

TOP STORIES

- Xi Sets Demands for Trade Truce Including Lifting Huawei Ban
- Trump Demands India Drop ‘Unacceptable’ Tariffs
- China Industrial Profits Rise 1.1% in May as Sales Quicken
- Optimism Hits Nine-Year Low at U.S. Small, Midsize Companies

INDEX FUTURES

Futures	Change	Fair Value
S&P 500	2923.75 (5.75)	5.67
Nasdaq	7672.75 (22.75)	18.70
Dow	26532 (-18)	-11.82

GLOBAL INDICES

INDEX	CLOSE	CHANGE
FTSE	7389.16	-0.37%
DAX	12247.99	0.02%
Nikkei	21338.17	1.19%
Hang Seng	28621.42	1.42%

ECONOMIC CALENDAR

TIME	INDICATOR	CONSENSUS
8:30	GDP	3.1%
8:30	Weekly Claims	216K
10:00	Pending Home Sales	
10:30	EIA Nat Gas	
11:00	KC Fed Mfg.	
4:30	Fed Balance Sheet	

FOREX

EUR/USD	1.1371 (0.03%)
USD/JPY	107.87 (0.09%)
USD/CAD	1.3132 (0.05%)
GBP/USD	1.2705 (0.13%)
USD	95.72 (-0.01%)

COMMODITY

Oil	58.84 (-0.91%)
Natural Gas	2.271 (0.13%)
Gold	1409 (-0.45%)
Copper	2.7170 (0.13%)

VOLATILITY INDICES

INDEX	SYMBOL	CLOSE
S&P	VIX	16.23 (-0.31%)
Nasdaq	VXN	20.52 (-1.20%)
Oil	OVX	38.45 (-4.50%)
Gold	GVZ	15.88 (-7.03%)

MARKET OUTLOOK

Futures are indicating a mixed open for the morning with trade the focus overnight as the President lands in Japan for the G20. POTUS has said that a trade deal with China was possible this weekend but he is prepared to add to tariffs if necessary. This is not anything new but the President also raising the possibility of imposing a lower tariff (10%) and also a potential delay again. Meanwhile, President Xi has reportedly requested a lift on the Huawei ban as any part of a deal. This is a point Trump has been open to in the past. The first Democratic debate last night may weigh on some areas today with healthcare costs, private prisons, big tech, and corporate taxes taking focus. **Banks (XLF)** in focus later today with the second part of stress tests due today which will set out how much each bank can return to investors in buybacks and dividends.

Asian markets were strong overnight with optimism around trade talks at the G20. Machinery, tech, and autos were all strong with their ties to trade. **Tokyo Electron** up by 4.5%, **TDK** up by 4%, and **Subaru** up 3.6%. **Japan Display** rose 20% after a report that Apple will inject \$100M into the company. Japanese retail sales rose to 1.2% in May, in line with expectations, while foreign investment in stocks fell.

European are back near unchanged on the morning after opening strong and looking to snap a four-day losing streak. Eurozone business and consumer surveys for June fell to 103.3, below forecasts, while business climate optimism also fell more than expected. Services sentiment and industrial sentiment both weaker than estimates. Italian business confidence fell to 100.8 vs 101 in June. Spanish inflation fell to 0.4% vs 0.8% expected. **Bayer** jumped 6% after hiring an external lawyer to advise on its glyphosate litigation. Elliott Associates also disclosed a €1.1B stake. Retailer **H&M** up 10% after positive guidance on their Summer collection. Food ingredients maker **Chr Hansen** fell 12% after cutting their FY outlook.

S&P TECHNICALS

Levels: Support 2,850/2,800; Resistance 2,925/2,950



3687 Advancing	Declining 3567
48.3%	46.8%
89 New High	New Low 144
38.2%	61.8%
3646 Above SMA50	Below 3955
48.0%	52.0%
4048 Above SMA200	Below 3553
53.3%	46.7%

KEY EVENTS TO WATCH**Earnings After the Close:** CAMP, NKE, SGH**Tomorrow...** Personal Income at 8:30 AM, Chicago PMI at 9:45, Consumer Sentiment at 10:00. **Earnings Before the Open:** STZ, JKS**ANALYST ACTION/COMMENTS****Century Link (CTL)** upgraded to Outperform at Wells Fargo**Anglo Gold (AU)** upgraded to Outperform at BMO**Applied Opto (AAOI)** upgraded to Neutral at Rosenblatt**Grifols (GRFS)** upgraded to Overweight at JP Morgan**Owens Corning (OC)** upgraded to Buy at BAML**Diamond Rock (DRH)** upgraded to Neutral at Wells Fargo**Sunstone (SHO)** upgraded to Outperform at Wells Fargo**Crocs (CROX)** upgraded to Buy at CL King**KB Home (KBH)** upgraded to Overweight at Keybank**Lincoln Electric (LECO)** cut to Neutral at Keybank**Rio Tinto (RIO)** downgraded to Neutral at BMO**FactSet (FDS)** downgraded to Sell at Goldman**Nordstrom (JWN)** downgraded to Sell at Goldman**Ross Stores (ROST)** downgraded to Sell at Goldman**Travelers (TRV)** downgraded to Sell at Deutsche Bank**Patterson (PTEN)** downgraded to Neutral at Wells Fargo**Sempra (SRE)** downgraded to Neutral at BAML**Brunswick (BC)** downgraded to Neutral at Northcoast**Canadian Pacific (CP)** downgraded to Neutral at National BankCredit Suisse starting **F, GM, BWA, AXL, DAN, APTV** at Outperform, **LEA, ADNT, DLPH, MGA** at Neutral and **TSLA** at Underperform

Take-Two (TTWO) initiated Buy at Sun Trust

Wedbush starting **AMD, NVDA** at Outperform, **MU, STX** at Neutral, and **INTC** at Underperform**Planet Fitness (PLNT)** initiated Outperform at Raymond James, \$80 PT**Nomad (NOMD)** initiated Buy at Goldman Sachs**MEDIA HIGHLIGHTS**Centerbridge in exclusive talks to buy **Magellan Health (MGLN)** - WSJFAA found 'potential risk' **Boeing (BA)** 'must mitigate' in 737 MAX craft - Reuters5 Japanese car makers to invest in **Toyota (TM)**, **SoftBank** self-driving JV - NARFCC probing whether **Sinclair (SBGI)** showed 'lack of candor' in Tribune deal – WSJ**Facebook (FB)** CEO Mark Zuckerberg supports federal privacy legislation - WSJ

EU Car Sales to Fall in 2019 on Slow Demand – Bloomberg

CVC Nears \$1B Deal for Stake in **GEMS Edu** – BloombergSmall business association to probe **Grub Hub (GRUB)** in fight over fees – NY Post

Drugmaker Deals Are Near Record Pace in 2019, but Investors Don't Love Them All – NYT

French retailer **Casino** restructures Latam operations to boost value – Reuters**Amazon (AMZN)** launches new in-store pickup option with **Rite Aid (RAD)** as first partner – ReutersCannabis Investors Are Zoning Out About Supply (**CGC, ACB, TLRY**) – WSJ**STOCK SPECIFIC NEWS OF NOTE****Aclaris Therapeutics (ACRS)** ATI-502 does not achieve statistical superiority in trial**Verrica (VRCA)** VP-102 achieved positive results on both primary, secondary endpoints**Esperion (ESPR)** signs \$200M funding deal with OberlandIcahn says it is 'important' to add new directors to **Occidental's (OXY)** board**OFG Bank (OFG)** to acquire Scotiabank ops in Puerto Rico, U.S. Virgin Islands**W&T Offshore (WTI)** acquires properties in Gulf of Mexico for \$200M**Novavax (NVAX)** confirms accelerated approval pathway available for licensure of NanoFlu**HealthEquity (HQY)** to acquire **WageWorks (WAGE)** for \$51.35 per share in cash**Myriad (MYGN)** says Prolaris predicts risk of metastasis in men with prostate cancer

PRE-MARKET MOVERS

Moving Higher: NVAX 22%, QD 3%, LYFT 1.5%

Moving Lower: RMR -3.5%, BB -2.3%, RIG -2%

INSIDER TRADING (Form 4 Filings)

Buying: RUN, OPK, CNX, MGM

Selling: NERV, PFG, BOLD, FND, ARES, BAM, TREX, CRM, TWLO, ELF, NFLX, HPE, INCY, MASI

POTENTIAL SYMPATHY TRADES

HAL, AMZN, GM, XLV, IBB, GEO, CXW – on Democratic Debate Issues

CTSH, INFY – on ACN earnings

OPTION HIGHLIGHTS (Prior Day)

Atlassian (TEAM) more bullish flow today as more than 800 July \$126 calls are being bought around \$6.85 and spread vs the \$135 calls at \$2.50. Today's flow follows 1,950 July \$115 puts sold to open yesterday around \$1.70 as well as buyers in the December \$135 calls and January 2021 \$130 calls, the latter a \$712k position. TEAM has seen buyers active in the November \$145 calls as well. Shares are back to the rising 50-day MA and trend support from May with a measured channel up to \$145. Shares have been consolidating in a 20-point range and continuation of the 1-year trend targets upside to \$160. The \$30.8B company trades 17X cash and 26.35X EV/sales with rapidly growing profitability. TEAM sees sales growth of 28.4% and 26.9% through 2021 while margins continue to expand but still below 2016 levels. The company continues to expand their product suite as they look to gain share in a massive markets among technical teams and developers, adding more than 5K customers last quarter. Short interest is 3.2% and down from around 4.2% in late 2018. Analysts have an average target for shares of \$121 with 7 buy ratings and 8 hold, largely on valuation. Keybank out positive on 6-13 with a \$142 PT. They see multiple paths to 30% subscription revenue growth and products like Jira, Confluence, and Service Desk will drive incremental seats and adoption, leading to an increase in ARPU. Deutsche Bank with a \$135 PT recently. Hedge Fund ownership rose 33% last quarter. Pointstate, Tiger Global, Glynn Capital, and Foxhaven all concentrated owners.

AFTER HOURS MOVERS

Gainers: PECK 37.5%, OFG 19.4%, VRCA 13.9%, MLHR 12.9%, KBH 5%

Losers: PIR -17.4%, OSTK -3.9%

MARKET SENTIMENT / INTERNALS

INDICATOR	READING	SIGNAL
CBOE Equity Put/Call Ratio	0.65	Rising / Cautious
CBOE Index Put/Call Ratio	1.17	Turning Lower
CBOE Skew Index	118.46	Rising
VIX Curve	Contango	Normal
CNN Fear & Greed Index	52	Neutral
NYMO	30.83	Rising
NYSE New Highs	77.63	Rising
McClellan Summation	551.16	Above 8-EMA
Univ. of Michigan Consumer Sentiment	97.9 (June)	Strong

SMART MONEY (13g/13d Filings)

IPO MONITOR

The Real Real (REAL) issuing 15M shares at \$17-\$19; Largest online marketplace for authenticated, consigned luxury goods

Cambium (CMBM) issuing 5.8M shares at \$13-\$15; Provider of wireless broadband networking infrastructure solutions

Change Healthcare (CHNG) issuing 42.9M shares at \$16-\$19; Developer of a healthcare technology platform that provides data & analytics to improve the healthcare system

Biotech issues from **ADPT, BBIO, KRTX, MORF, and PRMI**

TRADE

WEEKLY TECHNICAL BREAKOUT

TTWO:



Take-Two (TTWO) shares are working on a nice bull flag under \$113 after a strong run higher since mid-May. A breakout targets \$118. All of its short-term moving averages are sloping higher and 8-EMA sitting at Friday's low as support.

FUNDAMENTAL TRADE OF THE WEEK

Stock: Nice (NICE)

Price: \$138

Valuation: Undervalued

Key Ratios:

	Fwd. PE	P/S	P/B	EV / EBITDA	P/FCF
Stock	24.2X	5.8X	4.2X	19.2X	23.5X
Industry Avg.	50.8X	8.8X	10.4X	51.6X	75.4X

Analysis: The \$8.63B company trades cheap at 24.2X earnings and 5.8X sales with mid-teens growth and peer-best margins. NICE is coming off a strong quarter and raising their FY outlook with cloud revenue and operating margins expanding significantly. The launch of their new digital interactions feature after the acquisition of BrandEmbassy is helping drive large deal growth while their Analytics business continues to thrive.

IDEAS

WEEKLY TECHNICAL BREAKDOWN

NEWR:



New Relic (NEWR) shares are forming a bear flag above the 200-day MA and \$94.50 support with a breakdown targeting \$85. Shares have a big volume node below from November/December at \$80 as well. NEWR is forming a series of lower highs.

PAIR TRADE OF THE WEEK

Industry: Waste

Long/Short: Long **Waste Connections (WCN)**, Short **Stericycle (SRCL)**

Analysis: WCN trades cheap relative to its steady growth and FCF growth of 7-8%. They've got a number of long-term contracts locked in which provides strong visibility to EPS as well while a recovery in E&P supports above-peer growth. SRCL has posted consistently weak numbers recently and new management sees a long road to recovery for the name with their Transformation plan.

SMALL CAP TRADE OF THE WEEK

NV5 Global (NVEE) is a \$991M company which focuses on engineering and consulting services in infrastructure, energy, construction, and real estate. Shares trade at 17.3X earnings and 2.25X sales with mid-20% EPS growth. The company is executing better on costs while adding a number of smaller accretive acquisitions which are expanding their geographic reach.

DAILY OPTIONS REPORT

<u>Unusual Call Activity</u>	<u>Unusual Put Activity</u>	<u>Implied Volatility Riser</u>
Hilton Grand (HGV)	Qudian (QD)	Slack (WORK)
Booz Allen (BAH)	Olympic Steel (ZEUS)	Pareteum (TEUM)
AMAG Pharma (AMAG)	Flir (FLIR)	Eros (EROS)
Texas Roadhouse (TXRH)	Geo Group (GEO)	Myriad Genetics (MYGN)
Eldorado (EGO)	Macerich (MAC)	Overstock (OSTK)
GTT Comms (GTT)	Fair Isaac (FICO)	MEI Pharma (MEIP)
<u>Lowest Put/Call Ratio</u>	<u>Highest Put/Call Ratio</u>	<u>Implied Volatility Decliner</u>
Renewable Energy (REGI)	National Fuel (NFG)	Amyris (AMRS)
Jagged Peak (JAG)	Geo Group (GEO)	AerVironment (AVAV)
MEI Pharma (MEIP)	Louisiana Pacific (LPX)	Micron (MU)
Avon (AVP)	Heron (HRTX)	Hecla (HL)
Portola (PTLA)	O'Reilly (ORLY)	Fed Ex (FDX)
Hilton Grand (HGV)	CarGurus (CARG)	Retrophin (RTRX)
<u>OTM Calls on Offer</u>	<u>OTM Puts on Offer</u>	<u>Elevated IV30</u>
Stars (TSG)	Macerich (MAC)	Intra-Cellular (ITCI)
Hecla (HL)	Agnico (AEM)	Zynerba (ZYNE)
Synchrony (SYF)	Tiffany (TIF)	Glycomimetics (GLYC)
Lannett (LCI)	Comcast (CMCA)	Voyager (VYGR)
AMAG Pharma (AMAG)	Sprint (S)	Beyond Meat (BYND)
<u>Positive Net Delta</u>	<u>Negative Net Delta</u>	<u>Option Volume Gainers (%)</u>
Micron (MU)	Verizon (VZ)	Qudian (QD)
Advanced Micro (AMD)	Gold (GLD)	Olympic Steel (ZEUS)
Overstock (OSTK)	Gamestop (GME)	Flir (FLIR)
Beyond Meat (BYND)	Ford Motor (F)	Eldorado (EGO)
Teva Pharma (TEVA)	Microsoft (MSFT)	GTT Comms (GTT)
<u>Bullish Call Flow</u>	<u>Bearish Put Flow</u>	<u>Large Spread Trades</u>
Nvidia (NVDA)	Deere (DE)	SPY, Sep. 30th (Q) bought the \$300/\$310 call ratio 5000X10000
Booz Allen (BAH)	Mallinckrodt (MNK)	DDS, 900 January \$85/\$95 OTM call spreads
Hilton Grand (HGV)	Qudian (QD)	OXY, 6,000 January \$55/\$62.50 call spreads
PayPal (PYPL)	Diodes (DIOD)	ABBV, 1,175 November \$70/\$55 bull risk reversals
Stars Group (TSG)	Mittal (MT)	MSI, 300 January \$185/\$135 bull risk reversals

Extras

Go-Daddy (GDDY) late trade rolling 3500 July \$75 short calls to August \$70 short calls

Avaya (AVYA) shares jumpy late with September IV selling down as 2,000 of the \$12.5 and \$10 puts are sold to open, a Co. that has been pushed towards a sale

Zebra Tech (ZBRA) late day buyers of 1,370 July \$220/\$185 strangles, odd trade for the name

Tandem (TNDM) closing weak with 770 August \$50 puts bought for \$3.50

Signet (SIG) jumpy late as 8,450 July \$16 puts are sold to open for \$0.50 to \$0.40, recent January call buys

Halliburton (HAL) late block 4000 July 26th (W) \$24.50 calls opens \$0.60 spread vs. short July \$21 puts

Cummins (CMI) late trade bought 500 December \$175 calls to open \$7.80 in a stock replacement

Kratos Defense (KTOS) name with a number of bullish trades recently including 875 July \$20 calls yesterday at \$2.05, 5,000 July \$25 calls bought on 6-20, and more than 2,000 August \$22.50 calls in late May. On 5-15, the August \$20 calls were bought 3,500X and the \$17.50 calls have over 2,750 in OI from March buyers. Shares have been on a strong run higher since earnings in early May and flagging above the rising 34-MA. A move above \$22.50 has room out to \$25. The \$2.41B company trades 42.8X earnings, 3.8X sales, and 13.5X cash with 44.7% and 42.8% EPS growth. The company raised estimates in May and now sees 15.7% and 17.9% sales growth through 2021. KTOS is seeing strong demand across all of their business segments including Space/Satellite, Unmanned Systems Drones and AI, Missile Defense Radars, Training Systems, and Microwave Electronics and Electronic Warfare. The satellite business is benefitting from more government spending, one of the largest growth areas of the new DoD budget up 20% Y/Y. The company thinks this is likely to continue for a longer-time with next-gen missile warning satellites and future communications system in focus. In March, the company successfully flew their Valkyrie tactical drone for the first time, expected to be a significant driver of long-term value. The Valkyrie is considered a hugely valuable drone as it can be used multiple times but also inexpensive so it can be used for more aggressive missions in combat. It also uses supersonic speed which makes it an ideal partner with manned fighter jets. The USAF has shown interest in the drone and the company has been involved in several hearings since May as bipartisan support builds for use of the aircraft. On 6-17 it was reported that the USAF is looking to fast-track funding to the company to buy 20-30 drones for experimentation. They are also getting several additional customer interest. Analysts have an average target for shares of \$22 with 6 buy ratings and 3 hold. Goldman cut shares to Neutral on 6-6 with a \$24 PT and thinks the company continues to have big growth potential but shares are a bit extended. Baird raising their PT to \$25 on 5-28 citing higher growth prospects for KTOS Space and Satellite Solutions. JP Morgan upgrading to Overweight with a \$24 PT on 5-24 citing potential for the Valkyrie tactical drone which has gained the attention of the USAF. Short interest is 7.9% and down sharply from late 2018 when it was above 14%. Hedge Fund ownership rose 25.5% last quarter. Impala Asset Management, Paradigm Capital, and S-Squared all notable holders. KTOS saw a lot of insider buying in 2018 from President/CEO Demarco and other directors.

Earnings

Ticker	Company	EPS Actual	EPS Estimate	Revs Actual	Revs Estimate	Growth	Notes
FUL	H.B. Fuller	\$0.88	\$0.89	\$759.60	\$779.07	-3.80%	

MLHR	Herman Miller	\$0.88	\$0.78	\$671.00	\$657.23	8.60%	
KBH	KB Home	\$0.51	\$0.38	\$1,020.00	\$933.49	-7.40%	
FIZZ	National Beverage	\$0.55	\$0.62	\$239.92	\$238.35		
WOR	Worthington	\$0.77	\$0.77	\$938.80	\$986.47	-8.00%	

KBH – Beat on EPS and Revenues - “We are pleased with our second quarter performance, as we made significant progress on our Returns-Focused Growth Plan. Two of the key objectives of this Plan are to grow our business and strengthen our balance sheet. This quarter’s results demonstrate further achievement in both areas, with average community count growth of 17% year over year — our most substantial increase in four years — and a 930-basis point reduction in our debt to capital ratio, to 45.8% over the same period,” said Jeffrey Mezger, chairman, president and chief executive officer. Demand for our products was strong at 5.4 net orders per community, per month, keeping pace with the exceptional absorption rate we generated in last year’s second quarter. We were well positioned throughout this Spring selling season, with the ongoing expansion of our community count driving a 15% year-over-year increase in net orders. With net order value up 13% year over year to \$1.5 billion, driven by double digit order growth in each of our four regions, and continued year-over-year community count growth anticipated for our third and fourth quarters, we are confident we can produce further improvement in our results in the second half of this year.”

Earnings Before the Open

Ticker	Company	EPS Actual	EPS Estimate	Revs Actual	Revs Estimate	Growth	Notes
ACN	Accenture	\$1.93	\$1.89	\$11,099.70	\$11,031.71	3.80%	Raises FY
APOG	Apogee Enterprises	\$0.60	\$0.55	\$355.40	\$324.39	5.60%	Affirms FY
CAG	Conagra		\$0.41		\$2,661.73		
GMS	GMS	\$0.68	\$0.73	\$780.10	\$784.40	22.70%	
MKC	McCormick	\$1.16	\$1.08	\$1,301.90	\$1,307.28	0.00%	Raises FY
SJR	Shaw Comms		\$0.32		\$1,336.13		
WBA	Walgreens Boots	\$1.47	\$1.43	\$34,591.00	\$34,520.37	0.70%	Affirms FY

IPO Focus

Change Healthcare (CHNG) is expected to begin trading today issuing 42.9M shares at \$16-\$19 raising \$750M which is will use to pay down debt. CHNG is the product of two companies merging, Change Healthcare and McKesson Technology Solutions. The combination of the two is expected to have \$150M synergy opportunity and positions the NewCo as a leading tech platform which connects payors, PBMs, providers, patients, labs, and more. They have 30,000 payer and provider customers and 700 channel partners. Their top competitors are Optum, Cerner (CERN), Allscripts (MDRX), IBM, SAP, and Epic Systems. The business is split among three businesses: Software and Analytics (54%), Network Solutions (30%), and Tech Services (16%). The first offers solutions from payment accuracy,

engagement with patients, and workflow. CHNG sees their software solutions helping reduce clinical errors, lower costs, simplify billing and collection, enhance transparency, and make an overall better patient experience. The company estimates that of the \$3.6T in healthcare spending (growing to \$6T by 2027), over 30% of it is waste and by implementing their product healthcare operators can see a significant ROI. Leading plans and payers using ClaimsXten have saved over \$4B annual through claims editing tech. The company's workflow intelligence product has decreased average turnover time for CT, MRI, and ultrasound reads by 35%. Their B2B payments system and shift into electronic payments has had a \$10M annual financial impact on customers who have implemented it. RCM solutions has seen a 62% increase in M/M collections. Data and IT solutions in the healthcare industry is benefitting from favorable tailwinds as well. The 'over 65' population is expected to 34% by 2027 and this is a group which spends 3-5X more on average than other cohorts. The shift to value-based care is driving demand for better documentation, data, and sophisticated analytics. CHNG is coming to market at a time when revenue growth is slowing and EBITDA growth remains in the mid-single digits. They see 4-6% revenue growth through FY21 with 88% recurring revenue. They're well diversified with the largest customer just 4% of overall mix. They have strong EBITDA margins at 31% and growing 50-75 bps per year. CHNG is also coming to market with significant debt with \$5.8B in long-term obligations.

Multiple Levels for Growth Across the Income Statement

