Junior Analysts: Elizabeth Freeberg, Jia Ern Cheong
Senior Analysts: Hunter Eiden, Ryan Ring

Consumer Discretionary A

Sector Overview:

Consumer Discretionary A includes goods and services that are non-essential including; durable goods, apparel, entertainment and leisure, and automobiles. The top five holdings are Amazon (AMZN), Home Depot (HD), McDonald's Corp (MCD), Nike (NKE), and Booking Holdings (BKNG).

Business Analysis:

The overall sector was doing well until the stock valuations collapse market dip in October due to trade wars with China, increasing interest rates making borrowing more expensive and major cracks in housing market, and another market dip in late December. Since then, the market began recovering and is still recovering. After the market correction in late 2018, consumers are spending at a lower rate. After the market correction, health care, utilities and consumer discretionary were the only one to report gains during the year. We also predict that there will be a few sharp rallies and cracks occurring throughout the year.

Key Drivers:

Changing Consumer Spending Habits: Consumers spending habits have been changing, shifting towards online sales, though not at a fast rate. Consumers are spending less on household goods and furnishings. From November to December retail sales dropped 1.2%. This is the largest drop in nine years. This drop is surprising because it happened during the holiday season, which is the busiest time for retail sales. Experts believe that the trade war and volatile stock markets had a higher impact than expected on consumer's behavior.

Low Unemployment Rate: The unemployment rate has a large effect on the US economy. The unemployment rate of 3.9% is the lowest since 2000. When the unemployment rate is low, wage growth is expected to increase, enabling consumers to have more faith in the economy. A low unemployment rate also means that employers must pay employees higher wages to retain workers. If employers can't find enough employees, they run the risk of not being able to keep up with customers' demands.

Low Cost of Energy: The oil prices dipped to $51B in January 2019 after the four-year high price of $76.4B in October 2018. The oil prices will remain low for the next few months as there is an oversupply of oil in the United States. OPEC also had intentions to stabilize oil prices to $70B by fall 2019.The supply increased slow enough in time maintaining prices for exploration cost, expecting the United States to be the net exporter by end of 2019.

Sub-Sector Overview:

Commercial Services and Suppliers**:** The commercial services and suppliers' sub-sector include companies that manufacture office furniture, and supplies. It also includes support services such as, cleaning, security, educational, employment, payroll, and office equipment rentals.

Apparel and Textile Products**:** The apparel and textile industries are likely to grow in the next few years. This is as there is a global ERP Software to collect and analyze numerical data elated to services and products, allowing better understanding of customer's trend of interest as well as to meet the requirements for it. As such, they will also be able to collect more external data: marketing strategies and competitors.

Auto and Components: The auto and components sub-sector is likely to have a slow growth as self-driving and environmentally friendly cars are accelerating. This is shown as Ford and Walmart are working together for a grocery delivery with self-driving cars. Lyft is offering electric cars as an option when an order for rides come in. Besides, Los Angles is looking into building an underground tunnel for electric vehicles, helping to decrease gas emissions.

Recommendations:

Starbucks (SBUX): HOLD

- Possible increase in Arabica coffee beans (increase in profit)
- Trade war proof

Lululemon (LULU): HOLD

- Earnings growth: expected to grow 16.6% (industry average: 13.4%)
- Cash flow growth (YoY cash flow growth is 20.8%, higher than its peers)

Real Estate

Sector Overview: The Real Estate Sector contains all REITs (Real Estate Investment Trust), except Mortgage REITs, (which remain in the Financial sector). Additionally, the sector includes Real Estate Management and Development services. The top five holdings are American Tower Corp (AMT), Simon Property Group (SPG), Crown Castle International Corp (CCI), Prologis (PLD), and Equinix (EQIX).

Key Drivers:

Interest Rates: Low Interest rates have led to high consumer confidence when looking to purchase real estate. Recently the Federal Reserve (FED) rose interest rates from 2.25% to 2.5%. It is expected for the FED to raise interest rates two more times throughout 2019.

Residential Real Estate: Residential real estate is changing to follow future trends. On college campuses, incoming students are looking to live in suite style dorms, forcing universities to build new dorm buildings. Another trend residential real estate is seeing is older single-family homes are on the market. This is a result of many baby boomers moving to senior living facilities, or downsizing. Downsizing is not only being seen with the older community, but also with empty nesters. Once all a family's children move out many are looking to downsize.

Sub-Sector Overview:

Retail Real Estate: Retail Real Estate includes malls, big box retailers, and grocery stores. Malls and big box retailers are being affected as consumers move to online shopping. Amazon has paved the way for online shopping and many consumers are taking advantage of the convenience that online shopping offers. Grocery stores are now offering delivery and pick up options for customers who want to avoid the process of shopping in stores.

Residential Real Estate: Residential Real Estate includes homes, apartments, and areas where people live. Recently residential real estate has been doing well. The state of the economy has a high impact on how residential real estate performs.

Recommendations:

American Tower Corporation (AMT): HOLD

- Most past release has been in line or above expectations (One FFO missed by $0.01)