



Inside Today's Blitz

- Mnuchin, Pelosi Edge Closer to a Stimulus Deal as Congress Prepares for Break
- UK, EU Start Legal Proceedings Over Brexit
- Technical Glitch Closes Tokyo Stock Exchange
- **STM** raising Q3 outlook, lifting semis in Europe; **Bayer** sees crop outlook as challenging; Fed keeps limit on bank buybacks; House Democrats may look to break up big tech; job cuts deepen across major companies

Market Outlook

Futures are indicating a strong open for the day with the **Dow** up 80 bps, the **S&P** up 90 bps, and the **Nasdaq** up 1.35%. **Bonds** are down 30 bps while the **dollar** is edging lower as well. Precious metals are up as well with **gold** rising 30 bps and **silver** up 95 bps. Energy is weak with **WTI** down over 1%. **Natural Gas** is rising 2%. Grains are bid with **corn** leading up 85 bps. It was a quiet night for some of the major macro storylines while Europe saw some positive pre-announcements and Asia was mostly closed. The focus in the US remains stimulus talks with signs the White House is moving closer to a deal. House Democrats postponed a vote on a \$2.2T package to allow for more talks and Mnuchin/Pelosi held another long call to knock out details. There's a bit of a time crunch with congress set to leave Washington tomorrow for pre-election campaigning and the latest job cuts put more pressure on the two sides to reach a

deal. Elsewhere, Britain the EU continue to work on a Brexit deal with legal proceedings starting today. Weekly claims not expected to improve much this week and comes with a slew of headlines about layoffs this week.

Asian markets are modestly higher this morning, albeit thin trade with China, Taiwan Hong Kong and South Korea closed. Australian markets snapped a three-day losing streak. Japan's Tokyo Stock Exchange was halted for trading due a technical glitch. European markets are modestly higher today as hopes for US stimulus lift sentiment. The DAX is up 10 bps and the CAC up 60 bps. The FTSE is leading up 90 bps. **ST Micro** leading up 6% after raising their outlook for FY. Peers like **Infineon**, **Dialog Sei**, and **ASML** all rising about 5%. **H&M** is up 8% after posting a strong Q3 update with the worst of the pandemic behind them. UK-based retailer **Halfords** is up 20% after raising their outlook. **Travis Perkins** is up 2% as the building materials company said its chairman would step down. **Rolls Royce** is off by 9% as they plan to raise \$2B by selling stock. **Bayer** is down 10% after their unveiled plans to cut jobs and exit non-strategic businesses.

Calendar

Today... Fed's Williams speaks, Fed's Bowman speaks, PCE Inflation, ISM Manufacturing, Markit Manufacturing PMI, Construction Spending, September Vehicle Sales; **Earnings Before the Open:** BBBY, CAG, STZ, PEP; **Analyst Days/Business Updates:** NCMI, TWO, MLHR, FUN, RHHBY

Tomorrow... Fed's Harker speaks, Employment Report, U of Michigan, Factory Orders; **Analyst Days/Business Updates:** V, PRGS, SNY

Overnight Markets

Lumber	610	1.30%
Silver	23.75	1.07%
Corn	382.25	0.86%
Gold	1901.4	0.31%
Euro	1.1761	0.22%
US Dollar	93.87	-0.07%
Bonds	175.81	-0.27%
Platinum	906.6	-0.30%
Copper	3.012	-0.70%
Oil (WTI)	39.64	-1.44%

Technical View



Key Levels to Watch

A strong overnight session as we reclaimed the Wednesday highs. We opened slight up and drove all night back to the 3386.75 level where we're stalling out a bit into the US open. Overnight VWAP was support twice during the session and sits around 3372 now. VWAP from Sunday's open is at 3342.

Economic Data

- **Japan** vehicle sales down 15.6% in Sept vs down 18.5% in Aug
- **Macau** casino revenue was -90% in Sept vs -86% est.
- **South Korea** imports +1.1% vs -5.1% est.; exports +7.7% vs 3.5% est.
- Asian manufacturing PMI – **Japan** was 47.7 vs 47.3; **Vietnam** 52.2 vs 45.7; **Thailand** 49.9 vs 49.7
- **Eurozone** PPI was in line with estimates
- **Eurozone** manufacturing PMI 53.7 vs 53.7; **German** 56.4 vs 56.6

Macro News

- **Japan** is likely to avoid snap elections this year, says Reuters
- **Germany** says that delays in EU recovery fund may be unavoidable, per Bloomberg. The members are split over rule-of-law conditions
- **Australia** will spend \$1B to rebuild economy, spur manufacturing across six sectors, says Reuters.
- **Biden** leads Trump by 8 points in Michigan, says The Hill
- **Hurricane Marie** is rapidly intensifying into a major hurricane, says NHC. It could make landfall by Friday

Stock-Specific News

Job Cuts

Movers

Gainers: AEL 54.5%, AMAG 43.5%, SBH 7.5%, SAIL 7%,

Losers: SPI -12.5%

Insider Buying

GLSI, PRLD

13F/13G Watch

IPO Monitor

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A very busy 24 hours for job cuts across all sectors and many blue-chip companies. And, as Bloomberg notes, announcements like these point to further challenges in a rebound that's already slowed after an initial bounce back in May and June. Names announcing job cuts, firings, or layoffs include **GS, ALL, DIS, RDS.A, AAL, UAL, MPC, C, Bayer, Continental AG, Tata Steel**

Consumer

- **SBUX** announces 10% dividend raise
- **AMC** is looking to open more theaters on 10/2 and 10/9; the company could be at 80% open soon
- **H&M** plans to eliminate 5% of stores, says Bloomberg. The CEO is making H&M's biggest retrenchment ever as the pandemic exacerbates its record inventory buildup.
- **SBH** to join the S&P 600
- **MCAC** - Playboy Enterprises sign definitive merger agreement to return Playboy to the public markets

On the Chart

SBUX nice bull flag forming on the chart under \$88 with a measured target of \$95 and long squeeze looking to fire off on the daily

Financials

- **Fed extends limit on bank buybacks, dividends through Q4.** For the fourth quarter of this year, large banks-those with more than \$100B in total assets-will be prohibited from making share repurchases
- **Ares Capital (ARES)** is buying F&G Reinsurance from **Fidelity (FNF)**. The unit has \$2B in invested assets
- **American Equity (AEL)** – Mass Mutual and **Athene (ATH)** offered \$36/share on 9/8 for a \$3B Insurance deal according to the WSJ
- **SCHW** gets approval from Fed to acquire **AMTD**
- **ALL** announces restructuring plan, to incur \$290M Q3 charge
- **ADC** says the company collected 99% of Sept. rent
- **SUI** prices 8M shares secondary at \$139.50

Healthcare

- **The DOJ has opened an antitrust probe into Medtronic (MDT)**, says WSJ. The investigation examines past acquisitions and follows allegations that consolidation contributed to shortage of ventilators
- **The FDA is widening its safety inquiry into AstraZeneca's (AZN) vaccine**, says Reuters. AstraZeneca's large, late-stage U.S. trial has remained on hold since Sept. 6
- **AZN** vaccine review is starting in Europe, says Bloomberg. Regulators are set to announce a rolling review, the first COVID vaccine to undergo the process in the EU

Inside the Hawk Database

MDT may be a buy the dip name on weakness with recent buys in the January \$110 calls and November \$120 calls in size

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- **RGEN** announced their successful development of an affinity ligand targeting the spike protein, to be utilized in the purification of COVID-19 vaccines
- **PFE** receives FDA fast track designation for duchenne muscular dystrophy investigational gene therapy
- **AMAG** near deal to be bought by Apollo's Covis Pharma
- **BEAM** prices 5M share secondary at \$23.50
- **SNN** raises Q3 revenues above consensus; "improvement was strongest in our Orthopaedics franchise"

Energy & Materials

- **Bayer** re-affirmed its FY guidance with 2021 sales flat; they expect to accelerate cost cuts due to a challenging environment and their crop business, which delivers just under half of sales, will face a "deeper than expected" impact
- **Nippon Paint** is set for a global acquisition spree, says FT. The company is gathering firepower for a worldwide search to consolidate the \$150B coatings industry
- **MPC** confirms 12% workforce reduction
- **Hygo is delaying its IPO**, says Reuters. This comes after CEO Antonello was named in the early stages of a corruption investigation in Brazil.

Sympathy Movers

AXTA the obvious name to watch with this report as they've been subject of M&A spec for years now

Industrials

- **Tesla (TSLA)** has cut prices on the Chinese Model 3, says Bloomberg.
- **SpaceX valuation is soaring**, says the NYP. Demand for privately held shares of SpaceX has jumped 25 percent in recent weeks, driven by fresh headlines about a satellite launch
- **Boeing (BA)** is downplaying the return of the MAX, says Bloomberg. There won't be an advertising blitz touting the much-anticipated return of Boeing's best-selling jet from a global flying ban
- Finland's **Konescranes** and **Cargotec** plan to merge, says Reuters. Their combined annual sales are about \$8B
- **Rolls Royce will raise \$6.5B** to cope with COVID cash crunch, per Reuters. Worries about its finances have prompted speculation of a government bailout of Rolls
- **ADNT** to sell automotive fabric business to Sage Automotive for \$175M
- **FLR** awarded \$1.1B Navy contract
- **GD** awarded \$1.2B Army contract
- **ALK** will offer rapid testing on flights across the West coast
- **RGR** to acquire Marlin Firearms for \$30M

On the Chart

ADNT very narrow range under \$18.50 with a breakout targeting \$22.50

Tech/Telecom

- **Tech investors predict Nvidia's (NVDA) \$40B deal for ARM will be blocked**, per CNBC. Nathan Benaich and Ian Hogarth made their prediction in their annual "State of AI" report.
- **House Democrats could call for big tech to be broken up**, says the WSJ. Panel expected to recommend significant measures targeting power of large technology companies
- **ST Micro raising Q3 outlook**; sees revenues \$2.67B vs \$2.45B. "Sharp acceleration in demand of Automotive products and Microcontrollers, as well as our engaged customer programs in Personal Electronics, were the main factors"
- **SK Hynix to buy large stake in Kioxia** once it goes public, says Nikkei. The company's plans would create an alliance of two of the largest players in the space but was derailed when they pulled the deal
- **Huawei** could be effectively banned by Germany from their 5G network, say FT.
- **SAIL** to join the S&P 400 on 10/5

Sympathy Movers

The semi space in general should see a boost today with this outlook including **ADI, AMD, QCOM, NVDA, NXPI, SLAB, and ON**

Utilities

- **Next-Era (NEE) CEO rules out hostile M&A**, per Reuters. This comes a day after reports surfaced it had made an approach to Duke Energy

Radar Focus

NEE recent radar focus with bullish flows into the March \$270, \$280, and \$290 calls

Analyst Notes

Upgrades

- **BLK, EV** raised to Buy at Deutsche Bank, Investor demand for sustainable investing is "rising rapidly," and asset managers have an opportunity to "substantially enhance" organic growth by leveraging capabilities into products focused more directly on positive ESG impact
- **CAE** upgraded to Outperform at BMO, positive on recovering travel demand and CAE-specific growth opportunities while the company's civil aviation business is "more indexed" to the business aviation segment and narrow-body aircraft commercial fleet which could recover faster than the overall market
- **AZUL, GOL, VLRS** upgraded to Buy at Goldman, sees upside in Latin American transportation and positive on these names as the analyst seeks "more exposure to domestic markets poised to recover earlier"

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- **SYNH** raised to Buy at Goldman, company has navigated the challenges posed by COVID-19 better than expected in March and demonstrated a continuation of bookings momentum in Q2
- **WDAY** upgraded to Buy at Citi, sees the combination of recent "up-market" wins, product enhancements, the procurement opportunity, and a greater desire from finance executives to evaluate the cloud as drivers of improvement into fiscal 2022
- **KAR** raised to Overweight at Stephens, firm believes concerns around the dealer-to-dealer business are "overly punitive" and thinks stronger repossession volume will provide a tailwind to industry growth in 2021
- **PAAS** raised to Buy at Deutsche Bank, sector has further room to run due to further to solid demand in China, recovering demand outside of China and potential for U.S. dollar weakness which would support the commodity complex
- **SAIL** raised to Overweight at MSCO, firm estimates a \$34B total addressable market for Identity and Access Management, which is about four times that of current spending today
- **BAX** raised to Buy at Citi
- **GT** raised to Buy at Northcoast
- **DVN** raised to Buy at Truist
- **LHX** raised to Buy at UBS

Inside the Hawk Database

PAAS a lot of bullish flows lately including size buyers in the January 2022 \$40 calls and April \$35 calls

Downgrades

- **VLO** cut to Sell at Goldman, analyst is concerned about global refining fundamentals weighing on the company's margins given capacity additions, unfavorable crude differentials and lower refining utilization rates. Further, he's concerned about dividend sustainability amid balance sheet pressure
- **TXT** cut to Perform at Cowen, the "lagging" recovery in business jets is apt to restrain the company's 2020 results, and elections could impact its "large outyear" Future Vertical Lift potential
- **WSG** downgraded to Neutral at Citi
- **SILK** cut to Neutral at Citi

On the Chart

VLO near a short-term breakdown under \$40 and room back to the March lows around \$30

Initiations

- **PZZA** initiated Buy at Keybank, poised to be a strong challenger brand in the heavily fragmented quick-service pizza category and thinks it is well-positioned to sustain its recent share gains
- **ENPH** started Buy at BAML, \$93 target, company is among the "most critically underappreciated top-line revenue growth stories" offering a "substantially greater" addressable market opportunity
- **VOYA** initiated Buy at BAML, \$74 PT
- **JACK** reinstated Buy at Northcoast

Inside the Hawk Database

PZZA buyer of the October \$80 and \$85 calls recently

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- **ATHM** initiated Buy at Deutsche Bank, \$110 PT
- **DKNG** started Buy at Needham
- **CTAS** started Buy at Argus
- **ATHM** started Buy at Deutsche Bank
- **ENPH** started Buy at BAML, \$93 target; critically underappreciated top-line revenue growth stories, with a substantially greater addressable opportunity-set through residential storage beyond continued growth in the core micro-inverter business
- **WWE, MSGE, FWONA** started Buy at Berenberg

Other Commentary

- **AMZN** target raised to \$4500 from \$3925 at Pivotal; Strong commentary on Advertising business potential; firm believes that if advertising was viewed as a standalone business unit, it would represent "well north" of 300% of 2020E non-AWS EBIT
- **DDOG** PT raised to \$116 at Mizuho, while Datadog and other observability vendors already have a series of partnerships with public cloud vendors, the Azure pact is a tighter, more seamless partnership that is unique and should therefore add greater value
- **AMGN** – Citi opens 90 day positive catalyst watch, Amgen has three key catalysts coming in next 90 days: Tezepelumab in asthma, KRAS Phase 2 data later this year, and GALACTIC-HF for Omecamtiv
- **SHW** target to \$705 from \$625 at UBS
- **Z** target to \$140 from \$115 at Deutsche Bank

Inside the Hawk Database

AMGN recent buyers of the December \$250 calls and October \$247.50 calls, the latter over 1950X

Earnings Review

PEP – Beats EPS and Revenues (+5.3%), Raises FY20 EPS - Our global snacks and food businesses delivered 6% organic revenue growth, while our global beverage business delivered 3% organic revenue growth. The global beverage business meaningfully improved versus the previous quarter, with especially encouraging results in our PepsiCo beverages North America division. Now starting with North America snacks and food, both Frito-Lay and Quaker foods continued to deliver robust growth as at-home consumption trends have remained strong despite the measured reopening of economies and activities in certain areas since May. We also saw continued strength in the e-commerce and large-format channels, while trends in the convenience and gas channel meaningfully improved versus the previous quarter. North America Beverages business where we delivered a strong improvement in results, with 3% organic revenue growth and 12% core constant currency operating growth. Many of our large brands performed well with double-digit net revenue growth for bubly, Lipton and Starbucks, high single-digit growth for Gatorade, mid-single-digit growth for Mountain Dew and Tropicana and low single-digit growth for Pepsi. From a channel performance perspective, both the large-format and convenience and gas channels delivered strong growth, while the decline in foodservice channel moderated. Our market share trend within the liquid refreshment beverage category improved versus the previous quarter and we gained market share in the coffee, tea and juice categories. In addition, our expanded presence in the

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energy category contributed to our net reported growth and reported operating profit in the quarter. We're very excited about our expanded presence in this highly profitable category with our recent acquisition of ROCKSTAR and distribution agreement with Van.

CAG - First quarter net sales increased 12.1%, and organic net sales increased 15.0%, with significant growth in each of the Company's three retail segments on both a reported and an organic basis. All four of the Company's segments reported margin expansion in the quarter. Total Company operating margin increased 800 basis points to 19.0%, and adjusted operating margin increased 450 basis points to 20.2%. Fiscal 2021 is off to a strong start. Our first quarter results demonstrate that our business is healthy, our products are relevant, and our capabilities are strong. We exceeded our expectations on net sales, profitability, and de-leveraging, and continued to make investments to ensure the physical availability of our products, maintain momentum with consumers, and build brand health. Now that customers have begun rebuilding inventories and we have increased production capacity in certain areas of our business, we are selectively increasing our marketing support for the businesses where capacity permits. These investments are intended to help sustain brand momentum and maximize the long-term value of our consumer base. The 15.0% increase in organic net sales was driven by a 10.9% increase in volume and a favorable price/mix impact of 4.1%. The volume increase was primarily driven by consumers increasing their at-home food consumption as a result of the COVID-19 pandemic, which benefitted the Company's retail segments but negatively impacted the Foodservice segment. The price/mix favorability was driven by favorable pricing and sales mix; approximately 70 bps of the increase in net sales and organic net sales reflects a change in estimate associated with the prior quarter's trade expense accrual.

Trade Ideas

Best Buy (BBY) shares coiled just below new highs with a measured move to \$135. BBY pulled back to the rising 50-day and started to work out of a narrow base with MACD crossing yesterday and set up for a long squeeze to fire off



Daily Technical Scans

Bullish Divergences:

ILMN, KHC, MCHP, MGA, PFG, BWA, NRG, COLD, CIEN, SEE, VOYA, CDK, ANGI, EME, CNNE

200-MA Basing:

BKNG, PFE, JNJ, EMR, HCA, HSY, DLTR, FRC, DTE, VRNT, SNA, HLNE, DLB

Ready to Run:

VRNT, MIME, DNB, SC, TJX, NOMD, RXT, WMG, RNG, FRPT, ABT, VST, DXCM, NVDA, SBUX, PLNT, NYT, PGR, WB, BJ

Small-Cap Focus

Envista (NVST) small-cap with bullish flow yesterday as 1000 November \$25 calls bought \$2.50 and follows the December \$25 calls bought 750X on 9/14. The \$3.8B company was spun out of Danaher in 2019 and focuses on dental products like clear aligners, digital orthodontic treatments, retainers, and more. They have some of the most recognized brands in dental and they're looking to expand into faster-growing areas like emerging markets. There's a \$20B+ TAM for their product mix and implants around \$5B and growing mid-single digits while clear aligners are a \$2.5B market and growing over 10%. The dental market has some significant secular tailwinds like an aging population, dental digitization, and a growing middle-class in the emerging markets. NVST expects to capture leadership positions in these areas through new product launches like their Spark clear aligner, N1 implant system, and DTX Studio imaging suite. Shares trade 19.4X earnings and 1.67X sales with a clear path to expanding margins as they cut costs.

What They're Saying

Micron (MU) CEO Sanjay Mehrotra on 5G market into 2021... 5G phones will be a strong driver of growth. And remember, in 2020, because of COVID, total smartphone unit sales got impacted and got lowered by something around 10% on a year-over-year basis. But in 2021, smartphone sales are expected to pick up. In fact, smartphone sales are already picking up in the marketplace right now. So not only is it a story of increasing smartphone sales, as we go through calendar 2021 beyond the seasonally slower first quarter of the calendar, but it is also the story in 5G of higher content, both for memory and storage. And of course, CapEx in the DRAM industry has been disciplined; and in that, I would position the industry when we look at the backdrop of demand expectation of approximately 20% in calendar year 2021 or 20% growth in DRAM. And look at the CapEx discipline that has existed in the industry, we think the overall dynamics bode well for healthy environment in our second fiscal half of 2021 for DRAM. And of course, finally, our second-generation DRAM, our 1-alpha node, will begin production in fiscal year 2021 will position us very well, and our underlying momentum of our product portfolio both in NAND and DRAM will position us well as we go through calendar year 2021.

Open Interest Checks

		OI Checks			
Ticker	Contract	Prior OI	New OI	OI Chang	
AMAT	October 23rd (W) \$61 Calls	3,008	10,257	240.99%	
RXT	November \$17.5 Calls	1,657	3,095	86.78%	
W	January 2022 \$350 Calls	655	1,155	76.34%	
Z	February \$110 Calls	1,327	2,242	68.95%	
ZS	October \$150 Calls	2,802	3,648	30.19%	
MRNA	January 2022 \$120 Calls	1,177	1,307	11.05%	
SBUX	June 2021 \$87.50 Calls	2,988	3,046	1.94%	
DQ	December \$130 Calls	857	857	0.00%	

Extras

First Solar (FSLR) November \$67.5/\$82.5 call ratio spreads opening 750X1500

Zillow (Z) February \$110/\$135 call ratio spreads trading 1000X2000 late

L Brands (LB) late action opening 5000 October \$33/\$36 call spreads

Quest (DGX) with 700 November \$115/\$95 put spreads opening

Disclosures

Not Investment Advice or Recommendation

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