

WisdomTree MINDS ON THE MARKETS



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Consumer Staples Need a Weak Jobs Market

Week of June 17, 2024

Is the labor market okay? Depends on who you ask. The answer to that question should be a strong guidepost for whether you like Consumer Staples relative to the broad market.

Believe it or not, since December 31, 1989, the sector has ever-so-slightly outperformed the S&P 500, rising at a 10.5% annual rate to the market's 10.4%. However, most of Staples' relative outperformance came in three distinct windows, each of which was characterized by job losses. Other than those periods, Consumer Staples has generally been a down-and-out sector.

The first period of notable success for Staples was from February 1990 to September 1992, an era that captured the Gulf War-catalyzed recession, job losses and a 19.9% bear market in the summer of 1990. Despite that ugly summer at the hands of Iraq's invasion of Kuwait, the overall window of time was still a good one for stocks: the S&P 500 was up a cumulative 37.1%. But the place to be in the early 1990s was not the broad S&P but Consumer Staples, which posted an 89.8% return. The sector was prompted higher by the unemployment rate marching from 5.2% to 7.8% in summer 1992.

After the job losses reached their end, so went Staples' favorable fortune. The sector horribly underperformed for the rest of the 1990s, owing to that decade's boom in "TMT"—Tech, Media and Telecom.

Staples' next big outperformance window came amid that bubble's implosion. From March 2000 to August 2002, the S&P 500 experienced a cumulative 37.9% loss, driven by Tech, which lost three-quarters of its value. Job losses were thematic; the unemployment rate was as low as 3.8% a few weeks after the bubble peak but rose to 5.8% by summer 2002 (the cycle peak came a few quarters later, at 6.3%). In sharp contrast to the market's general ugliness in the dot-com bear, Consumer Staples' cumulative performance amounted to 34.5%. Impressive over any short window, let alone during a bloodletting.

Other than those two experiences, there is only one other "bright spot," if we can call it that, for Consumer Staples: the global financial crisis. After failing to materially participate in the 2002–2007 bull run, the sector caught some new life in summer 2007, courtesy of its low beta status.

From June 2007 through February 2009, the S&P 500's total return was -49.2%. Though things were ugly in Staples, too, it was not nearly as bad: -20.9%. Logically, Staples' relative performance tracked the labor market. The jobless tally had been as low as 4.4% in spring 2007, but it shocked up to 8.3% by the time the stock market decided to carve out a bottom in early 2009. The cycle high for unemployment came in October 2009, at 10%.

It has been more than 15 years since the crescendo of the global financial crisis' stock market lows. To summarize the performance of Consumer Staples since then, let's go with "not good." Truth be told, 12.5% per year for a generation is pretty darn solid, but not if you put it in context: S&P 500 trackers posted 16% cumulative gains. Three percentage points of negative annual alpha for a decade and a half? Yikes.

2024 hasn't been kind to the sector either, despite unemployment's uptick. Thus far, the S&P's total return is 14.4%, and Staples has only tacked on 8.4%. The unemployment rate reached a cycle-best 3.4% in January 2023 and just touched 4.0%. Thus far, Staples stocks haven't seemed to notice the slow deterioration. But if the jobs market gets weaker from here, maybe soon they will.

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Glossary

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