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Bargains, sales and dividends: Hopeful signs for US retail investors

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Last Friday saw the launch of Black Week, which marks the start of the holiday season in the US retail sector. Traditionally, the Black Friday and Cyber Monday sales after Thanksgiving are regarded as a prelude to the high-turnover weeks towards the close of the year. However, while the annual retail tradition provides buyers a wealth of offers and discounts, it is above all a benchmark for the US economy's most important pillar.

Underestimated economic driver

Consumer spending by private households accounts for around two-thirds of the US's total GDP, according to data from the Bureau of Economic Analysis, as much as 68.1 per cent in Q3 of 2019. This figure has remained consistently high over the past few years and is regarded as a reliable pillar of economic performance, particularly in times of otherwise less pronounced economic growth.

Apart from the macroeconomic view, this time is particularly important for investors in large retail groups. High turnover favours attractive dividend opportunities, and so investors are also looking forward to holiday season. This year, however, the landscape is showing mixed results.

Varying baselines for retail shares

In view of the tough competition, Amazon, the world's largest online retailer, is expecting significantly weaker business in the important last quarter than stock market experts project. For the quarter that includes Thanksgiving and Christmas, the Group expects net revenues of between USD 80bn and 86.5bn. Analysts' expectations have been lying at USD 87.37bn.

On the other hand, Wal-Mart, the largest US retailer, performed better than expected in Q3 thanks to booming online sales. Between August and October, profits increased more than 90 per cent to USD 3.3bn year-on-year.

Indicators point to solid consumer spending

According to the latest data from the Washington Department of Commerce, US retailers were able to increase their sales slightly in October, with revenues increasing 0.3 per cent month-on-month – slightly higher than economists' expectations. In previous months, sales had been significantly stronger, in some cases surprisingly.

However, according to the Conference Board research institute, the mood among US consumers unexpectedly deteriorated in November. The corresponding barometer fell from 126.1 points in October to 125.5 points – experts had expected an increase.

Nevertheless, the Federal Reserve's (Fed) economists remain confident overall: "At this point in the long expansion, I see the glass as much more than half full," said Fed chairman Jerome Powell recently. This can also partly be attributed to private consumption, which rose by 2.9 per cent in Q3 – which means that everything should be set for a holiday season that is not only enjoyable for consumers and economists, but also for investors.

Note: Past performance is not indicative of future development. Date: 29th of November

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