

Retailers sound the alarm on inflation as flagging earnings send the Dow plummeting 1,164 points

Target says inflation will hurt profitability for the rest of the year.

Another disappointing earnings report from a leading U.S. retailer on Wednesday reignited fears that rising consumer prices and aggressive Federal Reserve policy could hurt economic growth, sparking a stock sell-off.

The Dow Jones Industrial Average sank 1,164 points, or 3.57%, to 31,490 in response, while the S&P 500 and tech-heavy Nasdaq dropped 4% and 4.7%, respectively.

Target reported a 52% drop in profits in the first quarter as supply chain issues, as well as rising labor and fuel costs, hit home. The retailer also revealed that it saw lower-than-anticipated discretionary merchandise sales in a worrying sign for consumer spending, causing its shares to drop 25%.

The news follows Walmart's less-than-stellar earnings report on Tuesday, which saw the company notch its worst two-day stock performance since 1987 as it also warned of the negative effects inflation had on consumer spending in the first quarter. CFO Brett Biggs said during the company's earnings call that customers traded down to cheaper brands and avoided costly purchases of items like new clothing in the quarter.

"The first quarter was one of the most challenging periods yet related to supply chain disruptions, increased costs, and persistently high inflation," Biggs said. "We weren't able to fully address or pass along some of the cost increases and that impacted profit more than expected."

The underperformance from Target and Walmart dragged the whole retail sector down on Wednesday. Shares of Costco and Dillard's dropped 12.5% and 17.3%, respectively, while the e-commerce retailer Wayfair ended the day down nearly 14%.

"The consumer is challenged," Megan Horneman, chief investment officer at

Verdence Capital Advisors told CNBC. “We started to see at the end of the year that consumers were turning to credit cards to pay for the rise in food prices, rise in energy prices, and that’s actually gotten much worse.”

Mega cap companies like Amazon and Apple also experienced sell-offs on Wednesday, with shares falling 7.2% and 5.6%, respectively. Crypto markets weren’t immune either, with Bitcoin falling 4% to around \$29,000 per coin while the total cryptocurrency market cap fell to 3% to \$1.25 trillion.

Federal Reserve policy continues to be a thorn in the side of investors this week. Fed Chair Jerome Powell said at The Wall Street Journal’s The Future of Everything Festival on Tuesday that he would need to see “clear and convincing” evidence that inflation is falling from its nearly four-decade high before he would consider pausing interest rates hikes.

Concerns over global economic growth also took a toll on markets on Wednesday after the U.N. slashed its global growth forecast from 4% to 3.1% for this year.

“We are pricing in a growth scare,” Lori Calvasina at RBC Capital Markets told Bloomberg. “The market is trying to find a bottom here. There is a lot of uncertainty in this market right now about whether or not that recession is going to come.”

Source:

<https://fortune.com/2022/05/18/dow-falls-1164-points-retailers-earnings-miss-target-walmart-stocks/>

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