

# THE DAY AHEAD

## MARKET RECAP at 4 pm ET

**Wall Street** ended lower and **Treasury yields** fell, as investors braced for potentially dovish comments from Fed Chair Powell at Jackson Hole on Friday. The **dollar** fell, while **gold** prices inched higher. **Brent** rose, supported by hopes of easing trade tensions.

STOCKS	Close	Chng	%Chng	Yr-high	Yr-low
DJIA	25965.7	-170.09	-0.65	27398.68	21712.53
Nasdaq	7948.56	-54.25	-0.68	8339.64	6457.13
S&P 500	2900.52	-23.13	-0.79	3027.98	2443.96
Toronto	16213.31	-90.74	-0.56	16672.71	13776.88
FTSE	7125.00	-64.65	-0.90	7727.49	6599.48
Eurofirst	1461.95	-9.98	-0.68	1554.34	1308.86
Nikkei	20677.22	114.06	0.55	22362.92	19241.37
Hang Seng	26231.54	-60.30	-0.23	30280.12	24896.87

TREASURIES	Yield	Price
10-year	1.5453	16 /32
2-year	1.5041	2 /32
5-year	1.4198	7 /32
30-year	2.0307	40 /32

FOREX	Last	% Chng
Euro/Dollar	1.1100	0.22
Dollar/Yen	106.20	-0.39
Sterling/Dollar	1.2171	0.38
Dollar/CAD	1.3314	-0.07
TR/HKEX RMB	92.02	-0.06

COMMODITIES (\$)	Price	Chng	% chng
Front Month Crude /barrel	56.18	-0.03	-0.05
Spot gold (NY/oz)	1507.10	12.10	0.81
Copper U.S. (front month/lb)	0.0257	-0.0003	-1.00
CRB Index Total Return	179.74	0.13	0.07

S&P 500	Price	\$ Chng	% Chng
<b>GAINERS</b>			
Home Depot Inc	217.20	9.25	4.45
Lowe's Companies Inc	98.09	3.04	3.20
Medtronic PLC	106.92	2.74	2.63
<b>LOSERS</b>			
Kohls Corp	44.88	-3.32	-6.89
Dow Inc	43.20	-2.40	-5.26
Macy's Inc	15.38	-0.75	-4.65

## Coming Up

Big-box retailer **Target Corp** is set to post a rise in comparable store sales in its second quarter, benefiting from its investments in store remodeling and delivery services. The company has been beefing up its online business, while enticing customers to visit its stores with a revamped loyalty scheme and pick-up in store options. With growing U.S.-China trade tensions, how a possible increase in tariffs on all of the Chinese imports would impact the retailer is likely to be a talking point on the conference call.

Home improvement company **Lowe's Co Inc**, like larger rival Home Depot, is also expected to report a rise in second-quarter same-store sales, boosted by customers spending more to spruce up their homes in a sluggish U.S. housing market.

The **Federal Open Market Committee** is scheduled to issue **minutes** from its July 30-31 meeting. The Federal Reserve cut interest rates in the meeting, but the head of the U.S. central bank said the move might not be the start of a lengthy campaign to shore up the economy against risks, including global weakness.

The National Association of Realtors is expected to show **existing home**

**sales** for July rose 2.5% to a seasonally adjusted annual rate of 5.39 million units, from 5.27 million units in June.

Fashion specialty retailer **Nordstrom Inc's** second-quarter revenue and profit are expected to fall, as the company continues to increase promotions in stores to attract shoppers in a tough retail market. Though Nordstrom Rack, the company's off-price channel, is likely to show growth, focus will be on the mainstream business. Investors will also look for any updates on the Nordstrom family's push to gain more control of the company by increasing their stake, as reported by media.

**Mexican retail sales** data for June is scheduled for release. It rose 2.8% in May.

**Argentina's** statistics agency is expected to report a **trade surplus** of \$684 million in July, compared with a trade surplus of \$1.06 billion in June.

### LIVECHAT - EQUITIES WATCH

Join our Reuters correspondents in London and New York for a discussion on the stock markets and company earnings. (0900 ET/1300 GMT). To join the conversation, [click here](#)

## KEY ECONOMIC EVENTS

Events	ET	Poll	Prior
Existing home sales for July	1000	5.39 mln	5.27 mln
Existing home sales percentage change for July	1000	2.5%	-1.7%

# Market Monitor

Financial shares led **stocks** lower to end a three-day rally as investors awaited comments from Federal Reserve Chair Jerome Powell at the end of the week. "Everyone is waiting for Jackson Hole," said Jim Awad, senior managing director at Clearstead Advisors in New York. "It's a wait-and-see attitude until Friday." Hints on the U.S. central bank's plans may also be found in minutes from the Fed's July policy meeting, which will be released on Wednesday. The **S&P 500 financial index** dropped 1.4% to 438.32. **Home Depot** shares climbed 4.45% on upbeat earnings. **GE** shares fell 3.29%. **Facebook** shares dropped 1.27% after the company said it was tweaking its policies. **Netflix** fell 3.36% after Disney announced its streaming service would launch in Canada. The **Dow Jones Industrial Average** fell 0.65% to 25,965.7, the **S&P 500** lost 0.78% at 2,900.77 and the **Nasdaq Composite** dropped 0.68% to 7,948.56 at close.

**Treasury yields** fell as the prospect of more central bank easing boosted demand for government debt, while concerns about Italy's government and Britain's tumultuous exit from the European Union fueled safe-haven buying. Investors are focused on meetings by the Federal Reserve and the European Central bank next month, when the central banks are expected to cut rates as both regions face slowing growth. "The major event is definitely Powell on Friday and we will see how he talks about the markets and what the expectations are for the September meeting," said Justin Lederer, an interest rate strategist at Cantor Fitzgerald in New York. **Benchmark notes** rose 15/32 yielding 1.54%. The **30-year bonds** were up 1-8/32 yielding 2.03%. Short dated **2-year notes** rose 2/32 to yield 1.50%.



A file photo of a trader working on the floor at the New York Stock Exchange in New York, U.S., August 14. REUTERS/Eduardo Munoz

The **dollar** declined, as investors braced for a potentially dovish Federal Reserve at a Jackson Hole, Wyoming, gathering later this week, with many expecting an announcement of some measure that would ease U.S. recession concerns. "We think a long yen exposure makes sense ahead of the Fed's Jackson Hole event," said Scotiabank in a research note. "If Fed Chairman Powell sounds dovish, U.S. yields and the U.S. dollar should fall; if he sounds more hawkish, safe havens should rally." The **dollar** fell 0.4% against the **yen** to 106.19 yen. The **dollar index** was down 0.2% at 98.15.

**Brent crude** rose on optimism U.S.-China trade tensions will ease and hopes major economies will take stimulus measures to ward off a possible economic slowdown, after falling earlier on concerns over future demand. The United States said it would extend a reprieve that permits China's Huawei to buy components

from U.S. companies, signalling a slight softening of the trade conflict between the world's two largest economies.

**Brent crude** rose 0.33% to \$59.54 a barrel, while **U.S. crude** fell 0.05% to \$56.18 a barrel.

**Gold** prices inched higher, to firm above \$1,500, as U.S. yields fell on increasing expectations for looser monetary policy to address fears of a global downturn. "The yield curve inverting has spooked investors in the U.S.," said Bob Haberkorn, senior market strategist at RJO Futures, adding "People are kind of looking to buy dips ahead of the Federal Reserve's minutes coming out and what news will come out at Jackson Hole." **Spot gold** was up 0.85% at \$1,507.72 per ounce. **U.S. gold futures** rose 0.42% to \$1,518 an ounce.

# Top News

## Home Depot beats quarterly profit estimates, warns of tariff impact

Home Depot beat quarterly profit estimates as it sold more big-ticket items to high-spending builders and handymen, while flagging the potential impact of U.S. President Donald Trump's ongoing trade tussle with China on consumers. Home Depot estimated the proposed 10% levies, currently scheduled to go into effect on Sept. 1 and Dec. 15, along with the 25% tariffs already in effect, could raise its cost of sales by \$2 billion - about 2% of its annual sales. "We will work with each of our suppliers in negotiating that tariff cost, and my suspicion is, at the end of the day, it won't be quite that much," outgoing Chief Financial officer Carol Tome told Reuters. Wall Street analysts said the impact from the latest round of tariffs on earnings is more likely to come from a hit to consumer demand rather than an increase in expenses. Home Depot's net sales rose 1.2% to \$30.84 billion in the second quarter ended Aug. 4, marginally missing analysts' average estimate of \$30.98 billion, according to IBES data from Refinitiv. It posted a profit of \$3.17 per share, beating analysts' estimates of \$3.08 per share.

## Elanco to become No.2 in animal health with \$7.6 billion Bayer deal

Elanco Animal Health agreed to buy Bayer's veterinary drugs unit in a cash and stock deal valued at \$7.6 billion, creating the second largest maker of medicines for pets and livestock and expanding Elanco's reach online. The two companies said Bayer would receive \$5.3 billion in cash and \$2.3 billion worth of Elanco stock based on a price of \$33.60 per share, the 30-day average price as of Aug. 6. Elanco said the stock amounted to 68 million shares, or a stake of about 18.2% based on Refinitiv data, but the number of shares could rise or fall by as much

as 7.5%, depending on Elanco's share price performance on the closing date. Refinitiv data on 373 million outstanding shares does not yet take into account the dilutive effect from an as-yet unspecified capital increase that Elanco plans to carry out. The price tag for the deal implies a multiple of 18.8 times adjusted core earnings, Bayer said, adding it would sell the equity stake over time.

## Cigna seeks sale of group benefits insurance business -sources

Cigna is exploring a sale of its group benefits insurance business, which could be valued at as much as \$6 billion, four people familiar with the matter said. The unit for sale offers disability insurance as well as life and accidental death and dismemberment coverage to clusters of company employees. The company is working with an investment bank to run an auction for the group benefits business, the sources said. The unit could attract interest from other insurers that already have this product line and are seeking scale in that competitive market, the sources added. While stating the company does not comment on rumors and speculation, a Cigna spokesman said: "Given the dynamic marketplace, we continually review opportunities to ensure we continue to deliver value to our customers and clients."

## General Electric insurance called 'risky' by Fitch

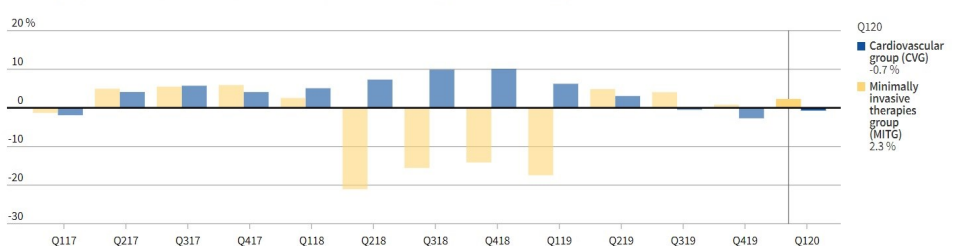
General Electric ranks among the riskiest backers of long-term care insurance, suffering from both high exposure to claims and a relatively small cash pile to pay them, Fitch Ratings said in a report. The Fitch report, which the credit rating agency produces annually, echoed concerns raised last week by financial investigator Harry Markopolos, who estimated that GE has under-reserved by \$29 billion for its long-term care policies. On Tuesday, the U.S. conglomerate reiterated comments it made on Monday in response to the Markopolos report. "Our current reserves are well-supported for our long-term care portfolio characteristics," GE said. It provided details about how it set key assumptions used in determining its level of reserves.

## Medtronic hits record high as profit beats, raises annual profit outlook

Medtronic beat analysts' estimates for quarterly profit, boosted by higher demand for its surgical instruments and diabetes devices, and the medical device maker raised its forecast for full-year adjusted profit as well. Sales at all four of Medtronic's businesses came in above Wall Street estimates for the first quarter. The company raised its

## MITG buoys Medtronic sales beat as CVG declines

The company looks to fortify its minimally invasive therapies business as its biggest unit sees slowing growth



Note: Graph represents year-over-year percentage change in segment revenues  
Source: Company press releases  
Manojna Maddipati | REUTERS GRAPHICS

[Click on the chart for an interactive graphic](#)





adjusted profit forecast for the year by 10 cents and now expects profit of \$5.54 to \$5.60 per share, up from a prior range of \$5.44 to \$5.50. The company's shares ended 2.63% higher at \$106.92 at market close.



## **Facebook users to see, control personal data taken from other websites**

Facebook said it was tweaking its policies to allow users to see and control the data that other websites and apps share with the social network to improve targeted advertising. The company defines the data, for example when a clothing website shares information with Facebook on browsing activity of a user, as "Off-Facebook Activity". "We are starting by gradually making Off-Facebook Activity available to people in Ireland, South Korea and Spain," Facebook executives said. The social media site said if a user clears their off-Facebook activity, Facebook would remove the user's identifying information from the data that apps and websites choose to send.

## **Kohl's cuts 2019 margin forecast on tariffs, first half promotions cost**

Kohl's forecast a steeper decline in full-year profit margin despite better-than-expected quarterly earnings, because of the cost of more aggressive promotions in the first half and potential hit from new tariffs on imports from China. Chief Executive Officer Michelle Gass told analysts the retailer was working with its vendors to soften any tariff blow and that its margin forecasts

already accounted for any additional levies. Kohl's said it now expected gross margins to be down 35 basis points to 45 basis points from a previous forecast of a 20-30 basis point drop, reflecting the company's worse-than-expected first-half sales and possible tariffs. It said margins fell 72 basis points to 38.8% in the second quarter, blaming higher shipping costs and increased promotions to maintain market share for the drop. For the whole first half of the year, margins were down 41 basis points. The company still maintained its adjusted profit forecast of a \$5.15-\$5.45 per share range, saying the Amazon returns should increase traffic and make "a positive contribution to operating income in 2019."

## **TJX posts rare same-store sales miss as competition stiffens**

TJX Cos forecast third-quarter profit below expectations and reported quarterly same-store sales that missed estimates for the first time in more than a year, as the discount store operator faces intense competition from online and other retailers. The company posted its slowest same-store sales growth in six quarters, rising only 2% in the quarter ended August 3. Neil Saunders, the managing director of GlobalData Retail, noted that above average levels of discounting across many apparel retailers was a serious threat to TJX this quarter. "This gave those shoppers looking for bargains more choice and more reason to shop around, something that had a tangible impact on both T.J. Maxx and Marshalls," Saunders said. TJX expects third-quarter profit in the range of 63 cents to 65 cents per share, below analysts' expectation of 68 cents. Net income rose to \$759 million, or 62 cents per share, from \$739.6 million, or 58 cents per share, a year earlier.

## **Drugmakers Endo, Allergan agree to \$15 million in settlements in major opioid case**

Endo International and Allergan have agreed to pay \$15 million to avoid going to trial in October in a landmark case by two Ohio counties accusing various drug manufacturers and distributors of fueling the U.S. opioid epidemic. Endo said it had reached an agreement-in-principle to pay Cuyahoga and Summit counties \$10 million to and provide them up to \$1 million worth of two of its drug products free of charge. Allergan has tentatively agreed to pay \$5 million to resolve claims involving its branded opioids, though the deal does not resolve claims involving generic painkillers, said Frank Gallucci, a lawyer for Cuyahoga County. Endo's chief legal officer, Matthew Maletta, called the settlement a "favorable outcome" and stressed its value should not be extrapolated to any other opioid-related cases.

## **Sarepta shares sink after shock FDA rejection**

Shares of Sarepta Therapeutics plunged after the U.S. health regulator, in an unexpected move, declined to approve the drugmaker's newest treatment for a muscle-wasting disorder that mainly affects young boys. Wall Street analysts expressed surprise at the decision and at least six cut their price targets for the company's shares, while stressing they still expected the company's second drug for Duchenne muscular dystrophy (DMD) to eventually be approved. The U.S. Food and Drug Administration's so-called complete response letter (CRL) on Sarepta's new treatment, called Vyondys 53, cited risks of infection and kidney toxicity, the company said late Monday. Shares of the company fell 15.16% to \$102.07 at market close.





Police use a water cannon to disperse demonstrators during a protest against the replacement of Kurdish mayors with state officials in three cities, in Diyarbakir, Turkey, August 20. REUTERS/Sertac Kayar

## Insight and Analysis

### **Humbled Deutsche Bank faces battle in its own backyard**

Zalando is just the kind of fast-growing German business with foreign expansion plans that Deutsche Bank Chief Executive Christian Sewing needs to help drive the struggling lender's recovery. In an attempt to draw a line under years of scandals and heavy losses, Sewing is pulling back from investment banking and rebuilding Deutsche Bank's corporate division by deepening existing relationships and attracting clients beyond its traditional blue-chip customers. But when Deutsche has tried to expand its business with Zalando by offering to hold more of its cash for free, rather than charging a fee, Zalando has declined.

### **Climate change could rain on Saudi Aramco's IPO parade**

Saudi Aramco's biggest asset could also be a liability. The state energy giant's vast oil reserves – it can sustain current production levels for the next 50 years – make it more exposed than any other company to a rising tide of environmental activism and shift away from fossil fuels. In the three years since Saudi Crown Prince Mohammed Bin Salman first proposed a stock market listing, climate change and new green technologies are putting some investors, particularly in Europe and the United States, off the oil and gas sector. Sustainable investments account for more than a quarter of all assets under management globally, by some estimates.

### **Inverted what? Searches for obscure financial term spike on Google**

Inverted what? Searches on Google for "inverted yield curve" have spiked after the unusual bond market phenomenon presented itself last week for the first time in over 12 years and helped tank Wall Street amid chatter that an economic downturn was imminent. Following a tweet from U.S. President Donald Trump referencing the "CRAZY INVERTED YIELD CURVE!", the term made its way onto news websites and radio and television reports that rarely delve into financial topics. Even late-night TV star Stephen Colbert devoted a portion of his show trying to decipher what it means when the yield on 10-year U.S. Treasury notes falls below those for 2-year notes.

# CANADA

## Coming Up

Canada's largest lender **Royal Bank of Canada** is expected to report a rise in adjusted profit in its third-quarter results. Investors will be looking for commentary around net interest margins, a key profitability metric for banks, and on interest rate outlook.

Statistics Canada is likely to report the country's **annual inflation** rose 1.7% in July, after increasing 2% in June.



REUTERS/Chris Wattie

## MARKET MONITOR

Canada's main stock index dropped, with the **Toronto Stock Exchange's S&P/TSX Composite index** ending 0.56% lower at 16,213.31. The **U.S. dollar** was 0.05% lower against its **Canadian counterpart** at C\$1.3317.

TSE's S&P/TSX composite	Price	C\$ chng	% chng
<b>GAINERS</b>			
Iamgold Corp	4.66	0.31	7.13
Birchcliff Energy Ltd	2.21	0.13	6.25
Torex Gold Resources Inc	19.93	0.99	5.23
<b>LOSERS</b>			
Precision Drilling Corp	1.61	-0.10	-5.85
Turquoise Hill Resources Ltd	0.57	-0.03	-5.00
BRP Inc	39.45	-2.07	-4.99

## Top News

### Canada home prices rise 0.7% in July - Teranet

Canadian home prices climbed for a third straight time in July, rising 0.7% from June, but the index was lower than the month's 21-year average, data showed. The Teranet-National Bank Composite House Price Index measures changes for repeat sales of single-family homes. The rise in July followed a 0.8% gain in June and a 0.5% increase in May. "As in the two previous months, the (July) gain was not really a sign of market vigor," said Marc Pinsonneault, a senior economist at the National Bank of Canada, given the increase was lower than what is traditionally seen at this time of the year.



A file photo of a real estate for sale sign pictured in front of a home in Vancouver, British Columbia, Canada, September 22, 2016. REUTERS/Ben Nelms



# WEALTH NEWS

## VOLCKER RULE

### **U.S. regulators hand Wall Street a major win with stripped-down 'Volcker Rule'**

U.S. banking regulators eased trading regulations for Wall Street banks, giving them one of their biggest wins under the Trump administration but drawing criticism from consumer activists who warned of potential risks to taxpayers. The Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation approved the revamped version of the so-called "Volcker Rule," which aims to ban lenders that accept U.S. taxpayer-insured deposits from engaging in proprietary trading. The new rule gives banks more leeway in terms of trading activity, and simplifies how banks can tell if that trading is permitted by law.



*A file photo of a Wall St. street sign seen near the New York Stock Exchange in New York City, U.S., March 7. REUTERS/Brendan McDermid*

## BIOFUEL POLICY

### **Trump White House tries to assuage farmer unrest over biofuel policy -sources**

President Donald Trump's administration has been scrambling to stem the tide of rising anger in Farm Belt states after its decision this month to allow numerous oil refiners to mix less ethanol into their gasoline, sources told Reuters.

## GRAPHIC

### **U.S. yield curve: Invert, steepen, repeat**

A swift steepening of the U.S. 2-year/10-year yield curve after it inverted last week may have given investors hope that the United States can escape recession. They should probably take a breath.

## BIG TECH PROBE

### **U.S. DoJ antitrust chief says working with states on Big Tech probe**

The U.S. Justice Department is working with a group of more than a dozen state attorneys general as it investigates the market power of major technology companies, the department's antitrust chief, Makan Delrahim, said.

## GOLDMAN CREDIT CARD

### **Goldman CEO memo calls Apple Card 'a beginning' on launch day**

Goldman Sachs officially became a credit-card lender by rolling out its first product with Apple, but the bank has aspirations to grow much bigger in consumer lending, its chief executive said in an internal memo viewed by Reuters.

## SURCHARGE

### **U.S. oil firms challenge pipeline surcharge for steel tariff -filing**

Two U.S. shale producers have challenged an energy pipeline operator's proposed surcharge for the Trump administration's 25% tariff on imported steel, raising the stakes for pipeline builders facing higher construction costs.

## ACQUISITION

### **U.S. Justice Department sues to block Sabre acquisition of Farelogix**

The U.S. Justice Department sued to block travel technology firm Sabre's \$360 million acquisition of Farelogix, saying in court papers that it was a "dominant firm's attempt to eliminate a disruptive competitor."



## KEY RESULTS

Company Name*	Quarter	ET	Smart Estimates	EPS Estimates**	Year Ago	Rev Estimates (mln)
Analog Devices	Q3	0800	\$1.22	\$1.22	\$1.53	\$1,453.09
Keysight Technologies	Q3	AMC	\$1.03	\$1.02	\$0.89	\$1,045.58
L Brands	Q2	AMC	\$0.20	\$0.20	\$0.36	\$2,951.18
Lowe's Companies	Q2	BMO	\$2.01	\$2.01	\$2.07	\$20,942.77
Nordstrom	Q2	AMC	\$0.73	\$0.75	\$0.95	\$3,931.14
Synopsys	Q3	AMC	\$1.10	\$1.10	\$0.95	\$831.02
Target	Q2	BMO	\$1.62	\$1.62	\$1.47	\$18,340.48

\*Includes companies on S&P 500 index. \*\*Estimates may be updated or revised; release times based on company guidance or past practice.

I/B/E/S EPS and revenue estimates, and StarMine Smart Estimates, provided by Refinitiv.

The Financial and Risk business of Thomson Reuters is now Refinitiv.

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