Ropes Wealth Dissects Retail Woes

Of all the headlines to worry about over the last few weeks, and there have been many, this week's dismal earnings reports from retailers, Walmart and Target, crystallize the challenges of this period.

To recap, Walmart, the world's biggest retailer, reported their results this week and notably downgraded their outlook for full-year earnings per share from a mid-single digit increase to a -1% decline. Typically, inflationary environments benefit supermarkets and consumer staples companies like Walmart as high prices elevate the value of their sales. And that did happen—Walmart reported U.S. same-store sales rose 3% compared with a year ago, exceeding their forecasts. However, Walmart also reported that higher labor costs, bloated inventories, and more expensive fuel took their toll, causing them to take an unexpected hit on profits. Walmart noted it had to pay $160 million more for fuel for its U.S. business, a cost it was unable to pass through to store prices as hoped.

This from the world's most cost-conscious retailer, the 800-pound gorilla of scale and efficiency that presumably has the widest arsenal of tools at its disposal to control costs and optimize for profit. Walmart CEO, Doug McMillon, conceded the company's results were unexpected and reflected a challenging and unusual environment. Shares tumbled the most in 35 years as a result.

Walmart was not alone. Target reported similar challenges, noting fuel and freight costs were $1 billion more than expected. They also noted the squeeze of inflation on discretionary incomes is starting to affect consumers buying behavior. With many Americans forced to spend a greater percentage of their paycheck on food, Target is seeing cutbacks on clothing and home furnishings, their more profitable segments. Home Depot made similar comments in their earnings release, and even though the dollar amount consumers spent in their stores reached a record, the number of transactions is in decline.

It is a challenging and unusual period, indeed. We learned this week that retail sales in the U.S. rose 0.9% in April, the weakest pace in four months. Still, retail sales rose 8.2% from a year ago, and consumers continue to express their pent-up desire to spend after COVID shutdowns. However, as interest rates rise, prices remain elevated, savings dwindle, real income gains remain negative, and fiscal support disappears, there are growing concerns that consumers will not be able to maintain even a moderate pace of expenditures. And if Walmart and Target are already feeling the effect of the stretched consumer, smaller retailers have an even bleaker picture.

Stock markets were in disarray this week given this news and share prices across the board for companies of all shapes and sizes posted sizeable declines, regardless of fundamentals. We now see this broad repricing as an opportunity to further shift allocations to upgrade quality. It is a silver lining in this challenging period. While the direction and tone of the market remains deeply negative, our work continues to ensure that your portfolio is optimized for quality and owns the heartiest collection of investments to survive and be poised to thrive in the period ahead.

Many of our industry counterparts spill ink and airtime calling bottoms and predicting recessions. At Ropes Wealth, your portfolio is our only focus. We dedicate ourselves exclusively to making the right judgments about your allocation, holdings, and overall strategy as we strive to chart the best outcome for your success.

Your Ropes Wealth Team

Thank you for your interest in our investment commentary. If you would like to speak personally with a member of our team at any time, please click here.

Ropes Wealth Advisors LLC
800 Boylston Street Boston, MA 02199-3600