FEAR AND OPPORTUNITY IN CONSUMER STOCKS

EAGLE | Asset Management

Beneath the surface of a rough year in consumer discretionary

BY ADAM WALTON, CFA

Stocks most closely tied to the American shopper have been among the weakest corners of the market in 2026. Through Nov. 2, the S&P 500 consumer discretionary sector was down roughly 1% for the year, compared with gains of approximately 10% for the broader S&P 500. Energy, a beneficiary of higher oil prices, was up nearly 50%. That divergence illustrates what worries the market.

I spend my days inside these companies, on their earnings calls, and studying household spending data. The fear is real. But what I see is more nuanced than "the consumer is rolling over" – and the nuance is where I believe opportunity exists.

What the market fears

The pump and the US Federal Reserve (Fed) have reinforced each other. The Iran conflict pushed Brent crude back above $100 a barrel, and it closed at $107.39 on Nov. 2. National regular gasoline prices were approximately $4.17 a gallon on Nov. 2. The September inflation report showed gasoline prices up 34.2% year over year, with gasoline accounting for more than half of the monthly increase in headline consumer prices.

Meanwhile, headline inflation reached 3.7% in September. On September 16, the Fed raised the federal funds target range to 3.75% to 4.00%, a level it maintained at its October meeting. The 10-year US Treasury yield was approximately 4.9% in early November, keeping mortgages, car loans, and other borrowing

Key points

- **Higher energy prices, persistent inflation, and elevated borrowing costs have consumer-focused companies on edge, but the mix of risks and opportunities is nuanced.**
- **Within the sector, widening gaps in several different consumer behaviors have fueled resilience or pressure on a company-by-company basis.**
- **With the 10-year Treasury yield near 5%, the market is increasingly focused on the kinds of companies that have always been at the center of the Eagle Equity Income team's investment process.**

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costs elevated just as gasoline squeezes household budgets. The University of Michigan Index of Consumer Sentiment was 48.0 in October, down 10.4% from a year earlier.

The scramble for consumers

The trend	Business impact	Who's affected
Trading down	Resilience	Store brands, warehouse clubs, off-price retailers, restaurants with value menus
	Pressure	Department stores, mid-tier apparel retailers
Delaying big purchases	Pressure	Furniture, home improvement, auto retailers
High-end spending	Resilience	Travel and luxury companies

What I see and hear across companies

Headline retail sales suggest the shopper is holding up. September retail sales increased 0.8% from August and 6.3% from a year earlier. But those figures are not adjusted for inflation. With energy prices rising sharply, some of the growth in nominal spending reflects higher prices rather than more goods and services purchased.

Beneath the surface, I see consumers moving at two speeds, with a widening gap.

Trading down is the clearest signal. Store brands have gained share in groceries and household staples, while management teams that spent 2024 discussing premiumization now emphasize value on earnings calls. Warehouse clubs and off-price retailers are gaining traffic while department stores and mid-tier apparel retailers are losing it. Restaurant traffic is declining at most chains, while those holding up are offering the most aggressive value menus. Customers are still eating out, but they are watching the check.

Big-ticket purchases are being deferred. Furniture, home improvement, and autos are among the categories most sensitive to high financing costs. Housing turnover, which drives much of that spending, remains stalled. September existing-home sales ran at a 3.99 million annualized pace, down 2.2% from a year earlier despite a modest monthly improvement.

Meanwhile, the high end is holding up better. Travel, hotels, live events, and premium experiences have been more resilient, reflecting the very different financial positions of households. Consumers with substantial financial assets and low fixed-rate mortgages are better insulated from higher gasoline prices than households living paycheck to paycheck.

Pricing power is separating winners from losers. Companies that can pass through costs, maintain margins, and continue growing dividends are better positioned to navigate this environment. Businesses that depend on a confident, free-spending customer face greater pressure as households become more selective.

What this means for investors

With the 10-year Treasury yield near 5%, the market has become more focused on current cash generation and the durability of earnings. These trends point to the same kinds of businesses: essentials over aspirational purchases, pricing power over volume, strong balance sheets over leverage, and a demonstrated ability to pay and grow dividends regardless of quarterly stock performance. Those are the types of businesses our Eagle Equity Income team focuses on, not because we shifted toward them this year, but because they have always met our criteria.

A sell-off like this is when discipline earns its keep. Strong consumer franchises are sold alongside weaker ones, raising yields on the stronger companies. Our job is to distinguish between the two to identify where opportunities may exist, and that is what I spend my days doing.



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Indices

S&P 500 Index – Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividends reinvested. The S&P 500 represents approximately 80% of the investable US equity market.

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