

TOP STORIES

- Global Markets Quiet as Holiday Lull Sets In
- House Passes USMCA with Broad Support; Senate Expected to Take Up in January
- China Keeps LPR Unchanged
- UK GDP Revised Higher into Year-End
- US Steel, Knight-Swift Lower Outlook into 2020 on Macro Uncertainties

INDEX FUTURES

| Futures | Change | Fair Value |
|--------------------|-----------------------|--------------|
| S&P 500 | 3212 (0.25) | 2.93 |
| Nasdaq | 8678.25 (4.75) | 9.96 |
| Dow | 28423 (22) | 41.04 |

GLOBAL INDICES

| INDEX | CLOSE | CHANGE |
|------------------|-----------------|---------------|
| FTSE | 7591.23 | 0.23% |
| DAX | 13311.69 | 0.75% |
| Nikkei | 23816.63 | -0.20% |
| Hang Seng | 27871.35 | 0.25% |

ECONOMIC CALENDAR

| TIME | INDICATOR | CONSENSUS |
|--------------|---------------------------|-------------|
| 8:30 | GDP | 2.1% |
| 10:00 | Personal Income | 0.3% |
| 10:00 | Consumer Sentiment | 99.2 |
| 11:00 | KC Fed | |

FOREX

| | |
|----------------|------------------------|
| EUR/USD | 1.1096 (-0.22%) |
| USD/JPY | 109.35 (-0.02%) |
| USD/CAD | 1.3137 (0.10%) |
| GBP/USD | 1.3023 (0.12%) |

COMMODITY

| | |
|--------------------|------------------------|
| Oil | 60.95 (-0.38%) |
| Natural Gas | 2.315 (1.85%) |
| Gold | 1481.3 (-0.21%) |
| Copper | 2.813 (-0.48%) |

VOLATILITY INDICES

| INDEX | SYMBOL | CLOSE |
|----------------|------------|-----------------------|
| S&P | VIX | 12.46 (-0.95%) |
| Nasdaq | VXN | 14.42 (-2.24%) |
| Oil | OVX | 24.80 (-7.36%) |
| Gold | GVZ | 10.39 (3.49%) |

MARKET OUTLOOK

Futures are indicating a higher open for the morning after another quiet night for news. Earnings probably the focus today for US markets early with **Nike (NKE)** a bit underwhelming given expectations and two industrials cutting their outlook. **US Steel (X)** took a significant cut to Q4 and FY numbers after idling a plant and **Knight Swift (KNX)** also cutting their view as overcapacity continues to be a headwind. Turning to trade, nothing new at all as has been the case the last couple days. Bloomberg with an article overnight that cited a Chinese industry expert saying the country will have no issues buying \$40B in farm goods. Europe is reportedly making relations with China a priority in 2020. In Washington, the House passed the USMCA with the Senate widely expected to do the same in January. Impeachment is at a bit of an impasse with the House on break until Jan. 7 and the articles still not forwarded to Mitch McConnell and the Senate to start their trial.

Asian markets finished the week mixed with the Nikkei down slightly. Large-caps were under some pressure, especially, with **Softbank** and **Sony** weak. **Nuflare Tech** down 9% after Toshiba denied interesting a topping bid. Homebuilder **Hosodo** up 17% after an acquisition offer.

European markets are all in the green this morning with most of the major indices just shy of record highs. Italy outperforming a bit. Payments company **Nexi** higher by 1% after buying **Intesa's** merchant acquiring business for \$1.1B. **Shell** fell by 1% after announcing a \$2.3B impairment charge for Q4. **Adidas** down slightly after **Nike's** report.

Finally, looking at **economic data**, it was a quiet night to wrap up the week. Japanese CPI rose slightly in November to 0.5% vs 0.4%. China left the lending prime rate (LPR) unchanged. German consumer confidence fell slightly for the month to 9.6 vs 9.8. UK GDP was revised higher slightly to 1.1% vs 1.0% for Q3. French consumer spending slipped a bit in November.

S&P TECHNICALS

Levels: Support 3,100/3,000; Resistance 3,200/3,250



| | |
|-------------------|----------------|
| 4424 Advancing | Declining 2947 |
| 56.4% | 37.6% |
| 770 New High | New Low 100 |
| 88.5% | 11.5% |
| 5636 Above SMA50 | Below 2114 |
| 72.7% | 27.3% |
| 5238 Above SMA200 | Below 2512 |
| 67.6% | 32.4% |

KEY EVENTS

Notable events next week... nothing. New Home Sales (Monday), BOJ Minutes (Tues), Durable Goods (Tues), China Industrial Profits (Thursday), Japan Industrial Production (Thursday), and ECB Econ. Bulletin (Friday)

Earnings... NEOG on Monday

ANALYST ACTION/COMMENTS

Northern Oil (NOG) upgraded to Buy at Imperial

Visteon (VC), Lear (LEA) upgraded to Buy at RBC Capital; **ALV** upgraded to Neutral

Brunswick (BC) upgraded to Buy at RBC Capital

Alliant (LNT) upgraded to Buy at Scotiabank

American Electric (AEP) upgraded to Buy at Scotiabank

Kellogg (K) upgraded to Buy at BAML

Dunkin (DNKN) upgraded to Buy at Guggenheim

Keycorp (KEY) upgraded to Buy at Keybank

Nintendo downgraded to Hold at Goldman

Galapagos (GLPG) downgraded to Hold at UBS

Lyondell (LYB) downgraded to Neutral at RBC

Michaels (MIK) downgraded to Sell at MSCO

Hershey (HSY) downgraded to Neutral at BAML

CalAmp (CAMP) downgraded to Neutral at BAML

Welltower (WELL) initiated Buy at Mizuho

Omega (OHI) initiated Buy at Mizuho, \$50 PT

Change Health (CHNG) initiated Buy at Raymond James

Coherent (COHR) initiated Buy at Piper

nLight (LASR) initiated Buy at Piper, \$25 PT

Immunomedics (IMMU) initiated Buy at BAML

Deciphera (DCPH) PT raised to \$75 from \$55 at Piper

Citi ups **MyoKardia (MYOK)** target to \$87

MEDIA HIGHLIGHTS

Palladium Tops \$2,000 in Record-Breaking Rally - Bloomberg

Japan Approves Record Defense Budget of \$48.5 Billion (pos. **LMT**) - Bloomberg

Baidu (BIDU) and **Samsung** team up for mass production of AI chip - Nikkei

Chipotle (CMG) accused of violating U.S. labor law on union organizing - Reuters

Brazil's **Embraer (ERJ)** plans to develop new light military transport plane - Reuters

Nvidia (NVDA), Mellanox (MLNX) win EU approval for \$6.8 bln deal - Reuters

U.S. stock funds shed \$24.7 billion in week, says Lipper, biggest in a year

Google (GOOGL) buys triple-A game dev Typhoon Studio to beef up Stadia - Venture Beat

UDR exploring combination with **Mack-Cali Realty (CLI)** - Reuters

Amazon (AMZN) to deliver 3.5B packages via in-house network in 2019 - Reuters

Apple (AAPL) Held Preliminary Talks With Pac-12 Conference, **MGM** - WSJ

STOCK SPECIFIC NEWS OF NOTE

Merck (MRK) receives FDA approval for Ebola vaccine

US Steel (X) to idle Great Lakes Works; cuts dividend to \$0.01 from \$0.05; slashes Q4 and FY19 guidance in major restructuring effort

Knight-Swift (KNX) cuts Q4 EPS view; continues to be oversupplied with truckload capacity

Gulfport (GPOR) divests non-core assets for \$100M

Biogen (BIIB) announces \$5B share buyback

Booking.com (BKNG), Google (GOOGL) Nest announce partnership

Evans Bancorp (EVBN) to acquire **FSBC** for \$17.80 per share, in accretive transaction

F5 Networks (FFIV) to acquire Shape Security for approximately \$1B

Shell (RDS.A) sees up to \$2.3B charges in Q4, cuts oil production sales estimate

Johnson & Johnson (JNJ) agrees to acquire remaining stake in Verb Surgical

PRE-MARKET MOVERS

Moving Higher: WGO 5.5%

Moving Lower: X -9%

INSIDER TRADING (Form 4 Filings)

Buying: OPK, ET, LAZY, NBEV, CENT, EPD

Selling: TSN, MAR, NNN, MORN, MAR, QADA, CB, LMAT, LITE, UBER, RDNT, AMAT, SNAP

POTENTIAL SYMPATHY TRADES

STLD, NUE, MT – on X outlook cut

CHRW, JBHT, WERN, MRTN – on KNX outlook

THO, PATK – on WGO earnings

OPTION HIGHLIGHTS (Prior Day)

Mirati Therapeutics (MRTX) with 1,000 January \$115 calls bought \$9.70 to open today and follows 5,000 May \$120 calls bought yesterday to open for more than \$8.9M, adjusting higher a trade from November that is remaining bullish. MRTX still has some June \$100 calls in OI from late November buys as well. Shares have been in a strong trend since October and held the 8-EMA today at the lows. MRTX is starting to work out of a weekly flag above \$110 that targets \$150 longer-term. The \$4.41B company trades 9.7X cash with limited debt. MRTX recently posted strong early-stage data for MRTX849, their KRAS inhibitor targeting solid tumors. The company sees the KRAS G12C+ market as a significant opportunity given the patient population in NSCLC, colorectal, and pancreatic indications. MRTX estimates the TAM at \$7B in commercial potential through the US and EU. The drug is expected to be a direct competitor to Amgen's (AMGN) AMG 510. Analysts have an average target for shares of \$107.25 with 12 buy ratings, 3 hold, and 1 sell. HCW with a \$117 PT for shares seeing peak sales potential for MRTX849 up near \$1.5B by 2027. CSFB thinks the recent data proves MRTX has a strong competitor to AMG 510 and even though it will be first to market by about six months, Mirati can still capture a significant share of the market. Short interest is 12.4% but trending lower since early 2019 when it was 17.3%. Hedge fund ownership fell 11% in Q3. Orbimed, Perceptive, and Polar Capital all notable buyers.

AFTER HOURS MOVERS

Gainers: AIR 5.8%, SGEN 4%, KMX 2%

Losers: CAMP -11%, KN -5%, X -3.5%, NKE -2%

MARKET SENTIMENT / INTERNALS

| INDICATOR | READING | SIGNAL |
|--------------------------------------|-----------------|-------------------------------|
| CBOE Equity Put/Call Ratio | 0.61 | Multi-Month Lows |
| CBOE Index Put/Call Ratio | 1.79 | Elevated |
| CBOE Skew Index | 144.51 | Highest In 15 Months |
| VIX Curve | Contango | Normal |
| CNN Fear & Greed Index | 75 | Greed |
| NYMO | 19.56 | Elevated |
| NYSE New Highs | 132 | Strong |
| McClellan Summation | 529.88 | Above 8-EMA |
| Cumulative AD | 194390 | New Highs |
| VXV:VIX | 1.21 | Elevated |
| Lipper Fund Flows | -\$7.1B | Biggest Outflow in Two Months |
| Univ. of Michigan Consumer Sentiment | 99.2 (December) | +0.9% |

SMART MONEY (13g/13d Filings)

IPO MONITOR

Nothing Scheduled

SECONDARY MONITOR

TRADE

WEEKLY TECHNICAL BREAKOUT

CRL:



Charles River (CRL) shares are flagging under \$150 and new highs with a breakout targeting \$155. Longer-term, a big weekly bull flag breakout has room up to \$165 with MACD and RSI both turning positive recently and not near overbought.

FUNDAMENTAL TRADE OF THE WEEK

Stock: Chemed (CHE)

Price: \$440

Valuation: Undervalued

Key Ratios:

| | Fwd. PE | P/S | P/B | EV / EBITDA | P/FCF |
|----------------------|--------------|--------------|--------------|--------------|--------------|
| Stock | 31.8X | 13.9X | 21.2X | 25.8X | 34.8X |
| Industry Avg. | 31.8X | 7.2X | 7.2X | 58X | 67.3X |

Analysis: CHE is a \$7B is an usual pair but operates in two segments. First is a home healthcare unit with end-of-life hospice care with an extensive network of RNs, physicians, and others. The second is Roto-Rooter, the nation's leader in plumbing and water cleanup services. CHE is attractive for a potential breakup and value unlock with both likely better operators on their own.

IDEAS

WEEKLY TECHNICAL BREAKDOWN

BA:



Boeing (BA) shares are back near trend support from the August lows and moving out of value with a run under \$340 targeting \$320. RSI is weakening and shares forming a set of lower highs recently as momentum fades.

PAIR TRADE OF THE WEEK

Industry: Auto Parts

Long/Short: Long **Advanced Auto (AAP)**; Short **O'Reilly (ORLY)**

Analysis: AAP is a \$10.9B auto parts operator that should close the gap with peers in 2020 as they executive on a multi-legged margin plan and grow share in the professional market. ORLY faces tougher comps in 2020 and margins may be soft with tariff costs fully passed through from hike a year ago.

SMALL CAP TRADE OF THE WEEK

ICF Int'l (ICFI) is a \$1.66B provider of management services including policy consulting for government and commercial clients. They use data analytics to help create optimal responses and purpose-driven plans around key issues like health, education, and social programs. Shares trade 19.5X earnings and 1.15X sales with mid-teens growth.

DAILY OPTIONS REPORT

Unusual Call Activity

Unusual Put Activity

Implied Volatility Riser

Spirit (SAVE)

Genworth (GNW)

Oceaneering (OII)

Denbury (DNR)

Rent-a-Center (RCII)

McDermott (MDR)

Range Resources (RRC)

Washington Prime (WPG)

Antero (AM)

Greensky (GSKY)

Express (EXPR)

Wright Medical (WMGI)

ImmunoGen (IMGN)

Thor (THO)

Intra-Cellular (ITCI)

Broadcom (AVGO)

Darden (DRI)

Intelsat (I)

Lowest Put/Call Ratio

Highest Put/Call Ratio

Implied Volatility Decliner

Oceaneering (OII)

Choice Hotels (CHH)

Karyopharm (KPTI)

Cullen Frost (CFR)

Express (EXPR)

Herman Miller (MLHR)

Outfront (OUT)

Washington Prime (WPG)

Micron (MU)

Mannkind (MNK)

Ralph Lauren (RL)

Conduent (CNDT)

Viavi (VIAV)

Assured Guaranty (AGO)

Factset (FDS)

Biomarin (BMRN)

Lincoln Nat (LNC)

Avon (AVP)

OTM Calls on Offer

OTM Puts on Offer

Elevated IV30

Outfront (OUT)

Washington Prime (WPG)

Intra-Cellular (ITCI)

Danaher (DHR)

JD.com (JD)

Axsome (AXSM)

Spirit (SAVE)

AT&T (T)

Athenex (ATNX)

Mosaic (MOS)

Alibaba (BABA)

GTT Comms (GTT)

Kraft (KHC)

Tesla (TSLA)

Wave Life (WVE)

Positive Net Delta

Negative Net Delta

Option Volume Gainers (%)

Facebook (FB)

Nio (NIO)

Express (EXPR)

Twitter (TWTR)

PG&E (PCG)

Thor (THO)

Gold (GLD)

Bristol Myers (BMY)

Darden (DRI)

Applied Materials (AMAT)

Wells Fargo (WFC)

ImmunoGen (IMGN)

J&J (JNJ)

Mattel (MAT)

Broadcom (AVGO)

Bullish Call Flow

Bearish Put Flow

Large Spread Trades

Mosaic (MOS)

Shopify (SHOP)

FIVE, February \$130/\$140 call spread bought 600X1,200

Amazon (AMZN)

Ralph Lauren (RL)

MCD < 8000 Dec. 27th (W) \$195 synthetic long positions

Spirit (SAVE)

Discovery (DISCA)

PDCE, 2,000 July \$30/\$35 call spreads vs short \$17.50 puts

DropBox (DBX)

Solar Edge (SEDG)

HAL, 3000 Jan. 24th (W) \$26/\$23.5 bull risk reversals

GM

Sea Ltd (SE)

APLS, 4000 January \$30/\$45 call spreads vs short \$17.50 puts

News Continued

Citi (C), ValueAct Capital extend information sharing, engagement agreement through 2021 – Reuters

Mitsubishi, NTT to buy 30% stake in digital mapping company HERE – Reuters

FTC Challenges **Post Holdings (POST)**, **TreeHouse Foods (THS)** Cereal Deal – WSJ

Tesla (TSLA) Bucks China Car Slump as November Registrations Soar – Bloomberg

ViacomCBS (VIAC) Nears Deal for Minority Stake in **Miramax** – Variety

Apple (AAPL) Has Secret Team Working on Satellites to Beam Data to Devices – Bloomberg

Disney's (DIS) 'Skywalker' Box-Office Draw Suffers From Lukewarm Reviews – Bloomberg

Travis Kalanick on course to sell out of **Uber (UBER)** – FT

Novartis (NVS) wins Medicaid approval for new sickle cell drug in key U.S. states

Cox Communication to pay \$1B to music labels, publishers over piracy infringement – Reuters

Extras

Genworth (GNW) with 50,000 June \$3.50 puts bought \$0.31 to open as January \$3 puts adjusted

Pinduoduo (PDD) stock buyer put on 3,850 July \$42/\$35 collars

ActiVision (ATVI) buyer of 1,500 June \$70 OTM calls near \$1.55 into the close

WellCare (WCG) with 200 January \$310 calls opening as December adjusted

Costco (COST) with 600 March \$295 calls bought to open as shares consolidate

Earnings

| Ticker | Company | EPS Actual | EPS Estimate | Revs Actual | Revs Estimate | Growth | Notes |
|--------|-----------------|------------|--------------|-------------|---------------|---------|-------|
| AIR | AAR Corp | \$0.64 | \$0.60 | \$561.00 | \$526.16 | 13.80% | |
| CAMP | CalAmp | \$0.15 | \$0.15 | \$96.60 | \$95.11 | 9.20% | |
| NKE | NIKE | \$0.70 | \$0.58 | \$10,326.00 | \$10,089.57 | 10.20% | |
| SCHL | Scholastic Corp | \$2.02 | \$1.77 | \$597.20 | \$591.00 | -1.20% | |
| SGH | SMART Global | \$0.55 | \$0.73 | \$272.00 | \$279.30 | -31.00% | |

NKE – Beat on EPS and Revs - Inventories for NIKE, Inc. were \$6.2B, up 15% compared to the prior year period, reflecting strong consumer demand globally as well as a higher rate of on-time factory deliveries, and to a lesser extent, the impact from changes in foreign currency exchange rates. "In Q2, NIKE has proven again that innovation is our greatest competitive edge - turning athlete insights into breakthrough product and digital services, as we offer more choice to more consumers at an accelerated pace," said Nike CEO Mark Parker. "Our entire NIKE team is fueling our current momentum, and I've never been more optimistic about the future of this company." Nike CFO Andy Campion added, "NIKE delivered another strong quarter of accelerating, high-quality growth, driven by strategic and targeted investment in our digital transformation. As we deliver a relentless flow of innovation and scale NIKE's digital advantage, we are positioned for even greater competitive separation and long-term shareholder value creation."

X – Cuts Outlook - While flat-rolled steel market conditions are improving, the company's expected fourth quarter Flat-rolled segment results are negatively impacted by the approximately 60% of shipments impacted by lower steel selling prices in the third quarter and October. Lower fourth quarter shipments to third party customers, suggested in the previously disclosed annual shipment guidance of 10.7 million tons, are also expected to negatively impact earnings. The company also expects the November 27 flood at the Gary Works facility to have a negative impact of approximately \$15 million on fourth quarter EBITDA. In Europe, market conditions remain weak. Average realized prices in Europe have declined as low selling prices flow through monthly and quarterly contracts. Economic indicators in the region suggest difficult market conditions are likely to continue in 2020. Commercial headwinds in the Tubular segment are expected to drive lower-than-expected fourth quarter earnings. Selling prices continue to decline, while substrate costs improved less than expected, primarily due to higher scrap costs. This is expected to narrow margins and reduce earnings compared to the third quarter

KNX – Cuts Outlook - The industry continues to be oversupplied with truckload capacity, which led to more muted seasonal improvement in the freight market from third to fourth quarter. This resulted in fewer than expected seasonal high-yield freight opportunities. As a result, our sequential third to fourth quarter rate increases were less than anticipated, leading to reduced revenues and lower than expected operating income. We believe capacity rationalization is underway as evidenced by trucking business failures, class 8 new truck orders below the replenishment rate, further weakening of class 8 used tractor values, and contraction in trucking employment. We expect the rate of capacity rationalization to accelerate with additional factors that include the mild freight seasonality that is typical with first quarters, significant insurance cost inflation, and the new regulatory introduction of the CDL Drug and Alcohol Clearinghouse.

Earnings Before the Open

| Ticker | Company | EPS Actual | EPS Estimate | Revs Actual | Revs Estimate | Growth | Notes |
|--------|------------|------------|--------------|-------------|---------------|--------|-------|
| BB | BlackBerry | \$0.03 | \$0.02 | \$280.00 | \$276.31 | 22.80% | |
| KMX | CarMax | \$1.04 | \$1.15 | \$4,790.00 | \$4,621.19 | 11.50% | |
| CCL | Carnival | | \$0.51 | | \$4,558.50 | | |
| WGO | Winnebago | \$0.73 | \$0.59 | \$588.50 | \$541.52 | 19.20% | |

