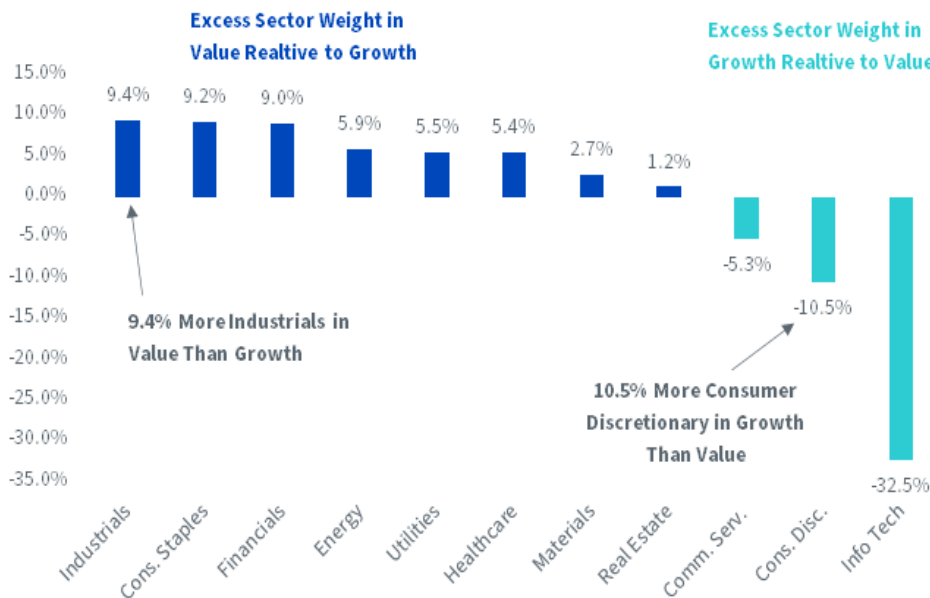


# WATCH FOR DOWNSIDE EARNINGS REVISIONS IN CONSUMER DISCRETIONARY

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It’s the second-largest sector in the [S&P 500 Growth Index](#), weighing in at 17.2%, but because of Tech’s dominant 44.1% weight in the [basket](#), [Consumer Discretionary](#) often gets short shrift in our collective focus. Nevertheless, the sector’s 10.5 extra percentage points of exposure in the S&P 500 Growth Index over the [S&P 500 Value Index](#) warrants considerable attention (figure 1).

Figure 1: Sector weight Differentials, S&P 500 Value Minus S&P 500 Growth



Source: Refinitiv, as of 6/7/2022. Examples: Energy’s weight in the S&P 500 Value index is 5.9% higher than its weight in S&P 500 Growth, while Tech’s weight in S&P 500 Growth is 32.5% above its weight in the S&P 500 Value index.

A major reason Discretionary is only 6.7% of the S&P 500 value Index is that “growthy” Amazon and Tesla are given zero allocation. The other eight major players by [market capitalization](#) are McDonald’s, Home Depot, Nike, Lowe’s, Booking Holdings, Starbucks, Target and TJX (the owner of T.J. Maxx, Marshalls and HomeGoods). Many of those find their way into [growth](#) baskets. The problem for the sector writ large is that four of the top five are trading for more than 20x the Street’s 2024 earnings estimate. That may be okay if there is no [recession](#) at any time in the next 30 months, but I think that could be wishful thinking.

Figure 2: Street Consensus Earnings, Top 10 Members of the S&P 500 Consumer Discretionary Sector

Company	Stock Price	2021 EPS	2022 EPS	2023 EPS	2024 EPS	EPS Growth, 2022	EPS Growth, 2023	EPS Growth, 2024	Price/Earnings Ratio (P/E) (2024)
Amazon	116.15	2.14	0.81	2.70	4.32	-62.1%	233.3%	60.0%	26.9
Tesla	719.12	6.78	12.15	15.90	17.82	79.2%	30.9%	12.1%	40.4
McDonald's	242.16	9.28	9.87	10.75	11.70	6.4%	8.9%	8.8%	20.7
Home Depot	299.86	11.94	15.53	16.55	17.49	30.1%	6.6%	5.7%	17.1
Nike	118.60	3.56	3.73	4.58	5.40	4.8%	22.8%	17.9%	22.0
Lowe's	194.28	8.86	12.04	13.54	14.76	35.9%	12.5%	9.0%	13.2
Booking Holdings	2,277.84	45.77	99.58	131.64	159.28	117.6%	32.2%	21.0%	14.3
Starbucks	78.91	3.24	2.87	3.45	3.94	-11.4%	20.2%	14.2%	20.0
Target	154.55	9.42	13.56	8.95	12.46	43.9%	-34.0%	39.2%	12.4
TJX	60.65	0.31	2.85	3.20	3.61	819.4%	12.3%	12.8%	16.8

Source: Refinitiv, as of 6/9/22. Price/earnings ratio (P/E): Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

When you combine these 10 companies with the rest of the S&P 500 Consumer Discretionary sector, the Street anticipates that these firms will collectively witness earnings growth of 13.9% in 2022, followed by another 32% pop in 2023 and then another 17.4% in 2024. A recession at any time in the next 30 months would seemingly throw that for a loop.

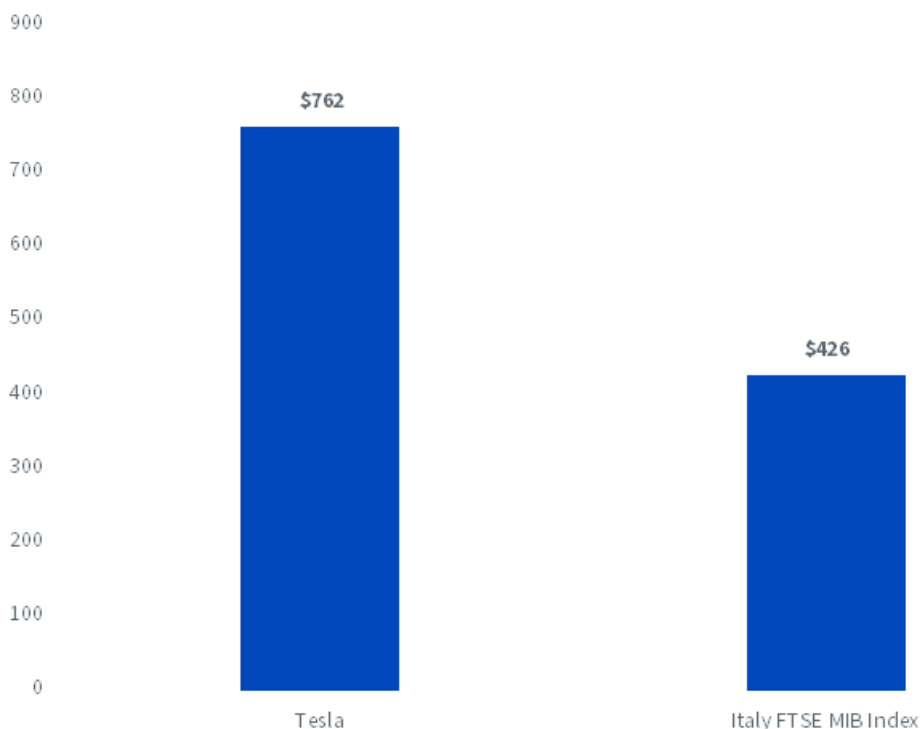
Figure 3: S&P 500 Sector-Level P/E Ratios and Earnings Growth

	2021 P/E	2022 P/E	2023 P/E	2024 P/E	2022 EPS Growth	2023 EPS Growth	2024 EPS Growth
<b>S&amp;P 500</b>	<b>19.5</b>	<b>17.7</b>	<b>16.1</b>	<b>14.8</b>	<b>10.7%</b>	<b>9.6%</b>	<b>8.8%</b>
Basic Materials	16.6	13.8	14.6	14.4	20.5%	-5.4%	1.3%
Utilities	21.9	21.4	19.9	18.4	2.1%	7.9%	7.7%
Information Technology	24.3	21.5	19.2	17.4	13.1%	11.9%	10.3%
Consumer Staples	22.1	21.2	19.7	18.3	4.1%	7.5%	7.7%
<b>Consumer Discretionary</b>	<b>28.4</b>	<b>24.9</b>	<b>18.9</b>	<b>16.1</b>	<b>13.9%</b>	<b>32.0%</b>	<b>17.4%</b>
Communication Services	15.4	16.0	13.8	12.2	-3.7%	16.0%	13.3%
Healthcare	16.9	16.0	16.0	15.0	6.1%	0.0%	6.6%
Financials	11.7	13.0	11.4	10.2	-9.9%	14.0%	11.2%
Industrials	24.8	18.2	15.2	13.6	36.1%	19.8%	11.5%
Energy	20.7	9.9	11.1	12.6	109.4%	-11.3%	-11.5%

Source: Refinitiv, as of 5/31/22.

Much of the calculus depends on what happens with Tesla, whose CEO, Elon Musk, is currently distracted by not only his \$44 billion bid for Twitter but also the little matter of colonizing Mars. I am not the world’s authority on whether SpaceX, Musk’s company engaging the Martian project, can pull that off. But whatever fate awaits that venture, it seems a bit distracting if you are also trying to manage an electric car company of such size that it’s accorded a \$741 billion market capitalization. For an idea of just how large that is, it’s \$315 billion more than the combined value of Italy’s 40-stock [FTSE MIB Index](#).

Figure 4: Market Capitalization of Tesla vs. Italy’s FTSE MIB Index (\$ Bil.)



Source: Refinitiv, as of 6/7/23.

Figure 5 shows some of our [large-cap value](#) strategies, along with their exposure to the Consumer Discretionary sector.

Of the 10 stocks listed in figure 3, [WTV](#) owns only Home Depot, Lowe’s and Target, though the rest of its Consumer Discretionary holdings bring that group to 13.3% of the total weight.

[DTD](#) and [DLN](#) own a bunch of the sector’s 10 largest companies, but in weights that tend to be smallish because of those stocks’ paltry [dividends](#). Inside those ETFs, there are exposures to McDonald’s, Home Depot, Lowe’s, Starbucks, Target and TJX.

The screen for [DHS](#) is for higher dividends, so it owns none of Consumer Discretionary’s 10 largest companies, bringing its total exposure to the sector down to around 1%.

Figure 5: WisdomTree Large-Cap Value Funds by Weight in Consumer Discretionary

Fund	Ticker	Consumer Discretionary Weight
S&P 500 Growth	SGX	17.2%
S&P 500	SPX	12.0%
S&P 500 Value	SVX	6.7%
WisdomTree U.S. Value Fund	WTV	13.3%
WisdomTree U.S. LargeCap Dividend Fund	DLN	5.1%
WisdomTree U.S. High Dividend Fund	DHS	0.9%

Sources: WisdomTree, FactSet, S&P, as of 5/31/22.

For a list of holdings, please click on the respective ticker: [WTV](#), [DTD](#), [DLN](#), [DHS](#).

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**WTV:** There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. While the Fund is actively managed, the Fund's investment process is expected to be heavily dependent on quantitative models and the models may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

**DTD:** There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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**DHS:** There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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## DEFINITIONS

**S&P 500 Growth Index**: A market capitalization-weighted benchmark designed to measure the growth segment of the S&P 500 Index.

**Baskets**: The composition of an ETF in terms one creation/redemption unit.

**Consumer Discretionary**: A term for classifying goods and services that are considered non-essential by consumers, but desirable if their available income is sufficient to purchase them.

**S&P 500 value Index**: A market capitalization-weighted benchmark designed to measure the value segment of the S&P 500 Index.

**Market Capitalization**: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

**Growth**: Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

**Recession**: two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.

**FTSE MIB Index**: The FTSE MIB Index is the primary benchmark index for the Italian equity market. Capturing approximately 80% of the domestic market capitalization, the FTSE MIB Index measures the performance of the 40 most liquid and capitalized Italian shares and seeks to replicate the broad sector weights of the Italian stock market.

**Large-Capitalization (Large-Cap)**: A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

**Value**: Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

**Dividend**: A portion of corporate profits paid out to shareholders.