

# Five For Friday- A Swap Of Consumer Staples

We take a different approach in this week's Five for Friday and present a swap idea. This year, Consumer Staples has been one of the best sectors to protect wealth. The sector ETF XLP is down about 8% on the year, while the S&P is down about 17%. However, within the sector, there are plenty of winners and losers. This divergence presents an opportunity to sell overbought stocks and buy oversold stocks within the sector.

This edition compares the largest stocks within XLP and looks for three that are oversold and three overbought ones.

The table below is our proprietary model, which uses 13 technical indicators to help assess how overbought or oversold stocks and sectors are relative to each other and to the sector ETF.

To help better explain how to use the table, let's look at WMT in the first column.

By reading down, you can compare the technical score based on the price of WMT to other Staples stocks. The scores are expressed in standard deviations (sigmas) from recent norms. They are also color-coded to spot relationships outside of the average easily. For example, WMT is 4-5 sigmas cheap versus CLX, K, and KO. But only slightly oversold compared to its direct competitors' COST and TGT.

The final color-coded line is the score for each stock versus the sector ETF (XLP). It is this line from which we selected the six companies. The first row below the comparison to XLP is the 20-day excess return versus XLP. As shown, WMT is down 12.65% versus XLP. The following three rows express the correlation between each stock and XLP. The higher the correlation, the more comfortable we are with the models output.

Sigma Differentials																		
	Disc. Stores			Household Items					Beverages		Tobacco		Grocery	Packaged Goods				
	WMT	COST	TGT	PG	KMB	CL	EL	CLX	KO	PEP	PM	MO	KR	KHC	GIS	K	HRL	MDLZ
WMT	-	0.36	0.37	1.31	4.25	4.25	1.37	4.77	4.43	3.84	4.44	4.45	0.88	3.46	4.06	5.56	2.23	3.41
COST	(0.36)	-	0.01	0.95	3.92	3.89	1.01	4.41	4.07	3.48	4.08	4.12	0.52	3.10	3.70	5.20	1.87	3.05
TGT	(0.37)	(0.01)	-	0.94	3.91	3.87	1.00	4.39	4.05	3.47	4.07	4.10	0.51	3.09	3.69	5.19	1.85	3.04
PG	(1.31)	(0.95)	(0.94)	-	2.97	2.94	0.06	3.46	3.12	2.53	3.13	3.17	(0.43)	2.15	2.75	4.25	0.92	2.10
KMB	(4.25)	(3.92)	(3.91)	(2.97)	-	(0.03)	(2.91)	0.49	0.15	(0.44)	0.16	0.20	(3.40)	(0.82)	(0.22)	1.26	(2.05)	(0.87)
CL	(4.25)	(3.89)	(3.87)	(2.94)	0.03	-	(2.88)	0.52	0.18	(0.41)	0.20	0.23	(3.36)	(0.78)	(0.18)	1.32	(2.02)	(0.83)
EL	(1.37)	(1.01)	(1.00)	(0.06)	2.91	2.88	-	3.40	3.05	2.47	3.07	3.11	(0.49)	2.09	2.69	4.19	0.86	2.04
CLX	(4.77)	(4.41)	(4.39)	(3.46)	(0.49)	(0.52)	(3.40)	-	(0.34)	(0.83)	(0.33)	0.29	(3.89)	(1.31)	(0.71)	0.80	(2.54)	(1.36)
KO	(4.43)	(4.07)	(4.05)	(3.12)	(0.15)	(0.18)	(3.05)	0.34	-	(0.59)	0.02	0.05	(3.54)	(0.96)	(0.36)	1.14	(2.20)	(1.01)
PEP	(3.84)	(3.48)	(3.47)	(2.53)	0.44	0.41	(2.47)	0.93	0.59	-	0.60	0.64	(2.96)	(0.38)	0.22	1.72	(1.61)	(0.43)
PM	(4.44)	(4.08)	(4.07)	(3.13)	(0.16)	(0.20)	(3.07)	0.33	(0.02)	(0.60)	-	0.03	(3.56)	(0.98)	(0.38)	1.12	(2.21)	(1.03)
MO	(4.45)	(4.12)	(4.10)	(3.17)	(0.20)	(0.23)	(3.11)	0.29	(0.05)	(0.64)	(0.03)	-	(3.59)	(1.01)	(0.41)	1.09	(2.25)	(1.06)
KR	(0.88)	(0.52)	(0.51)	0.43	3.40	3.36	0.49	3.89	3.54	2.90	3.56	3.59	-	2.58	3.18	4.68	1.34	2.53
KHC	(3.46)	(3.10)	(3.09)	(2.15)	0.82	0.78	(2.09)	1.31	0.96	0.38	0.98	1.01	(2.58)	-	0.60	2.10	(1.24)	(0.05)
GIS	(4.06)	(3.70)	(3.69)	(2.75)	0.22	0.18	(2.69)	0.71	0.36	(0.22)	0.38	0.41	(3.18)	(0.60)	-	1.50	(1.84)	(0.65)
K	(5.56)	(5.20)	(5.19)	(4.25)	(1.26)	(1.32)	(4.19)	(0.80)	(1.14)	(1.72)	(1.12)	(1.09)	(4.68)	(2.18)	(1.50)	-	(3.34)	(2.15)
HRL	(2.23)	(1.87)	(1.85)	(0.92)	2.05	2.02	(0.86)	2.54	2.20	1.61	2.21	2.25	(1.34)	1.24	1.84	3.34	-	1.19
MDLZ	(3.41)	(3.05)	(3.04)	(2.10)	0.87	0.83	(2.04)	1.36	1.01	0.43	1.05	1.06	(2.55)	0.85	0.65	2.15	(1.19)	-
XLP	(2.66)	(2.38)	(2.28)	(1.35)	1.62	1.59	(1.29)	2.11	1.77	1.18	1.78	1.82	(1.77)	0.81	1.41	2.81	(0.43)	0.76
20d Ex. Ret v XLP	-12.65%	-16.06%	-24.11%	-0.03%	14.21%	2.99%	-4.98%	9.20%	3.20%	4.37%	11.84%	4.88%	-6.90%	-0.50%	3.09%	10.20%	-1.23%	3.30%
30d Cor v XLP	60.2%	92.9%	86.1%	92.5%	44.6%	84.3%	72.3%	72.1%	95.8%	94.8%	37.4%	38.9%	69.8%	90.3%	87.2%	63.9%	93.7%	91.8%
90d Cor v XLP	59.8%	76.6%	79.4%	89.7%	56.5%	77.7%	53.8%	56.3%	90.3%	91.1%	46.1%	52.2%	46.4%	70.4%	79.8%	58.7%	71.5%	86.6%
200d Cor v XLP	58.3%	68.8%	69.6%	87.6%	58.3%	78.9%	53.4%	52.7%	87.0%	87.7%	49.7%	47.2%	42.0%	68.7%	74.2%	60.6%	62.8%	85.7%

Oversold

Walmart (WMT), Costco (COST), and Target (TGT) ? All three companies can be characterized as consumer discount stores. They tend to attract lower-middle-class consumers who are more sensitive to inflation and poor economic conditions. As a result, they struggle to pass on rising costs to their customers. This past week's earnings report for Target and Walmart triggered an onslaught of selling in discount stores and other retail stocks. Target's gross margin fell to 25.7% from 30% a year ago due to higher markdowns and rising costs. As a result of the selling pressure, all three companies are deeply oversold versus the sector ETF.



## Overbought

Clorox (CLX), Kellogg (K), and Coca-Cola (KO) ? These three companies differ in their product offerings but are similar in that they are one step removed from the consumer. They manufacture and sell products to retailers who make the final sale to the consumer. As household names, they benefit from incremental pricing power that the firms above lack and can better pass on rising costs to protect margins. While that has helped them thus far, the problems the retailers are having may spread to their suppliers. All three are overbought versus the sector ETF, with K the most overbought at nearly three sigmas above XLP.

