

## TOP STORIES

- US Futures Bounceback as Treasuries Decline
- Houston on 'Precipice of Disaster' with Virus Cases Spreading
- White House Considering Second Round of Stimulus Payments
- UK Economy Plunges by Record 20%

## INDEX FUTURES

| Futures | Change          | Fair Value |
|---------|-----------------|------------|
| S&P 500 | 3050.25 (50.75) | 60.15      |
| Nasdaq  | 9742 (138.5)    | 165.52     |
| Dow     | 25530 (499)     | 539.83     |

## GLOBAL INDICES

| INDEX     | CLOSE    | CHANGE |
|-----------|----------|--------|
| FTSE      | 6131.27  | 0.9%   |
| DAX       | 12052.28 | 0.68%  |
| Nikkei    | 22305.48 | -0.75% |
| Hang Seng | 24301.38 | -0.73% |

## ECONOMIC CALENDAR

| 8:30  | Import/Export Price |      |
|-------|---------------------|------|
| 10:00 | Consumer Sentiment  | 75.0 |

## FOREX

|         |                |
|---------|----------------|
| EUR/USD | 1.13 (-0.01%)  |
| USD/JPY | 107.44 (0.55%) |
| USD/CAD | 1.355 (-0.50%) |
| GBP/USD | 1.262 (0.15%)  |

## COMMODITY

|             |                |
|-------------|----------------|
| Oil         | 36.37 (0.07%)  |
| Natural Gas | 1.792 (-1.16%) |
| Gold        | 1743.9 (0.23%) |
| Copper      | 2.6115 (0.97%) |

## VOLATILITY INDICES

| INDEX  | SYMBOL | CLOSE          |
|--------|--------|----------------|
| S&P    | VIX    | 42.51 (54.37%) |
| Nasdaq | VXN    | 37.51 (27.93%) |
| Oil    | OVX    | 70.36 (11.58%) |
| Gold   | GVZ    | 22.21 (7.04%)  |

## MARKET OUTLOOK

Futures are indicating a strong open for the day despite a relatively quiet night for news – economic data in Europe was slightly worse than expected. Coronavirus continues to be a major focus with infections on the rise and some areas of the US considering either a slowdown of their re-opening (Oregon) or stricter. Florida had their highest seven-day total of new cases since the pandemic began. Houston officials are reportedly looking at potentially re-imposing Stay-at-Home orders after a surge in cases. Overall, the caution around a second wave earlier than the Fall timeline is growing and this weekend/next week should start to see more results from those who attended the massive protests 10-12 days ago. Elsewhere, bonds are down around 70 bps. Oil is up around 40 bps and well off the overnight lows. Gold/silver are mixed.

Asian markets finished the week on a mixed note as virus fears mount. China managed to close somewhat flat after opening weak while the Nikkei was down around 75 bps. Japan's parliament approved a \$300B second extra budget to shore up their economy. Energy stocks fell to 1-month lows.

European markets are rebounding from some early weakness despite some weak data (see below). Financials led the bounce with **Commerzbank**, **Deutsche Bank**, and **SocGen** up 4-5%. Automakers were also strong with **Renault** up 5.5%. In the UK, airlines like **IAG**, **Ryanair**, and **Easy Jet** all up 6-7% after they sued the government over quarantine rules for inbound travelers. Elsewhere, **Interparfums** up 13% after signing a worldwide deal with Moncler. **Games Workshop** up 10% after raising their FY outlook. **Pearson** was up 12% after activist Cevian took a 5.9% stake. Publishing company **Informa** up 9% after announcing cost cutting plans.

Finally, a busy day for **economic data**. Japanese industrial production fell 9.8% in April, worse than the 9.1% drop expected. UK GDP fell 20.4% in the latest reading, worse than the 18.7% drop expected and worst print ever. Construction output fell over 40%. Industrial production was down 20.3%, both worse than estimates. Eurozone industrial production fell 17.1% M/M, better than the 20% decline expected.

## S&P TECHNICALS

S&P futures with a quiet rebound all night after opening around 2,992.25. The overnight VWAP has been a key area of support thusfar with bounces at both 8pm and 2am and currently sitting at 3032.50. VWAP for the week is far above at 3148.50. Some other key areas above to watch are the 50% retracement from the Fed announcement at 3106.75 which also aligns with yesterday's opening range. The 8-EMA is also around 3,105.



**KEY EVENTS**

**Economic Data Next Week:** China Industrial Production, Retail Sales, BOJ Decision, BOE Decision, Powell's Testimony, Lighthizer Testimony, Empire Mfg.

**Earnings of Note:** LEN, ORCL, KR, KMX

**ANALYST ACTION/COMMENTS**

**General Motors (GM)** upgraded to Buy at Goldman

**Southwest (LUV)** upgraded to Buy at Credit Suisse

**Take-Two (TTWO)** upgraded to Buy at MKM Partners

**Sempra (SRE)** upgraded to Buy at BAML

**Dave & Busters (PLAY)** upgraded to Buy at Sun Trust

**Holly Frontier (HFC)** downgraded to Sell at Goldman

**Tesla (TSLA)** downgraded to Neutral at Goldman

**Tesla (TSLA)** downgraded to Sell at MSCO

**Roper (ROP), Ametek (AME)** downgraded to Neutral at Oppenheimer

**Spirit (SAVE)** downgraded to Sell at Credit Suisse; **UAL** downgraded to Neutral

**Caterpillar (CAT)** downgraded to Neutral at BMO

**Braskem (BAK)** downgraded to Neutral at UBS

**Bicycle Therapeutics (BCYC)** initiated Buy at Oppenheimer

**NetEase (NTES)** initiated Buy at Goldman

**Guardant (GH)** initiated Buy at BTIG, \$100 PT

**US Bancorp (USB)** initiated Buy at DA Davidson

**Conoco (COP)** initiated Buy at Jefferies

**Tetra Tech (TTEK)** initiated Buy at Berenberg

**WW** initiated Buy at Guggenheim

**MEDIA HIGHLIGHTS**

**Google (GOOG)** countersues speaker-maker **Sonos (SONO)** for patent infringement - The Verge

**Goldman Sachs (GS)** Is Said to Try to Avoid Pleading Guilty in 1MDB Scandal – NYT

**Netflix (NFLX)** in talks with Reliance affiliate to source Indian content - Reuters

**Air France** accelerates resumption of summer flight schedules – Reuters

**Exxon Mobil (XOM)** set to revive North Sea sale after months of delays – Reuters

**DSM** says it will buy animal feed additives maker **Erber** for \$1.1B – Reuters

**Deutsche Bank (DB)** Seeks to Speed Up Branch Closures to Save Costs – Bloomberg

**Nestle** Weighs Sale of Pure Life, Poland Spring Brands in Shift to Premium Labels – Bloomberg

**Palantir** to File IPO in Weeks For Possible Fall Debut, Last Valued at \$20B – Bloomberg

**DoorDash** Nears Deal to Secure Funding From T. Rowe Price, Fidelity, Others – WSJ

Bankrupt **Hertz (HTZ)** Wants to Sell Up to \$1 Billion in New Shares – WSJ

**Quicken Loans**, the largest U.S. mortgage lender, is planning an IPO – CNBC

**STOCK SPECIFIC NEWS OF NOTE**

Activist Jana Partners reports 5.9% stake in **Perspecta (PRSP)**, may seek talks and possible sale

Activist Cevian takes 5.4% stake in **Pearson (PSO)**

**L3Harris Technologies (LHX)** CEO: Starting to see revenue synergies coming through

**Quidel (QDEL)** receives BARDA funding to develop point-of-care diagnostic assay

**NXP Semi (NXPI), TSMC (TSM)** announce collaboration

**AstraZeneca (AZN)** says Calquence shows long-term efficacy, tolerability

**Agios (AGIO)** announces clinical proof-of-concept established in mitapivat Phase 1 study

**Crispr Therapeutics (CRSP), Vertex (VRTX)** announce new CTX001 data from CLIMB trials

**PRE-MARKET MOVERS**

**Moving Higher:** HTZ 51%, CHK 22%, SAVE 15%, PLAY 14.5%, NCLH 15%, CAR 15%

**Moving Lower:**

**INSIDER TRADING (Form 4 Filings)**

**Buying:** ASB, NICK, KDP, RILY

**Selling:** SNPS, TREE, CTXS, KMT, EVER, DSPG, PFPT, YETI, AMK, RNG, CNC, DXCM

**POTENTIAL SYMPATHY TRADES**

**NKE, UAA** – on LULU earnings

**ADSK, INTU, CRM, SAP, ORCL** – on ADBE earnings

**OPTION HIGHLIGHTS (Prior Day)**

General Motors (GM) with buyers active this afternoon for 3,500 September \$28/\$35 call spreads for \$1.92 and name that has seen consistent bullish flows since early May including buyers in size in the January \$30 calls, December \$25 calls, and Jan. 2022 \$35 calls while the July \$30 and \$25 puts have been sold to open. GM shares are back to the rising 20-day MA today after a strong run out of a base in May. Shares have a big volume node above at \$35 to target while getting back above the 200-day could spark a bigger trend shift towards the 2019 highs. The \$39.2B auto maker trades 7.5X earnings and 0.3X sales with a ton of cash on the balance sheet. GM's CEO spoke last week the long-term impact of COVID-19 noting that they expect to see permanent cost-cuts from the production changes they made and overall a leaner structure which will allow them to focus on growing margins behind a better mix. They also expect to continue to invest \$20B in their electric and autonomous programs with an electric truck, EV revival of the Hummer brand, electric delivery vans, and more. Analysts have an average target for shares of \$34.50. MSCO a very positive note this morning seeing GM in a position of strength post-COVID as they carry the lowest inventory of any of the 'Detroit 3' which will allow them to prioritize higher-margin or more profitable vehicle segments current in demand and short in supply. MSCO also thinks Q3 could be a record high for profits given recovering demand, inventory rebuild, and stronger pricing. CSFB positive on 6-3 noting that the pandemic may permanently shift their focus to online sales, a major emerging theme in the space, and long-term benefit to the company. Short interest is 1.7% and near 10-year lows. Hedge fund ownership fell 8% in Q1. Insiders have been active in 2020. In March an EVP bought \$514,000 in stock at \$22.97 while in May another EVP bought \$241,000 at \$26. A director also bought \$300,000 in stock at \$23.18.

**AFTER HOURS MOVERS**

**Gainers:** CHK 8%, SAVE 8%

**Losers:** PVH -5%, LULU -5%

**MARKET SENTIMENT / INTERNALS**

| INDICATOR                            | READING     | SIGNAL                                    |
|--------------------------------------|-------------|---|
| CBOE Equity Put/Call Ratio           | 0.60        | Falling                                   |
| VIX Curve                            | Contango    | Normal                                    |
| CNN Fear & Greed Index               | 66          | Greed                                     |
| NYMO                                 | 99.19       | Extreme High                              |
| McClellan Summation                  | 854.91      | Above 8-EMA                               |
| Lipper Fund Flows                    | -\$4.6B     | 5 <sup>th</sup> Straight Week of Outflows |
| Univ. of Michigan Consumer Sentiment | 72.3        | -27.7%                                    |
| NAAIM Exposure Index                 | 91.6        | Highest Since February                    |
| AAII Sentiment                       | 38.9% Bears | Falling but Still Above Average           |

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

**Vroom (VRM)** issuing 18.8M shares at \$18-\$20; End-to-end eCommerce platform for the used vehicle market

**SECONDARY MONITOR**

## TRADE

### WEEKLY TECHNICAL BREAKOUT

**MSFT:**



**Microsoft (MSFT)** shares flagging under \$190 and the February highs with a breakout setting up a run to \$205+. The 20-day MA is rising and just below Friday's range. MACD is nearing a bullish crossover and RSI is starting back above 60, ready to run.

### FUNDAMENTAL TRADE OF THE WEEK

**Stock:** Mercury Systems (MRCY)

**Price:** \$90.54

**Valuation:** Undervalued

**Analysis:** MRCY is a \$5B company that is a leading supplier of electronics for aerospace and defense. MRCY is now a tier 2 supplier which is allowing them to grow their content share within certain systems and a long-term goal of growing their content per system by 12X as they expand into adjacent markets and submarkets. Their sensors are used across massive programs like the F-16, F-35, Triton, Stormbreaker, and more. The sensor/mission systems market is \$17.4B and growing 4.6% CAGR.

## IDEAS

### WEEKLY TECHNICAL BREAKDOWN

**SJM**



**Smucker (SJM)** shares nearing a breakdown under May support at \$106.50 with room back to the low-end of yearly value around \$101. MACD just crossed over bearish and MACD is back under 40 but not yet oversold, so plenty of room for more downside.

### PAIR TRADE OF THE WEEK

**Industry:** Dining

**Long/Short:** Long **US Foods (USFD)**, Short **Blue Apron (APRN)**

**Analysis:** USFD was hit hard by the shutdowns but set to see a surge in demand as restaurants re-open, even in a limited capacity as we have seen the drive to go out be huge in early re-opening economies. APRN has risen with the shutdowns leading to more cooking at home and potential sale talks but beyond the pandemic has limited visibility for growth vs better operated peers.

### SMALL CAP TRADE OF THE WEEK

**AAON (AAON)** is a \$2.92B provider of air conditioning and heating equipment for commercial buildings. They have a lot of different market exposures like schools, hotels, grocery, hospitals, and more. Shares trade 6X sales with expectations for high-single digit growth and recently raised their dividend. AAON has boosted capacity which allowed them to meet 100% of deliveries in Q1 and they also saw a jump in sales as they were a provider to temp. hospitals in NY.

### News Continued

Americans Return to Car Dealers, Thwarting Expected Shift Online (**CVNA**, **KMX**) – Bloomberg

Taiwan memory chipmakers post decreased May revenues (**MU**, **WDC**, **STX**) – Digitimes

Diamond sales freeze during lockdown (**SIG**) – FT

**KKR** asks advisers to 'share the pain' amid \$18bn spending spree – FT

**Magellan Health (MGLN)** says targeted by ransomware attack – Reuters

**Airbnb** Hasn't Seen Mass Exodus of Hosts Over Refunds - Skift

**Uber (UBER)** may look to acquire smaller rival like **Postmates** to compete with **GrubHub (GRUB)** - WSJ

### Extras

**DexCom (DXCM)** with 700 January 2022 \$370 calls sold for \$92.00 to open in a buy-write

**Illumina (ILMN)** trade opens 1000 January \$340/\$290 bull put spreads late for a \$18.84 credit. **ILMN** late buyer 1000 Jan. 2022 \$470 calls \$25.50

**Philip Morris (PM)** late trade opens 1000 January 2022 \$70 synthetic long positions at a net credit

**Timken (TKR)** late sweep buyer 1000 July \$40 puts \$2.10 offer

**Emerson (EMR)** late sweep buyer 1000 June 26<sup>th</sup> (W) \$59 puts \$2.10

**Peloton (PTON)** afternoon sale of 1000 January 2022 \$40 puts \$12.20 to \$12.10

**Boston Scientific (BSX)** with 1000 November \$32 puts sold to open for \$2.30 as well as the 1000 July \$36 calls bought \$1.32

**Omega Health (OHI)** rising afternoon IV with September \$28 puts actively bought 1275X up to \$3.30

**Target (TGT)** late afternoon opening buys 1000 October \$115 puts \$8.50 to \$8.55

**ABIOMED (ABMD)** buyer 250 January \$210 puts to open \$23.10

**Live Person (LPSN)** unusual aggressive buy of 550 January \$50 OTM calls \$1.85.

### Earnings

| Ticker | Stock               | EPS Actual | EPS Est. | Revs Actual | Revs Est.  | Growth  | Notes    |
|--------|---------------------|------------|----------|-------------|------------|---------|----------|
| ADBE   | Adobe               | \$2.45     | \$2.32   | \$3,130.00  | \$3,161.65 | 14.10%  | FY Below |
| PLAY   | Dave & Buster's     | -\$1.37    | -\$0.85  | \$159.80    | \$167.83   | -56.10% |          |
| LULU   | lululemon athletica | \$0.22     | \$0.27   | \$651.96    | \$695.98   | -16.70% |          |
| PVH    | PVH                 | -\$3.03    | -\$1.60  | \$1,344.00  | \$1,348.69 | -43.00% |          |

**PVH – Missed on EPS and Revs** - While our first quarter results were impacted significantly by the pandemic, we have been able to reopen the majority of our stores in all regions over the last month. We are adhering to strict safety protocols, prioritizing the health and well-being of our associates and consumers, and, while it is still early, we are seeing improving traffic and conversion trends in most markets. At the same time, our digital commerce businesses continue to experience outsized growth, even as stores reopen. While the pandemic will continue to have a profound impact on consumer purchasing habits for the foreseeable future, these trends underscore that our brands are strong. By mid-June, over 85% of the company's stores globally are expected to be reopened. Sales for reopened stores for the second quarter-to-date are running down approximately 25% globally compared to the prior year period.

**LULU – Missed on EPS and Revs** - E-commerce April sales were up 125%, momentum is continuing in Q2. Believes can quadruple international e-commerce sales by 2023. Calvin McDonald, CEO of Lululemon, said: "I'm proud of how lululemon has navigated these unexpected and unprecedented times. We are learning more every day about our guests -- how they enjoy interacting with us online and what makes them comfortable as stores reopen. Our strong digital business demonstrates the strength of our guest connection and the long-term opportunity to create further Omni experiences going forward."

**ADBE – Beat on EPS and Missed on Revs** - Digital Media segment revenue was \$2.23B, which represents 18% year-over-year growth. Creative revenue grew to \$1.87B and Document Cloud revenue was \$360M. Digital Media Annualized Recurring Revenue ("ARR") grew to \$9.17B exiting the quarter, a quarter-over-quarter increase of \$443M. Creative ARR grew to \$7.93B, and Document Cloud ARR grew to \$1.24B. We expect typical seasonal strength in Q4 across our Digital Media and Digital Experience business. We expect our operating expenses to increase in line with growth rates in previous years as we continue to invest for growth.