

Mastercard's SpendingPulse report provides valuable information on credit card spending through the holiday buying season. The SpendingPulse report below shows that spending via Mastercard credit cards rose 7.6% from November 1st to Christmas Eve. The data exclude auto sales. Mastercard's data aligns with estimates from other credit card companies, retailers, and trade associations. While holiday sales growth seems robust, there are two factors worth considering. First, inflation for the non-durable products shown below was higher than 7.6% in most cases. Ergo, real growth was around zero percent. Second, credit card debt outstanding is up over 10% from the 2021 holiday season.

Excluding inflation and unsustainable credit card balances, it appears holiday spending may not have been as strong as Mastercard and others are making it out to be.

Mastercard SpendingPulse™ U.S. Retail Sales November 1 – December 24	
	2022 vs. 2021
Total retail (ex. auto)	7.6%
In-store	6.8%
E-commerce sales	10.6%
Apparel	4.4%
Department Stores	1.0%
Electronics	-5.3%
Jewelry	-5.4%
Restaurants	15.1%
Source: Mastercard SpendingPulse, which measures in-store and online retail sales across all forms of payment and is not adjusted for inflation	

What To Watch Today

Economy

- 8:30 a.m. ET: **Initial Jobless Claims**, week ended Dec. 24 (225,000 expected, 216,000 prior)
- 8:30 a.m. ET: **Continuing Claims**, week ended Dec. 17 (1.706 million expected, 1.672 million prior)

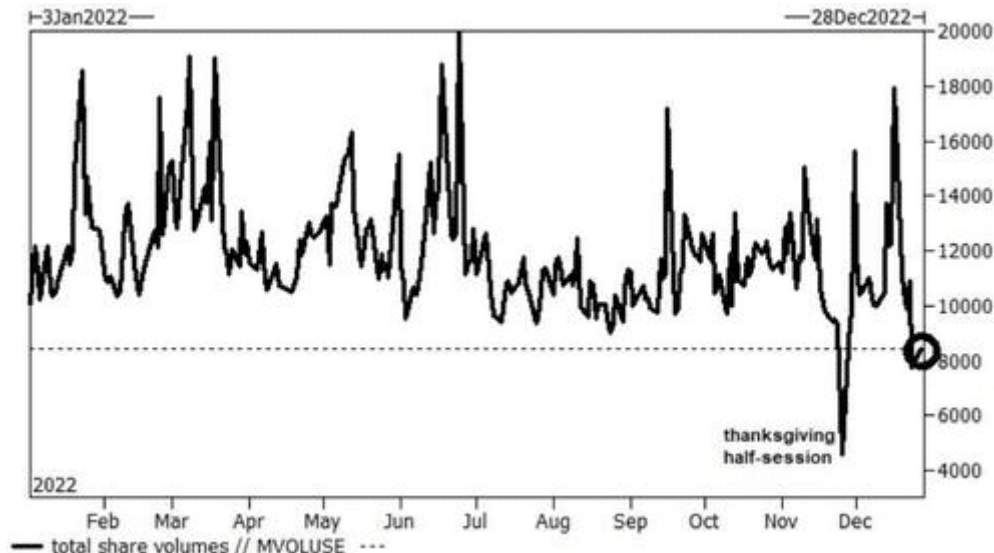
Earnings

- *No notable earnings releases today*

Market Trading Update

"Ba-Humbug" was the best way to sum up yesterday's market action which with only two trading days left in the year, we can safely assume that "Santa" took a vacation and left Wall Street with the proverbial *"lump of coal."*

The Nasdaq printed a fresh 2022 low amid the second lowest trading volume day of the year. Such is an important note. While the performance of the last few days have been dismal, we suspect much of this is due to both light trading volume and managers dumping stocks heading into year-end reporting. (*Who wants to have \$TSLA on their books.*)



Such is why we have recommended not taking the year-end action too seriously as the *"inmates run the asylum."* We will find out the true tenor of the market when traders return from their Christmas breaks in the New Year. There is a substantial risk of getting whipsawed in individual equities right now.

Nonetheless, market action remains dismal. The MACD *"sell signal"* remains firmly intact and the market is now short-term VERY oversold. If you are wanting to sell, I would look for a bounce to sell into at this point. There is a lot of overhead resistance that will continue to challenge markets into the New Year.



Is Southwest Airlines a Buy?

Wednesday's [Commentary](#) opened with Southwest Airlines and its weather-related struggles over the last week. Southwest (LUV) shares peaked in early April 2021 at \$63 and are now trading at nearly half of that value. Let's do some fundamental analysis in [SimpleVisor](#) and see if buying LUV makes sense.

The first graph shows that LUV is not far from its April 2020 pandemic lows. At that time, air travel was virtually shut down, and there was little hope it would normalize anytime soon. Bankruptcy was a possibility at that time. The price rose sharply once the government bailed out the airline industry, and air travel started to pick up. In one year, the stock rose above its pre-pandemic level. Since peaking, it has trended lower. The Bollinger Bands suggest the price can fall to around \$30. The RSI and MACD also suggest its price has room to fall.

The second table summarizes technical studies. The recent trend is poor, but some shorter-term technical indicators are starting to signal the stock is in oversold territory.



Technical Indicators: Buys(4) Sells(4) Holds(4)

Name	Value	Trend	Action
Relative Strength Index (14)	32.19	Neutral	
Avg Directional Index (14)	22.97	Neutral	
Stochastic RSI Fast (3, 3, 14, 14)	0.00	Oversold	👍
Stochastic %K (14, 3, 3)	10.19	Oversold	👍
Williams Percentage Range	-95.36	Oversold	👍
MACD(12,26)	-0.59	Neutral	
Commodity Channel Index(20)	-192.80	Oversold	👍
Bull Bear Power	-1.75	Neutral	
Momentum (10)	-0.04	Bearish	👎
Short Term Trend	Bearish	Bearish	👎
Medium Term Trend	Bearish	Bearish	👎
Long Term Trend	Bearish	Bearish	👎

Southwest Airlines Fundamentals

Our fair value model in the SimpleVisor Screener tool points to a fair value of 39.69, about 15% above its current price. The first table below shows LUV has a forward P/E of 10.48 and price to book value of 1.84. As a comparison, the S&P 500 has a forward P/E of 18.81 and a price-to-book value of 2.95. From that perspective, it is cheap versus the market, but, as shown in the second table, its valuations are similar to its competitors.

Total Return		Earning Per Share - Actuals		Earning Per Share - Estimates	
% Total Return WTD	-5.96%	Last Quarter	0.50	Current Quarter	0.81
% Total Return MTD	-8.32%	Prior Quarter	1.30	Next Quarter	0.31
% Total Return QTD	10.05%	Last Year	-2.15	Current Year	2.31
% Total Return YTD	-20.77%	Revenue - Actuals		Revenue - Estimates	
% Total Return 1 Year	-8.73%	Last Quarter	6,220 m	Current Quarter	6,608 m
% Total Return 2 Year	-26.66%	Prior Quarter	6,728 m	Next Quarter	5,967 m
% Total Return 3 Year	-37.28%	Last Year	15,790 m	Current Year	24,240 m
		Prior Year	9,048 m	Next Year	26,999 m
Stock Transaction Stats		Dividend		Valuation	
Share Outstanding	593,752,000	Last Dividend	\$0.18	Forward P/E	10.48
Share Floating	591,442,309	Last Dividend Date	Mar 2, 2020	Trailing P/E	25.52
Held by Insiders		0.35% Last 5 Year Avg Div Yield	N/A	PEG Ratio	-0.74
Held by Institutions		76.04% Forward Dividend Rate	0.72	Price/Book	1.84
Share Short (last month Nov 25, 2022)	9,426,449	Forward Dividend Yield	2.00%	Margins	
Share Short (prior month Oct 30, 2022)	10,103,184	Split		Gross Margin	25.40% m
Insider Share Bought (1 ton in 6m)	14,934	Last Split Factor	3.2	Profit Margin	3.64% m
Insider Share Sold (1 ton in 6m)	2,250	Last Split Date	Feb 15, 2001	Leverage	
		Returns		Total Debt	10,112 m
		Return on Equity	7.81%	Debt/Equity	92.57%
		Return on Assets	2.78%		

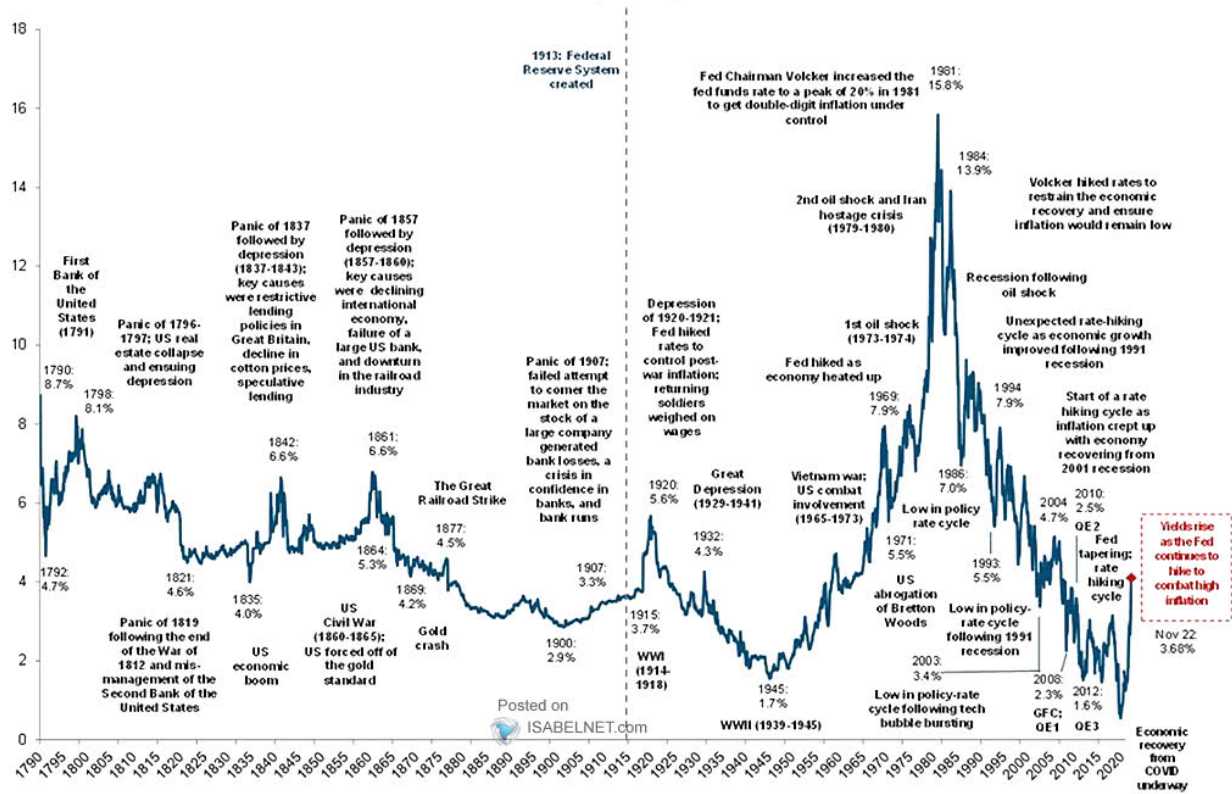
Peer Fundamentals Data Comparison						
Group	Name	LUV	AAL	ALK	DAL	NAL
Balance Sheet	Quick Ratio	1.44	0.60	0.74	0.44	0.94
	PayoffRatio	0.00%	0.00%	0.00%	0.00%	0.00%
	Total Debt	10188	44,688	3,968	31,948	38,988
	Current Ratio	1.58	0.79	0.81	0.57	1.03
	Debt to Equity	92.57		103.37	695.77	781.50
Dividend	Ex Dividend Date	2023-01-09	2020-02-04	2020-02-14	2020-02-19	2008-01-07
	Last Dividend	0.18	0.10	0.38	0.40	2.15
	Dividend Rate	0.72				
	Dividend Yield	2.00%				
Income Statement	EPS	1.53	-1.67	0.41	0.53	-6.12
	Net Income	827M	-1,688	54M	89M	-752M
	EBITDA	2,728	2.48	1,098	4,478	3,098
	Total Revenue	22,698	45,288	9,078	46,628	40,758
	Gross Profits	2,178	1,938	939M	2,178	3,278
	Revenue/Share	38.24	69.57	71.81	73.12	125.15
	Revenue Growth	32.90%	50.30%	44.80%	52.70%	66.20%
	Free Cashflow	333,12M	265.1M	700,12M	806,89M	2,548
Margin	P/E Ratio	25.52		103.07	263.08	
	Gross Margins	25.40%	19.93%	24.28%	17.59%	26.74%
	EBITDA Margins	11.98%	5.33%	12.04%	9.59%	7.58%
	Operating Margins	7.80%	0.03%	7.52%	5.82%	2.00%
	Profit Margins	3.64%	-3.56%	0.60%	0.17%	-18.4%
Operating Metrics	Return on Assets	2.78%	0.0%	3.00%	2.33%	0.74%
	Return on Equity	7.81%		1.47%	2.25%	14.56%
	52 Week Range	30.2 - 50.1	8.65 - 21.42	38.19 - 81.55	27.2 - 46.27	30.54 - 53.12
Price History	Today's Range	30.2 - 50.1	8.65 - 21.42	38.19 - 81.55	27.2 - 46.27	30.54 - 53.12
	Beta	1.08	1.47	1.44	1.21	1.33
	Volume	14,39M	35,77M	1,88M	7,52M	6,69M
	Avg Volume	5,7M	29,97M	1,49M	10,3M	8,53M
	Average Volume 10days	6.2M	27,13M	1,69M	10,6M	8,93M
Valuation	Market Cap	20,158	8,148	5,368	21.8	17,498
	Enterprise Value	17,878	41,788	6.38	44,738	32,238
	Enterprise to EBITDA	6.57	17.38	5.77	10.00	10.43
	Price to Sales	0.89	0.18	0.59	0.45	0.31
	Shares Outstanding	593,75M	649,18M	126,84M	641,88M	126,93M
	Price to Book	1.84		1.40	4.57	2.55

LUV is undoubtedly cheaper than it has been. Further, it is trading at levels when investors were panicked, and LUV's future was in jeopardy. That said, a case can be made that it was too expensive heading into the pandemic, and its valuations can get cheaper. With high recession odds and the likelihood of less air travel, the stock can undoubtedly fall further. However, at lower prices and a cheaper valuation, it may be worth tracking in 2023.

200+ Years of Bonds

The graph below charts 10-year U.S. Treasury yields going back to 1790. The chart gives perspective to the recent surge in yields. Compared to the post-WW2 and 1970s inflation era in which bond yields rose from 1.7% to 15.8%, the recent experience seems exceptionally mild. However, note that the recent increase is notable compared to other short-term yield increases. Importantly, many sharp increases occurring over short periods led to financial crises.

Long history of US 10-year Treasury yields monthly averages



Source: Global Financial Data, Inc., Federal Reserve Board, Haver Analytics, Goldman Sachs GIR.



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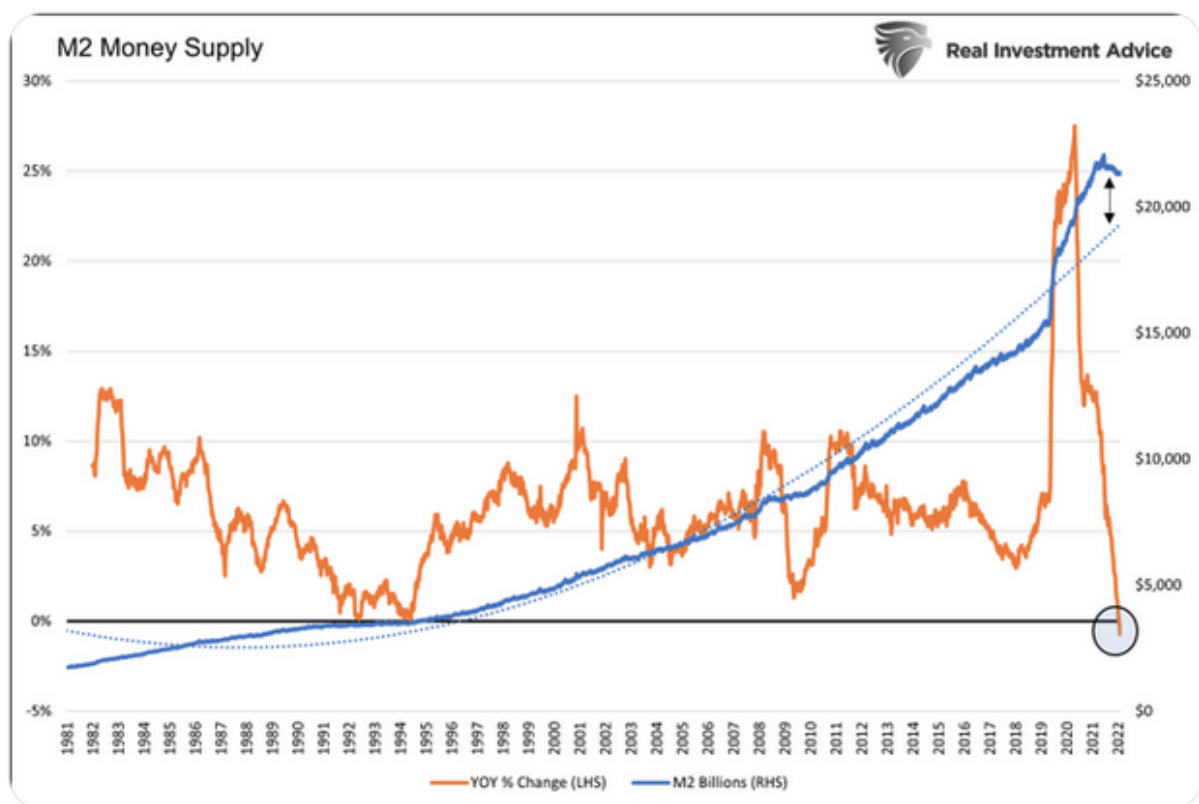
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The money supply is still about 5% above the trend.

Like so much data these days, this will make the Fed's task more complex and raise the odds they make a critical error.



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