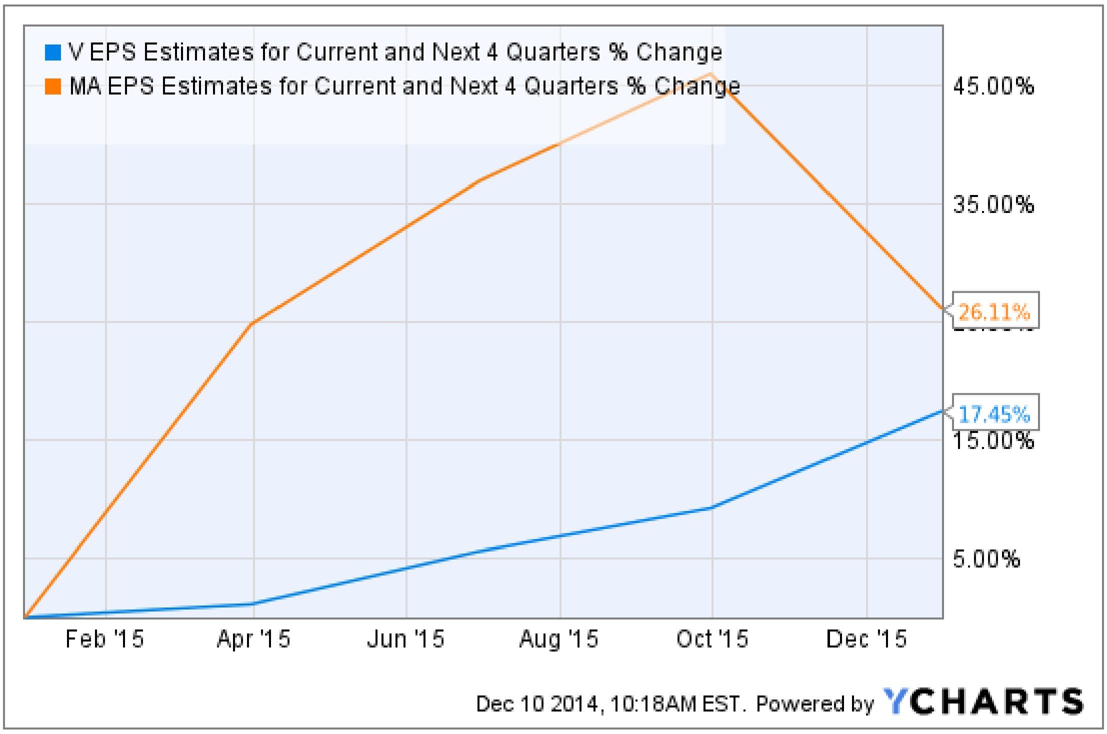
Cheaper Plays On Consumer Spending Surge

Falling oil prices, rising consumer confidence amid an improving labor market, and a smidge of wage increases is not surprisingly fueling expectations for consumer discretionary stocks to outperform. Since the mid October low, the Vanguard Consumer Discretionary ETF (VCR) and the Consumer Discretionary Select SPDR (XLY) are significantly outpacing the broad market SPSR S&P 500 (SPY).

Benefitting from a pickup in consumer spending -- regardless of what is purchased -- are the intermediary payment systems. Both Visa (V) and MasterCard (MA) have indeed been bid up since sentiment shifted in mid October.

V Total Return Price data by YCharts

But that’s also sent their trailing PE ratios to 30, which seems a tad rich when viewed against expected earnings growth:



V EPS Estimates for Current and Next 4 Quarters data by YCharts

Capital One Financial (COF) and Discover (DFS) offer a better valuation proposition. While both Visa and MasterCard currently trade above Morningstar’s estimate of fair value, Capital One and Discover are trading at discounts of 5% or so. Of course, both Capital One and Discover aren’t pure transaction-processing plays, as both have diversified into consumer banking. Still, they both trade below the current valuation of Wells Fargo (WFC), the most consumer-oriented of the big four banks.

COF PE Ratio (TTM) data by YCharts