Southwest Airlines Struggles after Holiday Cancellations

Extremely harsh weather conditions from winter storm Elliot resulted in thousands of flight cancellations last weekend. Notching 12,000 cancellations since last Friday, Southwest Airlines (LUV) was responsible for nearly 75% of flight cancellations in the U.S. over that period. Other airlines relied more heavily on delays than outright cancellations, but they still had a lower proportion of delays than Southwest Airlines. The U.S. Department of Transportation has announced it is launching a probe into the matter, which sparked selling of Southwest's stock:

> "The U.S. Department of Transportation is concerned by Southwest Airlines' disproportionate and unacceptable rate of cancellations and delays as well as the failure to properly support customers experiencing a cancellation or delay," according to a press statement. "USDOT will closely examine whether cancellations were controllable and whether Southwest is complying with its customer service plan as well as all other pertinent DOT rules."

As shown below, Southwest cancelled 62% of its scheduled flights yesterday morning. The cancellation rate is nearly twice those being seen in China as they deal with the ongoing Covid outbreak. Southwest Airlines? (LUV) stock fell nearly 6.5% on Tuesday following the USDOT's announcement.

BY AIRLINE				
Cancelled		Delayed		AIRLINE
#	%	#	%	
2510	62%	74	1%	Southwest
638	33%	63	3%	China Eastern
253	20%	30	2%	Air China
206	30%	18	2%	Shenzhen Airlines
102	20%	16	3%	Spring Airlines
69	9%	69	9%	Spirit
65	12%	137	26%	Lion Air
63	8%	24	3%	Alaska Airlines
60	2%	56	2%	United
47	12%	56	14%	Batik Air
33	1%	74	2%	Delta

What To Watch Today

Economy

- 10:00 a.m. ET: **Richmond Fed Manufacturing Index**, December (-10 expected, -9 prior)
- 10:00 a.m. ET: **Pending Home Sales**, MoM, November (-1.0% expected, -4.6% prior)
- 10:00 a.m. ET: **Pending Home Sales NSA**, YoY, November (-36.7% prior)

Earnings

- *No notable earnings reports today.*

Market Trading Update

Hopes for a "Santa Rally" are fading fast as dismal economic data pressured markets all day yesterday. The MACD "sell signal" remains firmly intact, and the 50-DMA remains primary overhead resistance. With the week rapidly coming to a close, it is now make or break for any rally at this point.

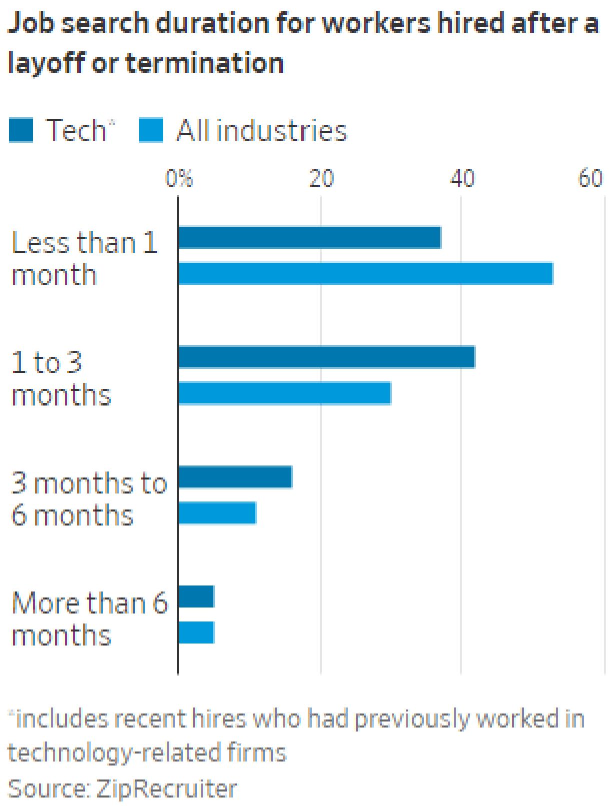
We are holding our overweight cash positioning and underweight equities and bonds until we get some better technical signals from the market. Remain cautious for now.

Are Layoffs Easing the Labor Market Yet?

The pickup in tech industry layoffs in the fourth quarter of this year offers some evidence that the tight labor market conditions are starting to cool. A recent survey from ZipRecruiter notes:

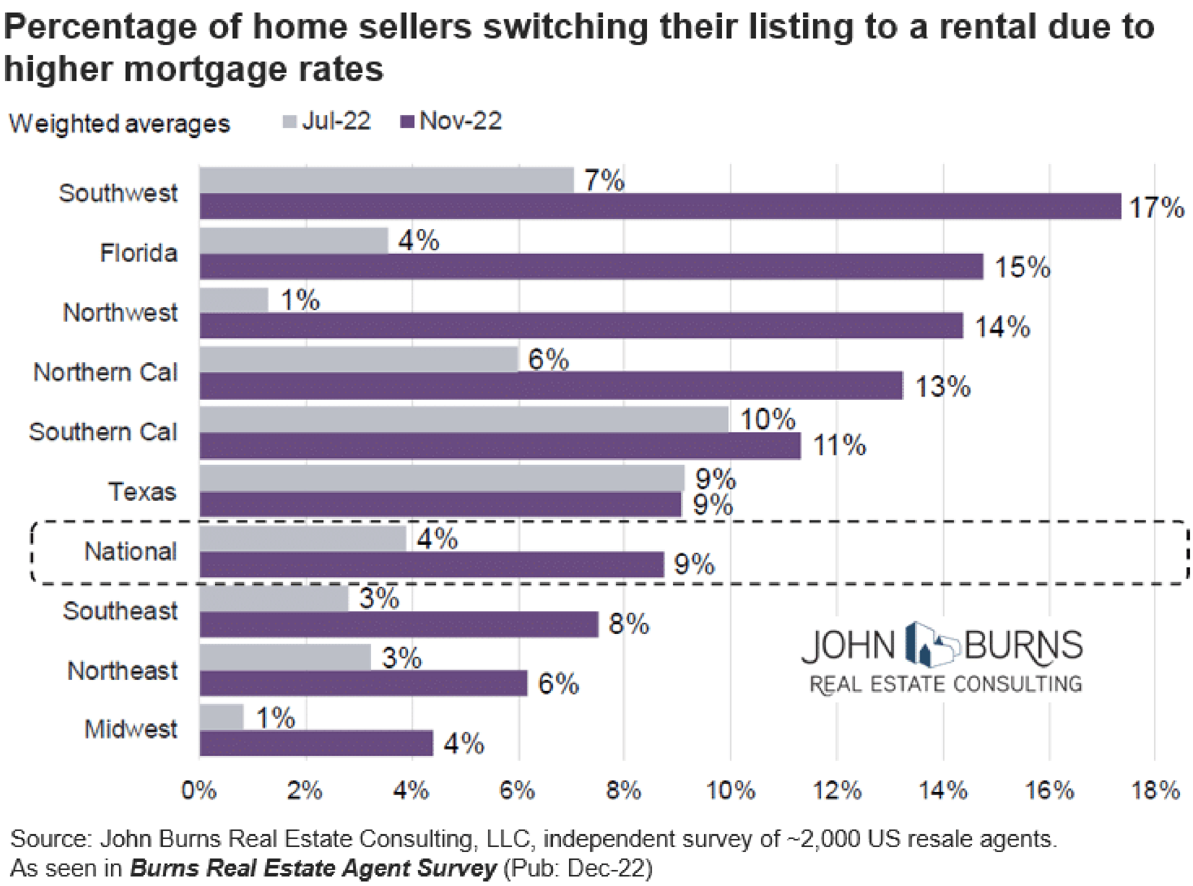
> ?Short job searches in tech have become slightly less common as the labor market slows from earlier in the year. Among people who recently lost a job and worked in tech previously, 37% found a new position within one month of starting to look, according to ZipRecruiter. That compared with 50% in February?s survey.?

However, the survey also suggests that, overall, most of the recently laid off tech workers are still finding new jobs relatively quickly. For about 79% of those who found another role, it took less than 3-months to land a gig from the start of their job search. Still, monetary policy works with a long lag and layoffs will likely become stickier in the first half of 2023. This dynamic is why it?s important to consider continuing jobless claims in addition to the path of weekly jobless claims.



When in Doubt, Rent it Out

It?s no secret by now that tightening financial conditions are weighing heavily on affordability in the housing market. On a national level, home prices fell 0.5% in October for the fourth straight monthly decline, according to the Case-Shiller price index. The lack of demand spurred by affordability struggles is beginning to bleed into seller psychology as well. The chart below, courtesy Rick Palacios Jr., shows a spike in the portion of home sellers switching their listing to a rental due to higher mortgage rates. As affordability stifles demand and home prices decline, this trend may continue and push down rental prices until market conditions normalize. It appears sellers are beginning to follow a mantra that says ?when in doubt, rent it out?.



Tesla?s Tailspin Continues

Tesla (TSLA) was hammered by selling pressure again yesterday as tax-loss selling picked up with year-end approaching. The stock?s tailspin began in late October, around the same time Musk completed his acquisition of Twitter. On top of the economic outlook, Musk?s sales of TSLA shares, distractions from the Twitter deal, and subsequent fallout has TSLA investors worried. The stock fell over 40% in the month of December alone, pushing the decline since November 1st over 50%. All told, TSLA has given up nearly 70% of its value YTD.

Recent selling has pushed the stock into deeply oversold territory, and it could be primed for a strong reflexive rally in early January. However, given the macroeconomic sensitivity of TSLA?s core business, investors should think twice before trying to catch this falling knife.

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