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Retail Stocks Look Like Winners as the Economy Rebounds

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Macy's is among companies that survived internet shopping and the pandemic, and continue to be good holdings.
Gabby Jones/Bloomberg

This commentary was issued recently by money managers, research firms, and market newsletter writers and has been edited by Barron's.

Retail Stocks Rebound

Driday Stock Ticker
Frank Financial Concepts
July 16: The Covid-19 pandemic was a rare historical event that had a devastating effect on the stock market. Hit especially hard were retail stocks. The pandemic turned shopping into a predominantly online experience, which was bad news for brick-and-mortar stores, but good news for retail overall. The initial prognosis was grim, with over 8,300 U.S. stores closed in 2020 and 400 stores announced to close in 2021.

Many investors holding retail stocks took losses during the pandemic. We decided to hold on; we added to our existing positions, and even added some new ones. One reason for this was that we considered the pandemic to be a temporary event. The other reason was that we took a careful look at their balance sheets and saw that these were financially solid companies with good management to steer them through the crisis.

Let's take a look at the second quarter of 2021, for example. American Eagle Outfitters was up 28%; Buckle, 26%; Macy's, 17%; and Skechers, 19%. The companies survived internet shopping and the pandemic, and continue to be good holdings. While there may also be some downside risks—like worker shortages, inflation for goods and services, supply-chain and distribution issues, a slowdown in the economy, and online competition like Amazon —as the economy continues to reopen, the retail industry may continue to rebound.

—Roger Frank, Russ Kaplan

Decoding Fedspeak

*The Long & Short of It: Quarterly Newsletter*Robinson Value Management
July 15: On Aug. 27, 2020, the Federal Reserve made a significant and more accommodative policy shift. If we translate Chairman Powell's Fed speak into layman's terms, it might go something like this:

We are "fed up" with the inflation bogeyman. It is so 1970s. The stimulus coming from interest rates pegged at zero *is just not enough. Taking interest rates below zero is scary when you're the world's reserve currency, so we will have to print money. Blame demographics. We will no longer let overheated labor markets scare us from even more stimulus because inflation seems dead. In addition, we actually met with* real people around the country in 2019 *and they said they like a strong labor market. We were surprised. But with that political cover, we can proceed to buy all the Treasury bonds Congress needs us to buy and will only slow down when actualinflationhas "averaged" at least 2%.*

So, Powell promised more price inflation and here it is! The Consumer Price Index for All Urban Consumers increased 5% from May 2020 to May 2021, the largest 12-month increase since June 1992. Over the same time frame, the National Association of Realtors reported that the median home price rose 24% (from $283,500 to $350,000), and the S&P 500 rose approximately 40%. Same song, third verse. Bubble anyone?

—Amy Abbey Robinson, Charles W. Robinson III

Newly Bullish on Bonds

The Aden Forecast
Aden Research
July 15: The outlook for interest rates has changed. Increasingly, it's becoming obvious that interest rates are headed even lower and they'll stay low for quite a long time. Lower rates will be very good for bond prices. They're set to head higher and they'll likely outperform some of the other markets. So we're now recommending that you buy long-term U.S. government bonds with 15% of your total portfolio. If you'd rather buy a bond ETF, then buy TLT [iShares 20+ Year Treasury Bond], which tracks the 20-year U.S. Treasury bond. We also like TIPS, the inflation-protected bond for the longer-term.

—Pamela and Mary Anne Aden

Buybacks Pick Up the Pace

U.S. Focus: Equities
Ned Davis Research
July 13: The first step many CFOs take to protect their companies during a cash crunch is to suspend [share] repurchase programs. There was no shame in taking that step during the early stages of the pandemic. S&P 500 net repurchases have been cut almost in half from the 2019 peak of $750 billion, to $382 billion.

As the return to record profits and cash flow has become clear, companies have begun to announce a resumption in repurchase programs. The successful stress tests should enable Financials, historically the second-biggest repurchaser, to be a big contributor. The profit rebound should feed into more repurchases, providing another source of demand for stocks.

—Ed Clissold, Thanh Nguyen

Alternative Assets' Allure

2021 Midyear Outlook
Defiant Capital Group
July 12: The correlation between stocks and bonds has been positive since March 2020, the longest stretch of positive correlation between the two assets in two decades. Low rates, accommodate monetary/fiscal policy, and highly interconnected global markets have limited the diversification benefits from a typical portfolio of stocks and bonds. Over the long run we think there is still potential for a "basic 60/40" to diversify risk, but into the near-term we expect diversification benefits to remain limited given: 1) the (likely) coming announcement of Fed tapering, 2) economic growth concerns over the Covid delta variant, and 3) lingering inflation.

To diversify portfolios we suggest investors look outside traditional asset classes to alternatives, real assets (infrastructure and REITs), and private debt (lower middle market), all of which can do well in the current environment.

—Jonathan Dane

Boom Times for Architects

Second Quarter 2021 Market Commentary

Seelaus Asset Management

July 8: In the pandemic era, companies spent massive amounts of money to be able to operate remotely. Traditional spending on capital projects and long-term capacity additions were shelved. Now, as companies see surging demand and a return to normalcy, they need to play catch-up to expand capacity and upgrade equipment. One sign of this happening is United Airlines' recent announcement of its largest purchase ever for $30 billion of Boeing and Airbus jets. It is quite the change from a year ago when the skies were nearly empty, and investors were wondering which major airline would fail and if Boeing would survive without federal aid. Now, the concern is with demand so strong, how will producers manage surging manufacturing activity?

The ISM manufacturing index for June of 60.6 indicates demand is robust (anything over 50 signifies expansion), but 17 of 18 manufacturing industries noted they were suffering from slower deliveries due to raw material or input shortages. The Architectural Building Institute's index of activity has jumped, while new project inquiries have soared. Kermit Baker, the chief economist for the American Institute of Architects, summed up the current situation succinctly: "Despite ballooning costs for construction materials and delivery delays, design activity is roaring back as more and more places reopen." We own a variety of companies benefiting from the accelerating demand for capital spending projects across a host of industries, with many still selling at attractive valuation levels.

—James P. O'Mealia, Jed Glick

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