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THE WALL STREET JOURNAL.

EXCHANGE --- The Score / The Business Week in 5 Stocks: Discover Finds a Buyer, Nvidia Hits New Heights

By Francesca Fontana

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J

B2

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DISCOVER FINANCIAL SERVICES

DFS +13%

Capital One Financial is taking over Discover. The bank said it will acquire Discover for more than \$35 billion in a deal that would combine two of the largest U.S. credit-card companies. Discover is one of the few companies in the U.S., aside from Visa and Mastercard, that operates a payments network, a system that allows businesses to process credit-card purchases. Discover shares gained 13% Tuesday, while Capital One shares edged 0.1% higher.

NVIDIA

NVDA +16%

Nvidia posted another quarter of blockbuster results, driven by the artificial-intelligence frenzy. Nvidia's fiscal fourth-quarter earnings surged more than eightfold from a year earlier. Sales more than tripled, and the company expects them to do so again in the current period. As businesses spend massive amounts to build AI systems, demand for the chips that power those systems has soared beyond Nvidia's manufacturing capacity. Nvidia shares jumped 16% Thursday, hitting an all-time high.

INTUITIVE MACHINES

LUNR +16%

The uncrewed Odysseus spacecraft landed on the moon Thursday, the first time a U.S. vehicle has touched down there since 1972. Odysseus was built by Houston-based Intuitive Machines, and its landing marked the first time a private company has completed a moon landing. Intuitive Machines is working under contract for the National Aeronautics and Space Administration. Intuitive Machines shares rocketed 16% higher Friday.

RIVIAN AUTOMOTIVE

RIVN -26%

Rivian's stock lost its charge on Thursday. The electric-vehicle startup reported weaker-than-expected results, and said it would lay off 10% of its salaried workforce. Rivian also said it expects vehicle output to be flat this year, missing analysts' forecasts. Executives cited tougher market conditions, including higher interest rates that make monthly vehicle payments pricier. U.S. EV sales rose 47% last year, down from about 70% growth in the previous year. Rivian shares plummeted 26% Thursday.

AT&T

T -2.4%

A nationwide cellular outage left thousands of people without bars on Thursday. There were nearly 75,000 reports of AT&T outages Thursday morning, according to internet-outage tracker Downdetector. Some AT&T users said their phones were stuck in SOS mode, meaning they had no service but could make emergency calls. AT&T said three-quarters of its network had been restored as of late morning. AT&T shares lost 2.4% Thursday.

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The New York Times

Business/Financial Desk; SECTB

A Bad Day for Tech Stocks Drags Down Wall Street

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Technology stocks led Wall Street broadly lower on Tuesday as the chipmaker Nvidia pulled back ahead of its earnings report this week.

The S&P 500 fell 0.6 percent. The benchmark index is coming off only its second losing week in the last 16. The Nasdaq composite gave up 0.9 percent and the Dow lost 0.2 percent.

Technology stocks were among the biggest weights on the market. Nvidia, which has ridden a wave of investor enthusiasm over artificial intelligence, lost 4.4 percent. The stock has more than tripled over the past year.

Big retailers reported mixed earnings. Walmart rose 3.2 percent after reporting stronger-than-expected results for its latest quarter and issuing sales forecasts that came in ahead of what Wall Street was expecting.

The home improvement retailer Home Depot wavered between small gains and losses, ending up 0.06 percent. It beat Wall Street's earnings forecasts, but gave investors a disappointing profit forecast for the year.

Outside of earnings, credit card company Capital One Financial rose 0.2 percent as it moves ahead with a \$35 billion buyout of Discover Financial Services. Discover soared 12.9 percent for the biggest gain in the S&P 500.

Markets are coming off a heavy week of economic reports that hinted at stubborn inflation squeezing consumer spending. That has pushed expectations for the Federal Reserve to start cutting interest rates further out into 2024. The central bank on Wednesday will release minutes from its latest meeting, potentially giving investors more insight into its next move.

The central bank held interest rates steady at its last meeting in late January and investors had been hoping for rate cuts as soon as March. Those hopes were dashed by the Fed's comments and the latest batch of economic data. Wall Street is now betting on a possible rate cut in May and a likely rate cut in June, according to CME's FedWatch Tool.

Those lowered expectations for interest rate cuts and renewed worries about inflation have essentially tripped up the broader market.

"The narrative that drove us to these levels is very much being called into question," said Sameer Samana, senior global market strategist at Wells Fargo Investment Institute.

Bond yields fell. The yield on the 10-year Treasury slipped to 4.27 percent from 4.28 percent late Friday. The yield on the two-year Treasury fell to 4.58 percent from 4.65 percent.

Markets in Europe were mixed and markets in Asia were mostly higher.

China's central bank kept its one-year loan prime rate unchanged on Tuesday but cut its five-year rate by 25 basis points to 3.95 percent. That came as a surprise, the first time the five-year rate was cut since May 2023.

Investors have a relatively light week of economic updates ahead, with the latest data on home sales expected Thursday. The broader housing market remains tight, with demand still outpacing supplies. Mortgage rates also remain high, though still below late October, when the average rate on a 30-year mortgage hit 7.79 percent.

Companies from a broad range of industries will report their latest earnings this week. The online travel company Booking Holdings reports Thursday. The latest batch of results might give investors a clearer idea of the economy's path ahead.

More than 80 percent of companies in the S&P 500 have reported their latest results. Analysts polled by FactSet expect overall earnings growth of about 3.3 percent for the fourth quarter and are forecasting earnings growth of about 3.6 percent for the current quarter.

Wall Street will have to wait until the end of February for another inflation update, when the government releases its monthly personal consumption and expenses report, which is the Fed's preferred measure.

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THE WALL STREET JOURNAL.

Capital One Set To Buy Card Rival Discover --- Acquisition of smaller competitor is valued at \$35 billion in all-stock deal

By AnnaMaria Andriotis and Lauren Thomas

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20 February 2024

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Capital One said it will buy Discover Financial Services for more than \$35 billion, in a deal that will marry two of the largest credit-card companies in the U.S.

Under the terms of the all-stock deal, Discover shareholders are set to receive 1.0192 Capital One shares for each Discover share, representing a premium of about 27% based on Discover's closing price Friday. After the deal closes, Capital One shareholders will hold roughly 60% of the combined company, with Discover shareholders owning the rest.

Capital One is making a big bet at a booming time in the credit-card sector. More consumers are moving from paying with cash to cards as a result of generous rewards programs and the digitization of commerce -- a transition that accelerated with the pandemic. A recent increase in credit-card-debt has provided a further boost to issuers.

Buying Discover would give Capital One, a credit-card lender with a market value of a little over \$52 billion, a network that would vastly increase its power in the payments ecosystem.

Card networks are critical to enabling transactions and setting fees that merchants pay when consumers shop with credit cards. Though much smaller than Visa and Mastercard, Discover is one of the few competitors to those companies in the U.S., and it is one of a small number of card issuers that also has a payments network.

Capital One, the ninth-largest bank in the country and a major credit-card issuer, uses Visa and Mastercard for most of its cards. The bank plans to switch at least some of its cards to the Discover network, while continuing to use Visa and Mastercard on others. Those larger networks have more merchant acceptance abroad than Discover does.

Capital One also plans to maintain the Discover brand on the cards and network -- assuming regulators sign off and the deal is consummated.

Discover, based in Riverwoods, Ill., is an online institution so the takeover wouldn't come with physical bank branches, except for one location in Delaware.

The deal follows a tumultuous period for Discover that has included increased regulatory scrutiny and a change in leadership.

The company disclosed last year that an internal review found it had misclassified certain credit-card accounts beginning in 2007, incorrectly placing them in the highest merchant-and-acquirer pricing tier. The company established a liability of \$365 million to account for estimated compensation owed to merchants and acquirers.

Separately, Discover received a consent order from the Federal Deposit Insurance Corp. In October, Discover said it would address the FDIC order to improve its consumer-compliance operations.

In December, Discover said financial-industry executive Michael Rhodes would become its chief executive officer and president. He took over from John Owen, who had been serving in the interim after Roger Hochschild stepped down in August.

Discover has been approached by large banks and technology companies about an acquisition of all or a part of its business over the past decade or more.

Tech companies have been interested in acquiring its network so that they can play a more central role in payments, but prior senior executives at Discover weren't interested in separating the company's credit-card lending side from the network.

For Capital One, the deal would also further expand the number of cardholders it will count as customers for its credit-card lending business. Many Discover cardholders have high credit scores.

Discover also has consumer deposits, most of which are in savings accounts, allowing Capital One to continue to expand its already large presence in that area.

For about a decade now, big U.S. banks have aggressively competed for customers by rolling out new credit cards or enhancing their existing ones with more cash-back offers or points programs that dangle the possibility of free or discounted airfare, hotel stays or other travel perks.

Credit-card debt fell during the pandemic but is rising again. That translates into lucrative interest charges that cardholders pay to the banks that issue their credit cards.

Issuers face the risk of rising delinquencies and loan losses, however, if unemployment rises or a recession occurs.

Rising credit-card usage is also a boon to the billions of dollars in interchange fees banks collect every year. The fees are set by card networks and paid by merchants when consumers shop with cards. By owning the Discover network, Capital One could negotiate interchange fees and other terms directly with merchants for card transactions that travel over its network, making Capital One more of a competitor to Visa and Mastercard.

An acquisition of Discover would rank among the biggest deals so far in 2024. After a lull in M&A activity in 2023 as economic and other uncertainty and increased interest rates took a bite out of the appetite for deals, volumes have gotten off to a relatively strong start and are up 90% in the U.S. compared with a year earlier, according to Dealogic.

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