

**TOP STORIES**

- China Hopes It Can Reach Phase One Deal with US 'Soon'
- China Exports Fall for Fourth Consecutive Month as Trade Weighs
- Democrats, USTR Near Deal on USMCA
- Japanese GDP Revised Higher in Show of Stronger Growth

**INDEX FUTURES**

Futures	Change	Fair Value
<b>S&amp;P 500</b>	<b>3141.75 (-4.25)</b>	<b>-4.06</b>
<b>Nasdaq</b>	<b>8389.25 (-11)</b>	<b>-11.12</b>
<b>Dow</b>	<b>27975 (-39)</b>	<b>-45.06</b>

**GLOBAL INDICES**

INDEX	CLOSE	CHANGE
<b>FTSE</b>	<b>7229.17</b>	<b>-0.14%</b>
<b>DAX</b>	<b>13140.85</b>	<b>-0.20%</b>
<b>Nikkei</b>	<b>23430.7</b>	<b>0.33%</b>
<b>Hang Seng</b>	<b>26494.73</b>	<b>-0.01%</b>

**ECONOMIC CALENDAR**

TIME	INDICATOR	CONSENSUS
<b>11:30</b>	<b>Bill Auctions</b>	

**FOREX**

<b>EUR/USD</b>	<b>1.1072 (0.14%)</b>
<b>USD/JPY</b>	<b>108.45 (-0.13%)</b>
<b>USD/CAD</b>	<b>1.3259 (0.03%)</b>
<b>GBP/USD</b>	<b>1.3162 (0.21%)</b>

**COMMODITY**

<b>Oil</b>	<b>58.49 (-1.20%)</b>
<b>Natural Gas</b>	<b>2.231 (-4.41%)</b>
<b>Gold</b>	<b>1468.3 (0.22%)</b>
<b>Copper</b>	<b>2.731 (0.22%)</b>

**VOLATILITY INDICES**

INDEX	SYMBOL	CLOSE
<b>S&amp;P</b>	<b>VIX</b>	<b>13.62 (-6.2%)</b>
<b>Nasdaq</b>	<b>VXN</b>	<b>16.44 (-8.51%)</b>
<b>Oil</b>	<b>OVX</b>	<b>30.02 (-1.28%)</b>
<b>Gold</b>	<b>GVZ</b>	<b>10.73 (-4.62%)</b>

**MARKET OUTLOOK**

Futures are indicating a modestly lower open for the day without a significant update on trade with the 12/15 deadline looming. Chinese officials were out this weekend saying they hope the two sides can reach a Phase One deal soon. China adding some pressure by asking all government offices to remove US tech within three years (potential neg. for MSFT, HPQ and DELL). In the US, a deal for the USMCA appears close with congressional Democrats and USTR Lighthizer reaching a consensus on several issues.

Asian markets are mixed overnight with the Nikkei edging higher. Consumer discretionary and industrials leading. China lagged a little with exports down for the fourth straight month. Tech lagged a bit with **Advantest** down 3%.

European markets are lower this morning, although not by much in the early going. **Tullow Energy** shares off by 61% and down to a 19-year low after a business update. The company scrapped their dividend and said they continue to face issues at one of their main assets in Ghana. Tullow's CEO also stepped down. **Tesco** higher by 5% after reports it was weighing a review of their Asian assets. **Osram** up 14.3% after AMS succeeded in their bid for the company.

Finally, turning to **economic data** this weekend/morning. Japanese GDP was revised significantly higher to 1.8% in Q3 vs 0.7% expected. Eurozone investor confidence rose in December to 0.7 vs -4.9 forecast. German trade improved in October with exports up 1.2% and imports flat, slightly better than the -0.1% expected. Swiss unemployment remained steady at 2.3%.

It was a busy weekend for biotech with the ASH conference ongoing. A number of names in focus today with **BLUE** strong early after data with **BMV**. **TGTX** also up over 20%. Other names from ASH include **ALEC**, **AXLA**, **CBMG**, **XENE**, **BMRN**, **VSTM**, **SGMO**, **SRRA**, **KPTI**, **CRVS**, **FATE**, **EPZM**, **APTO**, **CRTX**, **SGEN**, **AUTL**, **MGTA**, **BPMC**, **REGN**, **IPHA**, **ZIOP**, **AGIO**, **KURA**, **PTLA**, **QURE**, **BGNE**, and **RCKT**.

**S&P TECHNICALS**

**Levels:** Support 3,050/3,000; Resistance 3,150/3,200



5118 Above	SMA50	Below 2631
66.0%		34.0%
4857 Above	SMA200	Below 2892
62.7%		37.3%

**KEY EVENTS**

**Earnings After the Close:** CASY, CHWY, MDB, PHR, SFI, TOL, MTN

**Analyst Days:** SLG, CNST, BTG, TGTX

**Conferences:** Raymond James Tech, UBS TMT

**Tomorrow...** Productivity and Costs at 8:30am, WASDE at 12. **Earnings Before the Open:** AZO, CMD, CONN, DBI, HDS

**ANALYST ACTION/COMMENTS**

**LG Display (LPL)** upgraded to Buy at MSCO

**AU Optronics (AUO)** upgraded to Buy at MSCO

**Fate Therapeutics (FATE)** upgraded to Buy at Wells Fargo

**Wingstop (WING)** upgraded to Conviction Buy at Goldman

**NVR** upgraded to Neutral at JP Morgan

**Fortive (FTV)** upgraded to Buy at Citi

**Huntsman (HUN)** upgraded to Buy at Citi

**Pentair (PNR)** upgraded to Buy at Keybank

**Nucor (NUE)** upgraded to Buy at Longbow

**Grifols (GRFS)** upgraded to Buy at Banco Sabadell

**Steel Dynamics (STLD)** upgraded to Buy at Longbow

**Skyworks (SWKS)** upgraded to Buy at BAML

**Qorvo (QRVO)** upgraded to Buy at BAML

**Tenet (THC)** upgraded to Buy at UBS, \$53 PT

**Kraton (KRA)** upgraded to Buy at Sun Trust

**Dow (DOW)** upgraded to Buy at Sun Trust

**Stewart (STC)** downgraded to Sell at Keefe Bruyette

**O Reilly (ORLY)** downgraded to Neutral at Goldman

**Macys (M)** downgraded to Sell at Goldman

**Marathon (MPC)** downgraded to Neutral at JP Morgan

**3M (MMM)** downgraded to Neutral at Citi

**AO Smith (AOS)** downgraded to Neutral at Keybank

**Chevron (CVX)** downgraded to Neutral at Citi

**Viacom (VIAC)** reinstated Buy at Evercore, \$51 PT

**MEDIA HIGHLIGHTS**

U.S. mulls putting **Amazon (AMZN)** foreign sites on 'Notorious Markets' list - WSJ

**Darling (DAR), Qualys (QLYS)** among small-caps to own for 2020 breakout - Barron's

**International Flavors (IFF)** in talks to buy \$25B **DuPont (DD)** nutrition unit - Bloomberg

**Disney's (DIS)** 'Frozen II' and 'Knives Out' Hold Sway During Sleepy Weekend – Bloomberg

**Tesco** Considers Sale of Thai, Malaysia Supermarket Businesses – Bloomberg

**Softbank's** second Vision Fund set to come in underweight from \$108B target – City AM

Brazil's **Marfrig** launches global plant-based meat brand (neg. **BYND**) – Reuters

**Amazon (AMZN)** CEO says wants to work more with Pentagon – Reuters

**Goldman (GS)** to launch robo adviser to bring wealth management to masses - FT

AGs to go after **Dish Network's (DISH)** Ergen in T-Mobile-Sprint trial - NY Post

**Avtovaz** to buy out **GM** from Russia JV - Reuters

Productivity software startup **Asana** looking at direct listing for 2020 – FT

**STOCK SPECIFIC NEWS OF NOTE**

**Ericsson (ERIC)** to pay over \$1B to settle FCPA case

**PG&E (PCG)** announces \$13.5B settlement with victims of California wildfires

**XBiotech (XBIT)** sells bermekimab to Janssen for \$750M

**Verastem (VSTM)** announces 62% response rate for duvelisib in T-cell lymphoma

**Karyopharm (KPTI)** announces updated Xpovio data in multiple myeloma

**Epizyme (EPZM)** announces 'positive, mature data' for Phase 2 trial of tazemetostat

**Blueprint (BPMC)** announces initial data from Phase 2 Pioneer trial in mastocytosis

**Sanofi (SNY)** to acquire **Synthorx (THOR)** for \$68 per share in cash

**Canopy Growth (CGC)** appoints new CEO

**PRE-MARKET MOVERS**

**Moving Higher:** ARQL 101%, TGTX 21.5%, PCG 19.9%, BLUE 7%, RIO 1.5%

**Moving Lower:** UNG -5%, M -2.3%

**INSIDER TRADING (Form 4 Filings)**

**Buying:** LMPX, KOD, EPD, KLXE

**Selling:** AL, SMAR, JAZZ, TTD, BLL, NOW, GSHD, FIVN, RCL, RDFN, MRVL, MTOR, KEYS

**POTENTIAL SYMPATHY TRADES**

PATK, LCII, WGO – on THO earnings

**OPTION HIGHLIGHTS (Prior Day)**

**Applied Materials (AMAT)** more bullish flow today with 2900 February \$60 calls bought for \$2.25 to \$2.30 and volume now running over 7650X on the morning. AMAT had buyers in the April \$48 calls yesterday and the June \$55 and July \$50 calls last week. The Jan. 2021 \$57.50 puts also sold to open 2,000X on 11-26. Shares have been in a strong trend all year and pulling back just above the 50-MA over the last month. The rising channel higher targets \$65+ and with RSI and MACD both reset a bit and curling higher, lot of potential to run. The \$51.93B semiconductor equipment company trades 12.75X earnings, 3.55X sales, and 14.5X cash with a 1.5% yield. AMAT sees mid-teens EPS growth in both FY21 and FY22 with revenues up high-single digits. AMAT is coming off a strong quarter and optimistic on 2020 spending from memory customers behind improved logic and foundry demand. Short interest is 2.1%. Hedge fund ownership rose 2% in Q3. AQR, Matrix Capital, and Alkeon notable buyers last quarter. Analysts have an average target for shares of \$62.50. Nomura positive on 12-3 with semi equipment one of the only areas in the sector not showing softness into 2020. The firm upgraded to Buy recently with a \$68 PT as a recovery in NAND investments should be a positive tailwind. Argus with a \$72 PT seeing easy comps in Q1 and noting that their recent acquisition of Japan's Kokusai Electric Corp should prove to be "complementary" to its single-wafer processing systems. AMAT will be at the UBS TMT conference next week.

**AFTER HOURS MOVERS**

**Gainers:**

**Losers:**

**MARKET SENTIMENT / INTERNALS**

INDICATOR	READING	SIGNAL
CBOE Equity Put/Call Ratio	0.63	Falling
CBOE Index Put/Call Ratio	1.32	Elevated
CBOE Skew Index	131.48	Multi-Month Highs
VIX Curve	Contango	Normal
CNN Fear & Greed Index	70	Greed
NYMO	10.34	Neutral
NYSE New Highs	112	Neg. Divergence
McClellan Summation	459.83	Below 8-EMA
Cumulative AD	New Highs	Confirm Strength
VXV:VIX	1.19	Neutral
Lipper Fund Flows	+\$5B	Remains Strongly Neg. YTD
Univ. of Michigan Consumer Sentiment	99.2 (December)	+0.9%

**SMART MONEY (13g/13d Filings)**

**IPO MONITOR**

**Bill.com (BILL)** issuing 8.8M shares at \$16-\$18; Provider of cloud-based software that simplifies back-office functions for SMBs

**OneConnect (OCFT)** issuing 36M shares at \$12-\$14; TaaS platform for financial institutions in China

**Sprout Social (SPT)** issuing 8.8M shares at \$16-\$18; Developer of cloud software that brings together messaging, data, and workflows in a unified system of record

**XP (XP)** issuing 72.5M shares at \$22-\$25; Leading financial services company in Brazil

**SECONDARY MONITOR**

# TRADE

## WEEKLY TECHNICAL BREAKOUT

**EXP :**



**Eagle Materials (EXP)** shares are forming a bull wedge back to the October breakout level with a move over \$94 targeting recent highs and then \$100. MACD is nearing a bullish crossover after pulling back near zero while RSI also ready to run above 60.

## FUNDAMENTAL TRADE OF THE WEEK

**Stock:** Aspen Tech (AZPN)

**Price:** \$122.20

**Valuation:** Undervalued

**Key Ratios:**

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

**Analysis:** AZPN is a \$8.37B software company with a focus on the process industries. They have end-market exposure to chemicals, energy, engineering, and construction as companies look to make their processes more efficient and unlock better performance. AZPN has about 40% of their revenues tied to energy, a group expected to see a turnaround in 2020 and with any inflection higher in spending on long-term projects would be a boost for their engineering business.

# IDEAS

## WEEKLY TECHNICAL BREAKDOWN

**LHX:**



**L3 Harris (LHX)** shares are consolidating near the November lows with a breakdown targeting \$180. RSI is moving lower but not near oversold while shares forming a series of lower highs and lower lows since September.

## PAIR TRADE OF THE WEEK

**Industry:** Wholesale Foods

**Long/Short:** Long US Foods (USFD), Short United Natural (UNFI)

**Analysis:** USFD is seeing strong growth from restaurant demand while hospitality remains an emerging leader in their mix. Their deal for SGA will also expand their scale in a fragmented market. UNFI remains a debt-heavy balance sheet and cut their outlook in October with a slowing guide to EPS and sales. UNFI also is seeing higher costs from a recent strike settlement.

## SMALL CAP TRADE OF THE WEEK

**In Mode (INMD)** is a \$1.64B maker of minimally invasive aesthetic products. Their main product is a low-frequency RF assisted lipolysis and subdermal product for skin tightening and body/face contouring. INMD is coming off a strong quarter and longer-term tailwinds from an aging global population, growing instances of obesity, reduction of procedure costs, and better reimbursement from managed care.

## DAILY OPTIONS REPORT

<u>Unusual Call Activity</u>	<u>Unusual Put Activity</u>	<u>Implied Volatility Riser</u>
Seaspan (SSW)	Express (EXPR)	Correvio (CORV)
SeaChange (SEAC)	Yext (YEXT)	ADT
Correvio (CORV)	Big Lots (BIG)	Axsome Therapeutics (AXSM)
Sage Therapeutics (SAGE)	Instructure (INST)	WW (WW)
Big Lots (BIG)	Medallia (MDLA)	Sientra (SIEN)
Sientra (SIEN)	Madison Sq (MSG)	ArQule (ARQL)
<u>Lowest Put/Call Ratio</u>	<u>Highest Put/Call Ratio</u>	<u>Implied Volatility Decliner</u>
Grifols (GRES)	Hill Rom (HRC)	Zuora (ZUO)
Man U (MANU)	Green Plains (GPRE)	Zumiez (ZUMZ)
Louisiana Pacific (LPX)	Mattel (MAT)	Verastem (VSTM)
PPL	Synaptics (SYNA)	Ulta Beauty (ULTA)
Nomad Foods (NOMD)	Instructure (INST)	Pager Duty (PD)
Meredith (MDP)	Cali Resources (CRC)	CrowdStrike (CRWD)
<u>OTM Calls on Offer</u>	<u>OTM Puts on Offer</u>	<u>Elevated IV30</u>
Bilibili (BILI)	Mylan (MYL)	Intra-Cellular (ITCI)
Slack (WORK)	Freeport (FCX)	Axsome (AXSM)
Plug Power (PLUG)	Signet (SIG)	Athenex (ATNX)
Pinduoduo (PDD)	Ford Motor (F)	GTT Comms (GTT)
Schlumberger (SLB)	Shopify (SHOP)	Wave Life (WVE)
<u>Positive Net Delta</u>	<u>Negative Net Delta</u>	<u>Option Volume Gainers (%)</u>
Slack (WORK)	Nio (NIO)	Instructure (INST)
Chesapeake (CHK)	Valaris (VAL)	Medallia (MDLA)
GE	Ford Motor (F)	Madison Sq (MSG)
Microsoft (MSFT)	Bank of America (BAC)	Big Lots (BIG)
Morgan Stanley (MS)	JD.com (JD)	Sientra (SIEN)
<u>Bullish Call Flow</u>	<u>Bearish Put Flow</u>	<u>Large Spread Trades</u>
Amazon (AMZN)	Stitch Fix (SFIX)	BBBY, 2,000 January \$16/\$12.50 bull risk reversals
Twitter (TWTR)	Micron (MU)	SIEN, 1,150 July \$10/\$15 call spreads
Scientific Games (SGMS)	Wayfair (W)	CLF < 10,000 February \$9/\$6 bull risk reversals
Cliff's (CLF)	PNC Financial (PNC)	MSFT, 5,000 Jan. 10th (W) / Jan. 24th (W) \$157.50 call calendars
Yeti (YETI)	ANGI Homeservices	

## News Continued

China orders state offices to remove foreign hardware, software (neg. **MSFT, HPQ, DELL**) – FT

Trump Cripples W.T.O. as Trade War Rages – NYT

Democrats, Trump Trade Negotiator Near Deal on USMCA – WSJ

China's potential growth below 6% over next five years – Reuters

Investors have pulled \$135.5B from US equity mutual funds and ETFs in 2019, a record – WSJ

Fed voters a less-hawkish bunch in 2020, lowering bar for U.S. rate cut – Reuters

**Apple (AAPL)** could launch new budget iPhone in 2020 – 9 to 5 Mac

**NYSE (ICE)** direct listings proposal rejected by SEC (**NDAQ, CME**) – FT

Bernie Sanders Vows to Break Up **Comcast (CMCSA), Verizon (VZ) & AT&T (T)** – Variety

**Blackstone's (BX)** Buyout of Coffee Day's Tech Park Stalls – Bloomberg

ISS opposes **Hudson's Bay** go private offer – Reuters

**Prosus** raises unsolicited cash offer for **Just Eat** to \$6.5B – Reuters

**Osram** shares surge after **AMS** declares victory in takeover bid – Reuters

**Bayer** to postpone more glyphosate lawsuits for settlement talks – Reuters

Barron's positive on **BRK.B, CLF, COF, EXPE, SKX, GOOGL**; negative on **M**

**Thor Industries (THO)** beats on EPS and Misses on Revs

**Merck (MRK)** to acquire **ArQule (ARQL)** for \$20 per share, or approximately \$2.7B

**KalVista (KALV)** says KVD001 does not meet primary endpoint

**Independent Bank (IBTX), Texas Capital (TCBI)** enter \$5.5B all-stock merger

Buyout Firm Leonard Green Raises Nearly \$15 Billion for Two New Funds – WSJ

## Extras

**Vale SA (VALE)** with 5,000 June \$9 synthetic long spreads opening

**Bristol Myers (BMY)** late day buyers of 8,500 December \$60 calls up to \$1.18 as well as the \$60.50 calls up to \$0.90 into ASH

**Prologis (PLD)** late day buyer of 700 June \$85 calls for \$9.10 to \$9.40

**At Home (HOME)** late day buyers of 5,000 January \$5 calls for \$0.90 to \$1

**Intuit (INTU)** with 600 Jan. 10<sup>th</sup> (W) \$255/\$250 put spreads opening

**Arista Networks (ANET)** late day buyers of 1,000 Dec. 13<sup>th</sup> (W) \$190 puts for \$2.40 to \$3.20

**Charter (CHTR)** closing weak and 600 Dec. 27<sup>th</sup> (W) \$460/\$450 put spreads bought

**Royal Gold (RGLD)** with 600 April \$100 puts bought \$2.65 to \$2.75

**Stanley Works (SWK)** buyer of 2,000 December \$65 calls for \$0.775, rolling up 1,000 of the \$160 calls

**NRG Energy (NRG)** with 900 March \$41 calls bought \$1.25

**Domo (DOMO)** late day buyers of 1,000 February \$24 calls for \$1.35 to \$1.60

### Small Cap Activist Focus / Insider

**Farmer Bros (FARM)** small-cap with a number of notable insider buys in the last month and potential catalyst tomorrow. On 11-14 and 11-15 the CEO bought near \$200k in stock at \$15 while directors active in September. 10% holder Levin Easterly has also been buying on the open market into weakness this year. Shares are down around 33% on the year but carving out a multi-month base under \$16 since August. The \$268.5M company focuses on coffee, tea, and other culinary products like puddings, soup bases, dressings, and powdered mixes. Shares trade 0.46X sales and 36.3X cash with a path to profitability within the next three years. They see a return to positive revenue growth in FY21. FARM is an activist story with a group of shareholders pressing for a board refresh this week at their annual meeting, "frustrated by the value destruction that is a direct consequence of poor decisions made by our Board and Management over the last three years." They think the CEO succession was poorly planned and recent deals were poorly executed. Short interest is 6.2% and down from 8.6% in June. Analysts have an average target for shares of \$12 with limited coverage. Roth with a \$11 PT in September, disappointed with results while the CEO transition clouds the long-term vision. They think the company could be an attractive takeover target. Lake Street with a \$15 PT noting that while earnings are weak in the near-term, new customers are gradually coming on board, which should eventually boost sales growth and margins.

### Earnings Focus

**American Eagle (AEO)** will report earnings on Wednesday before the open with the Street looking for \$0.48 on \$1.06B in sales (+3.8%). Next quarter is guided to \$0.47 on \$1.33B while the FY is

\$1.58/\$4.31B (+6.8%). Shares have a weak history lower five of the last seven with an average closing move of 6.93%. The market is pricing a 7.58% move this quarter, slightly lower than each of the last ten so room for some IV expansion. The \$2.57B company trades 9.63X earnings, 0.62X sales, and 17.5X FCF with a 3.62% yield. AEO sees EPS contracting in both FY20 and FY21 with sales growth slowing to 3.92% and 3%. AEO is facing tough comps for the next 3-4 quarters. AEO could run into issues with inventories after ending last quarter at a cost of \$535M, up 15%, with units up 10%. The company said they drove inventories higher in denim (AE Jeans) as they expand styles and sizes looking to gain share in the growing segment. Short interest is 8.7% and down from 11.7% in September. Hedge fund ownership rose 7% in Q3. Ceredex Value, Victory Capital, and Carillon Tower all notable buyers. Analysts have an average target for shares of \$21. Loop Capital downgrading to Neutral on 11-25 with a \$15 PT. They think continued expense pressure and slightly weaker sales will weigh on results and while its Aerie and AE's Curvy jeans lines still offer potential, the levels of promotional activity at American Eagle and its competing brands cannot be ignored.

### IPO Focus

**XP (XP)** is expected to IPO this week in an offering to raise near \$1.8B and a market value of \$14B. This is the second time that XP is pursuing a public offering after pulling their listing in 2017 when Itau Unibanco (ITUB) took a 49.9% stake in the company for \$1.55B (cash and stock). XP is a financial services company in Brazil that has grown exponentially over the last five years and plans to nearly quadruple its asset base through 2020. At a glance, XP has over 1.5M customers now with R\$350B in AUC. They have over 600+ investment products available. The company has been adding near 50,000 accounts per month on average as they market more to middle-class individuals with their simplicity and range of products including stocks, bonds, and mutual funds. They envision catering to a much underserved part of the population in Brazil where investing has largely been something for the richest individuals and others stick to savings accounts and the latter are becoming less attractive however with their central bank cutting rates three times this year. XP believes there is a R\$487B TAM ripe for disruption as they take on big banks, especially with so much cash sitting in savings accounts, while they are expanding into new verticals. Areas of opportunity include deposits, mortgages, credit cards, pension funds, personal loans, and more. The majority of their revenue is retail (68%) where they generate income from spreads, rebates, commissions, and other fees. The rest comes from institutional orders (13%), underwriting, and digital content. XP has modeled their approach to markets from Schwab (SCHW).