

Key Insight

Consumer discretionary stocks (XLY) experience significantly **higher volatility during high inflation**, while **consumer staples (XLP)** become even more stable. This asymmetric response supports a sector weighted portfolio strategy based on inflation trends.

- ▶ XLP: Defensive, less volatile under inflation stress
- ▶ XLY: Sensitive to inflation, higher volatility
- ▶ Practical strategy implication: Reallocate portfolio toward staples in inflationary periods and discretionary stocks during low and stable inflationary periods.

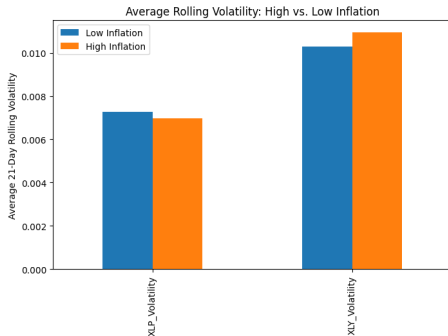


Figure: Average 21-Day Rolling Volatility during High vs. Low Inflation