



# The Hammerstone Report

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## Closing Recap

Thursday, October 4, 18

Index	Up/Down	%	Last
DJ Industrials	-200.81	0.75%	26,627
S&P 500	-23.92	0.82%	2,901
Nasdaq	-145.57	1.81%	7,879
Russell 2000	-24.35	1.46%	1,646

## Equity Market Recap

- U.S. stocks were in freefall mode on Thursday until an afternoon bounce off the lows helped minimize the damage, dragged down as borrowing costs soar and trade concerns ramp up, giving investors reason to lock in some profit with the Dow Industrials snapping its 5-day win streak and falling from all-time highs. The S&P 500 index declined more than 1% midday, but pared its losses to move back above the 2,900 level. The Nasdaq Composite, which hasn't been as strong over the last few weeks declined the most, falling as much as 2.3% at one point, dragged down by a 2.8% move in biotech's, a 1.8% drop in semiconductors, and broad declines in large cap tech (AAPL, GOOGL, NFLX) on concerns about deteriorating relations between the U.S. and China. Trade war fears amped up after Bloomberg Businessweek reported overnight that China used a tiny chip in a hack that reached U.S. companies including Amazon and Apple (which will not help the already tense trade negotiations between Beijing and the U.S.) China related ADRs fell on the trade tensions, weighing on BIDU, SINA, SOHU, and BABA. Comments from Vice President Pence alleging China election interference also weighed.
- Interest rate sensitive sectors also remain pressured as the 10-year yield held 3.20%, as homebuilders and related sub-sectors (forest and paper, building products) declined (LEN, PHM, WHR, WY, IP all move to 52-week lows). Crude futures fell from the highest price since 2014 as geopolitical risk weighed on global growth and commodity prices. Treasuries have been volatile the last 24-hours which is also hurting sentiment with the 10-year yield touching 7-year highs yesterday of 3.23% and the 30-year around 3.39% (yields have pulled back slightly from those highs). In other news, the U.S. charged seven Russians, members of its GRU military agency in hacking and fraud indictment. Volatility finally picked up, with a spike in the CBOE Volatility index (VIX) as much as 40% before slipping (touched highs of 15.84 – off lows of 12.42 and yesterday 11.61 close). European stocks declined across the board, led by a decline in the luxury sector on reports China is increasing scrutiny of citizens bringing goods from overseas, as well as a selloff in bonds spurred concerns over rising borrowing costs.

## 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

## Commodities

- **Oil futures pull back** from multi-year highs for both Brent and WTI, with selling pressure accelerating late in the session alongside a decline in stocks. WTI crude fell -\$2.08 to settle at \$74.33 per barrel, well off its earlier highs of \$76.47 per barrel. Attention in the energy complex remained fixed on declines in Iranian exports ahead of an approaching deadline for further U.S. sanctions on the nation next month. Oil prices managed to post solid gains on Wednesday despite bearish weekly inventory data and reports that Saudi Arabia had increased production to make up for the expected loss of Iran exports, but prices dropped today.
- **Gold prices reversed earlier gains**, settling lower by -\$1.30 to \$1,201.60 an ounce (off earlier highs of \$1,210.70 an ounce – 2-week highs) as the dollar rallied recovered and as U.S. government debt yields gained. Gold has been pressured for months as the Federal Reserve has already increased rates three times in 2018 and is expected to lift benchmark rates a fourth time in December, moves which can drive risk-free Treasury yields higher.

## Currencies & Treasuries

- After a day of extreme volatility for both currencies and bonds, the two held in tighter ranges today with **the dollar recovering** from mid-session declines to close little changed while Treasury yields inched slightly higher off yesterday's closing levels. The euro moved back above the 115 level vs. the dollar (off overnight lows 1.1464), while the Pound moved back above the 1.30 level vs. the dollar; the Argentine peso declined over 1% to 38.28 (its first drop this week). The dollar dropped back under the 114 level vs. the Japanese yen.
- **Treasury market's slipped** 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. The 2-year yield ended up around 2.87%, the 10-year 3.19% and the 30-year 3.35%.

Macro	Up/Down	Last
WTI Crude	-2.08	74.33
Brent	-1.69	84.58
Gold	-1.30	1,201.60
EUR/USD	0.0037	1.1515
JPY/USD	-0.67	113.86
10-Year Note	0.017	3.198%

## Sector News Breakdown

### Consumer

- Retailers; **BKS** shares surge after the company announced that its board of directors has decided to enter into a formal review process to evaluate strategic alternatives for the company including possible sale to founder Leonard Riggio <https://reut.rs/2lB4hWs>; many retailers extending this week losses - **AMZN** minimum wage hike started downtrend early in week for names like **KSS, M, URBN, UAA**, others; **COST** expected to report earnings after the close
- Consumer Staples; **STZ** 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
- Housing & Building Products; no relief rally for the homebuilders - as the group extends losses after **LEN** orders number miss yesterday and lower guidance - while group continues to get hurt by rising rates (taking mortgage rates higher) - decline for **TOL, LEN, KBH, MTH, DHI** - also seeing derivative weakness in **WHR** (52-week lows/appliances), and 52-week lows paper/product/forest names (**WY, IP, WRK**)
- Casino & Leisure movers; **ISCA** shares fell as much as 10% as Q3 EPS beat by 5c, but guided the year to \$1.90-\$1.95, below the \$2.20 est; in auto, **TM** and SoftBank Corp. have agreed to form a strategic partnership to facilitate the creation of new mobility services, and plan to establish a joint venture company

### Energy

- Energy stocks pulled back with broader stock weakness and as oil prices finally slide after a full week of gains that saw prices reach their best levels since 2014; not too much in way of stock news for the energy complex, but utilities actually held up well, rising on the day despite the recent spike in treasury yields making high dividend stocks less appealing; in solar; **SPWR** was upgraded to neutral at Bank America saying with Section 201 tariff exemption, potential upwards revisions are likely with margin and volume opportunities discussions; **AMRC** downgraded at Roth Capital after announced the abrupt departure of CFO John Granara effective immediately

## Financials

- Financial stock rallied initially for a second day as 10-year Treasury yields top 3.20%, and analysts say underperforming bank shares may be poised to gain off low expectations into third-quarter earnings season but as stocks sold off broadly in the afternoon, the leading financials followed. Analyst prepare for earnings soon as 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**;
- Brokers/exchanges; **JEF** said it expects 3Q net/share attributable to Jefferies Financial Group common holders 51c-60c, which includes a pretax gain of about \$220M related to the closing of the sale of its stakes in Garcadia; **ITG** shares jumped after Bloomberg reported **VIRT** is seeking to acquire the independent brokerage <https://bloom.bg/2xXzT4E>
- Consumer finance and lending; **SQ** said it would start extending credit to consumers making large purchases at certain merchants, as the company's new Installments option will be available to people making purchases of \$250 to \$10,000; **AXP** is overhauling its popular Gold Card, as the card's annual fee will increase to \$250 from \$195 and will no longer earn rewards on purchases made at gas stations in the U.S./ rewards program will now focus exclusively on food and travel

## Healthcare

- 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

## Industrials & Materials

- Industrial & Machinery; after leading markets higher earlier this week following the trade deal between the U.S. and Canada, industrials took a breather today as machinery, agriculture and materials declined on profit taking. Group falls on the general trade war unease as well as Bloomberg's report overnight on the China hack that infiltrated several top U.S. companies (assuming it will only make a deal with them harder now); **CMI** was upgraded to overweight at Piper saying estimates already capture a coming peak in Class 8 truck demand, but fail to reflect the company's margin expansion; **CAT**, **DE**, **BA** other industrials pare recent gains
- Metals & Materials; materials and metals fell amid rising Chinese trade tensions with the U.S.; **CENX** agrees a long-term deal to take alumina supply from Concord Resources, as contracts cover 2019-2024; Aluminum prices slipped on the LME from the highest since mid-June amid speculation the fallout from Norsk Hydro ASA's shutdown of Alunorte, a major alumina refinery in Brazil, may be short lived.

## Technology, Media & Telecom

- Internet; China related ADRs fell as tensions grow between them and the US after reports last night from Bloomberg Businessweek reported overnight that China used a tiny chip in a hack that reached U.S. companies including Amazon and Apple (**BIDU, SINA, SOHU, BABA** all down); **SNAP** 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; **AKAM** shares dropped after Deutsche Bank cut its tgt to \$73 from \$80 citing modest foreign exchange headwinds" that may affect the company's major business segments
- Semiconductors; Philly semi index (**SOX**) dropped below its 200-day moving average support of 1,348.50 (fell more than 2.5%) as group underperforms broader tech weakness amid trade fears and more cautious analyst comments; **MCHP** trades 52-week lows; Deutsche Bank the latest flashing caution on semi chips as the company trims ests saying while y/y growth slowing in broad-based markets such as Industrial and Automotive is nothing new, the pace of that slowing and the potential for a less than "smooth landing" is a rising concern for investors; **RTEC** revises Q3 adjusted EPS guidance to 22c-25c and revs to \$59M-\$61M – both below current estimates 35c/\$65.1M
- Software movers; one big deal in the space as **HDP** and **CLDR** announced an all-stock deal to merge the two companies, which is expected to close during C1Q19 – HDP holders will receive 1.305 common shares of CLDR for each share held as the companies have a combined fully-diluted equity value of \$5.2B based on closing prices yesterday <https://on.wsj.com/2NmZx7C> ; **FEYE** positive mention by Goldman Sachs as forecast that shares could double on just a 200-basis point gain of market share in new product segments like endpoint and SIEM
- Media & Telecom movers; **AMCX** was downgraded to sell from neutral at Goldman 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> ; **LYV** shares dropped on news the FTC to hold workshop examining online event ticket sales
- Hardware & Component news; **SNX** Q3 earnings topped expectations, while the outlook for Q4 was disappointing; **NTDOY** plans to release a new version of its Switch videogame console next year to maintain the sales momentum of the device, the WSJ reported; **HPQ** provided an upbeat profit forecast for fiscal 2019 at its analyst day yesterday, lifting shares early

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