

Weekly Recap

11/26/2018 – 12/02/2018

"If you break it down, you realize that the vast bulk of that cash holding is by about eight companies and that most of corporate U.S. is actually more levered than it has ever been."

- Bob Janjuah, Nomura Senior Independent Client Advisor ([CNBC](#))

MARKET SUMMARY

- As opposed to last month's "a long way" from neutral, Jerome Powell said that the Fed's benchmark interest rate was "just below" the neutral level, erasing November losses and pushing equities up 2.3%. Given the lack of clarity, strategists seem to agree that the speech might not even have been dovish and that the rally was overdone. ([NYT](#), [MarketWatch](#))
 - The difference between yields on five-year TIPS and corresponding treasuries hit the lowest level of the year. Effectively, the market forecast of inflation seems more concerned with global growth than an overheating US economy. ([NYT](#))
- With the G20 summit on Friday / Saturday in Argentina, volatility was expected, but overall it seemed to be overshadowed by Powell's small snipet on rates.
 - Goldman's derivatives team identified a 21-company basket exposed to new developments that would be relatively low-risk bullish bets with huge upsides if talks ended up being more constructive than expected. ([BI](#))
 - Over the weekend, a truce in the US-China trade dispute was announced causing expectations of rallies in the equities and currencies of Asia Pacific, Europe, and North America. ([FT](#))
- Mike Wilson, Morgan Stanley Chief Equity Strategist, is expecting an earnings recession in the next year. He is overweight financial, energy, and utilities stock and underweight consumer discretionary and technology. Wilson's thesis is based on sales growth sensitivity to GDP growth and tighter financial conditions imposed by the Fed. ([CNBC](#))

DEALS & CORPORATE ACTIONS

November 26, 2018

- Cowen's wholly-owned subsidiary, Kyber Data Science, has announced an agreement with Headset to distribute the latter's cannabis market data to the financial services industry on an exclusive basis. ([Cowen](#))
- Campbell Soup has reached a settlement with Dan Loeb. Instead of replacing the entire board, Loeb will be allowed to nominate two new board members, present at two board meetings, and participate in two meetings with the CEO in the next year. In return, Third Point must withdraw its director slate, drop a lawsuit, and refrain from launching a proxy fight for a year. ([WSJ](#))
- CVS Health and Aetna have received the final state approval for their \$69BN merger and expect to close the deal around 11/28/18. ([CNBC](#))
- Fiat is considering divesting its \$2.3BN Comau robotics arm. The business produces automated manufacturing systems and industrial robots. ([Bloomberg](#))
- Koch Industries is pulling back from OTC energy derivatives market-making to expand its prop trading capabilities. ([Bloomberg](#) - Link N/A)
- Odebrecht, a Brazilian conglomerate known as OEC, has hired Cleary Gottlieb, Advogados, and Moelis to restructure \$3BN in debt. Bondholders are working with Rothschild. A nationwide corruption probe called "Carwash" reduced cash flow forcing the construction company into talks with creditors. ([Bloomberg](#) - Link N/A)
- Paychex has announced its plans to purchase Oasis Outsourcing, the largest privately held professional employment organization in the US, for \$1.2BN. The company anticipates a number of synergies and minimal earnings impact. ([MarketWatch](#))
- SCANA has settled a lawsuit over its increase of electric rates to fund a failed V.C. Summer nuclear project. It will pay customers \$2BN, turn over \$115MM to SCG&E customers (from what was set aside as golden parachute money), and divest non-essential properties to give SCG&E customers another \$70MM in refunds or credits. ([SA](#))
- United Technologies has officially announced its breakup into United Technologies, Otis, and Carrier. The first will focus on aerospace with Collins Aerospace Systems and Pratt & Whitney units, the second will focus on elevators and escalators, and the last will make heating and cooling equipment. The merger process seems incredibly similar to the DowDuPont one. ([NYT](#))

November 27, 2018

- L'Occitane has drawn interest from Advent International and other private equity groups in a potential \$2.7BN takeover. The beauty retailer listed its shares in Hong Kong eight years ago in the wave to chase Asian consumers. ([FT](#))
- Och-Ziff Capital Management is trading at \$1.01. If its 30-day trading average drops below a dollar, it will join the dozen firms that were delisted this year from the NYSE. Management would have to pursue a reverse stock split and restructure its compensation packages or pursue similar alternatives to stay public. ([Bloomberg](#))

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Notable Trends

- Equity derivatives traders were some of the best performers this year as banks try to retain quant, AI, and data science talent. Compensation is expected to rise 9.5% globally. ([WSJ](#))
- The global fund industry has had record M&A activity over the past two years driven by the rise in ETFs, demand for yield-oriented liquid strategies, and mainstreaming of alt investments. Despite this trend, cost synergies haven't come easily, varying largely on quality of deal execution and ability to adopt data science. ([FT](#))
- Some economists are expecting more central banks to participate in asset price stabilization policies even though investors might overwhelm government efforts to influence prices. ([Bloomberg](#))
- Morgan Stanley is pushing forward a new Space Summit to prepare investors for the rise in the space economy. State Street has also launched the first ever space sector ETF recently. ([CNBC](#))

CSSG's Weekly Recap is a resource that provides links to news that our analysts found interesting during the week. While not proprietary in nature, we find that publishing these reports helps hold ourselves accountable and aware of the economic climate.

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Weekly Recap

11/26/2018 – 12/02/2018

November 27, 2018 (continued)

- Trian Fund Management has decided not to pursue its bid for Papa John's. Current bidders are interested in taking stakes, but none are said to be considering purchasing the entire company. Trian currently owns Wendy's. ([WSJ](#))
- Unilever has outbid Nestle for GlaxoSmithKline's \$4.2BN nutrition business. The deal is expected to include GSK's 72.5% owned Indian business and its Bangladesh-listed business. A greater number of consumer companies have been targeting Indian acquisitions for greater market penetration. ([FT](#))
- Willis Towers Watson published a global M&A data analysis that demonstrates that 55% of M&A deals outperformed the market. Mega deals performed the best, Chinese M&A hit all-time highs, UK has beaten European indexes despite an imminent Brexit, and there were some distinctions in regional and industry-based success. ([Willis Towers Watson](#))

November 28, 2018

- Altria is said to be seeking a stake in Juul Labs, a privately held three-year-old e-cigarette maker. ([NYT](#))
- Apollo and Northwest Broadcasting have teamed up to acquire Tribune Media. They are now competing against Nexstar, following Sinclair's failure to get regulatory clearance three months prior. Sinclair on the other hand has partnered with CVC in bidding for Fox's sports networks as the Disney merger progresses. ([CNBC](#))
- Cyrus and ESL are potentially teaming up to takeover Sears by swapping debt for ownership of stores. Sears previously issued new notes to provide a cash injection; these notes were bought by Cyrus so as to protect its CDS bets. ([Bloomberg](#))
- CVS has completed its \$70BN acquisition of Aetna. The combined company will have to compete against a broader trend of vertically integrating healthcare companies including UnitedHealth and Cigna / Express Scripts. ([WSJ](#))
- Softbank has secured sales for the bulk of its IPO shares to individual investors. ([Bloomberg](#))

November 29, 2018

- Bayer is cutting 12,000 jobs and considering exiting its sun-care, foot-care, and vet units. After acquiring Monsanto, Bayer became the largest agricultural chemicals and seeds maker with giant pharmaceutical and health units. In addition to synergy related issues, the combined company faces some 9,000 lawsuits against its chemical products. ([Bloomberg](#))
- Deutsche Bank was raided by 170 prosecutors, federal agents, police officers, and tax authorities. Two employees are accused of aiding money launder more than \$350MM, adding to the list of issues weighing on the firm's bottom line. ([NYT](#))
- Point72 Asset Management is considering expanding its Point72 Ventures family office arm to outside investors and raising a new fund exceeding \$750MM. Matthew Granade, tasked with leading the team, joined in 2015 as Chief Market Intelligence Officer prior to moving into VC investments. ([Bloomberg](#))

November 30, 2018

- \$85BN AUM Norwegian life insurer, Storebrand, is planning a total exit from coal assets by 2026. ([Bloomberg](#))
- NAFTA has been rewritten into a USMCA agreement and officially signed. ([WSJ](#))

December 01, 2018

December 02, 2018

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