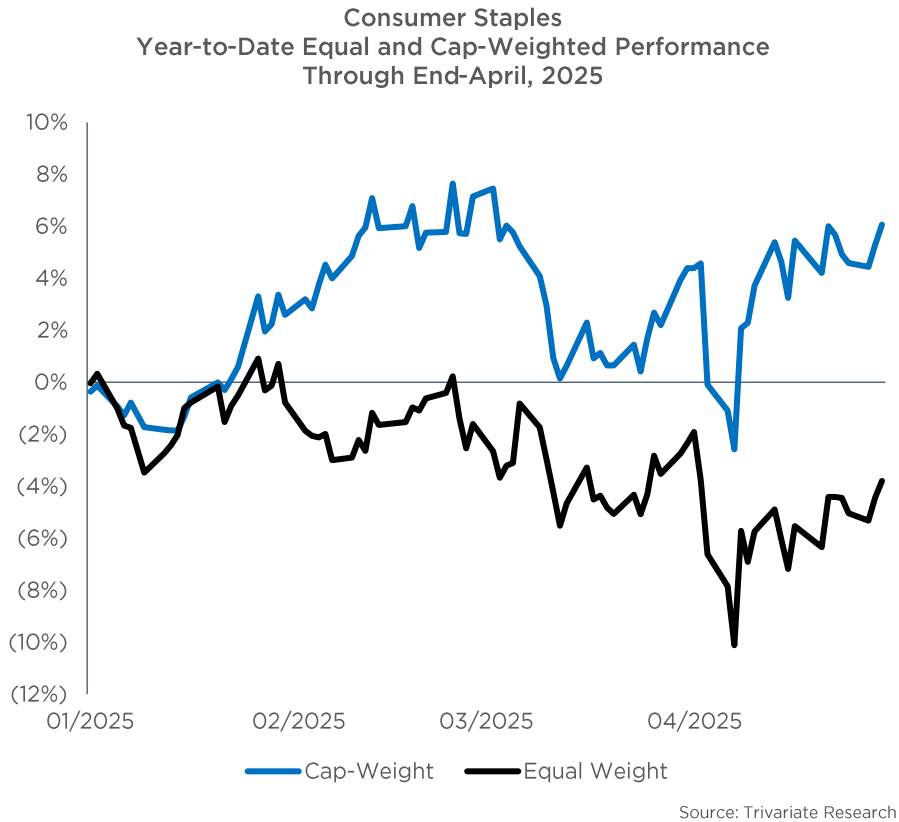
IF THE FED CUTS, THE MARKET WILL GO DOWN?

We don't think consumer macro conditions are that close to bottoming, as we are just starting to see the initial signs of stress on the consumer. For example, 90-day credit card delinquencies are just starting to tick up (left) but are still below the 2014-2019 averages. Moreover, and importantly, the perception about forward interest rates has shifted, so the reaction of higher markets and hawkish data is now statistically significant and positively related, as opposed to being negatively correlated three years ago. Our view is this makes sense - the market and interest rates will go up if economic data are surprisingly good at this point in the cycle. But that also means, that a weakening set of jobs data that gets the Fed to cut will likely be punished, not rewarded.



THE EQUALLY-WEIGHTED CONSUMER STAPLES STOCK IS DOWN YTD

The equally-weighted Consumer Staples stock is DOWN year-to-date, but on a cap-weighted basis, the sector is up, with Philip Morris (Ticker: PM) up over 40% this year (left). The result is that while Staples are generally considered defensive and have been the best performing sector year-to-date in the S&P500 (up 5.5%), on an equally-weighted basis the sector is down. We analyzed previous months where the S&P500 was down 5% or more (as was the case in March when the S&P500 was down 5.7%) and 83% of the months the Staples outperformed (right) averaging 3.2% outperformance during these months.



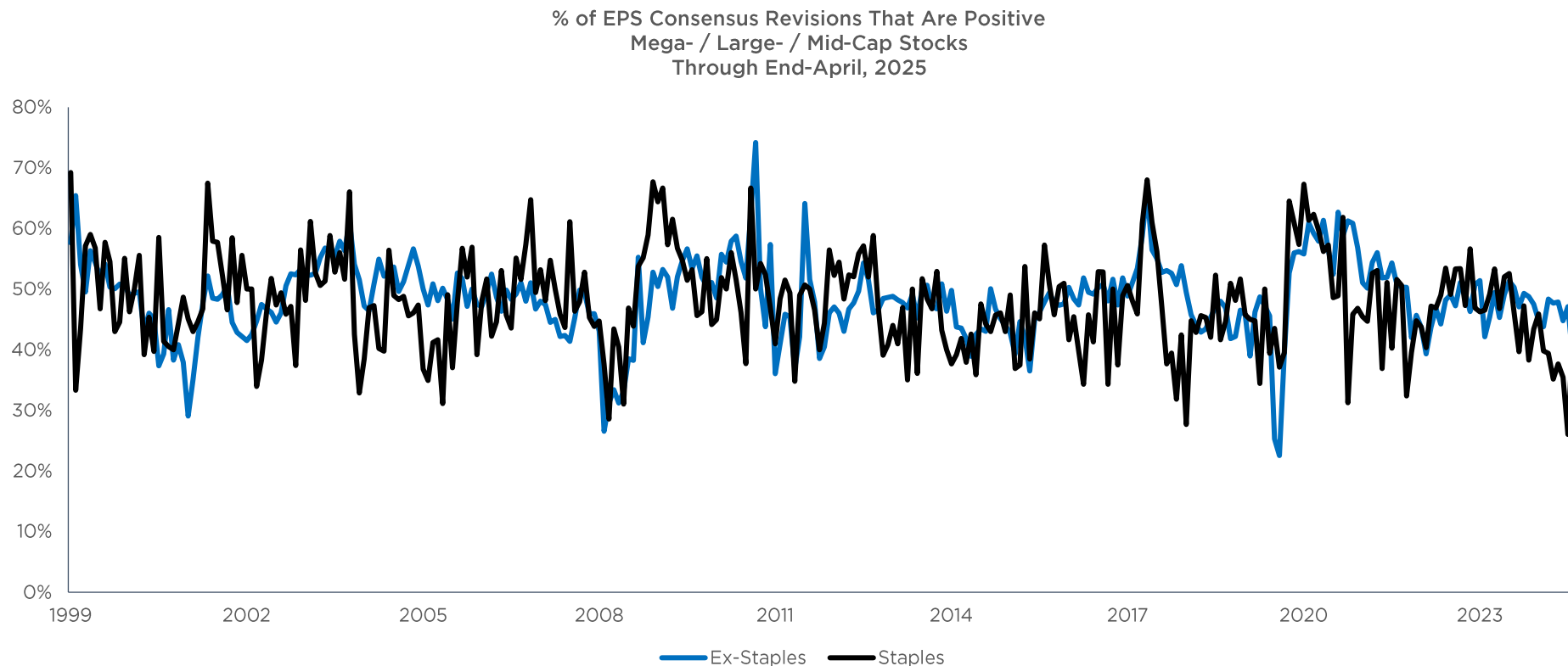
**Performance Statistics of Equal Weight Consumer Staples vs. S&P500
Months Where S&P500 Down >5%
1999 to End-April, 2025**

Statistic	Consumer Staples (Equal Weight)	S&P500	Spread
Mean	(4.5%)	(7.6%)	3.2%
Median	(5.0%)	(7.1%)	1.9%
Standard Deviation	4%	2%	4%
Hit Rate	17%	0%	83%
# of Months	36	36	36

Source: Trivariate Research

WE RARELY HAVE SEEN STAPLES WITH WEAKER EARNINGS TRENDS

We have seen very few positive upward revisions for Consumer Staples. In fact, in March (below) we saw the lowest percentage of positive earnings revisions in the Consumer Staples sector for any month in the last 25 years, before some improvement closer to long-term averages in April. Normally, Consumer Staples have above-average earnings estimate achievability when the market slows. That has not been the case this year so far.

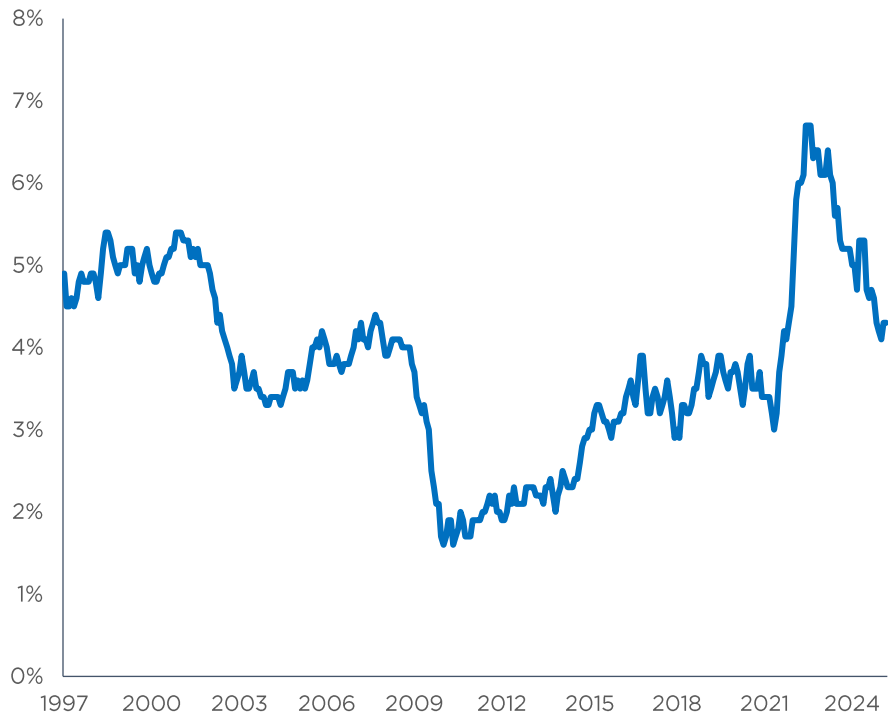


Source: Trivariate Research

WE THINK JOBS DATA NEEDS TO GET WORSE FOR THE FED TO CUT

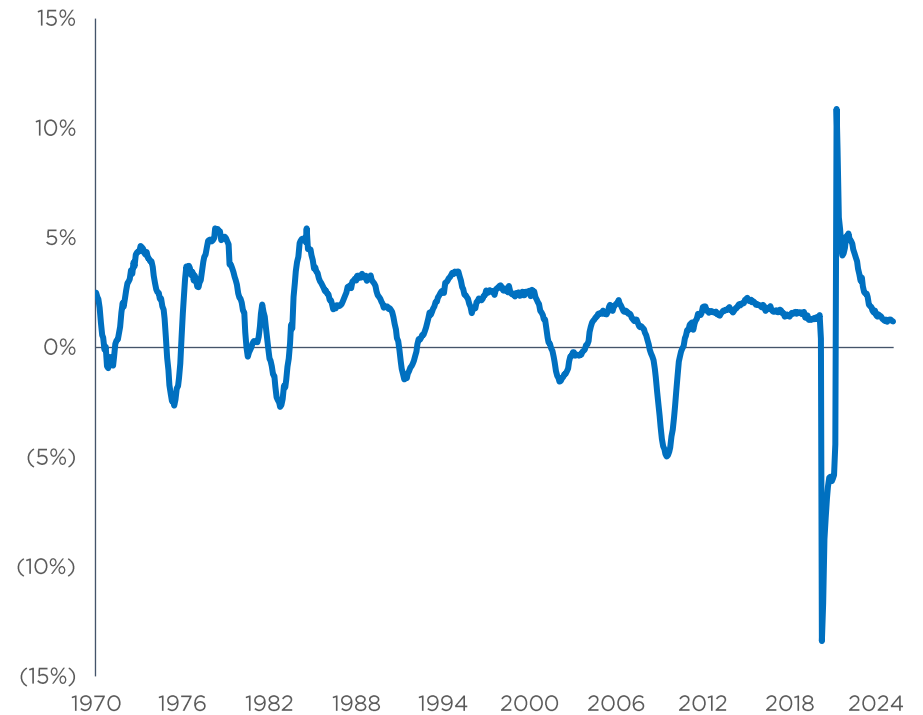
Last Friday's jobs report was strong relative to expectations, indicating we are not yet seeing the deterioration in the labor market. While it is well-known jobs data lag, so by the time we see weak unemployment data we likely have already seen it from the companies, we have not yet seen mass layoffs. Importantly, February and March jobs reports were revised lower, so it is still possible the Fed will cut interest rates in June if we get a weaker jobs report, but it is now less than a .5 probability for June, with four cuts still in the "WIRP" by year-end. Wages ticked up last month but are down meaningfully from highs (left). Unemployment remains at 4.2%, which is still relatively low by historical standards. Our guess is Powell will focus on jobs (right) as the most important gauge, and that the Fed will cut less than what's in the price without the data getting much worse.

Atlanta Fed Wage Growth Tracker
Through End-April, 2025



Source: Trivariate Research

Non-Farm Payrolls (YoY % Change in # of Employees)
Through End-April, 2025



Source: Trivariate Research

FORECASTS: REVENUE BELOW AVERAGE, MARGIN ABOVE AVERAGE

Expectations for revenue growth for the median Consumer stock are now below long-term averages, and are particularly low in Food Products and Beverages, in part due to anti-obesity drugs, and in Autos (due to tariffs). Despite this more sober revenue growth outlook, both trailing and forecasted gross margins are above long-term averages in every Consumer industry except Beverages, Distributors, Personal Care Products, Household Durables, and Household Products. **Gross margins do not seem to be mean reverting in the Consumer Discretionary sector, and while there are some logical reasons for this, our conclusion is broadly that margins are at risk.**

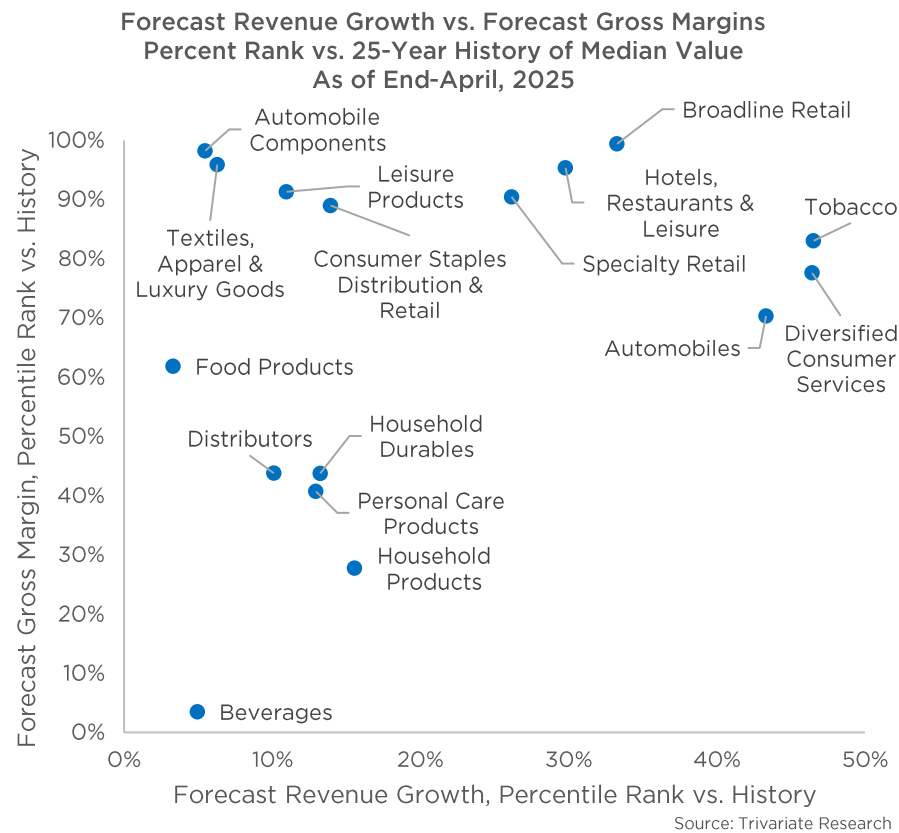
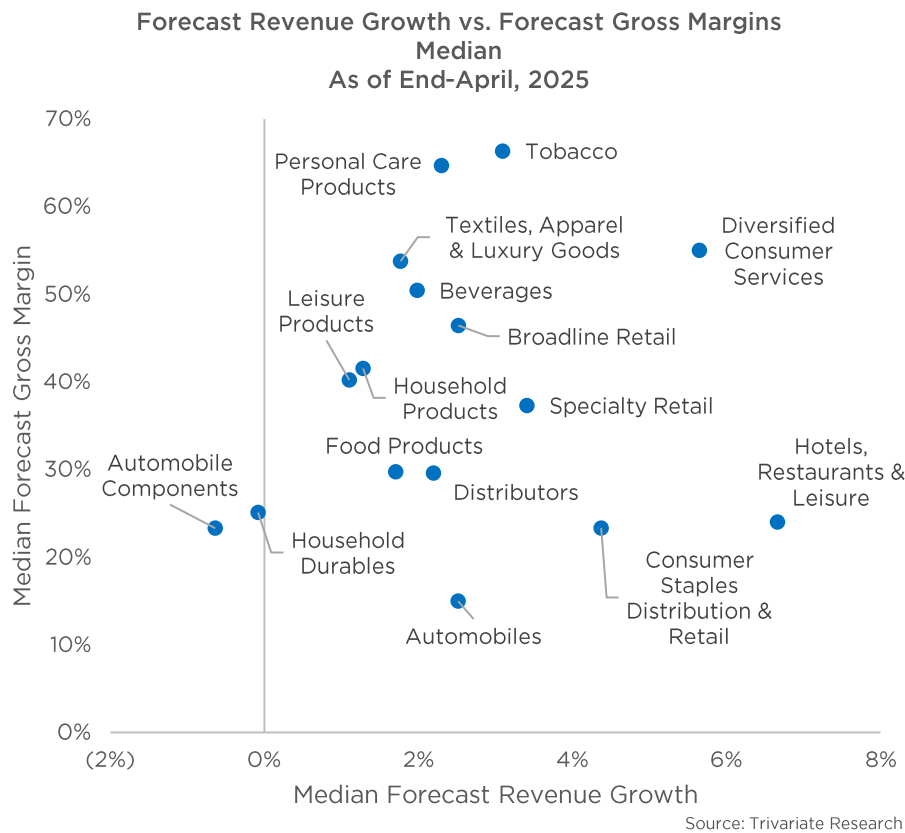
GICS Consumer Industries, Median Fundamentals & % Rank vs. History
End-April, 2025

Industry	Revenue Growth	% Rank vs. History	Forecast Revenue Growth	% Rank vs. History	Gross Margin	% Rank vs. History	Forecast Gross Margin	% Rank vs. History	Top 3 Tickers by Market Cap.
Food Products	1%	5%	2%	3%	24%	12%	30%	62%	MDLZ, KHC, HSY
Beverages	2%	6%	2%	5%	48%	84%	50%	3%	KO, PEP, MNST
Automobile Components	(1%)	15%	(1%)	5%	20%	61%	23%	98%	APTV, MBLY, ALV
Textiles, Apparel & Luxury Goods	1%	13%	2%	6%	52%	96%	54%	96%	NKE, LULU, DECK
Distributors	1%	11%	2%	10%	33%	70%	30%	44%	GPC, POOL, LKQ
Leisure Products	(5%)	9%	1%	11%	31%	23%	40%	91%	HAS, MAT, GOLF
Personal Care Products	1%	21%	2%	13%	70%	99%	65%	41%	KVUE, EL, BRBR
Household Durables	4%	28%	(0%)	13%	26%	65%	25%	44%	DHI, GRMN, LEN
Consumer Staples Dist. & Retail	5%	28%	4%	14%	23%	60%	23%	89%	WMT, COST, KR
Household Products	(0%)	4%	1%	16%	41%	15%	42%	28%	PG, CL, KMB
Specialty Retail	1%	13%	3%	26%	37%	73%	37%	90%	HD, TJX, LOW
Hotels, Restaurants & Leisure	6%	28%	7%	30%	43%	92%	24%	95%	MCD, BKNG, SBUX
Broadline Retail	2%	25%	3%	33%	43%	100%	46%	99%	AMZN, MELI, CPNG
Automobiles	1%	22%	3%	43%	12%	14%	15%	70%	TSLA, GM, F
Diversified Consumer Services	7%	45%	6%	46%	53%	77%	55%	78%	DUOL, SCI, HRB
Tobacco	7%	83%	3%	47%	53%	85%	66%	83%	PM, MO, UVV

Source: Trivariate Research

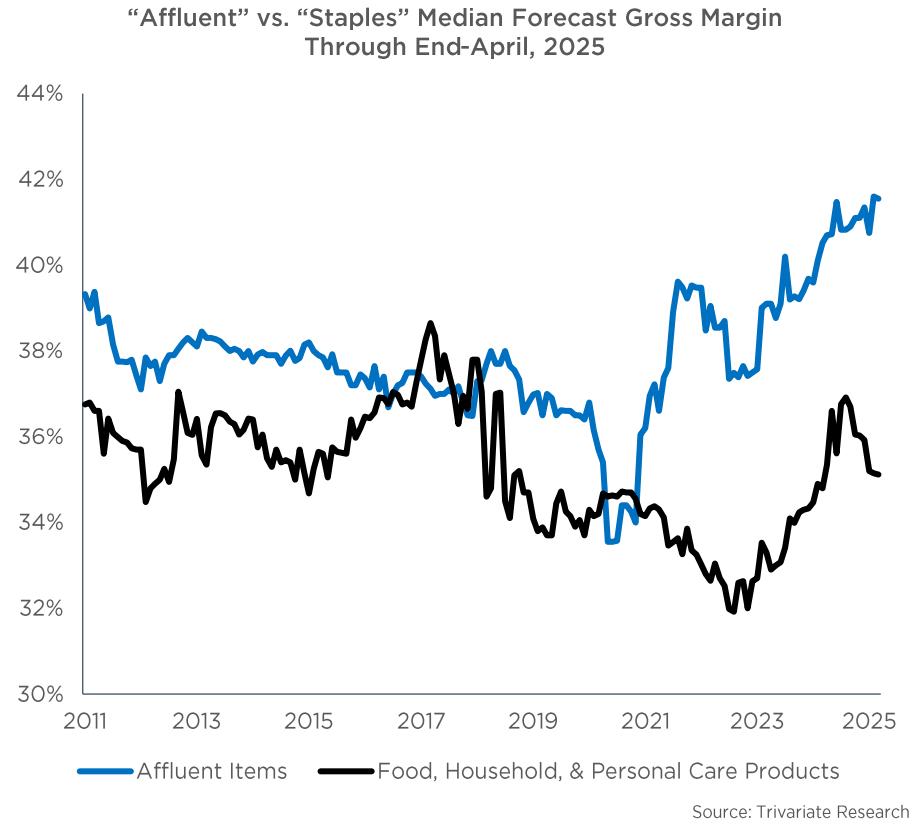
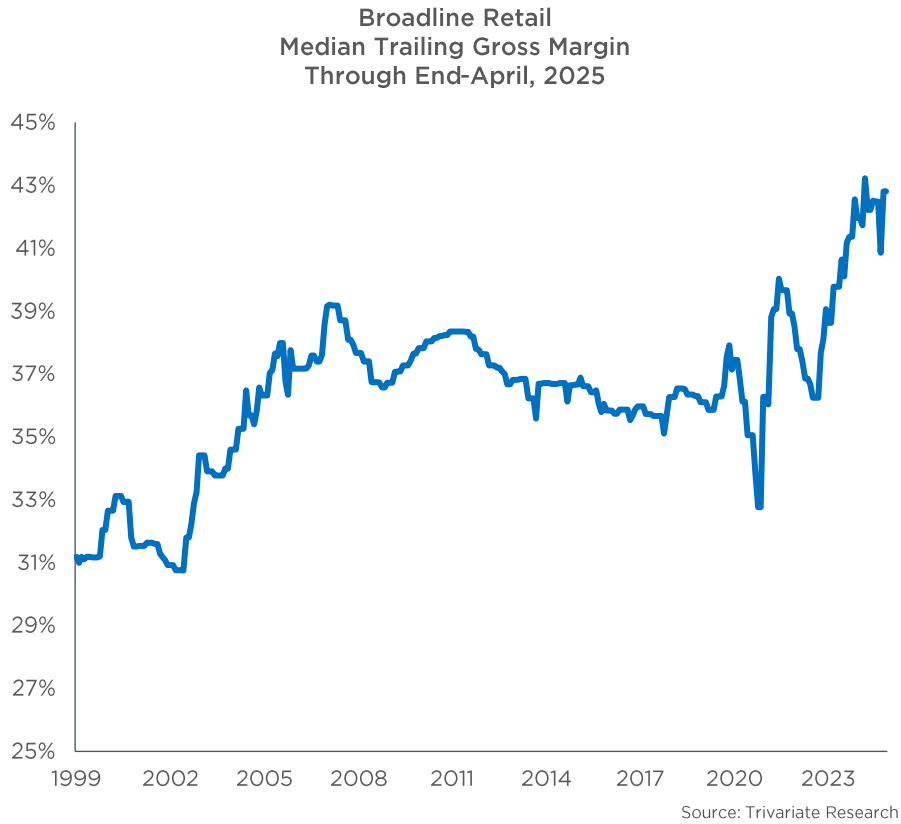
0 INDUSTRIES ARE EXPECTED TO HAVE > 50TH PERCENTILE GROWTH

We show the forecasted revenue growth and gross margin for the median stock in each industry on the left. Automobile Components are expected to shrink. Several of the Consumer Staples are expected to have low growth but high margins. On the right, we show the same information, but only as percentiles vs. each industry's own 25-year history. Beverages are forecasted to have low growth and low margins vs history. None of the industries are expected to have higher than median historical revenue growth. However, 11 industries are expected to have above median historical gross margins.



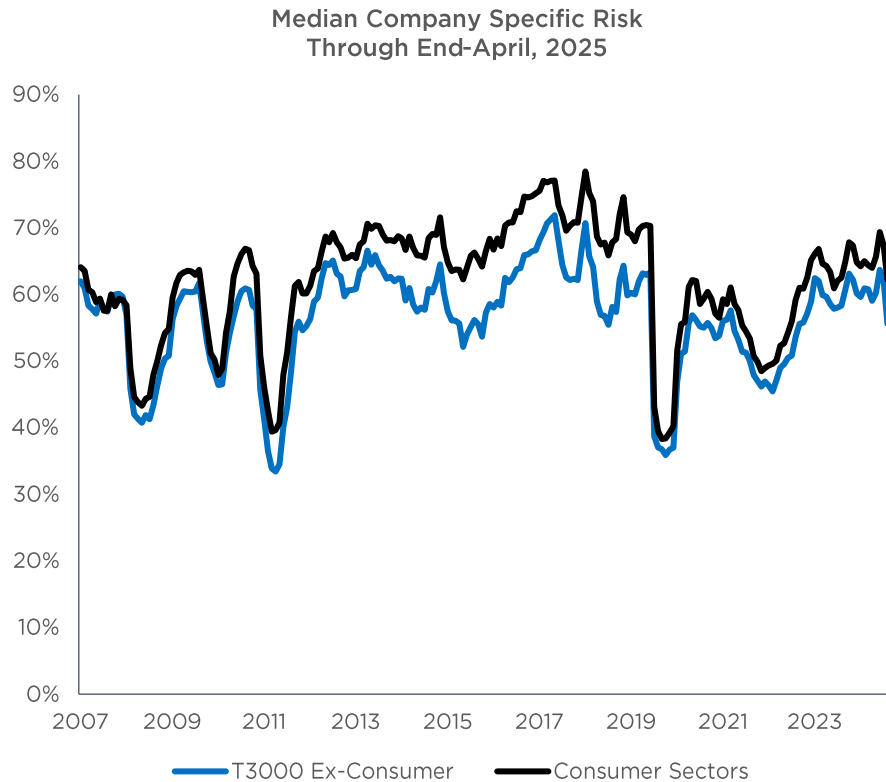
HIGHER GROSS MARGINS FOR BROADLINES, BIFURCATED ELSEWHERE

The largest Broadlines Retailers (AMZN, MELI, CPNG) are enjoying near-record gross margins. It will be interesting to see if tariffs pressure profitability in the next two quarters (left). We clustered select Consumer items like Specialty and Luxury Goods, and noticed the companies that serve the “Affluent” Consumer have shown higher margins, as their customers are generally more price inelastic (right). On the contrary, GLP-1 drugs, and a slowing consumer macro environment have made it harder for Household & Personal Products companies to continue to pass on high pricing, so margins are lower and more average vs. history than those servicing richer consumers.



CONSUMER STOCKS ARE USUALLY MORE IDIOSYNCRATIC THAN AVG.

Trivariate’s 7-factor model for company-specific risk (CSR) analyzes equity market beta, two size factors (mega / large vs. mid, mid vs. small / micro), style (growth vs. value), substance (quality vs. junk), liquidity, and momentum. What’s “left over” or “residual” we refer to as CSR. The Consumer Sectors are consistently slightly more idiosyncratic than the market (left). Today, Beverages, Food Products, and Personal Care Products have the highest CSR in absolute terms, Distributors, Beverages, and Automobile Components have high CSR vs. their own histories, and Household Durables and Automobile Components have become incrementally less macro of late (right). Tobacco is becoming more macro but still has higher-than-average absolute CSR.



Source: Trivariate Research

3-Month Change and Level of Company-Specific Risk (%) Consumer Industries, As of End-April, 2025

Industry	Change in CSR	Level of CSR	CSR % Rank vs. History
Household Durables	5.0	53.3	49.3
Automobile Components	1.1	55.6	57.3
Textiles, Apparel & Luxury Goods	(1.8)	61.9	53.6
Consumer Staples Distribution & Retail	(2.5)	66.1	34.6
Beverages	(2.5)	71.7	70.1
Food Products	(2.7)	70.8	55.0
Diversified Consumer Services	(3.1)	59.0	12.3
Automobiles	(3.2)	52.4	39.8
Distributors	(3.4)	60.5	71.1
Personal Care Products	(3.7)	68.4	41.7
Specialty Retail	(4.4)	60.3	41.7
Leisure Products	(4.6)	59.9	29.4
Household Products	(4.9)	65.8	62.1
Hotels, Restaurants & Leisure	(5.5)	60.3	42.2
Broadline Retail	(6.9)	66.9	50.2
Tobacco	(11.4)	65.5	51.2

Source: Trivariate Research

STOCK PICKERS SHOULD KNOW WHAT STOCKS ARE FOR ALPHA

For investors who are good alpha generators, focusing on stocks with high CSR and few if any other stocks that are highly correlated is important, as if you take large positions vs. the index in these names and are right, you will separate your performance from the index meaningfully. So, stocks like WMT, MCD, NKE, KR, and K, among others (left) are good to have large over or under-weight positions in should you have conviction. On the right, are stocks that are more macro and have many other stocks correlated to them. Hence, these are more for risk management than alpha and include AMZN, Lodging and Cruises, and Homebuilders, among others.

High Company-Specific Risk and Low Replicability Consumer Sectors End-April, 2025

Ticker	Company	Industry	Market Cap. (US\$ Bil.)
WMT	Walmart Inc.	Consumer Staples Distribution & Retail	778.09
MCD	McDonald's Corporation	Hotels, Restaurants & Leisure	228.57
NKE	NIKE, Inc.	Textiles, Apparel & Luxury Goods	83.25
KR	The Kroger Co.	Consumer Staples Distribution & Retail	47.72
K	Kellanova	Food Products	28.57
CHD	Church & Dwight Co., Inc.	Household Products	24.45
DG	Dollar General Corporation	Consumer Staples Distribution & Retail	20.61
CLX	The Clorox Company	Household Products	17.53
PPC	Pilgrim's Pride Corporation	Food Products	12.96
COKE	Coca-Cola Consolidated, Inc.	Beverages	11.82
WBA	Walgreens Boots Alliance, Inc.	Consumer Staples Distribution & Retail	9.49
HRB	H&R Block, Inc.	Diversified Consumer Services	8.08

Source: Trivariate Research

Low Company-Specific Risk and High Replicability Consumer Sectors End-April, 2025

Ticker	Company	Industry	Market Cap. (US\$ Bil.)
AMZN	Amazon.com, Inc.	Broadline Retail	1,957.13
MAR	Marriott International, Inc.	Hotels, Restaurants & Leisure	65.70
RCL	Royal Caribbean Cruises Ltd.	Hotels, Restaurants & Leisure	58.36
HLT	Hilton Worldwide Holdings Inc.	Hotels, Restaurants & Leisure	53.60
CCL	Carnival Corporation & plc	Hotels, Restaurants & Leisure	23.82
PHM	PulteGroup, Inc.	Household Durables	20.56
VIK	Viking Holdings Ltd	Hotels, Restaurants & Leisure	18.17
BLD	TopBuild Corp.	Household Durables	8.65
MHK	Mohawk Industries, Inc.	Household Durables	6.65
WH	Wyndham Hotels & Resorts, Inc.	Hotels, Restaurants & Leisure	6.61
AN	AutoNation, Inc.	Specialty Retail	6.57
BYD	Boyd Gaming Corporation	Hotels, Restaurants & Leisure	5.70

Source: Trivariate Research

CORRELATIONS ARE LOW, VALUATION DISPERSION IS AVERAGE

We evaluated how each stock trades vs. all other stocks in the same sub-industry. At present, 11 of the 16 Consumer sub-industries have pairwise correlations that are below long-term medians, with Broadline Retailers the lowest vs. history (left). We also looked at the dispersion of price-to-forward earnings of all the stocks in each sub-industry (right). Tobacco and Broadline Retailers are getting more disperse, Personal Care Products and Leisure Products are seeing some valuation compression of late. In absolute terms, valuation has the tightest band in Household Durables and Household Products, the widest in Specialty Retail, Broadline Retail, Leisure Products and Hotels, Restaurants and Leisure.

**Pairwise Correlation
3-Month Change and Level by Industry
Consumer Industries, As of End-April, 2025**

Industry	Change in Median Pairwise Correlation	Level of Median Pairwise Correlation	PWC % Rank vs. History
Beverages	5.6	29.5	68.9
Food Products	2.9	19.6	41.8
Household Products	0.6	24.3	24.7
Broadline Retail	(1.0)	17.2	2.7
Leisure Products	(1.2)	26.1	53.3
Diversified Consumer Services	(1.9)	25.9	62.6
Consumer Staples Dist. & Retail	(2.7)	20.7	31.8
Textiles, Apparel & Luxury Goods	(3.3)	28.0	37.7
Automobiles	(3.4)	28.0	24.3
Personal Care Products	(3.7)	20.6	55.7
Household Durables	(4.1)	38.6	66.9
Distributors	(4.3)	23.4	24.9
Tobacco	(4.4)	23.5	21.9
Hotels, Restaurants & Leisure	(4.6)	21.9	27.8
Specialty Retail	(5.8)	25.6	29.1
Automobile Components	(8.0)	33.6	48.9

Source: Trivariate Research

**Cross-Sectional Dispersion in Price-to-Forward Earnings
Level and 3m Change in 3-Month Average
Consumer Industries, As of End-April, 2025**

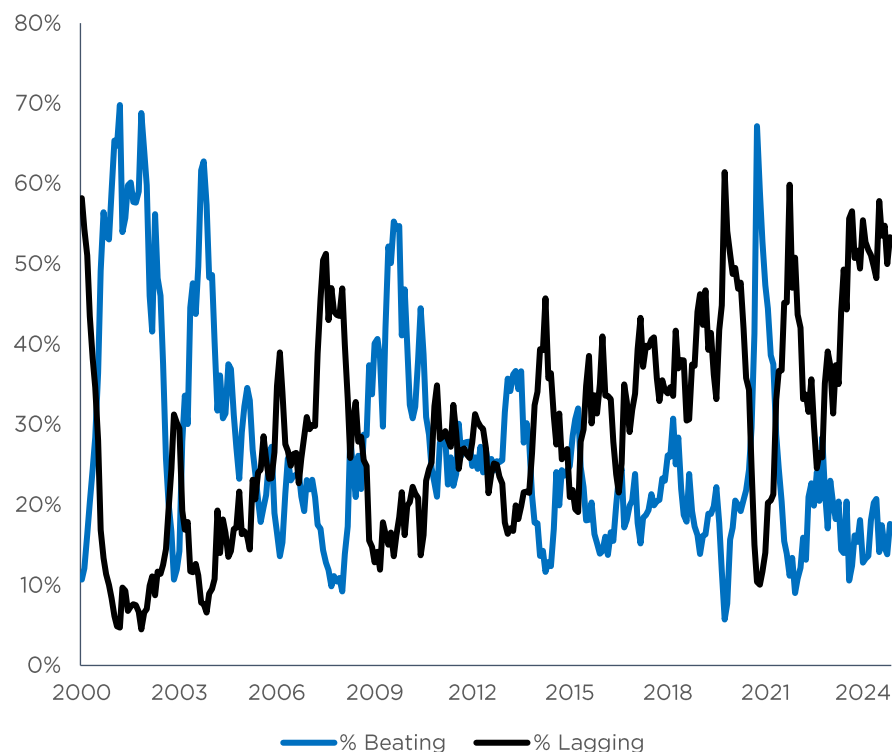
Industry	Change of PEF Dispersion	Level of PEF Dispersion
Tobacco	2.5	8.1
Broadline Retail	1.9	16.2
Hotels, Restaurants & Leisure	0.7	13.6
Household Products	0.6	6.7
Automobile Components	0.4	9.7
Diversified Consumer Services	0.4	10.4
Beverages	0.3	8.1
Food Products	0.1	9.9
Automobiles	(0.2)	16.1
Specialty Retail	(0.3)	13.4
Consumer Staples Distribution & Retail	(0.4)	11.7
Textiles, Apparel & Luxury Goods	(0.5)	10.8
Household Durables	(0.6)	6.0
Distributors	(1.5)	8.9
Leisure Products	(2.0)	13.5
Personal Care Products	(3.1)	9.2

Source: Trivariate Research

RUNNING SECTOR NEUTRAL IN CONSUMER COULD BE CHALLENGING

We also track the percentage of stocks that are lagging or beating the S&P500 by 20% or more over the last 12 months (left). We have seen three periods in the last seven years where more than ½ of all the Consumer stocks have lagged the S&P500 by more than 20%! At the same time, only 15% of Consumer stocks have beaten the S&P500 more by than 20% in the last year. Our conclusion is that running sector-neutral in Consumer does not make sense. The only way to do well in Consumer is with sub-industry bets (right). For example, out of 27 Automobile Components stocks, 22 lagged by 20% or more, and none beat by that much in the last year.

**% Beating or Lagging the S&P500 by >=20%
Consumer Sectors
Through End-April, 2025**



Source: Trivariate Research

**Number of Stocks Beating or Lagging the S&P by >=20% Last 12m
Consumer Industries, As of End-April, 2025**

Industry	# of Stocks Beating >=20%	# of Stocks Lagging >=20%	# of Stocks in Industry
Automobile Components	0	22	27
Automobiles	2	7	9
Beverages	2	6	14
Broadline Retail	4	7	14
Consumer Staples Distribution & Retail	11	6	27
Distributors	0	3	6
Diversified Consumer Services	14	7	24
Food Products	7	21	48
Hotels, Restaurants & Leisure	16	43	88
Household Durables	1	29	40
Household Products	0	3	11
Leisure Products	2	13	18
Personal Care Products	4	12	17
Specialty Retail	11	39	77
Textiles, Apparel & Luxury Goods	2	20	27
Tobacco	3	1	5

Source: Trivariate Research

AVAILABLE ALPHA SUMMARY FOR CONSUMER STOCKS

Taking the 16 different Consumer industries, we ranked them all 1 through 16 on level and change of CSR, level and change of pairwise correlation, level and change of valuation dispersion, and the % beating or lagging by 20% or more in the last 12 months. Our conclusion was that Broadlines Retailers, Hotels, Restaurants and Consumer Staples Distribution & Retail have more and increasing opportunities for alpha generation than Household Products, Household Durables, and Leisure Products which are more group or beta calls today.

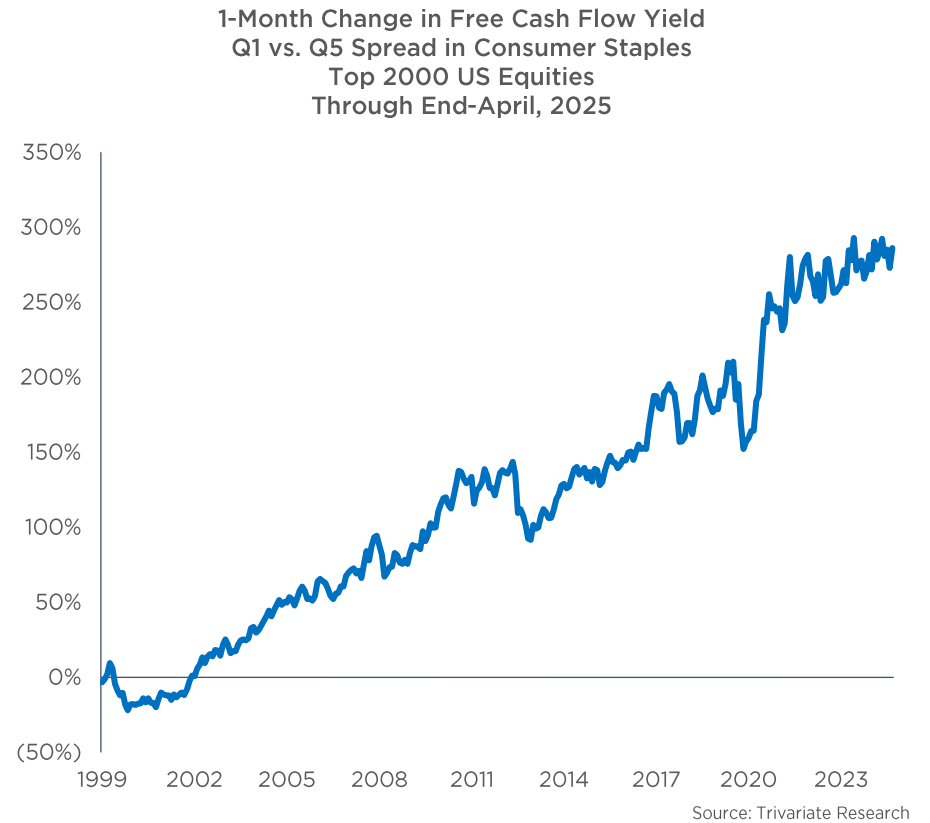
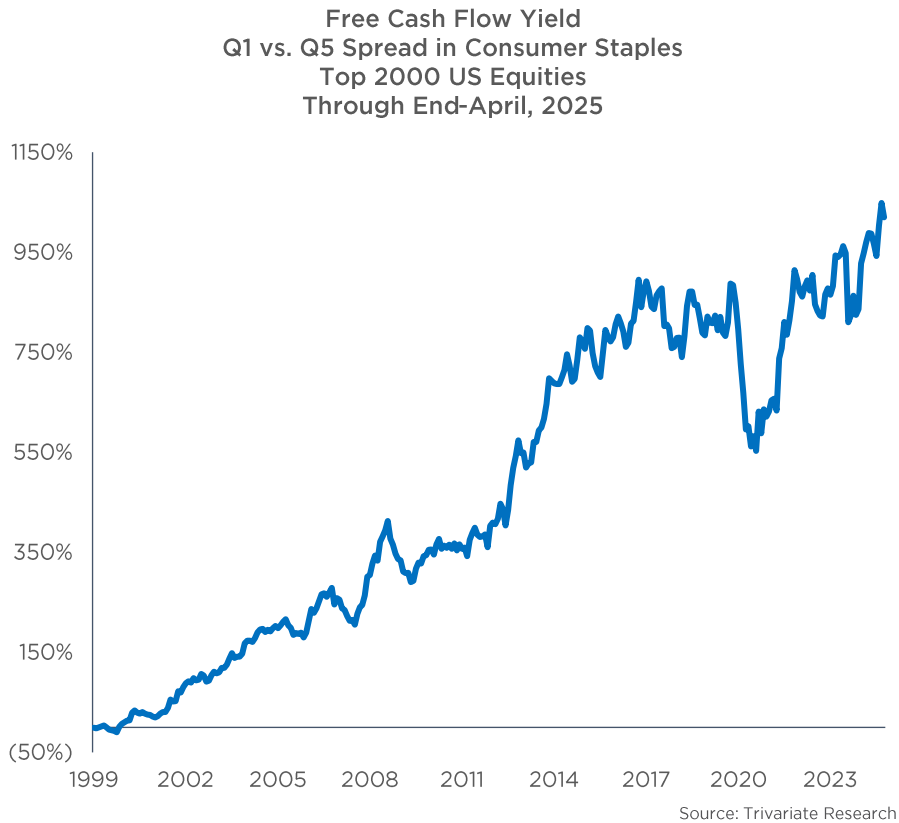
Industry Ranking of Available Alpha Metrics as of End-April, 2025

Industry	CSR Level	CSR 3m Change	PWC Level	PWC 3m Change	Valuation Dispersion Level	Valuation Dispersion 3m Change	% Beating or Lagging >=20%	Mean Rank	Largest 3 Companies
Broadline Retail	4	15	1	13	1	2	8	6.3	AMZN, MELI, CPNG
Hotels, Restaurants & Leisure	10	14	5	3	3	3	10	6.9	MCD, BKNG, SBUX
Consumer Staples Distribution & Retail	5	4	4	10	6	11	11	7.3	WMT, COST, KR
Personal Care Products	3	10	3	7	11	16	1	7.3	KVUE, EL, BRBR
Automobile Components	14	2	15	1	10	5	7	7.7	APTV, MBLV, ALV
Textiles, Apparel & Luxury Goods	8	3	12	9	7	12	3	7.7	NKE, LULU, DECK
Tobacco	7	16	7	4	14	1	5	7.7	PM, MO, UVV
Food Products	2	6	2	15	9	8	15	8.1	MDLZ, KHC, HSY
Automobiles	16	8	13	8	2	9	2	8.3	TSLA, GM, F
Diversified Consumer Services	13	7	10	11	8	6	4	8.4	DUOL, SCI, HRB
Specialty Retail	11	11	9	2	5	10	12	8.6	HD, TJX, LOW
Beverages	1	5	14	16	13	7	13	9.9	KO, PEP, MNST
Distributors	9	9	6	5	12	14	14	9.9	GPC, POOL, LKQ
Leisure Products	12	12	11	12	4	15	6	10.3	HAS, MAT, GOLF
Household Durables	15	1	16	6	16	13	9	10.9	DHI, GRMN, LEN
Household Products	6	13	8	14	15	4	16	10.9	PG, CL, KMB

Source: Trivariate Research

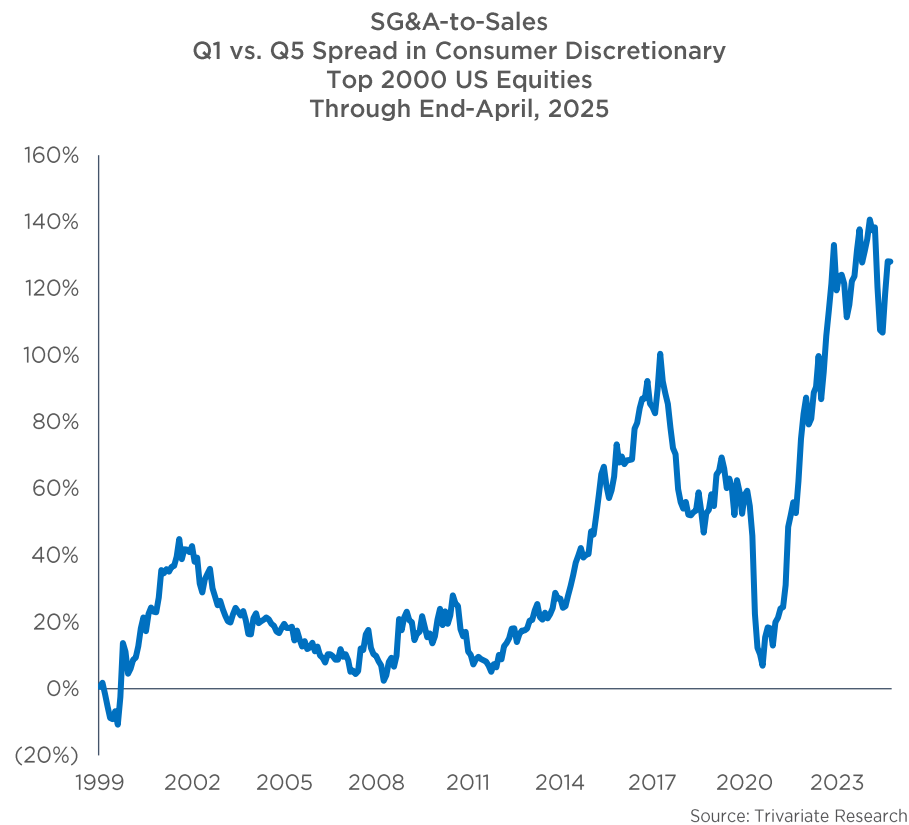
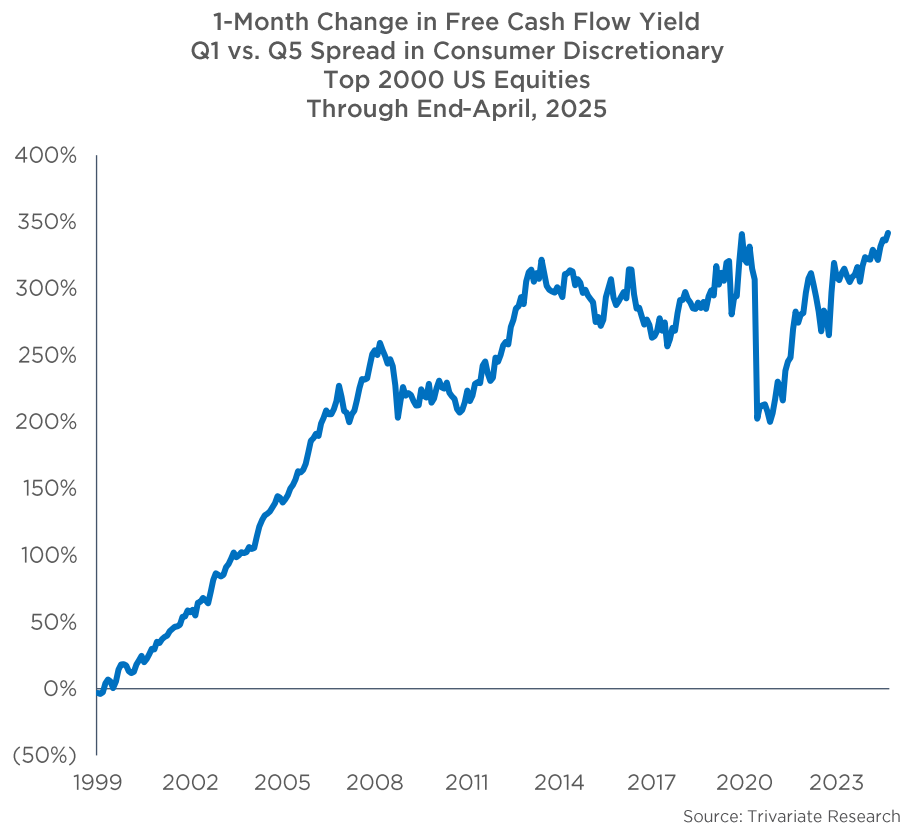
FCF YIELD AND CHANGE HELP SECURITY SELECTION IN STAPLES

We evaluated over 200 common factors in our factor library to see which metrics were efficacious at security selection in Consumer Staples. Buying stocks that were cheap on free cash flow yield and shorting those that were expensive (left) has worked well over time. Change in free cash flow yield (buying those that are getting cheaper and shorting those that are getting more expensive also adds value), but in aggregate level matters more than change when it comes to free cash flow and Consumer Staples valuation (right).



IN DISCRETIONARY, AVOIDING HIGH SG&A HAS WORKED SINCE COVID

Change in free cash flow yield worked for picking winners from losers in the Consumer Discretionary sector from 1999-2015 but has added limited value in the last decade (left). Avoiding businesses with high SG&A-to-sales has aided in identifying winners from losers since COVID (right).



WHAT'S IN THE PRICE?

The chart below shows the price-to-forward earnings and price-to-free cash flow of the median stock in each Consumer Discretionary and Consumer Staples sub-group on both an equal- and a cap-weighted basis. On both metrics, valuation is above longer-term averages in several areas on price-to-forward earnings, but cheaper than much of history on free cash flow yield. Beverages are the most expensive of any group vs. their history on FCF yield. The median Food Products stock is cheap.

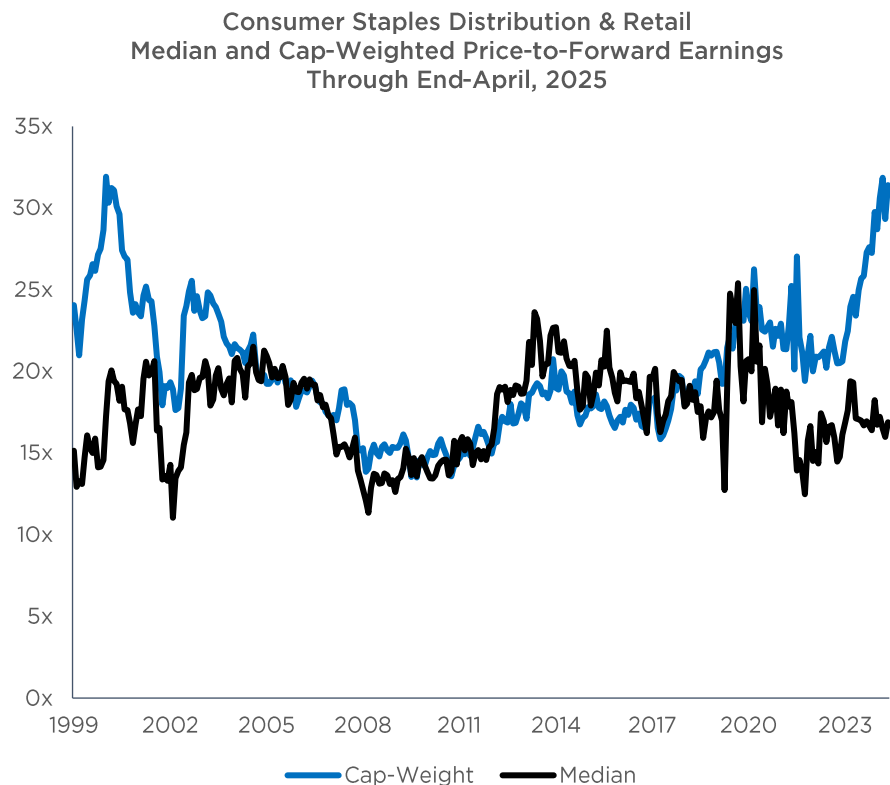
GICS Consumer Industries
Price-to-Forward Earnings and Price-to-FCF
End-April, 2025

	Median PEF	% Rank vs. History	Cap-Weighted PEF	% Rank vs. History	Median Price-to-FCF	% Rank vs. History	Cap-Weighted Price-to-FCF	% Rank vs. History	Top 3 Tickers by Market Cap.
Automobile Components	10.7x	17%	13.4x	21%	10.0x	1%	9.5x	4%	APTV, MBLY, ALV
Textiles, Apparel & Luxury Goods	13.3x	26%	17.7x	46%	8.9x	4%	12.1x	10%	NKE, LULU, DECK
Food Products	15.6x	19%	17.6x	50%	18.6x	10%	15.8x	5%	MDLZ, KHC, HSY
Leisure Products	14.8x	38%	19.8x	78%	13.2x	11%	11.6x	3%	HAS, MAT, GOLF
Automobiles	11.4x	17%	65.8x	88%	12.3x	15%	45.7x	58%	TSLA, GM, F
Distributors	15.1x	29%	16.0x	25%	10.8x	19%	22.4x	70%	GPC, POOL, LKQ
Personal Care Products	18.7x	53%	20.7x	3%	15.4x	19%	21.8x	31%	KVUE, EL, BRBR
Household Durables	10.8x	22%	12.2x	36%	15.7x	26%	18.1x	36%	DHI, GRMN, LEN
Consumer Staples Dist. & Retail	16.9x	39%	31.4x	99%	22.5x	31%	42.8x	70%	WMT, COST, KR
Broadline Retail	23.4x	95%	29.7x	91%	17.3x	36%	47.1x	72%	AMZN, MELI, CPNG
Hotels, Restaurants & Leisure	18.7x	31%	23.4x	79%	26.3x	37%	23.2x	15%	MCD, BKNG, SBUX
Beverages	18.8x	46%	21.1x	52%	24.6x	48%	45.6x	99%	KO, PEP, MNST
Diversified Consumer Services	15.6x	18%	21.7x	44%	18.6x	52%	17.1x	34%	DUOL, SCI, HRB
Specialty Retail	16.4x	66%	21.8x	87%	24.4x	55%	23.8x	59%	HD, TJX, LOW
Household Products	18.6x	42%	22.7x	77%	21.5x	66%	23.4x	71%	PG, CL, KMB
Tobacco	14.8x	73%	17.8x	88%	23.8x	85%	19.5x	80%	PM, MO, UVV

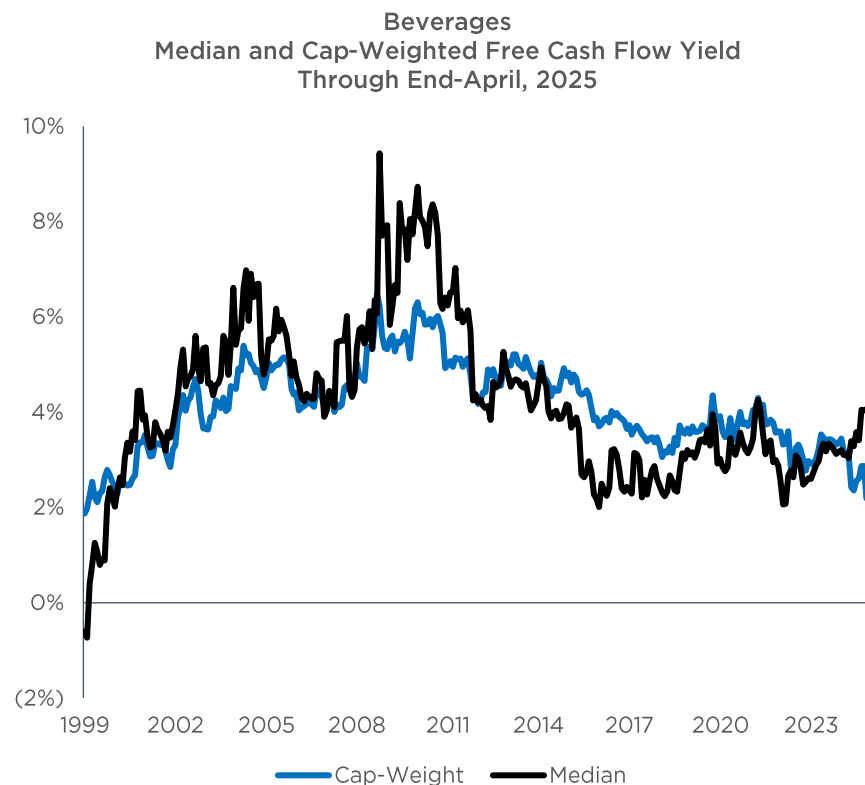
Source: Trivariate Research

WMT /COST ARE EXPENSIVE, BEVERAGES HAVE WEAK FCF YIELD

WMT, COST, and KR have gotten expensive, fueling a large disconnect between the valuation of the cap-and-equally-weighted Consumer Staples Distribution & Retail stock (left). The cap-weighted FCF yield of the Beverages industry (right) is the lowest it has been in 25-years.



Source: Trivariate Research



Source: Trivariate Research

DAYS OF INVENTORY HAVE LIMITED PREDICTIVE VALUE FOR STOCKS

We analyzed the performance of stocks with low inventory-to-sales and compared it to those Consumer stocks with high inventory-to-sales. In most cases there was limited information, and in six of the ten industry groups an inventory-to-sales investment strategy LOST money. We are tracking inventory changes with our Natural Language Processing work, please reach out to us for any management commentary.

**Inventory-to-Sales Q1 vs. Q5 Factor Spread
Performance Statistics by Cohort, Rebalanced Monthly
1999 to End-April, 2025**

Cohort	GICS Category	Sharpe Ratio	Annualized Mean Return	Annualized Std. Deviation	Hit Rate
Food, Beverage & Tobacco	Industry Group	0.50	6.6%	13%	55%
Consumer Staples	Sector	0.42	4.9%	11%	54%
Consumer Staples Distribution & Retail	Industry Group	0.27	7.1%	26%	54%
Automobiles & Components	Industry Group	0.13	3.8%	29%	54%
Consumer Services	Industry Group	(0.01)	(0.3%)	17%	48%
Discretionary & Staples	Both Sectors	(0.04)	(0.5%)	13%	50%
Consumer Discretionary Distribution & Retail	Industry Group	(0.04)	(0.8%)	18%	47%
Consumer Durables & Apparel	Industry Group	(0.05)	(1.2%)	25%	49%
Consumer Discretionary	Sector	(0.05)	(0.8%)	15%	53%
Household & Personal Products	Industry Group	(0.07)	(2.0%)	29%	51%

Source: Trivariate Research

CONSUMER STAPLES STOCK IDEAS, LONG AND SHORT

We offer long ideas in Consumer Staples (left) that are in the top quintile of forecasted net margin expansion and / or are cheap and getting cheaper on free cash flow. For short ideas, we would avoid Consumer Staples that are expensive vs. history on price-to-forward earnings and / or expensive and getting more expensive on free cash flow yield (right).

Consumer Staples Long Screen
End-April, 2025

Ticker	Company	Industry	Market Cap. (US\$ Bil.)
PM	Philip Morris International Inc.	Tobacco	265.95
KDP	Keurig Dr Pepper Inc.	Beverages	46.73
PRMB	Primo Brands Corporation	Beverages	12.56
SJM	The J. M. Smucker Company	Food Products	12.21
CART	Maplebear Inc.	Consumer Staples Distribution & Retail	11.87
CAG	Conagra Brands, Inc.	Food Products	11.39
PPC	Pilgrim's Pride Corporation	Food Products	10.94
CALM	Cal-Maine Foods, Inc.	Food Products	4.56
ELF	e.l.f. Beauty, Inc.	Personal Care Products	3.84
CENTA	Central Garden & Pet Company	Household Products	2.04
ENR	Energizer Holdings, Inc.	Household Products	1.91
FDP	Fresh Del Monte Produce Inc.	Food Products	1.6

Source: Trivariate Research

Consumer Staples Short Screen
End-April, 2025

Ticker	Company	Industry	Market Cap. (US\$ Bil.)
COST	Costco Wholesale Corporation	Consumer Staples Distribution & Retail	447.37
HSY	The Hershey Company	Food Products	33.1
K	Kellanova	Food Products	28.75
CASY	Casey's General Stores, Inc.	Consumer Staples Distribution & Retail	17.02
BJ	BJ's Wholesale Club Holdings, Inc.	Consumer Staples Distribution & Retail	15.46
ODD	Oddity Tech Ltd.	Personal Care Products	3.53
SEB	Seaboard Corporation	Food Products	2.52
WMK	Weis Markets, Inc.	Consumer Staples Distribution & Retail	2.37
COCO	The Vita Coco Company, Inc.	Beverages	1.94
KLG	WK Kellogg Co	Food Products	1.55
UTZ	Utz Brands, Inc.	Food Products	1.02

Source: Trivariate Research

CONSUMER DISCRETIONARY STOCK IDEAS, LONG AND SHORT

For Consumer Discretionary long ideas, we like Homebuilders forecasted to grow revenue >7% or stocks in the top quintile on change in FCF yield and SG&A-to-sales, metrics that have worked for stock selection (left). For short ideas, we want to avoid stocks with high revenue growth expectations that are expensive or having poor free cash flow yield and have increasing SG&A-to-sales (right).

Consumer Discretionary Long Screen
End-April, 2025

Ticker	Company	Industry	Market Cap. (US\$ Bil.)
CARR	Carrier Global Corporation	Building Products	61.32
MBLY	Mobileye Global Inc.	Automobile Components	11.86
SCI	Service Corporation Int.	Diversified Consumer Services	10.9
AAON	AAON, Inc.	Building Products	8.09
CHDN	Churchill Downs Incorporated	Hotels, Restaurants & Leisure	6.73
TMHC	Taylor Morrison Home Corp.	Household Durables	5.91
CSWI	CSW Industrials, Inc.	Building Products	5.39
SKY	Champion Homes, Inc.	Household Durables	5.12
WHR	Whirlpool Corporation	Household Durables	4.33
CVCO	Cavco Industries, Inc.	Household Durables	4.11
TGLS	Tecnoglass Inc.	Building Products	3.5
GRBK	Green Brick Partners, Inc.	Household Durables	2.64

Source: Trivariate Research

Consumer Discretionary Short Screen
End-April, 2025

Ticker	Company	Industry	Market Cap. (US\$ Bil.)
MELI	MercadoLibre, Inc.	Broadline Retail	115.62
DASH	DoorDash, Inc.	Hotels, Restaurants & Leisure	86.16
ABNB	Airbnb, Inc.	Hotels, Restaurants & Leisure	77.31
CPNG	Coupage, Inc.	Broadline Retail	43.51
CVNA	Carvana Co.	Specialty Retail	34.54
DUOL	Duolingo, Inc.	Diversified Consumer Services	22.11
RL	Ralph Lauren Corporation	Textiles, Apparel & Luxury Goods	14.37
MMYT	MakeMyTrip Limited	Hotels, Restaurants & Leisure	12.35
H	Hyatt Hotels Corporation	Hotels, Restaurants & Leisure	11.74
CAVA	CAVA Group, Inc.	Hotels, Restaurants & Leisure	11.17
BROS	Dutch Bros Inc.	Hotels, Restaurants & Leisure	7.65
WING	Wingstop Inc.	Hotels, Restaurants & Leisure	7.54

Source: Trivariate Research

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