Top News

Research Services

NATIONAL BANK OF CANADA FINANCIAL MARKETS

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August 22, 2024

U.S. EQUITY FUTURES	LAST	CHANGE	%CHG
Dow Jones MINI futures	41,034.00	28.00	0.07%
S&P500 MINI futures	5,652.25	10.75	0.19%
NASDAQ MINI futures	19,966.75	57.25	0.29%
CANADA EQUITY MARKET	**LAST**	**CHANGE**	**%CHG**
S&P/TSX 60 futures	1,385.40	-1.00	-0.07%
OVERSEAS MARKETS	**LAST**	**CHANGE**	**%CHG**
DJ EURO STOXX 50	4,895.92	10.64	0.22%
FTSE 100 INDEX	8,285.27	1.84	0.02%
DAX GERMANY	18,491.78	42.83	0.23%
CAC 40 Index	7,537.44	12.72	0.17%
NIKKEI 225 INDEX	38,211.01	259.21	0.68%
HANG SENG INDEX	17,641.00	249.99	1.44%
SHANGHAI COMPOSITE INDEX	2,848.77	-7.81	-0.27%

COMMODITIES/ FX		LAST	CHANGE
CRUDE OIL WTI		$72.10	$0.17
NATURAL GAS		$2.14	-$0.04
GOLD		$2,502.60	-$9.35
COPPER		$4.15	-$0.03
CAD / USD		$0.7359	$0.0004
CAD / EUR		€ 0.6609	€ 0.0013
USD / EUR		€ 0.8981	€ 0.0013
USD / JPY		¥146.11	¥0.85
GOVERNMENT BONDS	**2YR**	**5YR**	**10YR**
CANADA (YLD%)	3.31%	2.98%	3.06%
U.S. (YLD%)	3.98%	3.70%	3.84%

Source: LSEG

Morning News

U.S. stock index futures crept higher this morning, as sentiment remained upbeat about the Federal Reserve possibly kicking off its policy easing cycle next month, while investors awaited policymakers' commentary at Jackson Hole this week. Expectations of a rate cut got a boost after minutes from the U.S. central bank's latest meeting showed yesterday a "vast majority" of officials said such an action was likely. The much-awaited Jackson Hole Economic Symposium kicks off later in the day. Fed chair Powell is slated to deliver his remarks on Friday. Money markets currently see a nearly 70% chance of an at least 25-basis-point (bps) cut in September, as per the CME FedWatch Tool, and about 100 bps of easing by December, according to LSEG data. Data this morning showed Initial claims for state unemployment benefits rose 4,000 to a seasonally adjusted 232,000 for the week ended Aug. 17, the Labor Department said. Economists had forecast 230,000 claims for the latest week. The latest data should continue to allay fears that the labor market is rapidly deteriorating, first raised after a much sharper than expected slowdown in job gains in July, which also saw the unemployment rate rise to a post-pandemic high of 4.3%. Preliminary estimates of August U.S. business activity are due at 9:45 a.m. ET.

Futures linked to Canada's main stock index were muted this morning as losses in gold prices countered investor optimism around U.S. rate-cut hopes in September. Materials shares will be in the spotlight as gold prices fell on a firm dollar, while copper prices rose. The energy sector will also remain in focus as oil prices edged higher. Canadian National Railway and Canadian Pacific Kansas City shut down their rail networks in the country and locked out about 10,000 workers after labor talks with the Teamsters union failed. TD Bank missed quarterly earnings estimates and reported a rare loss after it set aside a further $2.6 billion to prepare for fines from U.S. regulators following investigations into the Canadian lender's anti-money laundering measures.

European shares rose on Thursday as investors sifted through a wave of economic data from major European economies, while anticipating the start of the Federal Reserve's Jackson Hole conference later in the day. The retail sector rose to the top, boosted by a 4.8% gain in JD Sports after the British sportswear retailer reported an improvement in second-quarter underlying sales growth. Flash purchasing managers' index (PMI) for the euro zone showed surprising strength in business activity in August, bouncing to 51.2, despite firms raising prices. France's PMI surged to a 27-month high of 55.0 in August, driven by a boost from the Olympics, and exceeding forecasts. Conversely, Germany's business activity contracted for the second consecutive month, and by more than expected, the fell to 48.5 in August from 49.1 in July, below the 49.2 forecast. Britain's PMI was at 53.4, showing that business activity accelerated this month.

China stocks fell today, flirting with five-month lows, as trade tensions hit electric vehicle stocks, nullifying the gains in banking shares. However, Hong Kong shares rose as regional markets were buoyed by strengthened bets that the U.S. Federal Reserve will cut interest rates next month. The market was also powered by the tech sector as better-than-expected results propelled Xiaomi to three-month highs, lifting sentiment. Most Chinese EV makers fell as Brussels published its revised tariff plan for China-made EVs, potentially making the provisional penalties definitive. Japan's Nikkei share average closed at a three-week high, recovering from the index's sharpest drop in 37 years hit earlier this month, but caution ahead of remarks from central bank heads in Japan and the U.S. capped gains. Foreign investors exited Japanese cash equities worth 47.9 billion yen (US$329.78 million) in the week ended Aug. 17, after about 521.9 billion worth of net purchases in the prior week. The au Jibun Bank flash Japan manufacturing purchasing managers' index (PMI) rose to 49.5 in August from 49.1 in July. The index stayed below the 50.0 threshold separating growth from contraction for a second straight month. The au Jibun Bank flash services PMI grew to 54.0 in August from 53.7 in July. Solid new business inflows including export business helped the uptick in activity.

U.S Economic Calendar

Local Time	Indicator Name	Period	Reuters Poll	Actual	Prior	Revised
08:30	Initial Jobless Clm	17 Aug, w/e	230k	232k	227k	228k
08:30	Jobless Clm 4Wk Avg	17 Aug, w/e		236.00k	236.50k	236.75k
08:30	Cont Jobless Clm	10 Aug, w/e	1.867M	1.863M	1.864M	1.859M
08:30	National Activity Index	Jul		-0.34	0.05	-0.09
09:45	S&P Global Mfg PMI Flash	Aug	49.6		49.6	
09:45	S&P Global Svcs PMI Flash	Aug	54.0		55.0	
09:45	S&P Global Comp Flash PMI	Aug	53.5		54.3	
10:00	Existing Home Sales	Jul	3.93M		3.89M	
10:00	Exist. Home Sales % Chg	Jul			-5.4%	
10:30	EIA-Nat Gas Chg Bcf	16 Aug, w/e	29B		-6B	

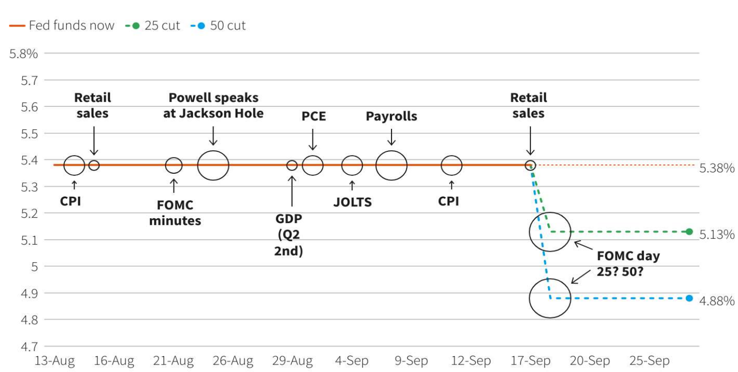
Canadian Economic Calendar

No major economic data expected

Chart of the day

The path to a rate cut

The weeks remaining to the Fed's big rate decision on Sept 18 are peppered with key events.



Note: Larger circles signify more important events
Source: LSEG

Top News
Canadian Stocks

NATIONAL BANK OF CANADA FINANCIAL MARKETS

Morning news

Canadian National Railway Co & Canadian Pacific Kansas City Ltd: The firms have shut down their rail networks in the country and locked out nearly 10,000 workers after unsuccessful negotiations with a major labor union. The decision, confirmed by the Teamsters union, sets the stage for an unprecedented rail stoppage that could badly damage the Canadian economy and have a significant effect on cross-border trade with the United States. Canada is the world's second-largest country by area and relies heavily on rail transport. The stoppage is set to cripple shipments of grain, potash and coal while also slowing the transport of petroleum products, chemicals and autos. The Canadian and U.S. economies are highly integrated. Rail transport accounted for 14% of total bilateral trade of $382.4 billion between the countries for the first half of the year, according to the U.S. Department of Transportation.

Canadian Solar Inc: Canadian Solar profit fell as lower prices and stiffer competition weighed on revenue in the second quarter. The Nasdaq-listed, Canadian-based manufacturer of solar photovoltaic modules company on Thursday posted a lower net income of US$3.8 million, or US$0.02 cents a share, down from US$170 million, or US$2.39 cents a share, in the comparable quarter a year ago. Analysts were expecting a decline, but to 21 cents a share, according to FactSet. Net revenues fell to US$1.64 billion from US$2.36 billion, above analyst expectations of a fall to US$1.58 billion. The company shipped 8.2 gigawatts of solar modules in the quarter, a 30% rise over a year earlier, and above its guidance of 7.5 gigawatts to 8 gigawatts.

Lucara Daimond Corp: The firm has dicovered a 2,492 carat diamond at its Karowe mine in Botswana, the company said late Wednesday, one of the largest stones to be excavated. Lucara did not reveal the stone's gem quality but its size would make it the second largest rough diamond discovered to date, after the 3,106 carat Cullinan Diamond found in neighbouring South Africa in 1905. The Karowe Mine is known for producing large stones, with other significant finds including the 1,758 carat Sewelô and the 1,109 carat Lesedi La Rona diamonds. The company will present the diamond to Botswana's President Mokgweetsi Masisi on Thursday. Botswana is the world's top diamond producer by value.

Toronto-Dominion Bank: The bank swung to a quarterly loss as the second-largest Canadian lender set aside C$3.57 billion for fines related to U.S. regulatory probes into its anti-money laundering (AML) program. The bank's U.S. regulatory probes have been a major overhang on TD's stock over the last year, with investors concerned about the resolution timeline and potential cost. TD said on Wednesday it expects a global resolution to the AML probes by year-end, which will include monetary and non-monetary penalties. Analysts have cautioned that TD could face restrictions on its future growth in the U.S. as a fallout of the probe, given the possibility of non-monetary penalties such as an asset cap. The net loss was C$181 million, or 14 Canadian cents per share, in the three months ended July 31, compared with a profit of C$2.88 billion, or C$1.53 per share, a year earlier. Separately, TD said it would sell 40.5 million Charles Schwab shares, cutting its ownership in the U.S. brokerage down to 10.1% from 12.3%.

NBF Research

RATING AND TARGET PRICE CHANGES

Merchandising and Consumer Products - Dollarama: Making the case for further international expansion

DAILY BULLETIN HIGHLIGHTS

MERCHANDISING AND CONSUMER PRODUCTS - Dollarama: Making the case for further international expansion

Event: In this note we revisit our thesis published in September 2023, highlighting why we believe that Dollarama will increasingly explore global acquisitions as a growth vector.

Key Takeaways: (1) Recall, in July 2023, we indicated that Dollarama reviewed a potential acquisition of The Reject Shop, a discount retailer in Australia, although discussions ultimately ended. Our view is that Board approval to pursue global expansion did not end following discussions with that Australian retailer. (2) Importantly, we understand that the Dollarcity business is being primarily run by the local management, freeing up Dollarama management to pursue other opportunities, which we believe involves investigating further global growth opportunities. (3) We believe acquisitions could be beneficial if executed in the right region, at the right price and with the right strategy (adhering to Dollarama's operating approach/customer proposition). We believe Dollarama's strong cash flow, industry-leading operating metrics, and success in developing its Latin American business give license to explore further opportunities. (4) Maintain Outperform rating; price target is $141 from $132.

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ALGONQUIN POWER & UTILITIES CORP. - A work in process, with self-help EPS growth

AQN (NYSE; TSX):	**US$5.28; C$7.18**
Stock Rating:	**Outperform**
	(Unchanged)
Target:	**US$6.75**
	(Unchanged)
Est. Total Return:	**32.8%**

Event: We are providing an update following marketing with AQN.

Key Takeaways: We had an opportunity to catch up with AQN's management team following a busy Q2 where it announced the sale of its renewables division and a second dividend cut. AQN should net $1.6 bln on the sale, with the potential earn-out of an additional $220 mln, with proceeds applied to debt repayment to hit its ~13% FFO/debt target and maintain balance sheet flexibility. The sale of its hydro assets could soon follow. For its regulated business, AQN will pare back its CapEx to just above maintenance level as it focuses on optimization via rate requests and cost-out programs, before returning to growth. It has ~$1 bln in assets not yet reflected in rates, which should drive earnings growth over a few years towards a potential estimated >$0.45 /sh with no more investment. With some estimates changes, our $6.75/sh target remains unchanged, based on a long-term DCF with a 7.75% discount rate and backed by asset valuation methodologies.

LOGAN ENERGY CORP. - Setting the Stage

LGN (TSXV):	**C$0.89**
Stock Rating:	**Outperform**
	(Unchanged)
Target:	**C$1.50**
	(Unchanged)
Est. Total Return:	**68.5%**

Event: LGN reported second-quarter operating and financial results in line with expectations, including average production of 7.3 mboe/d (36% liquids) and associated CFPS of $0.02 (vs. consensus $0.02).

Key Takeaways: The company continues to execute, with a sound quarter providing the foundation for what should be material (and building) momentum into the second half of the year (high growth with complements of liquids expansion & cost efficiencies to come), which should validate a solid value profile in the stock. LGN is poised for a 37% return profile (vs. peers 19%), on leverage of 0.3x (vs. peers 0.3x), while trading at 3.8x 2025e EV/DACF (vs. peers 4.0x).

OTHER COMMENTS

Algonquin Power & Utilities Corp. - A work in process, with self-help EPS growth
Logan Energy Corp. - Setting the Stage

RESEARCH FLASHES

Toronto-Dominion Bank - TD's U.S. regulatory fines hit US$3 bln; non-monetary fines also need to be considered

MORNING FLASHES

P&C Insurance - Active Q3 Catastrophe Season - Buy the Dip
SSR Mining Inc. - Seabee Temporarily Suspended Due to Saskatchewan Wildfires
Toronto-Dominion Bank - Q3/24 First Look – Lower loan losses offset top-line miss. AML provision overshadows the quarter.

Canadian stocks ratings and target changes across the street

Definity Financial Corp DFY.TO: Scotiabank cuts target price to C$51 from C$52
Dollarama Inc DOL.TO: National Bank of Canada raises target price to C$141 from C$132
Ero Copper Corp ERO.TO: Ventum Financial cuts target price to C$32.50 from C$33
Fireweed Metals Corp FWZ.V: Ventum Financial raises target price to C$2.50 from C$2.30
Intact Financial Corp IFC.TO: Jefferies cuts target price to C$262 from C$264
Intact Financial Corp IFC.TO: Scotiabank cuts target price to C$263 from C$272
International Petroleum IPCO.TO: BMO reinstates with market perform rating; target C$22
Isoenergy Ltd ISO.TO: Ventum Financial cuts target price to C$6 from C$7

Top News
Canadian Stocks

Lululemon Athletica Inc LULU.O: Stifel cuts target price to US$370 from US$416
Lundin Mining Corp LUN.TO: Ventum Financial cuts target price to C$18.50 from C$20
Medexus Pharmaceuticals Inc MDP.TO: Stifel raises target price to C$3.50 from C$3
New Gold Inc NGD.TO: Canaccord Genuity raises target price to C$4.50 from C$4
Nexgen Energy Ltd NXE.TO: Ventum Financial raises target price to C$14 from C$12
NGEx Minerals Ltd NGEX.TO: Ventum Financial raises target price to C$14 from C$13.50
Precision Drilling Corp PDS.N: Piper Sandler raises target price to US$112 from US$95
Quisitive Technology Solutions Inc QUIS.V: Raymond James raises target price to C$0.54 from C$0.46
ROK Resources Inc ROK.V: Ventum Financial cuts target price to C$0.45 from C$0.55
Wishpond Technologies Ltd WISH.V: Canaccord Genuity cuts target price to C$1.00 from C$1.25

S&P/TSX Composite Earnings Calendar

Company	Symbol	Time	Consensus EPS Estimate
Toronto-Dominion Bank	TD.TO	06:00	2.07

Source: LSEG

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U.S. Stocks

NATIONAL BANK OF CANADA FINANCIAL MARKETS

Morning news

Advance Auto Parts Inc & Carlyle Group Inc: Advance Auto Parts said private equity firm Carlyle Group would buy its Worldpac unit for $1.5 billion in cash, sending its shares higher in premarket trade. Worldpac, a wholesale parts distribution business, generated about $2.1 billion in revenue for the year ended June 30. The deal is expected to close before the end of the year. Centerview Partners served as financial advisor to Advance, while Hogan Lovells US served as legal advisor on the transaction.

Agilent Technologies Inc: The firm on Wednesday beat Wall Street estimates for third-quarter profit and revenue, banking on strong demand for its medical tools and equipment used in clinical studies. Agilent on Wednesday raised the lower end of its forecasts for both full-year revenue and profit. It now expects full-year revenue of $6.45 billion to $6.5 billion, compared with estimates of $6.46 billion. It had previously forecast a range of $6.42 billion to $6.5 billion. The company expects to earn between $5.21 to $5.25 per share for fiscal 2024, compared with its previous forecast of between $5.15 to $5.25 per share. Agilent reported a third-quarter adjusted profit of $1.32 per share for the quarter ended July 31, beating analysts' estimates of $1.26 per share. It reported quarterly revenue of $1.58 billion, above estimates of $1.56 billion.

Nordson Corp: The dispensing equipment maker beat Wall Street estimates for third-quarter profit on Wednesday, on strong sales in its industrial business. The company reported quarterly adjusted profit of $2.41 per share, above analysts' expectation of $2.33 per share. Nordson's largest segment, industrial precision solutions, posted a 10% yearly increase in quarterly sales offsetting the decrease in sales in its medical and advanced technology segment by 2% and 11%, respectively, during the quarter. Total sales for the quarter, ended July 31, were $661.6 million, beating estimate of $656.2 million. The company now expects its full year adjusted earnings to range between $9.45 and $9.65 per share, compared with the prior range of $9.35 to $9.75 per share.

Paramount Global: Veteran media executive Edgar Bronfman sweetened his bid to take over Paramount Global, offering $6 billion for its controlling shareholder National Amusements and a minority stake in Paramount, according to a person familiar with the matter. He had previously offered $4.3 billion, according to Reuters sources. Paramount said on Wednesday it had received an acquisition proposal from Bronfman on behalf of a consortium of investors, but it did not disclose the terms. Bronfman's new bid includes $3.2 billion in funds that can be used to pay down Paramount's debt or to purchase non-voting Paramount shares held by investors other than the Redstone family for $16 cash, the person said on condition of anonymity because the information was not public. The board and the Bronfman-led investor group would decide how to allocate those funds, the person added.

Snowflake Inc: The data cloud analytics firm on Wednesday raised its forecast for full-year product revenue, as it attracts more clients to its cloud platform owing to advancements in artificial intelligence. Snowflake executives said on a post-earnings conference call that they left the margin forecast unchanged partly due to the firm awaiting the deployments of certain GPUs. The company now expects product revenue of $3.36 billion for fiscal 2025, up from its prior forecast of $3.30 billion. It also authorized the buyback of an additional $2.5 billion worth of the company's shares through March 2027. The company reported product revenue of $829.3 million for the second quarter ended July 31, beating estimates of $808.4 million. On an adjusted basis, the company earned 18 cents per share, compared with estimates of of 16 cents.

Synopsys Inc: The company forecast its fourth-quarter revenue and profit above Wall Street estimates on Wednesday, a sign of steady demand for its software to design complex and AI-compatible chips as businesses race to adopt the lucrative technology. Synopsys expects fourth-quarter revenue to be between $1.61 billion and $1.64 billion, the midpoint of which is above estimates of $1.61 billion. It forecast adjusted earnings per share between $3.27 and $3.32 for the quarter ending Oct. 31, versus the estimate of $3.23. Third-quarter revenue rose about 13% to $1.53 billion. Excluding items, it earned $3.43 per share, beating estimates of $3.28.

Zoom Video Communications Inc: The video-conferencing provider raised its annual revenue forecast on Wednesday, driven by strong demand for its AI-powered collaboration tools deployed in hybrid work models, and said Kelly Steckelberg would step down as its CFO. Zoom said large accounts, with customers contributing more than $100,000 in trailing 12-month revenue, increased 7.1%. Online average monthly churn also reached its lowest ever rate. The company expects fiscal 2025 revenue to be between $4.63 billion and $4.64 billion, compared with the $4.61 billion and $4.62 billion forecast earlier. Its second-quarter revenue of $1.16 billion beat estimates of $1.15 billion. The company earned $1.39 per share on an adjusted basis, also topping analysts' estimate of $1.21.

Evercore ISI Research

FOCUS RESEARCH

BioMarin Pharmaceutical Inc. (BMRN, Outperform, TP: US$115.00)

BMRN's Big Opportunity - Investor Day Preview

- We're bullish on BMRN heading into the company's much anticipated Investor Day on Sept 4. In our view, the two key updates are likely to be 1) greater visibility into the long-term opportunity for Voxzogo; and 2) a better understanding of margin trends…among other items. We expect both to exceed prevailing assumptions and help maintain recent momentum. Reit Outperform.
- **Voxzogo's LT opportunity is a clear focal point**
  - Vox gets v limited credit beyond its approved indication of achondroplasia. We expect mgmt to lay out a credible expansion case to propel more on the Street (incl us) to ascribe value to add'l indications.
  - Along those lines, look for timelines to potential approval in hypochon, ISS, Noonan, Turner, and SHOX deficiency as well as more granularity on the TAMs (beyond simply the overall prevalence of 600K+ pts).
  - Clearer details on the market opps will help, but TAMs are in some ways also akin to "biobucks" in licensing pacts…they look good on paper but aren't always believable / achievable. Thus, we believe it's prudent for mgmt to also consider offering a range – even a very broad one – on future peak sales, as we suspect the lower end would still be comfortably above cons. We're not necessarily expecting this but do believe it would help their cause. Either way we expect numbers to move higher.
  - We currently only model achon w/ peak sales of $1.5B (cons at $1.6B peak) but recognize that hypochon is in Ph3 (w/ POC in ISS, others), and safety / mfg are well-established. Bottom line, models should give more credit.
- **This is also a margin expansion story**
  - Expect guidance (3-5 yrs out) on non-GAAP op margins as well as aspirational LT guidance. Prevailing cons currently at 32-38% in 2027-'29 (we're already above) vs. '24 guidance of 26-27%.
  - Mgmt has been productive on this front YTD w/ pipeline prioritization, cost reductions, and an updated Roctavian strategy.
- **Other topics likely to incl durable enzyme tx biz, Roctavian, and some pipeline color**
  - Each of these are important parts of the story (esp the underappreciated size and durability of the enzyme therapy portfolio), but we don't expect discussion here to move the needle in the near term and thus be a particular focus of investors.

Mondelez International (MDLZ, Outperform, TP: US$79.00)

Navigating cocoa inflation; Outperform

- **Yesterday we hosted virtual small group meetings with Shep Dunlap, Senior VP, Investor Relations and Ron Shah, Investor Relations.** Despite a choppy 2Q organic sales, we continue to believe the company is poised to accelerate 2H organic sales growth 5%+ driven by 1) volume and pricing in Europe (36% of sales); 2) sales improvement in the US from promotions and price/ pack size changes in Oreo, Chips Ahoy! and Ritz, and 4Q comparisons; and 3) lapping Middle East sales disruption in the AMEA segment. While substantially higher cocoa prices (10% of COGS) will create profit headwinds in 2025, we believe the company will look to mitigate the earnings impact by 1) taking select pricing (while monitoring consumption); and 2) permanently reducing costs (non-working media, productivity savings and overhead). Our 2025e EPS is $3.63 (+3% YoY; cons $3.61) assuming consolidated organic sales of +5% (cons +5%) and low/mid-teens commodity inflation.

O'Reilly Automotive, Inc (ORLY, Outperform, TP: US$1230.00)

Widening the Moat; Compounding the Growth

- **O'Reilly's winning philosophy hasn't changed since 1957 – i.e emphasizing people, culture, and pride of ownership starting at the associate level.** The results are tough to argue with, including a 5.5% historic comp CAGR (300bps above peer avg), 17% EBIT growth (13 pct pts faster than peers), and ORLY stock up 5.8x in the 10+ years vs. peers up 2.3x on average (Fig 1). Despite past success, team O'Reilly isn't resting on its laurels. Headcount is up 4%+ YoY to 91k strong/ +1.5% per store rising four years straight, while CapEx is trending toward $1bn, up 1.5x vs. '19. Investing in team members, distribution, and tech shows commitment to widening the competitive moat. Much is changing in the industry, yet the customer service commitment at O'Reilly remains. ORLY is a Fab Five Portfolio stock as we believe the company is positioned to continue compounding in a defensive growth/niche auto aftermarket space. We are raising our Base Case to $1,230 or ~27x our C25 EPS using a 25% S&P premium that is within its typical 1.0-1.4x.

Target Corporation (TGT, In Line, TP: US$160.00)

Mojo Rising; Investment Risk Remains

- **Target is rekindling its cheap chic mojo, with 2Q providing an encouraging glimpse of traffic growth and margin recovery.** 2% comps, traffic up 3%, and 160bps of EBIT margin expansion show the benefits of cycling last year's PRIDE assortment snafu, but also improved merchandising, enhanced multichannel, and price investment. With traffic turning positive, less negative ticket into 2H & '25 we see a reasonable path for EPS to reach $9.50 in '24 EPS/5.6% margin and $10.50 in '25/6% margin. Bears cite two year traffic/share declines, potential election malaise/short holiday selling season, and reinvestment to ensure Costco, Walmart and Amazon's share gain (Fig 8) won't be at Target's expense. Our $160 Base Case uses ~15.5x P/E C25 EPS for a P/E between M/ASO/KSS/JWN (i.e. ~6-11x) and WMT/ROST/TJX/BJ ~23x. We see the risk/reward as relatively balanced at $155-$165 with back to basics traction somewhat offset by cyclical and competitive risk. Our Fab Five Portfolio plays of AZO/ORLY/SHW/WMT are defensively oriented, and trade at 19-27x C25 EPS with W for "recovery juice" with cyclical upside into '25 on a lean cost base. We are closing out our Negative TGT TAP trading call from 8/12 as the earnings catalyst has passed.

Walmart, Inc (WMT, Outperform, TP: US$80.00)

JD.com Sale Shows Capital Allocation Discipline, Boosting our SOTP & Base Case

- We are updating our Walmart Sum of the Parts (SOTP) analysis to reflect the divestiture of its JD.com ownership interest. We see the divestiture as a positive for the underlying operating business, as the proceeds can be repurposed to drive higher returns elsewhere and serve as a reminder that the management team is willing to make the tough (but necessary decisions) to win share and expand margins/returns. The $3.7bn sale proceeds are less than $1 per share, but could be a precursor to considering other ROIC enhancing actions, such as a PhonePe or Flipkart IPO, Symbotic (SYM) value realization, etc (Fig 1). We are bumping up our target multiple for Walmart U.S. to reflect a 3% rise in the S&P since Walmart reported 2Q earnings last week, and now assign a fair value of $80 vs. $78 prior in our sum of the parts.

RATING & TARGET PRICE CHANGES

Macy's, Inc. (M, In Line, TP: US$16.00)

Tough 2Q, with FY24 Guidance That Needs Comps to Accelerate from Here

- **Bottom Line:** Macy's reported 2Q EPS at $0.53. Excluding $0.10 from 1x asset sales 2Q EPS was $0.43, above our $0.26/Street $0.30. The quarter was supported by better margins, with Gross Margin +240bp to 40.5% (ISI/Street 39.9/40.1%). That said, net sales declined worse than expected at -3.8% YOY, missing ISI/Street at -1.9%/-1.7%. SSS disappointed at -4% at owned stores vs ISI/Street -0.7%/-1.0%. Macy's lowered 2H net sales by -2.6% to -1.3% and EPS by -13.5% to -8.4%. Even considering the more conservative 2H outlook, we're concerned with SSS 2H guidance that is expected to accelerate to -2.1% to +0.5% from -3.3% in 2Q. While in the past, Macy's has been able to reaccelerate SSS behind a strong Holiday strategy, we think the assumption that trends will accelerate after the 2Q stepdown will leave the stock range bound in the near-term even after trading lower today.
- **What We Liked:**
  1. First 50 Stores comped positive for 2nd quarter in a row at +1%. Macy's we're encouraged to hear Macy's will roll out new enhanced staffing/customer experience initiatives in Handbags & Footwear in 2H to 100 stores beyond the F50.
  2. Gross Margins Better than Expected, +240bp was better than (ISI/Street +180bp/200bp) on better merch margins/lower discounting YOY (though Macy's is lowering its Merch Margin assumption for 2H amid sluggish sales/more promotional competitive backdrop expected), and better shrink results.
  3. Solid SG&A Control. SG&A came in at 38.7% also better than ISI/Street at 39.3/38.9%, even amid slower comps.
- **What We're Watching:**
  1. **SSS Owned+License+Mktplc** (the comp Macy's guides to) decelerated to -3.3% in 2Q from -0.3% in 1Q;
  2. **SSS Forensics Embeds a 2H SSS Acceleration:** While the "First 50" stores comped +1% (1Q +3.4%), the SSS at non-F50 Go-Forward stores (~300+ stores that Macy's plans to keep open) decelerated to -3.7% from -1.3% in 1Q. 2H trends in non-F50 Go Fwd stores will be a critical test as Macy's rolls out new initiatives to 100 incremental stores. It's easy to get comfortable that Macy's can keep First 50 comps positive as it re-allocates investment dollars to those stores.

Top News
U.S. Stocks

TJX Cos. (TJX, Outperform, TP: US$138.00)

Strong 2Q + Easy 2H Guidance = Maintain Top 5 Outperform

- **TJX's 2Q Clinic on Over-Delivering and Under-Promising for 2H:** This quarter was the biggest statement yet on TJX's leadership position as a share gainer in the sector (particularly the +5% Marmaxx comp). In our preview, we noted that TJX has the most balanced growth between traffic and AUR (even compared to other dominant retailers like ROST). We were most encouraged by TJX's comment that the entire comp was driven by transaction growth…with gains across every division. 2Q is the best example yet of how an algorithm with compounding traffic will continue to fetch a premium valuation in the Softlines space (see chart in note).
- **2H Comp Forensics Very Damaging for the Bear Case:** The two things we heard today that are most damaging to the TJX bear case:
  - **HomeGoods:** In our view, the most important takeaway from TJX's call was the company confirming our question that there is no scenario where HomeGoods SSS will turn negative in 3Q against compares that get 5pp tougher than 2Q (lapping a +9% in 3Q vs +4% in 2Q).
  - **Marmaxx:** We're modeling Marmaxx SSS +4% in 3Q & +5% in 4Q, translating to +11% and +10% on a 2-yr stack (a deceleration from +13% in 2Q). Holding the 2-year stacks would translate to +6% in 3Q and +8% in 4Q…and TJX has not seen any change in consumer demand patterns in its stores.
- **Flow-Through Running Above Algo:** TJX continues to deliver profitability well-above its historical algo of needing a +4% comp to lever. 2Q pre-tax margins levered +50bp on a 4% comp. But more importantly, 2Q pre-tax margins beat the high end of guidance by +40bp with comps +1pp better than the +3% guidance (vs. mgmt. suggesting 1 point of upside results in +10-15bp of margin upside). While incremental freight pressure will take some upside away in 2H, new margin drivers (International improving to 8% fast, and our view that TJX is finding new efficiency drivers/automation in its DCs) should continue to support upside in 2H and into CY25 in our view.

Toll Brothers Inc. (TOL, Outperform, TP: US$181.00)

3Q24 Review

- **Toll Brothers (TOL) reported 3Q24 (July) adjusted diluted EPS of $3.64, excluding $5.5mm in homebuilding impairments and write-offs, versus our $3.47 estimate and Street consensus of $3.31**. Much like its peers reported last month, TOL posted a strong quarter for profitability, but with lower volumes. Gross margins (28.8% vs. 27.7% est.), ASP ($968k vs.$959k est.) and SG&A (9.0% vs. 9.1% est.) all beat, while orders of 2,490 increased 11% y/r but missed our 3,031 estimate; closings of 2.8k modestly missed our 2.9k est, but were in-line with management guidance. The company was also an active purchaser of its shares, buying back 2% of its outstanding shares in the quarter.
- **Overall, TOL's 3Q24 results, guidance, and the market's reaction demonstrated progress along The Road to Revaluation. We believe the company's EPS growth algorithm is driven by higher normalized margins, a more efficient balance sheet, strong cash flow and steady share repurchases, and thus less dependent on volume. That said, the company' positive August market commentary combined with the recent decline in mortgage rates should sustain order growth going forward.**
- Following 3Q24, we adjust our FY24 EPS to $15.02 (from $14.82) and our FY25 EPS to $15.50 (from $15.56). We reiterate our Outperform rating on the shares with a target price of $181, which is based on 11.4x our CY2026 earnings estimate discounted back 6 quarters at a 10% annual rate.

OTHER COMMENTS

Agilent (A): Steady print (Rev & EPS Beat) w slight improvements in end mkts vs FY25 expecs
Analog Devices, Inc. (ADI): JulQ EPS: Cyclical Recovery + Exiting CapEx Cycle
C4 Therapeutics, Inc (CCCC): Setting Expectations for BRAF Data @ ESMO - Management Webinar Summary & Replay
Coty Inc (COTY): Stronger, valuation to follow. 7 key points
Lineage, Inc. (LINE): No Surprises In Q2 KPIs
Microsoft Corporation (MSFT): New Disclosures Help Illustrate Durability Of Azure Consumption Revenue
Snowflake, Inc. (SNOW): First Look: About As Expected – Solid F2Q With Conservative 2H Guide
Snowflake, Inc. (SNOW): Solid F2Q But Still A Lot Of Unknowns Heading Into 2H
Zoom Video Communications, Inc (ZM): ZM Delivered A Very Solid Quarter: New Product Momentum Builds, CCaaS Is …
Energy Commodities: Crude Oil Update – OPECs Burden Rising
Global Automotive: EvrISI Autos Pitstop: Ford's Skunkworks EV Pivot / STLA's "Hot" Summer / Production Webinar Replay
Lodging: EVRISI RevPAR Tracker: US +1% y/y for the week ended August 17th

Top News

U.S. Stocks

Surface Transportation: Transports: Major Retailer Inventory Updates Confirm the Long Landing Thesis
Air Cargo Cos. Survey: Air Cargo Cos. Survey Moves Down On Slower Domestic & International Activity
Apartment Cos. Survey: Apartment Cos. Survey Of Rents Ticks Down While Move Out To Buy Slowed
China Sales Survey: China Sales Survey Ticks Up
Hedge Fund Managers Survey: Evercore ISI Hedge Fund Survey With August Sector Allocation Survey Results
Institutional Bond & Equity Managers Surveys: Evercore ISI Bond & Equity Mgrs. Surveys With August Sector Allocation …
Limousine Cos. Survey: Limousine Cos. Survey Steady Following Improvement

S&P500 Earnings Calendar

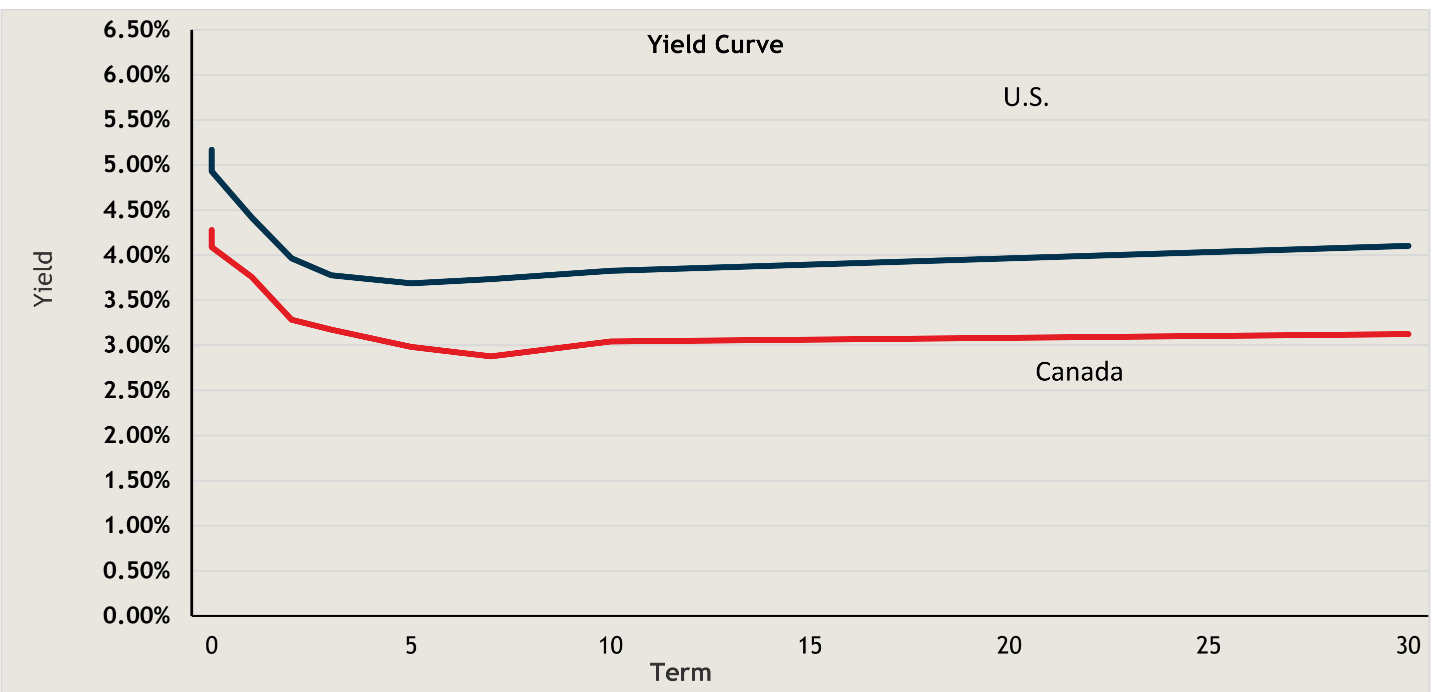
Company	Symbol	Time	Consensus EPS Estimate
Dollar Tree Inc	DLTR.OQ	BMO	0.87
Intuit Inc	INTU.OQ	AMC	1.84
Ross Stores Inc	ROST.OQ	AMC	1.16
Ulta Beauty Inc	ULTA.OQ	NTS	5.85

Source: LSEG

Top News
Fixed Income

Canadian Key Rate	Last	Change bps		Last	Change bps
CDA o/n	4.50%	0.00	CDA 5 year	2.98%	5.4
CDA Prime	6.70%	0.00	CDA 10 year	3.04%	2.6
CDA 3 month T-Bill	4.23%	0.0	CDA 20 year	3.14%	2.6
CDA 6 month T-Bill	4.09%	0.0	CDA 30 year	3.13%	2.5
CDA 1 Year	3.76%	0.0	5YR Sovereign CDS		
CDA 2 year	3.29%	3.2	10YR Sovereign CDS		
US Key Rate	**Last**	**Change bps**		**Last**	**Change bps**
US FED Funds	5.25-5.50%	0.00	US 5 year	3.69%	5.0
US Prime	8.50%	0.00	US 10 year	3.83%	5.3
US 3 month T-Bill	5.04%	2.0	US 30 year	4.10%	5.1
US 6 month T-Bill	4.93%	4.5	5YR Sovereign CDS	35.97	
US 1 Year	4.42%	3.5	10YR Sovereign CDS	42.41	
US 2 year	3.97%	4.4			

Preferred Shares Indicators	Last	Daily %	YTD
S&P Preferred Share Index	616.88	0.17%	13.32%
BMO Laddered Preferred Shares (ETF)	10.5	0.33%	16.15%



Source: LSEG

NATIONAL BANK OF CANADA FINANCIAL MARKETS

Snapshot – FOMC Meeting Minutes (July 31st)

This afternoon, the **Federal Reserve** published the minutes from the FOMC's two-day policy meeting that concluded July 31st. Recall, the rate statement acknowledged there had been 'some' further progress towards the inflation target while stressing they are now attentive to *both* sides of the dual mandate. While the market read the statement as hawkish at first (relative to expectations), Powell soothed investors in the presser by signalling that a September rate cut was overwhelmingly likely. With that as the backdrop, we've highlighted some of the key quotes from the minutes and provide our overall assessment in the *Bottom Line* below:

On inflation:

- **Inflation anxiety is fading…: "**Many participants noted that the risks to the inflation goal had decreased"
- **…with recent progress expected to continue: "**Almost all participants observed that the factors that had contributed to recent disinflation would likely continue to put downward pressure on inflation in coming months" (i.e., waning pricing power, moderating growth, and the runoff in excess savings)
- **Labour market to provide inflation relief: "**Many participants noted that the moderation of growth in labor costs as labor market conditions rebalanced would continue to contribute to disinflation, particularly in [super-core inflation]."
- **But there's still a couple inflation hawks…: "**A couple of participants noted that inflation pressures might persist for some time, as they assessed that the economy had considerable momentum, and that […] the labor market remained strong"
- **…and some risks out there: "**As sources of upside risks to inflation, some participants cited the potential for disruptions to supply chains and a further deterioration in geopolitical conditions."

On the labour market:

- **Unemployment risks rising…**: "A majority of participants remarked that the risks to the employment goal had increased"
- **… and conditions could deteriorate fast:** "Some participants noted the risk that a further gradual easing in labor market conditions could transition to a more serious deterioration"
- **As seen today, payroll growth is overstated:** "Many participants noted that reported payroll gains might be overstated, and several assessed that payroll gains may be lower than those needed to keep the unemployment rate constant"
- **Overall, labour market is back to 'normal': "**Participants generally assessed that, overall, conditions in the labor market had returned to about where they stood on the eve of the pandemic—strong but not overheated"

On monetary policy:

- **There was a case to cut in July**: "All participants supported maintaining the target [rate], although several observed that the recent progress on inflation and increases in the unemployment rate had provided a plausible case for [cutting] 25 bps at this meeting or that they could have supported such a decision"
- **A September cut will be appropriate…**: "The vast majority observed that, if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting"
- **…with a little more confidence: "**Almost all participants remarked […] additional information was needed to provide greater confidence that inflation was moving sustainably toward [2%] before it would be appropriate to [ease]"
- **It's unclear how restrictive policy is…:** "Many participants commented that monetary policy continued to be restrictive, although they expressed a range of views about the degree of restrictiveness, and a few participants noted that ongoing disinflation, with no change in the nominal target range for the policy rate, by itself results in a tightening in monetary policy"
- **…which makes it tough to manage risks:** "Many participants noted that reducing policy restraint too late or too little could risk unduly weakening economic activity or employment… Several participants remarked that reducing policy restraint too soon or too much could risk a resurgence in aggregate demand and a reversal of the progress on inflation"

Bottom Line:

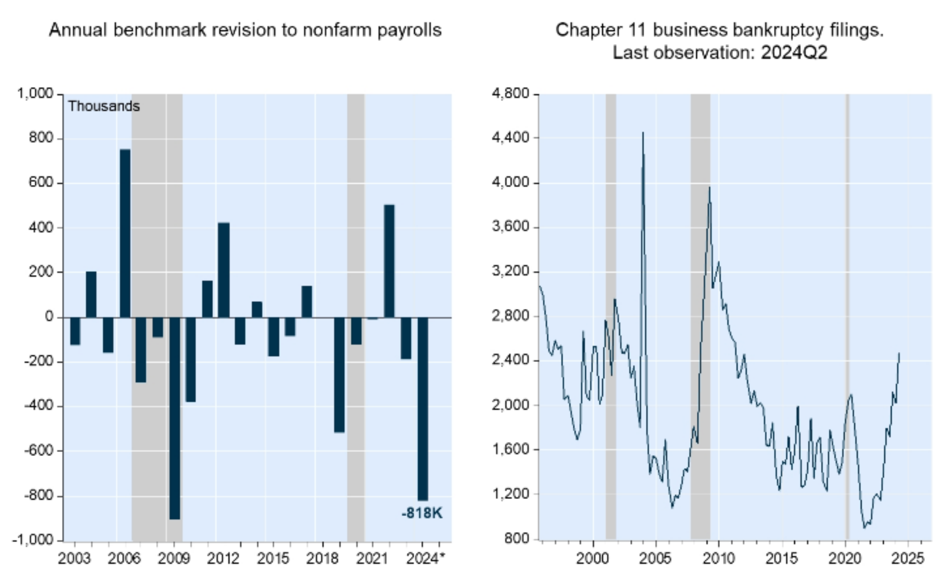
If it wasn't already obvious, the Fed is set to cut rates in September and the "vast" majority saw that as appropriate at the late July decision. Note that this meeting was held *before* July's soft labour market report was published so, if anything, members will be more confident in that assessment. Overall, it's clear that more FOMC participants are concerned about downside risks, particularly in the labour market. That makes rate cuts likely not just in September, but over the balance of the year (and into 2025) as well. However, we believe the market is still overestimating the probability that larger-than-25 basis point cuts will be delivered this year. Indeed, these minutes reveal the Fed still sees the labour market as healthy and even though the July employment report was disappointing, we don't think the Fed will have thrown in the towel on its assessment. The same goes for today's employment revisions. As is clear in the minutes, the Fed already knew (or at least had a feeling) non-farm payroll growth was being overstated, so this shouldn't really alter their outlook. In any case, we won't have to wait long to get a fresh read on the FOMC's thinking. In two days, Chair Powell is set to deliver his annual remarks at the Jackson Hole Symposium which is often used to signal major policy shifts.

The next Fed decision will be published on September 18th.

U.S.: Nonfarm payrolls revised sharply lower, more to come?

The publication of nonfarm payrolls as estimated by the establishment survey is certainly one of the most closely followed economic news items each month, as it gives an idea of the vitality of the job market. It is, however, a rather imprecise report, since it is based on responses to a survey with a fairly small sample size of around 120,000 companies and fails to reflect net business creation in a timely manner. To compensate for these methodological weaknesses, once a year, the Bureau of Labor Statistics benchmarks the level of nonfarm payrolls to a much more comprehensive employment series called the Quarterly Census of Employment and Wages (QCEW). The latter derives its job estimate not from a survey, but from tax records and cover roughly 95% of businesses in the United States. Today, the BLS published the preliminary estimate of the revision to nonfarm payrolls that will result from this process for the period from April 2023 to March 2024. It showed that, for this 12-month interval, job creation as reported by the establishment survey was overestimated by as much as 818,000 or roughly 68,000 per month. As today's Hot Chart shows, this downward revision would be the largest recorded since 2009 if confirmed in February's final print. While job creation remained solid over this period, even taking this revision into account, it was much less than initially forecast (174K per month instead of 242K). Similar downward revisions can also be expected for the most recent months' data. In part, this reflects the backward-looking nature of the birth/death model used in the establishment survey to estimate net business creation. Historically, this model has failed to reflect increases in business bankruptcies and has therefore tended to overestimate job creation at the end of business cycles. Such an overestimation is probably taking place now, as high interest rates weigh increasingly heavily on businesses. As for the Fed, today's announcement will only reinforce its conviction that the labour market is cooling, and make it more likely to cut policy rates significantly over the coming months.

U.S.: Nonfarm payrolls revised sharply downwards, more to come?



*Based on the preliminary benchmark revision published today. Final benchmark revisions (published in February) were used for the other years
NBF Economics and Strategy (data via Bureau of Labor Statistics and Refinitiv)

[Click here for full comments]

Evercore ISI - Global Policy & Central Banking Strategy: Flash Note – Big Payroll Revisions Will Shade Fed Sense of Labor Market Strength, Caution Fed Minutes May Be A Bit Hawkish-Stale

The BLS preliminary revision that has marked down US payrolls by 818,000 fewer jobs as of March – the biggest downward revision since 2009 – will by no means be a complete surprise to the Fed.

But the revision is on the larger rather than smaller end of the range of estimates, and it will shade the Fed's assessment of the labor market a bit further in the softer direction.

The revisions imply that the US economy created on average 68,000 fewer net jobs per month in the year to March than was reported in real time, with the average monthly job gain now 174,000 (was 242,000).

This is still a decent rate of gains, and the revised data itself may undercount immigrant workers.

But the revisions nonetheless make what was for a long time one of the most robust labor data series less strong, narrowing the gap relative to the weaker household survey that we think understates employment strength.

The overall picture is more coherent, with payroll growth in the year to March running a bit below rather than a bit above the roughly 200,000 monthly increase in labor supply we estimate taking into account the immigration surge, and so less at odds with a mild drift up in unemployment.

This will reinforce the Fed's assessment that the labor market has been softening under restrictive policy and that it will need to recalibrate rates in a timely enough manner to prevent this from extending further than desired.

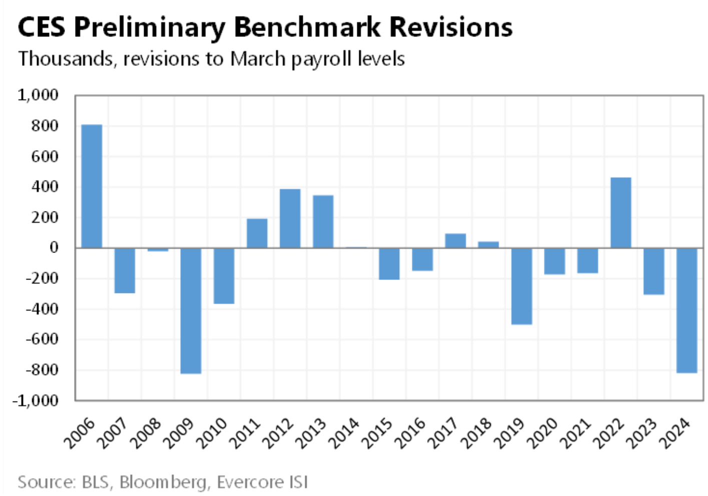
Past experience cautious against mechanically extrapolating the revisions forward to more recent months. Instead, Fed officials will be mindful in a softer sense that real time prints may also overstate the true degree of payroll gains.

All this favors a relatively low bar for 50bp rate cuts, though the base case remains a string of 25bp moves.

We are confident this will be the takeaway from Powell at Jackson Hole Friday.

But in the interim we suspect minutes from the July FOMC meeting to be released at 2pm may well feel hawkish-stale. A lot has happened since then, when Powell shook his head when asked about a 50 at the press conference.

And while the drafters of the minutes will shade the discussion some, it is doubtful they can reach far enough for the discussion to seem foresighted relative to current debates.



Top News
Conference Calls

First Edition Call

This Week on TEAMS:

MONDAY: Research Services – 8:30 am English call / 9h00 appel français

TUESDAY: Daren King, NBC Economist – 8:30 am English call / 9h00 appel français

WEDNESDAY: Dennis Mark, NBCFM Technical Analyst - 8:30 am English call / 9h00 appel français

THURSDAY: Research Services – 8:30 am English call / 9h00 appel français

FRIDAY: TBA - 8:30 am English call / 9h00 appel français

A replay is available in the Event Calendar of Research Services SharePoint

Research Services Publications (Links)

Research Services Reports
- Better than Bonds Canada - August 2024
- Better than Bonds U.S. - August 2024
- NBF Selection List - July / August 2024

Preferred Shares
- Preferred Shares Printable Tables

Convertible Debentures
- Convertible Debentures Printable Table

This report along with all the research from NBCFM Research Services can also be accessed on our ***SharePoint***

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