Macy's forecast helps trigger sell-off in U.S. retailers

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Investors heavily discounted U.S. retailers on Wednesday after a series of disappointments in the sector, including a weak forecast from Macy's Inc (M.N).

Macy's stock dropped 15.2 percent to $31.38 (22 pounds), the lowest since December 2011, after the company posted a much bigger-than-expected drop in quarterly sales and slashed its full-year forecast.

The stock helped lead a 1.9 percent decline in the S&P 500 retail index .SPXRT.

The selling quickly spread in the sector as the outlook for brick-and-mortar retailers weakened. Shares of Fossil Group fell 29.1 percent, also following disappointing results and a worse-than-expected forecast.

Nordstrom Inc, due to report results on Thursday, was down 7 percent, while Tiffany & Co fell 6 percent and Target Corp shed 5.4 percent. Real estate investment trusts tied to mall properties also fell sharply, including Simon Property Group, whose 5 percent decline was its biggest since 2011. A regional mall index .FTFN22 fell 5 percent.

In another blow, Office Depot Inc and Staples Inc shares sank after a federal judge late Tuesday granted a request to stop their planned merger because of antitrust concerns.

Brick-and-mortar retailers have suffered as consumers increasingly shop on Amazon.com and other online sellers.

"You heard one after another during the earnings season talk about the difficulties - they're cutting, they're closing stores," said Quincy Krosby, market strategist at Prudential Financial in Newark, New Jersey. "The fact of the matter is there have been questions about retail spending, and valuations overall in consumer discretionary were rich."

Last week, teen apparel chain Aeropostale Inc filed for bankruptcy after years of losses.

The wider consumer discretionary sector .SPLRCD has had a strong run since 2012, scoring the best performance of any Standard & Poor's 500 segment last year. It is up just 0.9 percent so far in 2016 but is still among the most
of any Standard & Poor's 500 segment last year. It is up just 0.9 percent so far in 2016 but is still among the most expensive ones relative to earnings.

Mark Luschini, chief investment strategist at Janney Montgomery Scott in Philadelphia, said retail stores may need to build up their online businesses or find a niche in order to boost sales.

Macy's, for one, is trying to make money from its unproductive real estate.

Without new strategies from companies, shares may need to sell off more to again become attractive to investors.

Macy's, which has fallen 10.3 percent so far this year, trades at 9.7 times its forward earnings estimates, while Nordstrom, down 8.8 percent for the year, trades at 14.9 times forward earnings, Thomson Reuters data show.

By comparison, the S&P 500 .SPX is valued at about 16.9 times the forward earnings of its components.