



Mid-Morning Look

Thursday, October 4, 18

Index	Up/Down	%	Last
DJ Industrials	-246.22	0.92%	26,582
S&P 500	-23.86	0.81%	2,901
Nasdaq	-110.09	1.37%	7,914
Russell 2000	-12.34	0.74%	1,658

U.S. stocks are in “sell-mode” early, with the Dow Industrials falling as much as 200 points (and on track to snap its 5-day win streak) pulling back from all-time highs as borrowing costs soar and trade concerns ramp up. Trade war fears may be a big driver of negative U.S. equity sentiment today, especially after Bloomberg Businessweek reported overnight that China used a tiny chip in a hack that reached U.S. companies including Amazon and Apple (likely not going to help the already tense trade negotiations with the country). The uneasiness over sharp selling of Treasuries the last 24-hours certainly isn't helping matters either with the 10-year yield touching 7-year highs yesterday of 3.23% and the 30-year around 3.39%. The financial sector rose, climbing alongside a rise in bond yields and bucking the overall negative tone of the day in the U.S. stock market (only sector moving higher early). Seeing industrials, materials, consumer discretionary and tech leading the declines today. The Nasdaq Comp falls more than 100 points or 1.3% and moving below its 50-day MA support of 7,921. In other macro news, the U.S. charged seven Russians, members of its GRU military agency in hacking and fraud indictment. So you have news on China, Russia and the surge in yields (while oil dips from 4-year highs) and markets not even talking about unresolved issues such as Italy budget concerns and UK Brexit talk.

Treasuries, Currencies and Commodities

- **In currency markets**, the U.S. dollar erased overnight gains to trade down slightly (DXY highs 96.12, but back down around 95.70); the EUR/USD bounces after a report that the European Central Bank is considering a "twist"-like operation to manage the long end of the curve; the British Pound moves back above the 1.30 level vs. the dollar; the Argentine peso declined over 1% to 38.28 (its first drop this week); dollar rises vs. Russian ruble by more than 1%; dollar falls to session lows vs. the Japanese yen as stocks sell-off
- **Commodity prices**; oil prices pulling back from 4-year highs, down with the broader pullback in stocks and other riskier assets, as intensifying trade fear concerns hit commodity prices; Oil pulling back after jumping yesterday despite Saudi Arabia boosting production and bearish inventory data from the EIA (8M barrel build). Gold prices jump as investors rotate into more defensive/safety trades to start the day

- **Treasury markets drop early** as the benchmark 10-year Treasury yield broke out to seven-year highs amid signs of solid U.S. economic growth and a Federal Reserve intent on tightening policy. The yield on the benchmark 10-year note reached 3.23% yesterday, the highest since 2011, while the 30-year yield touched 3.39%, the highest since 2014. This week's burst higher in yields followed stronger-than-expected reports Wednesday on services and private employment and ahead of tomorrow's Nonfarm payroll report

Economic Data

- **Weekly Jobless Claims fell** 8K to 207K, below the 215K est. (prior week claims revised up to 215K from 214K); continuing claims fell 13K to 1.650M in the week ending Sept. 22; the 4-week moving average rises by 500 to 207,000
- **Factory Goods Orders for August rise** 2.3%, slightly topping the 2.1% estimate; Factory orders for July revised up to -0.5% from -0.8%; New orders ex-trans. for Aug. rise 0.1% and new orders ex-defense for Aug. rise 1.3% after falling 0.2% in July
- **The 30-Year fixed mortgage rate** fell to 4.71% this week from 4.72%, Freddie Mac said; the 15-year rate avg 4.15%, down from 4.16% a week earlier
- **U.S. Challenger reported** announced job cuts climbed 16.8k to 55.3k in September after August's 11.4k increase to 38.5k. Announced layoffs are 70.9% higher compared to last year, though nearly half of the total came from Wells Fargo which said it will cut between 5%-10% of workforce

Macro	Up/Down	Last
WTI Crude	-0.63	75.78
Brent	-0.43	85.86
Gold	6.10	1,209.00
EUR/USD	0.0056	1.1534
JPY/USD	-0.86	113.66
10-Year Note	-0.05	3.176%

Sector Movers Today

- Bank movers; Raymond James upgraded **IBTX** and **PFBC** to Strong Buy and selectively adjusting ratings, EPS estimates, and target prices ahead of 3Q18 earnings: Firm is incorporating the 25 bps rate hike from late September and maintain our outlook for additional 25 bps hikes in December 2018 and June 2019 – overall adjusting EPS estimates/target prices on a total of 32 banks; JPMorgan said they believe we are at the initial stage of investors being well served by starting to trim exposure to regional bank stocks as favors banks w/the highest quality deposit franchises: **SIVB, AMAL, MCB, WBS, and ZION**; **JEF** said it expects 3Q net/share attributable to Jefferies Financial Group common holders 51c-60c, which includes a pretax gain of about \$220M
- Pharma movers; **LLY** shares rise as its experimental diabetes medicine helped cut patients' weight and blood-sugar levels in a study, as LLY now to consider its potential in related ailments such as obesity; **MNK** slipped after the FDA said it approved Praxair Inc.'s generic version of Inomax, which is MNK's second-largest product; **CDXT** active after results from the Phase 2 STRIVE study evaluating once-weekly intravenous rezafungin in patients with candidemia and/or invasive candidiasis; **TLRY** announces \$400M offering of convertible senior notes due 2023; said sees Q3 revs \$10M-\$10.5M vs. est. \$9.94M

- Biotech movers; **ARWR** said it has entered a \$3.7 billion license and cooperation agreement with Janssen Pharmaceuticals Inc. to develop and commercialize its ARO-HBV treatment for chronic hepatitis B (to get \$175M upon close and Janssen parent **JNJ** to buy a \$75M stake at \$23 a share; **SRPT** rises early as analysts generally very pleased after the company updated early-stage data for its Duchenne muscular dystrophy gene therapy; **ALNY** reports updated positive results from its Phase 1/2 clinical study of Lumasiran; **GH** 12.5M share IPO priced at \$19.00
- Media & Telecom movers; **AMCX** was downgraded to sell from neutral at Oldman Sachs and cut tgt to \$61 from \$64 citing declining ratings for AMC Networks' "The Walking Dead"; **MTCH** tgt raised to \$70 from \$55 at Jefferies saying Tinder currently has just 3.8M subs, despite 50M MAUs, and we think this could grow to 6M by 2020, translating to \$1.5B in revenue; **CMCSA** said it has agreed to buy **FOXA's** stake in Sky PLC (**SKY.LN**) for 11.63 billion pounds (\$15.10 billion), after defeating Fox in a bidding war for the British pay-TV group. <https://on.mktw.net/2OHjUS1>

Stock GAINERS

- **BKS** +22%; announced that its board of directors has decided to enter into a formal review process to evaluate strategic alternatives/to consider sale <https://reut.rs/2IB4hWs>
- **CLDR** +11%; and **HDP** announced an all-stock deal to merge the two companies, which is expected to close during C1Q19 <https://on.wsj.com/2NmZx7C>
- **LLY** +4%; said an experimental diabetes medicine helped cut patients' weight and blood-sugar levels in a study, as LLY now to consider its potential in related ailments such as obesity
- **RECN** +13%; after Q1 EPS/revs beat, trading to new 52-week highs
- **SRPT** ; analysts generally very pleased after the company updated early-stage data for its Duchenne muscular dystrophy gene therapy
- **STZ** +4%; raises 2019 profit outlook, while Q2 tops quarterly estimates as it benefited from strong demand for its Corona beers during the summer/now sees profit between \$9.60-\$9.75 per share compared to its previous outlook of \$9.40-\$9.70 per share

Stock LAGGARDS

- **AMCX** -3%; downgraded to sell from neutral at Oldman Sachs and cut tgt to \$61 from \$64 citing declining ratings for AMC Networks' "The Walking Dead"
- **ARWR** -11%; despite entering a \$3.7 billion license and cooperation agreement with Janssen Pharmaceuticals Inc. to develop and commercialize its ARO-HBV treatment for chronic hepatitis B (to get \$175M upon close and Janssen parent **JNJ** to buy a \$75M stake at \$23 a share
- **ISCA** -13%; as Q3 EPS beat by 5c, but guided the year to \$1.90-\$1.95, below the \$2.20 est.
- **MNK** -13%; after the FDA said it approved Praxair Inc.'s generic version of Inomax, which is MNK's second-largest product
- **RTEC** -16%; revises Q3 adjusted EPS guidance to 22c-25c and revs to \$59M-\$61M – both below current estimates 35c/\$65.1M
- **SNAP** -5%; as tgt lowered by both Citigroup and Evercore ISI (to \$7 for both of them) and maintain sells given decelerating trends, management turnover, and competitive threats
- **TLRY** -2%; announces \$400M offering of convertible senior notes due 2023; said sees Q3 revs \$10M-\$10.5M vs. est. \$9.94M; Cash and cash equivalents \$117.5M-\$118M as of Sept. 30

Syndicate

- Guardant Health (GH) 12.5M share IPO priced at \$19.00
- Kodiak Sciences (KOD) 9M share IPO priced at \$10.00
- Malvern Bancorp (MLVF) 1.19M share Secondary priced at \$21.00
- Monmouth Real Estate (MNR) 8M share Spot Secondary priced at \$15.00
- Select Income REIT (SIR) 24.918M share Spot Secondary priced at \$18.25
- Willdan Group (WLDN) 1.75M share Spot Secondary priced at \$30.00

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