Nordstrom, Gap plunge with Street worried about rivals chipping away share

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Shares of Nordstrom Inc and Gap Inc slumped more than 20% on Wednesday as warnings of product shortages during the crucial holiday season raised fears that the retailers were losing out to better-prepared competitors.

A bunch of Wall Street analysts lowered their price targets, with Wells Fargo nearly halving its target on Gap and Jefferies making the most aggressive cut on Nordstrom.

On Tuesday, Nordstrom said its off-price business - Nordstrom Rack - has suffered severe shortages of women's apparel and shoes, while Gap flagged up to $650 million in lost sales and cut its annual forecast.

Nordstrom was downgraded to "hold" from "buy" at Jefferies, and Credit Suisse analysts said Nordstrom Rack is not positioned well competitively compared to rivals such as TJX Cos and Burlington Stores.

"Nordstrom will need to re-evaluate its strategy of primarily using Rack to clear end of season goods from the brands that it sells at full-price stores," the brokerage said.

Nordstrom executives on a post-earnings call said they had not responded "as quickly and as aggressively" enough to have sufficient inventory.

In contrast, other retailers, including American Eagle Outfitters, Macy's and Target, have chartered container ships, used air freight or ordered in advance to overcome supply-chain bottlenecks to stock their shelves for the holidays.

"In this market, retailers have been rewarded more than usual when they exceed expectations and continue to raise guidance. Gap did the exact opposite and this market has been brutal to retailers who have struggled," CFRA Research analyst Zachary Warring said.

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