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Nasdaq 7878.46 -0.13% ▼

U.S. 10 Yr -0/32 Yield 2.830% ▼

Crude Oil 68.26 0.63% ▲

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MONEYBEAT

Strong Consumption Is Breathing New Life Into Retail Stocks

U.S. retailers haven't neutralized Amazon, but consumer spending is reinvigorating their stock prices all the same



Consumers are spending at a much faster pace than inflation, renewing investors' confidence in traditional retailers despite threats posed by e-commerce. PHOTO: DON EMMERT/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Ben Eisen

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U.S. consumer sentiment is so strong that it is even boosting shares of once-maligned retailers.

Target Corp.'s stock jumped 3.2% on Wednesday and gained another 0.9% on Thursday after the company reported its best quarterly results in more than a decade. The gains marked the first two record highs for the stock since 2015. The retailer's shares are up 33% this year, far surpassing the S&P 500's 6.9% rise.

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“Like others, we’re currently benefiting from a very strong consumer environment, perhaps the strongest I’ve seen in my career,” said the company’s chief executive, Brian Cornell, on an earnings call Wednesday.

Other beneficiaries include Macy’s Inc., whose shares have added 51% this year, Kohl’s Corp., which has risen 49%, Nordstrom Inc., [JWN 2.36% ▲](#) which has jumped 31%, and TJX Co s., which has gained 41%.

The SPDR S&P Retail exchange-traded fund has tacked on 16% this year, including 5.6% in August alone.

“Wages are up. Employment is up. Interest rates are low. So it’s really a very good economic time for consumers,” said Paul Hogan, a portfolio manager and analyst at Fenimore Asset Management, which counts Ross Stores Inc. among its holdings. The off-price retailer’s stock has risen 18% this year, though shares declined in after-hours trade Thursday after the latest earnings report.

Not long ago, retail stocks were in free fall as investors worried that traditional retailers couldn’t compete in the new world of e-commerce. Target shares dropped 9.7% last year even as

the broader market surged, marking its third straight year of declines.

Target's rebound is due partly to recent efforts to improve stores and ratchet up its e-commerce business. Other bricks-and-mortar retailers have struggled. Lingerie company L Brands Inc., for example, reported a decline in comparable sales on Thursday for the latest quarter, pushing its shares down 11% for the day.

Even so, many brands are being helped along by Americans' increasing willingness to spend. Retail sales in July rose by 6.4% from a year earlier, data showed last week, suggesting that U.S. consumers are spending at a much faster pace than inflation as they benefit from a strong economy and tax cuts, economists say.

Years of an improving labor market have given households more money to spend. Though rising fuel prices may be one wild card for the pickup in consumption, economists say they aren't particularly worried about it yet.

Meanwhile, grocery stores, department stores, restaurants and clothing stores are all seeing stronger spending, the data show. While one measure of consumer sentiment hit a one-year low recently, it remains high by historical comparison.

Beyond the cyclical trends helping these companies, some investors are betting that younger customers will increasingly shop at traditional stores as they buy their own homes and have children.

"What people have doubted is that this next generation is going to care about bricks-and-mortar retail as boring as Target," said Tony Scherrer, director of research at Smead Capital Management, which owns stock in the company and has added to it this year. "We've taken the other side of the bet."

Though retail stocks aren't as cheap as they once were, they're still finding favor among Smead and other so-called value investors. The SPDR retail ETF currently traded this week at roughly 17 times earnings over the last 12 months, versus more than 21 times for the broader S&P 500.

Still, for all their recent gains, traditional retailers continue to lag behind Amazon.com Inc., whose stock has soared 63% in 2018 as it has scooped up e-commerce market share. A strong economy is helping retailers at the moment, but it isn't solving all their challenges.

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