

Q: Are retail stocks dead forever?

Brian Lockhart: For the traditional retailers like Nordstrom and Macy's, I fear the answer might be yes. The slew of bankruptcies since the COVID-19 pandemic forced the lock down of stores in all major U.S. cities has been dominated by large retailers. To some degree, the public health crisis likely just expedited what was inevitable anyway. The model of shopping in a mall or large shopping center was already suffering as foot traffic in malls collapsed over the last couple of years. According to Coresight Research, there were 6,000 store closings in just the first four months of 2019, long before the coronavirus became an issue. Even upscale malls that were able to add stores like Apple and Tesla did not see a bump in foot traffic according to their study.

It is not necessarily all bad news from a retailing standpoint. The Amazon model is being replicated by other large retailers such as Target, Walmart, and Costco. In 2019, according to Statista, online shopping represented around 10% of all purchases and was forecasted to grow to 12.5% in 2020. Of this total Amazon captures around 15% of the e-commerce, but others are slowly catching up to Amazon's pricing, selection and delivery.

I expect most large shopping centers or malls to be repurposed in the coming decade and retailers who invest heavily in technology and expanded product lines will not only survive but will thrive.

Clint Pekrul, CFA: Retail as a group has certainly taken a hit this year in terms of performance. The Covid-19 outbreak seems to have only accelerated the downward trend in the sector that's been developing in the age of Amazon. Consumers in general are now more accustomed to the comforts of stay-at-home e-commerce, rather than brick-and-mortar shopping. The Covid-19 pandemic has in many cases forced stay-at-home shopping. In addition, many retailers carry heavy debt loads and lease payments. In many cases, retailers face substantial operating expenses and burn through cash. So, the current environment isn't too conducive for business success.

However, there are some bright spots in the retail sector. Companies like Walmart, which has a substantial on-line presence, and Home Depot, which has actually benefited from the Covid-19 shutdown, have done reasonably well so far this year. I think that over time, you'll see some retailers adapt to the spending habits of consumers, while others will fail. It seems like a stock-picker's environment (i.e. there will be winners and losers). So, to say that retail stocks are dead is a bit of a stretch in my view.