

 **Trader Oasis – Closing Recap Tuesday, December 6, 2022**

1 message

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Closing Recap

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Index	Up/Down	%	Last
Dow	-350.59	1.03%	33,695
S&P 500	-57.61	1.44%	3,941
Nasdaq	-225.05	2.00%	11,014
Russell 2000	-27.64	1.50%	1,812

Equity Market Recap

- Rough week so far for US stock markets, extending losses as the S&P 500 falls for a 4th straight day and down 7 of last 8-trading days (the 3% Fed Powell rally last Wednesday only bounce day), as uncertainty around the direction of Federal Reserve rate hikes and further talk of a looming recession weighed on sentiment. The Fed is in their “blackout period” so no “Fed heads” able to weigh in on the market breakdown the last few days. Today marked the biggest 2-day slump for the Dow since October 7th/10th and biggest 2-day for the S&P since November 2-3. The VIX is now up 17%

since Friday and the S&P 500 is down 175 points from last week's high. The Nasdaq joins just six other years where December was down 4%+ in the first 4 trading days (1974, 1975, 1987, 2002, 2008, 2018). Bespoke also noted Breadth on the S&P 500 is below -400 for the second day in a row - the last time the S&P 500 had back-to-back was on June 13th. The S&P 500 index broke below its 200-day moving average support of 4,050 yesterday and selling pressure accelerated since, as it breaks its 100-day MA support of 3,935 this afternoon. Smallcaps similar fate, falling again as the IWM broke below its 200-day MA support of \$184.80 on Monday and today breaks below its 100-day MA support of \$181.60 (50-day lower at \$177.50)

- Since the beginning of October, the market has performed better as a “Fed Pivot” bull case pushed investors into the market...but a combination of hawkish Fed signaling through the WSJ yesterday (Nick Timiraos), an end to the tactical bullish call and resumption of his larger bearish call from Morgan Stanley’s Mike Wilson (one of the most accurate strategists this cycle), and a stronger than expected ISM services number all combined to punish risk assets the past 2-trading sessions. Cautious comments from bank CEO’s today at a financial services conference weighed heavily on bank and service stocks as they potentially face negative effects from bad loans or slowing loan growth. The dollar rose and Treasury yields fell as oil hit its 2022 lows.
- DataTrekMB: “the S&P 500 has moved more than 1% up/down from close to close on 21 days this quarter. That’s almost 1 standard deviation above the qtrly average w/ still 18 trading days left in Q4. This comes after 3 straight quarters of +30 one percent days. The only other times that’s happened since 1958 was in 2002-2003 and 2008-2009. The lesson from these periods: the trough for US equities only happens when geopolitical or fiscal/monetary policy reduces investor uncertainty. That’s why we’ve rallied since October, but we are not yet out of the Woods.

Economic Data:

- **The U.S. trade deficit widened sharply in October** as slowing global demand and a strong dollar weighed on exports. The trade deficit increased 5.4% to (-\$78.2B) vs. est. (-\$80.2B), as exports fell (-0.7%) to \$256.6 billion and imports rose +0.6% to \$334.8 billion. The Sept deficit was revised to (-\$74.13B) from prior (-\$73.28B). U.S./China Oct trade deficit \$28.87B vs Sept deficit \$37.29B

Commodities, Currencies & Treasuries

- **Oil prices fall** with WTI crude down -\$2.68 or 3.48% to settle at \$74.25 per barrel, its lowest levels of 2022. Recession fears trumping China reopen headlines as Brent crude drops below \$80 a barrel for the first time since January. Energy prices extend their drop with worries a sustained Fed tightening path will weigh measurably on growth and weaken demand outlooks. China is still only slowly reopening while there's little noticeable impact from the Russian price cap. **Gold prices edge higher** \$1.10 to settle at \$1,782.40 an ounce, a modest rebound from losses seen a day earlier on the back of some weakness in the U.S. dollar and a pullback in Treasury yields.
- **Treasury yields slipped** with the 10-yr down -8bps to 3.51% after topping 3.61% yesterday following stronger ISM services data. Yields have tumbled in recent weeks on hopes the Fed aggressive rate hike cycle will pause on signs of slowing inflation. The U.S. dollar edges higher after tumbling since September highs (20-yr highs), again on the same hopes of a slowing Fed rate hike cycle. The euro around the 1.05 level.

Macro	Up/Down	Last
WTI Crude	-2.68	74.25
Brent	-3.33	79.35
Gold	1.10	1,782.40
EUR/USD	-0.0023	1.0468
JPY/USD	0.17	136.93
10-Year Note	-0.071	3.526%

Sector News Breakdown

Consumer

- Retailers: **SIG** posts strong Q3 Sales & EPS beat, Q4 looks light to in line and raised FY EPS but mostly low end as it now includes Blue Nile; **JILL** said it expects FY revs to increase, but sees Q4 sales down as much as 3% from a year ago; in research, Cowen raised tgt on **SKX** to \$48 from \$31 saying tone of mgmt meetings lead them to believe that guidance, which implies sales Q4 growth of +6% y/y at the midpoint, could be conservative; **BURL** added to US 1 list at Bank America; **BKE** announces a \$2.65 per share special cash dividend; **BNED** cuts FY adjusted ebitda forecast, misses estimates; **CONN** posts smaller Q3 EPS loss on better revs of \$321.2M; **GME** layoffs; **JWN** tumbles as analyst note at MS Conf that trends slower than expected w elevated promos -- implies that they're tracking to the lower end of guide
- Auto sector: in auto retail, **AZO** Q1 EPS \$27.45 vs. est. \$25.27 on revs \$3.99B vs. est. \$3.86B and comp sales +5.6% vs. est. 4% and inventory +17.6% y/y; **BWA** announces intent to spin off Fuel Systems and Aftermarket segments, consistent with "charging forward" strategy and said on track to exceed 2025 organic EV sales target; **DRVN** initiated Outperform and \$37 tgt at RBC saying is well-positioned to continue gaining share of the highly fragmented, high margin auto services industry; **FREY** and electric motors producer Nidec said they have set up a downstream joint venture to develop and provide integrated battery energy storage offerings

- Consumer Staples: **KR** said it received a second request for additional from the Federal Trade Commission as part of the regulatory review process for its merger with **ACI**; big research call at Deutsche Bank for Consumer Staples as they downgraded shares of **KMB, SAM, TAP, CAG, FLO** all to sell, downgrade **GIS, SPB** to Hold and upgraded shares of beauty maker **EL** to Buy saying they are moving away from their more definitively positive sector bias across Staples—noting that relative sector valuations that were once clearly favorable have returned into extended territory and anticipating more neutral sector performance from here; **HLF** shares slide after proposed \$250 mln notes offering; **KDP** reiterates 2022 guidance for Net sales and EPS
- Casinos, Gaming, Lodging & Leisure sector: in cruise lines, **RCL** was resumed coverage with underweight from Overweight prior at JPM and tgt to \$47 from \$106 saying Royal could face a \$400M funding shortfall by the end of next year despite roughly \$10B of capital raises this year; discretionary spending sectors such as casinos, travel, leisure, cruise, hotels were hit with today's broad market pullback

Energy

- E&P and Majors: **CVE** forecast higher capital expenditure for 2023, as expects 2023 spending to be in the range of C\$4 billion (\$2.94 billion) to C\$4.5 billion, higher than expectations of C\$3.3 billion to C\$3.7 billion for 2022; expects production of 800,000 barrels of oil equivalent per day (boepd) to 840,000 boepd next year, a more than 3% year-over-year increase; **LPI** Q4 average daily oil production currently above the high end of guidance range (32-34MBoe/d); Q4 average daily total production currently above the high end of guidance range (72.5-75.5 MBoe/d); announced rebranding of company to Vital Energy. U.S. Crude output to rise 620,000 bpd to 11.87 million bpd in 2022 (vs rise of 580,000 bpd forecast last month) – EIA reported today and output to rise 470,000 bpd to 12.34 mln bpd in 2023 (vs rise of 480,000 bpd forecast last month).

- Utilities & Solar: **NRG** is acquiring **VVNT** for \$12 per share valued at \$5.2B including \$2.8B in cash transaction and \$2.4B in debt (net of cash); consideration represents a premium of approximately 33% to Vivint's <https://bit.ly/3UIR15S> ; **ARRY** initiated with an Overweight rating and price Target of \$28 at Wells Fargo as project to grow revenues at a CAGR (2022-2030E) of 10% (BNEF utility solar growth forecast); **FSLR** was downgraded to Sell from Buy at GLJ Research saying shares are priced for perfection into a (very) imperfect environment; **SRE** signs LNG supply deal with Engie for Port Arthur project

Financials

- Bank movers: sector really underperforming today with big drops in **BAC, C, GS, WFC** and regional banks; one guest on CNBC noted on banks "that none of them have yet started increasing their deposit rates, and when they do, that's really going to start cutting into their net interest margins"; several comments today from US financial services conference: **GS** CEO David Solomon says clients are taking risk down, job market remains surprisingly tight and competition for talent remains as tough as ever; **WFC** CEO said growth shrinking in credit cards, debit card about flat; says lower-income consumers have seen more financial stress; **SI** shares tumble after U.S. senator Warren demands answers from Silvergate Bank about its business dealings with FTX
- Bank/financials research: Morgan Stanley double upgraded **JPM** from Underweight to Overweight with \$126 tgt as think risks around operating leverage skew to the upside as JPM has already provided guidance on 2023 NII of ~\$74B and our 9% expense growth estimate feels conservative, while downgraded trust banks **STT** to equal weight and **BK** to underperform; **PFSI** upgraded to Overweight from Equal Weight at Wells Fargo as believe the backdrop for the mortgage industry has turned more favorable

- Insurance: **RGA** upgraded to Outperform at RBC Capital and raising tgt to \$170 from \$145 as see RGA as one of the best positioned companies for 2023; in life insurance, RBC said alt-income should benefit from easy comps starting in 2Q as favorite ideas: **MET, CRBG, & RGA** and less favored ideas **PFG & UNM**; **RDN** was downgraded to Neutral from Buy at BTIG as part of a broader research note on Mortgage Finance as prefers names offering higher return potential without sacrificing much in the way of valuation
- REITs: Investors are lining up to pull money out of real-estate funds, the latest sign that rising interest rates are threatening to upend the commercial-property sector – WSJ <https://on.wsj.com/3VCFZ35> ; **SLG** downgraded to Market Perform, post its 2022 Investor Conference where they announced a dividend cut; residential REITs **INVH, AMH** ests and tgts lowered at Oppenheimer which reflect reduced expectations for rent growth and slightly higher expectations for expense

Healthcare

- Pharma movers: **MRTX** shares fall on what some called underwhelming data as co announced updated adagrasib (KRASG12C inhibitor)/Keytruda combo data in 1L KRASG12C-mutant non-small cell lung cancer at the ESMO-IO meeting (Dec 7-9), namely efficacy (with an objective response rate (ORR) of 49% across all PD-L1 subgroups) and a favorable tolerability profile; **GOSS** plunged -60% after analysts' questioned the performance of its experimental hypertension drug seralutinib, that met the primary endpoint in a Phase 2 clinical trial – some noted the therapy didn't outperform MRK's sotatercept; **MEIP** falls as MEIP/Kyowa Kirin discontinued US and global (ex: Japan) development of lead drug Zandelisib; **EBS** said the FDA fast-tracked an application it submitted for an over-the-counter version of its widely used opioid-reversal nasal spray; **SNY** and **GSK** after winning in a Zantac product liability lawsuit

- Biotech movers: **EDIT** said its experimental cell therapy, EDIT-301, was safe and well-tolerated in the first two patients treated with the blood disorder treatment; **SAGE** and **BIIB** complete rolling filing with FDA for depression therapy zuranolone; **SMMT** announces collaboration and license agreement with **Akeso** for up to \$5B to accelerate global development/commercialization of its bispecific antibody, Ivonescimab; **AVXL** downgraded to Neutral from Overweight at Cantor after top-line results of its P2b/3 study of ANAVEX2-73; cannabis stocks slumped (**MSOS**) after McConnell blasts Democrats over plans to add marijuana banking to defense bill
- MedTech Equipment: **PKI** upgraded to outperform from market perform at Cowen saying the company has the potential to outperform consensus FY23-25 growth and profitability expectations; **EW** downgraded to Hold from Buy at Stifel and cut tgt to \$75 from \$95 following conversations with ten implanting physicians asserting that until a new TAVR indication is approved, growth will be limited due to patient population aging

Industrials & Materials

- Industrial & Machinery: **GE** upgraded from Perform to Outperform with \$104 tgt at Oppenheimer saying aviation performance reflects strong momentum along industry recovery path, amidst widespread industry supply-chain challenges impacting the commercial business; for heavy duty trucking (**CMI**, **PCAR**, **ALSN**), ACT Research released preliminary November Class 8 net order figures of 33,000 units - recall last month, October Class 8 orders came in at a strong 42.5K units following 53K in September which had marked a big recovery from 21K in August and 11K in July; **ETN**, **TEL**, **SNA** all downgraded to Perform from Outperform at Oppenheimer saying shares have neared their price targets in an environment with limited capacity to argue for multiple expansion or earnings upside; **FAST** net sales for November increased by 10.2% to \$577.8 million while daily sales were also up 10% to \$27.5 million.

- **Transports:** for airlines (**AAL, DAL, UAL, LUV, JBLU**), the airline industry will become profitable again next year for the first time since 2019 as a resurgence of air travel continues following nearly two years of COVID-19 restrictions, as the International Air Transport Association (IATA) now expects a net profit of \$4.7B for the industry next year, with more than 4B passengers to fly; in Less-than-Truckload (**ODFL, SAIA, ARCB**), Keybank lowers estimates as tonnage trends materialized weaker than expected, with yield commentary somewhat mixed.
- **Metals & Materials:** in steel stocks, **STLD** downgraded to Neutral from Buy at UBS while raise tgt to \$100 and raise **NUE** tgt to \$145 from \$120 following recent re-rating, as we assess EBITDA/ton will remain higher-than-average for longer; in aluminum (**AA, CENX**) rise, Bloomberg reported the US and European Union are weighing climate-based tariffs on Chinese steel and aluminum, citing people familiar with the matter; for containerboard (**IP, WRK, PKG**), Wells Fargo said they expect further price declines over the coming months, with total downside potentially surpassing current \$50/ton modeled by the end of Q1 should a demand rebound not transpire during 1H'23; Lumber prices are at their lowest levels since June 2020, down 78% from the peak in May 2021; **GLNCY** 2023 production guidance across all the commodities it short of estimates
- **Aerospace & Defense:** **TXT** rises after the company announced that its Bell business won a U.S. Army development contract for the Future Long-Range Assault Aircraft (FLRAA) program. Jefferies said the \$80BB FLRAA program was awarded to TXT, making it the 5th largest program in the DoD and they value FLRAA as a \$66BB revenue generator through 2050E; **AXON** announced \$500M convertible debt offering; **EADSY** abandoned its forecast for airplane deliveries in 2022 but held other financial guidance after posting 66 deliveries in November.

Technology, Media & Telecom

- Media, Internet: **META** slides early as WSJ reported that EU privacy regulators say Facebook, Instagram shouldn't use their terms of service to require users to accept ads based on their digital activity; **WIX** holder Starboard Value reduces stake to 6.6% stake vs prior 9%; **FOXA** owner Rupert Murdoch said he would not support a re-combination with **NWS** unless approved by investors; **PARA** shares fell after CEO said at investor conference expect Q4 advertising "coming in a bit below" Q3; WSJ reported a potential deal between the White House and **TikTok** has run into more delays, according to people familiar with the situation, as worry grows over national-security concerns that U.S. officials say the popular app poses.
- Software movers: **GTLB** shares rise following a 7% Q3 revenue and 5% subscription beat, with rev upside driven by 130%+ NRR and record new business bookings and guided Q4 revs in line, despite widespread software "beat and lowers" this quarter; **SUMO** posts a revenue beat and higher operating margins, but ARR declined for the 2nd quarter; **RXT** said in the wake of a security incident that the cloud-computing company, it may result in a loss of revenue for the Hosted Exchange business
- Semiconductors: **TSM** plans to build a second semiconductor factory in Arizona and increase its investment there to \$40 billion, the White House said ahead of a visit by President Biden; the Philly semiconductor index (**SOX**) fell a 4th straight day but a 3rd straight day of more than -1% amid a weaker technology complex.

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