Avoid This Sector Until Further Notice!

Description

Following an almost inexplicable rise over the past decade, the momentum has come to a screeching halt for stocks in the consumer staples sector during the first four months of 2018.

After the sector rose nearly four-fold between 2009 and late 2017, **Consumer Staples Select Sect. SPDR** (NYSEARCA:XLP), an exchange-traded-fund (ETF) designed to track the performance of companies in the consumer staples sector, has fallen by nearly 14% since the end of January.

In some segments of the market, like commodities or technology or artificial intelligence, a short-term correction like that might be considered to be the norm.

But for a sector like consumer staples — a part of the market that draws investors in search of safety and security — a 14% loss in the span of fewer than three months is going to catch many by surprise.

What went wrong?

Following the disastrous 2008-09 financial crisis, risk tolerance was at an all-time low — or, to put it another way, risk aversion was at an all-time high.

While in past cycles, portfolio managers would typically underweight low-risk sectors like consumer staples to help them "beat the market," following the Great Recession, many were no longer able to bear the risks, opting instead to go the route of safer companies like **The Coca-Cola Co** (NYSE:KO), **Procter & Gamble Co** (NYSE:PG), and their more reliable earnings streams.

In addition, interest rates have been at or near all-time lows for much of the past 10 years, and suddenly a 3.93% dividend yield from Proctor and Gamble didn't look so bad next to the 2.25% yield on a long-term Government of Canada bond.

But as markets are wont to do, things got carried away, and thanks to some overenthusiastic investor optimism, the consumer staples sector is now one of the most expensive parts of the market, which doesn't make a lot of sense given that big retailers like **Wal-Mart Stores, Inc.** (NYSE:WMT) have more bargaining power than ever and are slowly but surely squeezing the prices of everyday household products.

When a scenario like that starts to unfold, it usually doesn’t take much to “pop the bubble,” so to speak. And that’s just what happened after a string of disappointing earnings reports came out of the sector last week.

What should you do?

Fear creates opportunity, and just because the sector as a whole may have become a bit rich doesn’t mean there isn’t value to be had.

Molson Coors Canada Inc. (TSX:TPX.B)(NYSE:TAP) stock is trading at 52-week lows, as is the stock of **Kraft Heinz Co.** (NASDAQ:KHC) with both companies currently getting favourable recommendations from Wall Street.

Meanwhile, one of Canada’s small caps, **Rogers Sugar Inc.** (TSX:RSI), may a different story altogether.

Last year, the company paid $40 million to acquire maple syrup bottler Decacer, and now the company is faced with a heavier financial burden, not to mention estimates of somewhere between $15 and $25 million this year to comply with new emissions standards for its beet-processing facilities.

Rogers Sugar was already up to its neck trying to meet its ongoing dividend payments, and with the new compliance requirements staring the company head on, this may be a stock to avoid for the time being.

Investors in search of a better alternative may, however, find their answer in the energy sector — one of the hottest segments of the market so far in 2018.

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2. NYSE:KO (The Coca-Cola Company)
3. NYSE:PG (The Procter & Gamble Company)
4. NYSE:TAP (Molson Coors Beverage Company)
5. NYSE:WMT (Wal-Mart Stores Inc.)
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jphillips