

Holiday Season: Showing signs of strength or stress?

DIGITAL ENGAGEMENT TEAM

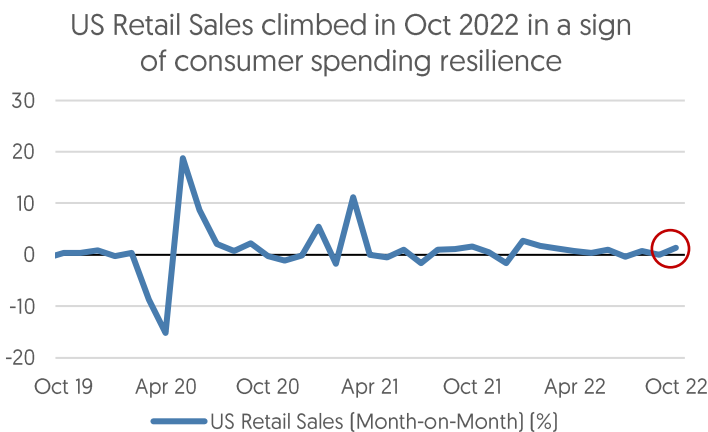
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TRADING MATTERS SERIES: NEWS FOCUS

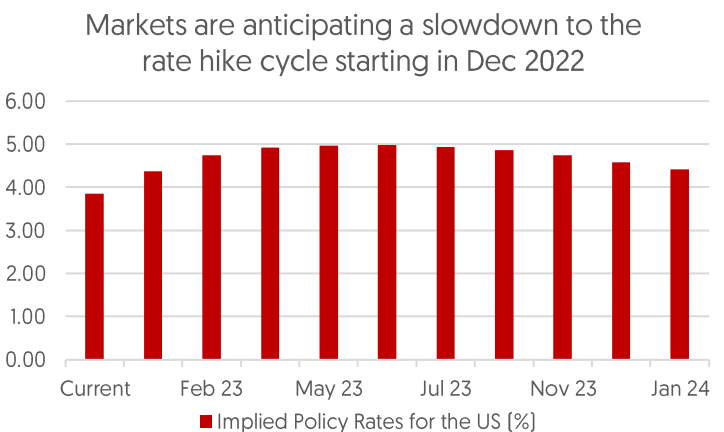
The summary and impact of a major news event

Is this a season to be jolly for retailers?

The fourth quarter and holiday shopping season is traditionally the strongest time of the year for retailers.¹ This year's festive period could turn out to be especially crucial, with consumers increasingly tightening their belts in the face of decade-high inflation and a worsening economic outlook.² For now, US retail sales data and consumer spending is remaining steady and resilient.^{2,3} Some in Wall Street are seeing this as signs of the Fed's coveted economic "soft landing" in play.^{4,5} Others however are not convinced that retailers can truly snap out of a yearlong stock market slump that has brought the S&P 500 Retailing Index down 30% this year.¹



Source: Bloomberg, extracted 28 Nov 2022



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The Bull Case: Signs of strength

The latest US retail sales data shows that consumer spending is continuing to prove largely resilient in the US, giving the economy a good start to the fourth quarter.² US apparel companies have also produced third-quarter results that were far better than expected as efforts to clear excess inventory with deep discounts paid off.⁶ Despite the Fed raising the benchmark interest rate by 75 basis points for a fourth straight time,⁷ Americans are charging record amounts to their credit cards as the holiday shopping season heats up.⁸ With softer-than-expected consumer and producer price readings in October 2022,^{9,10} as well as a possible moderation in wage growth,¹¹ some on Wall Street are looking to the possibility of a coveted "soft landing" of the economy.⁵ In such a situation, a Goldilocks scenario emerges where inflation and interest rates ease while consumer spending remains relatively strong.¹¹

The Bear Case: Signs of stress

Even though most Fed officials are now seeking to slow the pace of interest rate hikes,⁷ policymakers acknowledge that inflation is currently still far too high.¹² The latest US retail sales data, though encouraging, also consists mainly of goods and is not adjusted for inflation.⁴ With many retailers deploying deep discounts to move stock off their shelves for the holiday season, higher prices rather than more transactions have driven profits for retailers.² Meanwhile, sales at department stores and in key discretionary categories like electronics and sporting goods have fallen as consumers spend more on essentials.¹ Headwinds from inflation and borrowing costs that could potentially remain stubbornly high as well as growing concerns about a US recession may also lead consumers to spend less.⁶ Cracks have started to form in consumers' ability to keep up with the highest inflation in four decades,¹³ and the holiday season may not be quite as cheerful for retailers.⁶

United States

Below are some of the largest **Mass Merchant** companies based on Industry Revenue listed in the US

WALMART INC (WMT US)

- Walmart delivered strong fiscal Q3 results with US comparables growth ahead of Street estimates reflecting strength in grocery and private brands [MT Newswires, 15 Nov 2022]
- Walmart said it has agreed to a US\$3.1B pair of settlement frameworks to resolve substantially all opioid lawsuits and potential claims by state, local, and tribal governments against it [Bloomberg, 15 Nov 2022]
- Walmart erases 2022 loss after grocery gains fuel sales beat [Bloomberg, 15 Nov 2022]

Market Cap [USD]	415.47 Billion
Industry Rev [USD]	628.17 Billion
Current Price	153.07
Analysts' 12M Target Price	159.30
Upside/Downside from Analyst Consensus [%]	4.07%
Indicated Yield	1.46%

COSTCO WHOLESALE CORP (COST US)

- American consumers, whose spending powered a rapid pandemic recovery in the US, are trading down to lower-cost brands and pulling back on discretionary items as inflation and recession fears stalk family budgets [Bloomberg, 17 Nov 2022]
- Costco Wholesale Corp will set new targets by next year to cut its greenhouse gas emissions [Reuters, 16 Nov 2022]
- Costco Wholesale Corp reported net sales of US\$17.73B for retail month of Oct 2022, an increase of 7.7% [Reuters, 03 Nov 2022]

Market Cap [USD]	236.20 Billion
Industry Rev [USD]	309.82 Billion
Current Price	533.66
Analysts' 12M Target Price	555.31
Upside/Downside from Analyst Consensus [%]	4.06%
Indicated Yield	0.67%

TARGET CORP (TGT US)

- Retailers such as Target Corp are slashing prices by as much as 50% on toys and other popular holiday gifts in early Black Friday deals aimed at increasingly frugal consumers, but the bargains aren't what they seem. Discounts on toys are up this year compared to last, when supply-chain snarls made it difficult to get products on store shelves and consumers were flush with cash [Reuters, 18 Nov 2022]

Market Cap [USD]	75.21 Billion
Industry Rev [USD]	142.64 Billion
Current Price	163.38
Analysts' 12M Target Price	178.10
Upside/Downside from Analyst Consensus [%]	9.01%
Indicated Yield	2.64%

DOLLAR GENERAL CORP (DG US)

- Wall Street has been upbeat on the discount store sector this year, betting that rising costs have driven people to look for low-cost alternatives to pantry staples and home goods [Barron's, 22 Nov 2022]
- Dollar General Corp, one of the largest U.S. discount retailers, was sued by Ohio, which accused the company of baiting shoppers with low prices on store shelves, only to then charge more at the register [Reuters, 02 Nov 2022]

Market Cap [USD]	58.02 Billion
Industry Rev [USD]	46.04 Billion
Current Price	257.23
Analysts' 12M Target Price	271.53
Upside/Downside from Analyst Consensus [%]	5.56%
Indicated Yield	0.86%

United States

Below are some of the largest **Courier/Logistics Services** companies based on Industry Revenue listed in the US

UNITED PARCEL SERVICE (UPS US)

- Companies that move and deliver goods are getting an early warning this week about a potential one-two punch that could hit hard this holiday season [Bloomberg, 19 Nov 2022]
- United Parcel Service said it has completed its acquisition of health care logistics provider Bomi Group [MT Newswires, 16 Nov 2022]

Market Cap [USD]	157.86 Billion
Industry Rev [USD]	130.71 Billion
Current Price	182.52
Analysts' 12M Target Price	190.94
Upside/Downside from Analyst Consensus [%]	4.61%
Indicated Yield	3.33%

FEDEX CORP (FDX US)

- FedEx defused a threat by its delivery contractors to walk off the job on Black Friday in protest of dwindling profits as a trade group representing disgruntled logistics-company owners disbanded [Bloomberg, 18 Nov 2022]
- FedEx's freight division is furloughing employees in some U.S. markets as current business conditions are hurting its volumes [Reuters, 15 Nov 2022]

Market Cap [USD]	45.98 Billion
Industry Rev [USD]	99.46 Billion
Current Price	176.70
Analysts' 12M Target Price	189.86
Upside/Downside from Analyst Consensus [%]	7.45%
Indicated Yield	2.60%

J.B. HUNT TRANSPORT SERVICES (JBHT US)

- Trucking and logistics stocks fell on 16 Nov 2022 after retailer Target's earnings report showed sales trends weakening [Bloomberg, 17 Nov 2022]
- J.B. Hunt Transport Services, Inc., one of the largest supply chain solutions providers in North America, announced a new goal to reduce its carbon emission intensity 32% by 2034 (baseline 2019), advancing the company's sustainability vision of moving the freight industry towards a low-carbon future [Business Wire, 14 Nov 2022]

Market Cap [USD]	18.91 Billion
Industry Rev [USD]	11.87 Billion
Current Price	182.60
Analysts' 12M Target Price	189.63
Upside/Downside from Analyst Consensus [%]	3.85%
Indicated Yield	0.88%

XPO LOGISTICS (XPO US)

- The outlook for the holiday shopping season is darker than usual -- bad news both for retailers and transportation companies further down the supply chain [Bloomberg, 19 Nov 2022]
- XPO Logistics is offering voluntary furloughs to drivers and dockworkers at some of the carrier's terminals around the country during the holidays [Transport Dive, 23 Nov 2022]

Market Cap [USD]	4.34 Billion
Industry Rev [USD]	10.46 Billion
Current Price	37.65
Analysts' 12M Target Price	44.19
Upside/Downside from Analyst Consensus [%]	17.37%
Indicated Yield	N/A

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