

TOP STORIES

- Global Markets Continue to Slide Ahead of Powell's Speech
- NFIB Small Business Optimism Falls in June on Trade Uncertainty
- Trump Suffers Setback on Drug Prices as Judge Shoots Down Ad Mandate
- Virgin Galactic to Go Public

INDEX FUTURES

| Futures | Change | Fair Value |
|--------------------|-------------------------|----------------|
| S&P 500 | 2967.25 (-11.25) | -12.10 |
| Nasdaq | 7762 (-39) | -46.79 |
| Dow | 26695 (-98) | -105.14 |

GLOBAL INDICES

| INDEX | CLOSE | CHANGE |
|------------------|-----------------|---------------|
| FTSE | 7551.69 | 0.03% |
| DAX | 12428.94 | -0.91% |
| Nikkei | 21565.15 | 0.14% |
| Hang Seng | 28116.28 | -0.76% |

ECONOMIC CALENDAR

| TIME | INDICATOR | CONSENSUS |
|--------------|------------------------------|-----------|
| 8:45 | Jerome Powell Speaks | |
| 10:00 | James Bullard Speaks | |
| 10:00 | JOLTs | |
| 1:00 | Raphael Bostic Speaks | |

FOREX

| | |
|----------------|-------------------------|
| EUR/USD | 1.1202 (-0.111%) |
| USD/JPY | 108.81 (0.09%) |
| USD/CAD | 1.3123 (0.24%) |
| GBP/USD | 1.2455 (-0.44%) |
| USD | 97.16 (0.19%) |

COMMODITY

| | |
|--------------------|------------------------|
| Oil | 57.96 (0.52%) |
| Natural Gas | 2.395 (-0.33%) |
| Gold | 1391.4 (-0.61%) |
| Copper | 2.626 (-1.25%) |

VOLATILITY INDICES

| INDEX | SYMBOL | CLOSE |
|----------------|------------|-----------------------|
| S&P | VIX | 13.96 (5.12%) |
| Nasdaq | VXN | 17.77 (7.89%) |
| Oil | OVX | 34.00 (-2.02%) |
| Gold | GVZ | 12.99 (-13.8%) |

MARKET OUTLOOK

Futures are indicating a weak open today with Jerome Powell in focus this morning in Boston, his last appearance before facing Congress later this week. A number of other Fed speakers on the docket today as well as concerns over July's potential rate cut intensify after Friday's strong jobs number. Some moderate progress in Japan/South Korea trade relations as the two sides agreed to meet on Friday. Gold is down modestly while copper weak and down by 1.22%. Crude is higher by 0.6% and gasoline a standout up over 1.15%. Notable deal this morning as **Virgin Galactic** and **Social Capital's Hedosophia** to combine and go public. Virgin will hold 51% of the venture which expects to raise \$800M.

Asian markets were mixed overnight with the HSI down over 75 bps. Tech was weak with Apple suppliers under pressure. **Fast Retailing** and **Family Mart** two standout names, the latter up 4%. Drugstore chain **Welcia** was up 4.3%. It was a quiet night for data. Japanese machine tool orders fell 38% in the recent reading, worse than the prior.

European markets are weak overall this morning with the FTSE flat and outperforming. The DAX was under pressure this morning after **BASF's** warning, shares down 5%. Peer Bayer fell over 1% in sympathy. Nordic lender **Danske Bank** fell 2.5% after cutting their outlook. Swiss unemployment fell to 2.3% in June, better than the 2.4% expected. Italian retail sales fell 1.8% in May. In the UK, Labour leader Corbyn has called for the next PM to put Brexit back on the ballot as a referendum.

Chewy (CHWY) in focus today with a number of initiations including UBS, William Blair, BAML, and JP Morgan at Buy. UBS has a \$42 PT and notes CHWY is in the "early innings" of online penetration for various pet product commerce categories and has a large addressable market of \$87B in the U.S. alone.

S&P TECHNICALS

Levels: Support 2,850/2,800; Resistance 2,975/3,000



| | |
|-------------------|----------------|
| 2115 Advancing | Declining 5092 |
| 27.5% | 66.3% |
| 200 New High | New Low 69 |
| 74.3% | 25.7% |
| 4856 Above SMA50 | Below 2733 |
| 64.0% | 36.0% |
| 4477 Above SMA200 | Below 3112 |
| 59.0% | 41.0% |

KEY EVENTS TO WATCH**Earnings After the Close:** HELE, KSHB, WDFC**Analyst Days:** GIS**Conferences:** ISTH 2019 Congress, SEMICON West 2019 (KLAC, AMAT, IBM, AMD, LRCX, CDNS, ON, INTC, AVGO, ASML, MU, QCOM, NVDA, SAP, NXPI, XLNX)**Tomorrow...** MBA Mortgage Applications at 7:00 AM, Atlanta Fed at 10:00, Jerome Powell Speaks at 10:00, EIA Petroleum at 10:30, James Bullard Speaks at 1:30, FOMC Minutes at 2:00. **Earnings BMO:** ANGO, MSM**ANALYST ACTION/COMMENTS****Veon (VEON)** upgraded to Buy at BAML**Vornado (VNO)** upgraded to Neutral at Scotiabank**Square (SQ)** upgraded to Neutral at Raymond James**Business First (BFST)** downgraded to Hold at Stephens**CorePoint Lodging (CPLG)** downgraded to Underweight at JP Morgan**Hilton (HLT)** downgraded to Neutral at JP Morgan**Marriott (MAR)** downgraded to Neutral at JP Morgan**3M (MMM)** downgraded to Sector Perform at RBC**Myriad Genetics (MYGN)** cut to Market Perform at Cowen**QEP Resources (QEP)** downgraded to Perform at OpCo**Ryman Hospitality (RHP)** downgraded to Underweight from Neutral at JP Morgan**Chewy (CHWY)** initiated Outperform at William Blair, Buy at BAML (\$40 PT), Neutral at Barclays**NextCure (NXTC)** initiated Buy at BAML, \$25 PT**Polaris Industries (PII)** price target lowered to \$92 from \$102 at RBC CapitalJPMorgan turns 'incrementally positive' on iPhone shipments, boosts **Apple (AAPL)** target**Sarepta (SRPT)** price target raised to \$220 from \$165 at Morgan Stanley**Yeti (YETI)** estimates and guidance look beatable, says Piper**Snap (SNAP)** PT raised to \$18 from \$15 at Credit Suisse**Illumina (ILMN)** checks show strong interest in NovaSeq, says Piper Jaffray**MEDIA HIGHLIGHTS****Piper Jaffray (PJC)** near agreement to acquire Sandler O'Neil for \$485M - Dow Jones**Petrobras (PBR)** reaches deal with Cade to sell natural gas assets - Reuters**Airbus, Boeing (BA)** may withdraw from Canada fighter jet contest - Reuters**WPP** near deal to sell 60% of Kantar business to private equity's Bain - Bloomberg**Orange (ORAN)** CEO acquitted of any wrongdoing in fraud case over \$451M payout - FT**Cardinal Health (CAH)** facing lack of potential successors for CFO - WSJ**Samsung** could raise NAND flash prices by 10% -DigiTimesJudge blocks Trump regulation requiring drug prices in TV ads (**MRK, LLY, AMGN**) – WSJTwo lawmakers want Trump to intervene in Pentagon cloud contract (**ORCL, MSFT, AMZN**). Bloomberg**Qualcomm (QCOM)** wants 9th US Circuit Court of Appeals to pause ruling on antitrust case. Reuters**Coty (COTY)** is in discussions to purchase cosmetics stake from Kylie. WWD

Chipmakers gearing up for 3D sensor boom – DigiTimes

Big Tech's Buyback Spree Nears Its Limits - WSJ

Affordable Care Act reversal faces federal appeals court - NYT

STOCK SPECIFIC NEWS OF NOTE**TreeHouse (THS)** to sell Snacks Division to Atlas Holdings for \$90M**Hawaiian Airlines (HA)** reports June traffic up 1.6%**Caleres (CAL)** forms int'l JV with Brand Investment**Bright Scholar (BEDU)** to buy all equity interest in CATS Colleges Holdings for \$192M**Social Capital (IPOA), Virgin Galactic** announce merger, combined company to remain public**Lyondell (LYB)** to acquire 35.15M shares at \$88 in Dutch Auction after prelim results**Alliance Data (ADS)** board approves new \$1.1B share repurchase program**TradeWeb (TW)** June ADV hits new record of \$859.2B

PRE-MARKET MOVERS

Moving Higher: PEP 1.3%

Moving Lower: GFI -4.4%, AU -2.8%, DB -2.5%, TEVA -1.5%, MMM -1.3%, BCS -1.3%

INSIDER TRADING (Form 4 Filings)

Buying: GEF, CCL

Selling: CTSH, TNDM, IPGP, KW, COUP, STX, AMGN, FLWS, COST, GDDY, GRMN, PFPT, RL

POTENTIAL SYMPATHY TRADES

KO, KDP, MNST – on PEP earnings

OPTION HIGHLIGHTS (Prior Day)

Carlyle (CG) with 1,000 December \$17.50 calls bought today for \$6.00 to \$6.10 and follows accumulation recently of 4,000 August \$22.50 calls and 9,985 August \$25 calls. CG also has notable September \$17.50, \$20, and \$22.50 calls in OI. Shares have run strong recently and dipping back to the rising 8-EMA today. Long-term, CG recently broke a downtrend from the 2018 highs and room back up to \$25 which clears a big monthly base and targets \$35. The \$7.9B asset manager trades 9X earnings, 3.7X book and 8.5X cash with a 3.2% yield. They have strong ROE relative to peers like BX and KKR. CG sees 59.2% and 20% EPS growth through FY21. CG is coming off a strong quarter with AUM up across the board and continue to see growth in fee-generating assets. CG is benefitting from a wealth of private equity opportunities as well as a hot IPO market where they are seeing strong realizations. On 6-11 the company said they were likely to top their \$110B fundraising goal by year-end as alternatives draw higher demand. In May it was reported that the company was ‘seriously’ considering converting to a c-corp as peers Blackstone (BX), Ares Capital (ARES) and KKR have done. The reduction in the corporate tax rate makes the move much more attractive to CG now than before and management commentary has noticeably shifted in recent quarters. Analysts have an average target for shares of \$20 with 5 buy ratings and 7 hold. CSFB downgrading to Neutral on 5-21 with a \$22 PT citing valuation and seeing better opportunities in names which had already converted to a c-corp where the firm expects better fee-related earnings growth. Short interest is 3% and near the highest levels since 2012. Hedge Fund ownership fell 4.5%. Alkeon Capital a top holder with 5M shares. In November, a director bought \$100,954 in stock at \$20.19.

AFTER HOURS MOVERS

Gainers: TELL 8%

Losers: COTY -3%

MARKET SENTIMENT / INTERNALS

| INDICATOR | READING | SIGNAL |
|--------------------------------------|-------------------|---------------------|
| CBOE Equity Put/Call Ratio | 0.653 | Rising – Cautious |
| CBOE Index Put/Call Ratio | 1.15 | Declining |
| CBOE Skew Index | 126.66 | Rising |
| VIX Curve | Contango | Normal |
| CNN Fear & Greed Index | 59 | Greed |
| NYMO | 30.75 | Moderately Extended |
| NYSE New Highs | 92 | Neutral |
| McClellan Summation | 725.81 | Above 8-EMA |
| Univ. of Michigan Consumer Sentiment | 98.2 (June Final) | Flat Y/Y |

SMART MONEY (13g/13d Filings)

IPO MONITOR

Nothing Expected

SECONDARY MONITOR

TRADE

WEEKLY TECHNICAL BREAKOUT

WWD:



Woodward (WWD) shares are consolidating in a weekly bull flag under \$117.5 with a breakout targeting \$125/\$130. The 8-week EMA has been supportive each of the last seven weeks and starting to slope higher again. MACD is nearing a bullish crossover.

FUNDAMENTAL TRADE OF THE WEEK

Stock: Qualys (QLYS)

Price: \$88.4

Valuation: Undervalued

Key Ratios:

| | Fwd. PE | P/S | P/B | EV / EBITDA | P/FCF |
|----------------------|------------|--------------|--------------|--------------|--------------|
| Stock | 95X | 16.4X | 20.2X | 35X | 38.5X |
| Industry Avg. | -- | 8.7X | 10.3X | 51.1X | 75X |

Analysis: Qualys (QLYS) is a \$3.4B software company which trades cheap at 11X EV/sales and 11X cash with limited debt. They expect 15% and 20.9% EPS growth through FY21 with sales growth of 16.4% and 18.5%. The company focuses on security and compliance solutions for IT that is seeing strong tailwinds from growth in big data and analytics in enterprise. Nomura recently starting at Buy with a \$108 PT behind their "industry-leading" margin profile along with "attractive" growth.

IDEAS

WEEKLY TECHNICAL BREAKDOWN

RARE:



Ultragenyx (RARE) shares are breaking down out of a bear flag after a weak trend from April to June. Shares rebounded back to cloud resistance and have room back to recent lows around \$55 and then the early January range. MACD is back around zero and nearing a bear crossover while RSI is weakening.

PAIR TRADE OF THE WEEK

Industry: Lithium

Long/Short: Long **Albemarle (ALB)**, Short **Sociedad Quimica (SQM)**

Analysis: SQM is facing headwinds from their high-exposure to current lithium spot prices while increased spending will put more pressure on the balance sheet. ALB is better focused on high-return projects while long-term contracts for lithium help give ALB lower-costs and set them apart from peers.

SMALL CAP TRADE OF THE WEEK

Turning Point Brands (TPB) is a \$988M producer of tobacco product in the US. They also have smokeless and e-cigarettes, the latter a big area of interest. The company is in the early stages of rolling out their CBD product which will give them entrance into a massive market. In May, an insider bought stock around \$50.50.

DAILY OPTIONS REPORT

| <u>Unusual Call Activity</u> | <u>Unusual Put Activity</u> | <u>Implied Volatility Riser</u> |
|------------------------------|-------------------------------|--|
| Innoviva (INVA) | Vonage (VG) | Puma Bio (PBYI) |
| Pacific Bio (PACB) | Lennox (LII) | Roku (ROKU) |
| Toronto Dominion (TD) | Univar (UNVR) | Mellanox (MLNX) |
| General Mills (GIS) | Allegheny Tech (ATI) | Elf Beauty (ELF) |
| AT&T (T) | CDK Global (CDK) | Mylan (MYL) |
| PTC Therapeutics (PTCT) | Intercept (ICPT) | Trade Desk (TTD) |
| <u>Lowest Put/Call Ratio</u> | <u>Highest Put/Call Ratio</u> | <u>Implied Volatility Decliner</u> |
| Pacific Bio (PACB) | Ardmore (ASC) | IntraCellular (ITCI) |
| Spectrum (SPPI) | CH Robinson (CHRW) | Gamestop (GME) |
| Knowles (KN) | Anadarko (APC) | Melinta (MLNT) |
| Knight Swift (KNX) | Lennox (LII) | Eros International (EROS) |
| Zayo (ZAYO) | Allegheny (ATI) | Novavax (NVAX) |
| Innoviva (INVA) | NRG Energy (NRG) | Sangamo (SGMO) |
| <u>OTM Calls on Offer</u> | <u>OTM Puts on Offer</u> | <u>Elevated IV30</u> |
| Innoviva (INVA) | Vonage (VG) | Deciphera (DCPH) |
| Toronto Dominion (TD) | Lennox (LII) | Athenex (ATNX) |
| AT&T (T) | Lyondell (LYB) | Intra-Cellular (ITCI) |
| ChemoCentryx (CCXI) | Puma Biotech (PBYI) | GlycoMimetics (GLYC) |
| General Mills (GIS) | Cirrus Logic (CRUS) | Overstock (OSTK) |
| <u>Positive Net Delta</u> | <u>Negative Net Delta</u> | <u>Option Volume Gainers (%)</u> |
| AT&T (T) | General Mills (GIS) | Vonage (VG) |
| Wells Fargo (WFC) | Disney (DIS) | Lennox (LII) |
| Adverum (ADVM) | JD.com (JD) | Univar (UNVR) |
| Intel (INTC) | Vonage (VG) | Innoviva (INVA) |
| Teva Pharma (TEVA) | Century Link (CTL) | Pacific Bio (PACB) |
| <u>Bullish Call Flow</u> | <u>Bearish Put Flow</u> | <u>Large Spread Trades</u> |
| MongoDB (MDB) | Starbucks (SBUX) | MSG< 500 August \$290/\$310 call spreads |
| Costco (COST) | TAL Education (TAL) | DIS, 2000 January \$160/\$130 collars |
| Amicus (FOLD) | Tyson Foods (TSN) | BA, 2500 July 26th (W) \$355/\$350 bull put spreads |
| Alliance Data (ADS) | Lennox (LII) | SPR, 500 August \$75/\$70 put spreads |
| Dow (DOW) | Cirrus Logic (CRUS) | MSFT, 4000 of the \$136/\$142 call spreads vs short \$128 puts |

Extras

Gold (GLD) stock replacement opened 7550 January 2021 \$133 calls at \$8.70

China (FXI) opening buy 20,000 September \$43 calls \$1.14 with the July 26th (W) \$42 sold against

Wix.com (WIX) with 650 August \$140 puts bought for \$6.40 as the July \$145 puts close 750X from 6-18

Sea Ltd (SE) with 1,500 September \$36 calls bought today \$3.05 to \$3.10 and spread vs a sale of the August \$39 calls for \$0.82

Baidu (BIDU) with 2000 Aug. 9th (W) \$121 calls sold to buy the September \$125 calls

CVS Health (CVS) late day buys 2000 October \$55 calls with July \$55 adjusting

Elf Beauty (ELF) strong close with 2500 July \$15 calls bought late \$0.25 to \$0.30

Earnings

| Ticker | Company | EPS Actual | EPS Estimate | Revs Actual | Revs Estimate | Growth | Notes |
|--------|--------------|------------|--------------|-------------|---------------|---------|------------|
| LNN | Lindsay Corp | \$0.50 | \$0.76 | \$121.10 | \$128.63 | -28.60% | |
| PEP | PepsiCo | \$1.54 | \$1.51 | \$16,449.00 | \$16,439.78 | 2.20% | Affirms FY |

Open Interest Radar

Ebay (EBAY) shares setting up well in a bull flag above the recent multi-month range breakout and pulling back to the rising 20-MA yesterday. The current range breakout has a measured move out to \$42.50 while longer-term targets \$50. EBAY has seen notable accumulation in the July \$39, \$41.50, and \$43 calls recently while the October \$40 calls seeing buyers and the January \$43 calls also with 4,450 bought on 6-20. The August \$39 calls were bought 5,000X on 6-12. EBAY has size in the January \$40 calls as well with over 33,000 from earlier this year. The \$34.28B company trades 12.87X earnings, 3.17X sales, and 18X FCF with a 1.42% yield. EBAY sees 14.1% and 12.6% EPS growth and 5.5% and 8.7% revenue growth through FY21. EBAY is coming off a strong quarter with active users up 4% and GMV up 1% to \$22.59B. On 3-1, the company initiated a strategic review of their asset portfolio including Stub Hub and Classifieds. Potential actions under consideration include a sale or spinoff of the businesses. In late May Reuters reported that Scout24 was eyeing parts of the Classifieds business including the car and real estate operations. Analysts have an average target for shares of \$40 with 14 buy ratings, 13 hold, and 1 sell. Barclays with a \$49 PT for shares citing better take-rate from lower contra marketing and adoption of promoted listings driving revenue upside. They also see value in the core marketplaces business at 8X. Baird positive with a \$44 PT noting that while overall platform health is a bit mixed, stable sold items and buyer growth are green-shoots for potential improvement. Short interest is 2.6%. Hedge Fund ownership rose 31.45% last quarter. Baupost has 29.28M shares, their largest position at 9% weight, while Elliott Management has 9.9M shares and call options. Harris Associates, Starboard Value, and AQR also notable holders. On 1-4 a director bought \$501,766 in stock at \$28.21, the first open market buy since 2016.