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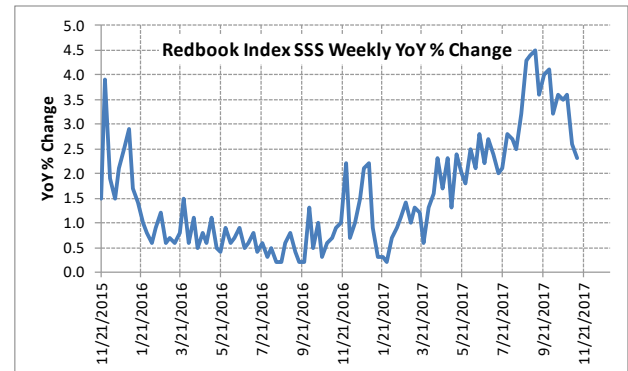
## Chess Anyone?

As 2017 comes to a close, the transformation of the retail landscape might be considered a *fait accompli*: Amazon simply moves to cause one pawn after the next to disappear from the chessboard. While on the surface this appears to be the cause of significant retail woes, the reality is more complicated. Modestly stagnant middle-class wages, demographics, excess supply, and analytics that drive consumer preferences in their purchase decisions have all coalesced to disrupt the retail landscape.

Retail is not the first sector of the economy to become highly disrupted by shocks to demand, as well as supply, and it will not be the last. Energy, as an example, has been highly disrupted and transformed. Not only has demand growth softened, but also the supply side dynamics have changed.

## Holiday 2017

The National Retail Federation anticipates 3.6%-4.0% growth in 2017 holiday sales (defined as occurring in the months of November and December). Year to date the following chart illustrates retail sales have been mixed during 2017 with a recent deceleration.



Every holiday brings new twists. We believe that these last two months of 2017 will further expose and highlight the challenges consumers face today: consumer expenditure growth is outpacing disposable income growth; total household debt has risen to nearly \$13 trillion dollars as of 3Q2017 as reported by the Federal Reserve of New York; and U.S. public debt rising to more than \$20 trillion dollars has financial consequences for all.

Of the approximate \$678.8 to \$682 billion in estimated holiday sales for 2017, we believe that an increasingly small group of retailers will thrive. This should lead to yet another round of retail casualties. We also believe the disruption of past years is now an evolution in which not just Amazon is benefitting. Walmart, as an example, recently reported better-than-expected third quarter results, citing omnichannel innovation and operational benefits.

Holiday 2017 is shaping up to benefit from pent-up consumer demand. That benefit will likely accrue to the best-in-class companies both in the short term and in the longer term. The Kings and Queens will be left standing. More pawns have yet to fall