NATIONAL BANK OF CANADA
FINANCIAL MARKETS

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December 15, 2023

U.S. EQUITY FUTURES	LAST	CHANGE	%CHG
Dow Jones MINI futures	37,352.00	87.00	0.23%
S&P500 MINI futures	4,781.00	7.00	0.15%
NASDAQ MINI futures	16,589.25	47.75	0.29%
CANADA EQUITY MARKET	**LAST**	**CHANGE**	**%CHG**
S&P/TSX 60 futures	1,258.60	-0.40	-0.03%
OVERSEAS MARKETS	**LAST**	**CHANGE**	**%CHG**
DJ EURO STOXX 50	4,549.68	10.52	0.23%
FTSE 100 INDEX	7,591.73	-57.25	-0.75%
DAX GERMANY	16,737.52	-14.71	-0.09%
CAC 40 Index	7,604.32	28.47	0.38%
NIKKEI 225 INDEX	32,970.55	284.30	0.87%
HANG SENG INDEX	16,792.19	390.00	2.38%
SHANGHAI COMPOSITE INDEX	2,942.56	-16.43	-0.56%

COMMODITIES/ FX		LAST	CHANGE
CRUDE OIL WTI		$72.10	$0.52
NATURAL GAS		$2.44	$0.04
GOLD		$2,036.09	$0.56
COPPER		$3.88	-$0.01
CAD / USD		$0.7465	$0.0007
CAD / EUR		€ 0.6833	€ 0.0050
USD / EUR		€ 0.9152	€ 0.0057
USD / JPY		¥142.12	¥0.25
GOVERNMENT BONDS	**2YR**	**5YR**	**10YR**
CANADA (YLD%)	3.95%	3.26%	3.15%
U.S. (YLD%)	4.46%	3.94%	3.95%

Source: Refinitiv

Morning News

Futures tracking U.S. stock indexes gained on Friday as investors remained upbeat in a week marked by economic data signaling a soft landing for the economy and the Federal Reserve's hints of lower interest rates next year. Money markets see a 79% chance of at least a 25-basis point rate cut as soon as March 2024, up from about 50% before Wednesday's policy announcement, while almost fully pricing in another cut in May 2024, according to CME Group's FedWatch tool. Stocks rallied this week after the Federal Reserve on Wednesday admitted that its efforts to tamp down inflation are taking hold, and indicated three interest rate cuts are coming in 2024, buoying investor sentiment. The November retail sales data that came in stronger than expected on Thursday, following this week’s cooler inflation readings, added to hopes the Federal Reserve could navigate a soft landing. Treasury yields dropped this week. The 10-year Treasury yield fell to below 4% after topping 5% in October.

Energy and miners led European shares higher on the final day of a week marked by major central bank policy decisions, in which the U.S. Federal Reserve set the tone for market expectations about interest rate cuts being on the horizon. The downturn in euro zone business activity surprisingly deepened in December, according to closely watched surveys which indicated the bloc's economy is almost certainly in recession. It was a broad-based decline with activity deteriorating in both Germany and France and across services and manufacturing, the surveys showed. HCOB's preliminary Composite PMI, compiled by S&P Global, fell to 47.0 this month from November's 47.6, confounding expectations in a Reuters poll for an uptick to 48.0 and marking its seventh month below the 50 level separating growth from contraction.

China stocks shed early gains to end lower on Friday after sources told Reuters that Beijing will run a budget deficit for 2024 that is lower than expectations, while Hong Kong shares rose on authorities' decision to support the property market. Chinese leaders agreed at an annual meeting on the economy this week to run a budget deficit of 3% of gross domestic product in 2024, sources told Reuters, a figure lower than this year's revised 3.8% target, suggesting Beijing wants to maintain fiscal discipline and is not considering a big fiscal bazooka next year. The broad Asian market hit a four-month peak as sharp declines in the U.S. dollar and yields extended the Fed-fuelled rally, but pushback on rate cuts from central banks in Europe may deal a blow to the global pivot hopes. Japan's Nikkei share average gained on Friday, supported by a pause in the yen's ascent, which had previously weighed on exporters' profit forecasts. Japan's factory activity shrank for a seventh straight month in December while the service sector made modest gains, a business survey showed on Friday, as weak demand and price pressures capped growth. The au Jibun Bank flash Japan manufacturing purchasing managers' index (PMI) shrank to 47.7 in December from 48.3 in November.

U.S Economic Calendar

Time	Indicator Name	Period	Reuters Poll	Actual	Surprise	Prior	Revised
08:30	NY Fed Manufacturing	Dec	2.00	-14.50	-16.500	9.10	
09:15	Industrial Production MM	Nov	0.3%			-0.6%	
09:15	Capacity Utilization SA	Nov	79.1%			78.9%	
09:15	Manuf Output MM	Nov	0.4%			-0.7%	
09:45	S&P Global Mfg PMI Flash	Dec	49.3			49.4	
09:45	S&P Global Svcs PMI Flash	Dec	50.6			50.8	

Canadian Economic Calendar

Time	Indicator Name	Period	Reuters Poll	Actual	Surprise	Prior	Revised
08:15	House Starts, Annualized	Nov	257.1k	212.6k	-44.50k	274.7k	272.3k
08:30	Securities Cdns C$	Oct		-8.20B		11.60B	9.60B
08:30	Securities Foreign C$	Oct		-15.75B		-15.09B	-15.06B
08:30	Wholesale Trade MM	Oct	-1.1%	-0.5%	0.60%	0.4%	-0.6%

Chart of the day

Yen barrels back as path of BOJ and Fed policy flip

The expectation that the Bank of Japan is close to exiting negative interest rates, plus the Fed's dovish tilt, has seen the yen barrelling back to the stronger side of 141 per dollar for the first time since July.

Note: Data till Dec. 14, 2023 19:24 Japan Standard Time
Source: LSEG Eikon | Reuters, Dec. 14, 2023 | By Pasit Kongkunakornkul

Top News
Canadian Stocks

Morning news

Aecon Group Inc: Aecon Group said Friday that it has been awarded a C$290 million (US$216.3 million) build and design contract for the Eglinton Crosstown West extension for the light-rail transit project in Toronto. The Canadian construction company said the contract was awarded by the Ontario provincial government and includes the design and construction of a 1.5-kilometer elevated guideway. Construction is expected to begin early next year with an expected completion in 2028.

Canada Energy Partners Inc: Canadian government-owned Trans Mountain asked the country's energy regulator on Thursday to reverse a decision rejecting proposed construction changes on its oil pipeline expansion, warning of a possibly "catastrophic" two-year delay and billions of dollars in losses. If Trans Mountain goes ahead with the construction plan that is currently approved, complications could result in a borehole for the pipeline becoming compromised, forcing Trans Mountain to find an alternative installation plan, the company said in a letter to the Canada Energy Regulator (CER). The CER decision was yet another setback for the over-budget, delayed C$30.9-billion ($23.05 billion) expansion project (TMEP), intended to triple shipments of crude from Alberta to Canada's Pacific coast to 890,000 barrels per day once it starts operating.

NBF Research

RATING AND TARGET PRICE CHANGES

Corus Entertainment - Q1 Comes Jan. 12, Upgrade to Outperform (Was SP) As Street EBITDA Too Low & Trend Should…
Empire Company Ltd. - Q2 F2024 Results: Trends fall short; Target: C$42 (Was C$44)
Transat A.T. Inc. - Q4 results ahead of forecast; waiting on refinancing plan; Target: C$3.25 (Was C$3)

DAILY BULLETIN HIGHLIGHTS

CORUS ENTERTAINMENT INC.: Q1 Comes Jan. 12, Upgrade to Outperform As Street EBITDA Too Low & Trend Should Improve

CJR.B (TSX)	**C$0.63**
Target:	**C$1.30**
	(Unchanged)
Stock Rating:	**Outperform**
	(Was Sector Perform)
Est. Total Return:	**106.3%**

Event: Q1 Preview and Rating Change

Key Takeaways: Management telegraphed that Q1 TV ad revs and programming amortization would be -15% to -20%. We estimate total revs $371.5M (CE $374M) and Adj. EBITDA $117M (CE $101M). We forecast Q1 TV ad sales -17.5%, TV subscriber revs -5.5%, and TV Other revs -36% (driven by sale of Toon Boon Animation). Hollywood strikes that lasted many months caused the 2023-2024 TV season to get delayed. Production has rebooted and new episodes will start to get aired later in January and more pervasively after. While Q1 should mark the greatest pressure for TV ad sales in f2024, programming amortization in Q1 could fall more within the -15% to -20% than previously expected. Our target is still based on f2025E NAV, with EV/EBITDA now 4.6x f2024E & 3.8x f2025E. Having updated our forecast, we opted to reverse the added layer of conservatism we applied in our last note when we dropped our TV multiple -25 bps amid the actors' strike that hadn't yet been resolved.

EMPIRE COMPANY LTD.: Q2 F2024 Results: Trends fall short

EMP.A (TSX)	**C$34.57**
Target:	**C$42.00**
	(Was C$44.00)
Stock Rating:	**Sector Perform**
	(Unchanged)
Est. Total Return:	**23.6%**

Event: Empire reported Q2/F24 EPS of $0.71 versus NBF and consensus at $0.76; last year was $0.73.

Key Takeaways: (1) We view the results to be soft given a miss across most key Food retailing metrics. (2) Looking forward, we believe Empire has opportunity related to easy comparisons in H2/F24 (sssg improved five weeks into Q3/F24 vs. Q2/F24), ongoing improvement initiatives and inexpensive valuation. That said, it has structural deficiencies versus peers including an elevated mix of lower growth conventional stores and less pharmacy exposure (which we believe is a superior business versus grocery). We consider the value gap versus peers to be noteworthy; however, we believe it will persist until EMP delivers comparable/sustainable growth versus peers. (3) Maintain Sector Perform rating; price target is $42 from $44.

ENBRIDGE INC.: Closing the Dominion deal funding gap…

ENB (TSX; NYSE)	**C$48.11; US$35.71**
Target:	**C$49.00**
	(Unchanged)
Stock Rating:	**Sector Perform**
	(Unchanged)
Est. Total Return:	**9.2%**

Event: Enbridge has agreed to sell its 50% / 42.7% interests in Alliance Pipeline / Aux Sable to its partner in the assets, Pembina (Restricted), for $3.1 bln with closing expected in H1/24.

Key Takeaways: The $3.1 bln price tag represents transaction multiples of ~11x and ~7x 2024e EBITDA for Alliance and Aux Sable (~9x blended), with expected closing in H1/24. This compares to our initially modeled $4 bln asset sale assumption at 10x EBITDA, resulting in modest changes to our estimates while keeping our $49 target intact. Of note, the $3.1 bln proceeds fills a substantial portion of the previously remaining ~$4.5 bln funding gap related to the $19 bln Dominion deal, with $6.2 bln of opco level debt to be assumed and $4.6 bln previously raised via its recent equity issuance as well as ~$3.7 bln of Hybrids / LT debt issued since announcing the deal. That said, with a ~$1.4 bln financing requirement still outstanding and the company continuing to note the potential for further capital recycling, additional Hybrids / LT debt, reinstatement of the DRIP and/or ATM equity issuances, we maintain our Sector Perform rating.

OTHER COMMENTS

Enbridge Inc. - Closing the Dominion deal funding gap…
Kiwetinohk Energy Corp. - Disciplined Outlook
Lucero Energy Corp. - Optimal Outlook
Tamarack Valley Energy Ltd. - The Value of Relationships
TMX Group Limited - TMX Acquires Remaining Interest in VettaFi

RESEARCH FLASHES

ESG - Alberta Balancing Canada's Environmental Balance Sheet
Bravo Mining Corp. - Bravo Trenching Results Returning Higher Grades
Canadian Natural Resources Limited - 2024 Budget First Look (Outlook Impact: Slight Negative)
Cenovus Energy Inc. - 2024 Budget First Look (Outlook Impact: Mixed)
i-80 Gold Corp. - Granite Creek SPZ Posts New Grade x Intercept Records
OceanaGold Corporation - Positive Conversion Drilling Continues at Haile and WKP

UBS Research

CANADIAN HIGHLIGHTS

Canadian Natural Resources Ltd. (CNQ.TO, Buy, TP: C$103.00)

CNQ Announces in-line 2024 capex and volume growth targets

- **What happened?** CNQ announced 2024 capex of C$5.4Bn which came in-line with Street expectations of $5.37BN. This is only an increase of 3% vs. 2023 levels and modest uptick was expected. CNQ announced 2024 volumes guidance of 1,330-1,380 mboe/d. While the mid-point of the guide is 1.8% below Street expectations, CNQ generally comes in close to top end of guidance. Its important to note that CNQ is targeting exit production rate of 1,455mboe/d vs. exit rate of 1,415mboe/d for 2023. As a result CNQ expects to deliver 2025 volumes growth of 4-5% over 2024 levels which we view positively. While production is relatively flat in 2024, CNQ is targeting production per share growth of 3-7% as it increases pace of buybacks once it hits its net debt target of C$10Bn.
- **Growing thermal and Oil Sands Volumes - majority volumes come online in 2025:** In thermal in situ, four additional pads are targeted to be drilled in 2024. At Primrose, the Company is targeting to drill two CSS pads (production in 2Q25), and one SAGD pad at Wolf Lake (production in 1Q25). At Jackfish, the Company is targeting to drill one SAGD pad in 2024

(production in 2Q25). At Horizon, the Company targets to complete the remaining components and tie-ins related to the reliability enhancement project during the planned turnaround in 2Q24. In 2025, Horizon annual production is targeted to increase by ~28mb/d. At the Scotford Upgrader, during the 49 day turnaround in 3Q24 a debottlenecking project will be completed, which targets to add incremental capacity of 5.5mb/d.

- **Conventional upstream business:** In natural gas business, CNQ is targeting 7% exit growth rate in 2024 vs. 2023 levels. In 2024, natural gas is expected to be 27% of total production. Across its liquids-rich natural gas and light crude oil assets in British Columbia and Alberta, CNQ targets to drill 134 net wells. The program consists of 91 net natural gas wells, of which ~70% are targeting the liquids-rich Montney formation and 43 net light crude oil wells. As its relates to conventional crude oil, CNQ is looking to drill 135 net wells , primarily targeting the Mannville/Clearwater formations.
- **Stock thoughts:** We continue to see CNQ as the biggest beneficiary of successful start up of the TMX pipeline. While there are some delays,we still expect line fill in Mar 2024 and the line starts delivering crude by end of 2Q24.

Cenovus Energy Inc. (CVE.TO, Neutral, TP: C$31.00)

CVE Announced 2024 capex

- **CVE announces 2024 capex and volume growth targets:** CVE announced 2024 capex of C$4.5-$5.0Bn, the midpoint of the guide is inline with Street expectations of $4.7Bn. Midpoint of 2023 guide was C$4.25Bn, so YoY Capex is up 12.5%. CVE expects total upstream production of 770-810 mboe/d vs. Street of 797mboe/d. Midpoint of guidance implies volumes will be up 0.6% YoY. CVE expects downstream throughput of 630-670 mboe/d, a 17% increase YoY, which we view very positively.
- **Where is CVE spending the money?** CVE 2024 capex includes, C$1.5-$2.0Bn of optimization and growth capital, primarily for progressing the West White Rose project as well as incrementally growing production at the Foster Creek, Christina Lake and Sunrise oil sands facilities. CVE will implement further initiatives in its downstream business to improve reliability and increase margin capture.
- **Closer look:** While CVE is targeting a number of growth projects, most of these will start to come online in 2025 and some even in 2026 (West White Rose). So exit rate of 2024 will be relatively flat vs. 2023. CNQ on the other hand is guiding to exit rate growth of +40mboe/d in 2024 vs. 2023. CVE is guiding to Oil sands operating expenses of $12.00 -$14.00 /bbl a slight increase vs. $11.50-$13.0/bbl in 2023. Cash taxes are expected at $1.3-$1.6Bn vs. $1.1-$1.4Bn.
- **Stock thoughts:** Both CNQ and CVE are guiding to relatively flat production in 2024 vs. 2023 levels. Based on midpoint of guidance CNQ is only looking at 3% YoY increase in YoY capex while CVE is looking at 12.5% YoY increase in capex. As it relates to volume growth SU is guiding to 7% increase in 2024 vs 2023. SU capex is expected to be up 10.3% vs. CVE 12.5%. Given the current setup, we have a preference for CNQ and SU over CVE.

Canadian stocks ratings and target changes across the street

Bonterra Energy Corp BNE.TO: Stifel cuts target price to C$8.50 from C$10.25
CI Financial Corp CIX.TO: KBW raises target price to C$21 from C$20
Corus Entertainment CJRb.TO: National Bank of Canada raises to outperform from sector perform
Empire Company Ltd EMPa.TO: CIBC cuts target price to C$42 from C$44
Empire Company Ltd EMPa.TO: National Bank of Canada cuts target price to C$42 from C$44
Empire Company Ltd EMPa.TO: RBC cuts target price to C$49 from C$50
Empire Company Ltd EMPa.TO: TD Securities cuts to hold from buy; cuts target price to C$39 from C$43
Orla Mining Ltd OLA.TO: RBC initiates coverage with outperform rating; target price C$6
Snowline Gold Corp SGD.V: CIBC initiates coverage with outperformer rating; target price C$7.50
TMX Group Ltd X.TO: CIBC raises target price to C$34 from C$32
Transat AT Inc TRZ.TO: National Bank of Canada raises target price to C$3.25 from C$3
Transat AT Inc TRZ.TO: TD Securities raises target price to C$4.75 from C$4.50

S&P/TSX Earnings Calendar

No major S&P/TSX companies are scheduled to report for the day.

Source: Refinitiv

Morning news

Costco Wholesale Corp: The company topped Wall Street estimates for quarterly sales and profit on Thursday, as more customers turned to its stores to shop for cheaper groceries and essentials, sending its shares up after the bell. Costco saw its total paid household members rise by 7.6% in the quarter, while its membership fee revenues jumped 8.2% to $1.08 billion. The company's gross margins rose 43 basis points to 11.04% as it saw shipping costs ease from their peak last year. The membership-only retailer also announced a special cash dividend on its common stock of $15 per share payable on Jan. 12. Total revenues rose 6.1% to $57.8 billion in the first quarter, compared with analysts' estimates of $57.72 billion. Costco reported a per-share profit of $3.58, above expectations of $3.42.

General Motors Co: The automaker said on Thursday it is laying off 1,300 workers at two Michigan auto factories in early January. The largest U.S. automaker said 945 workers will be laid off at its Orion Assembly plant, which is ending production of the Chevrolet Bolt EV and being converted for electric truck production that will start in late 2025. Another 350 out of 1,400 total workers at its Lansing Grand River plant will be laid off due to the end of Chevrolet Camaro production, but the factory will continue producing the Cadillac CT4 and Cadillac CT5. GM said affected hourly employees will be offered positions at other factories. GM CEO Mary Barra said they delay would enable the automaker "to make engineering and other changes that will make the trucks more efficient and less expensive to produce, and therefore more profitable."

Global Payments Inc & Shift4 Payments Inc: Payments technology firm Global Payments is weighing to acquire peer Shift4 Payments, Bloomberg News reported on Thursday. Atlanta, Georgia-based Global Payments has been working with an adviser to study the feasibility of a deal for Shift4, the report added, citing people with knowledge of the matter. Shift4 CEO Jared Isaacman in his latest letter to shareholders had said that the company is exploring strategic options and alternatives. In an interview, he also said that the firm has received acquisition interest from several parties.

Lennar Corp: The U.S. homebuilder on Thursday beat quarterly revenue estimates as tight supply of homes in the United States supported demand despite high mortgage rates. The Florida-based homebuilder delivered 23,795 homes in the quarter ended Nov. 30, 19% more than a year earlier. Shares of the company fell in extended trading. The company, which tends to be conservative on pricing and aggressive on sales, reported average selling prices per home at $441,000 in the fourth quarter, compared with $483,000 a year earlier. Lennar's net earnings attributable stood at $1.36 billion, or $4.82 per share, compared with $1.32 billion, or $4.55 per share, a year earlier. It reported revenue of $11 billion, up from $10.17 billion, and above analysts' estimates of $10.23 billion.

Livent Corp: The U.S. lithium miner has acquired a minority stake in the parent company of direct lithium extraction technology firm ILiAD Technologies, the companies said on Thursday. Livent is investing in a subsidiary of privately held EnergySource Minerals, which is a direct lithium extraction company that develops projects in California's Salton Sea. Livent will have the right to license ILiAD technology for deployment at its lithium brine resource in Argentina, the companies said, adding that commercial utilization could begin as early as 2025. "We are excited to partner with ILiAD Technologies as we continue to invest in processes and technologies which advance our strategy of producing high-quality lithium chemicals efficiently and sustainably," Livent's CEO Paul Graves said.

Merck & Co Inc: The U.S. Food and Drug Administration on Thursday approved the drugmaker's drug belzutifan for a type of kidney cancer. The drug, branded as Welireg, is used to treat patients with renal cell carcinoma who have received prior treatment. Renal cell carcinoma is a disease in which cancer cells are found in the lining of very small tubes in the kidney. Welireg's approval is based on data from a late-stage trial, where the drug showed statistically significant and clinically meaningful improvement in progression-free survival (PFS) of patient compared to Novartis' drug, everolimus. PFS refers to how long a patient lives without the disease getting worse after treatment.

United States Steel Corp: The steelmaker on Thursday forecast fourth-quarter profit above analysts' expectation as the company bets on increasing prices and an improvement in the domestic steel market. "We successfully navigated the impact of the autoworkers' strike to our domestic flat-rolled order book," CEO David Burritt said in a statement. The company said it expects net earnings per share in the range of 20 cents to 25 cents. Analysts on average were estimating a profit of 19 cents per share, according to LSEG data. U.S. Steel also forecast quarterly EBITDA at about $250 million, above estimates of $236.70 million.

NATIONAL BANK OF CANADA FINANCIAL MARKETS

UBS Research

RATING AND TARGET PRICE CHANGES

Boeing Co. (BA, Buy, TP: US$315.00)

What's priced in?

- **SUMMARY:** Following shares up 23% over the past month (S&P500 up 5%), we see further re-rate potential. Strong November deliveries indicate supply chain improvement on the MAX, and we believe the market increasingly focus on record new aircraft demand and backlogs. At $256, shares trade at 15X Boeing's $10bn free cash flow guidance, matching the long-term average - but at a 15% discount to the historical relative (given the higher S&P500 multiple). We also see upside to the $10bn with multiple years of growth beyond; Boeing currently trades at just 12X our 2027E FCF/sh estimate of $21. Absent further significant supply chain setbacks, we expect the stock to increasingly trade on normalized free cash flow. We reiterate our Buy rating. TP 315 from $275

Costco Wholesale Corp (COST, Buy, TP: US$725.00)

A Special Delivery

- **SUMMARY:** We maintain a constructive view on COST into FY'24 COST is proving that it is a high performing business regardless of the macro. The company performed exceptionally well before COVID as well as during COVID, and it is once again replicating its superior performance in the post-COVID era. Additionally, COST has shown again that rewarding its shareholders remains a top priority for the company, given its announcement of a special dividend payment of $15 per share, which was above our expectation of $10 per share. At a high level, we believe COST's 1Q provided further evidence that the stock fits well with what the market is looking for right now, a high-quality business that will be more insulated from ongoing macro pressures than the rest of the pack, by and large. Valuation: Risk/reward looks favorable at current levels We raise our PT to $725 (was $640) based on ~41x (was ~38x) our CY'25E EPS of $17.72 (was $16.84). Our higher multiple is above COST's 5-yr historical average of ~35x (and 2x standard deviations above its historical average).

Life Sciences & Diagnostic Tools

Mark-to-Market Price Target Updates

- **SUMMARY:** Thermo Fisher - We are standardizing our valuation approach to universally refer to peer-comps. We are updating our price target on Thermo Fisher from $510 to $640 based on 25.5x TTM Dec-25e adj. EPS (comparable to ~22.3x TTM Dec-25e adj. EBITDA, and up from ~18x TTM Dec-25e adj. EBITDA). We think that Thermo's structurally lower tax rate justifies the use of P/E in its valuation. This multiple is in-line with Thermo's peer group. Outside of COVID, Thermo has historically traded at or slightly below its peer group.
- Danaher - We are standardizing our valuation approach to universally refer to peer-comps. We are updating our price target on Danaher to $270 from $235 based on ~24x TTM Dec-25e adj. EBITDA prior (up from ~21x TTM Dec-25e adj. EBITDA prior). This multiple is a ~4.5x (~23%) premium to Danaher's peer group. Danaher has historically traded between a 10% discount and 35% premium to its peer group.
- Charles River - We are updating our price target on Charles River from $215 to $270 based on ~13.5x TTM Dec-25e adj. EBITDA (up from ~11.0x prior). This multiple is a ~2x (~13%) discount (up from a ~3x [~20%] discount prior) to Charles Rivers' peer group. We believe a lighter discount appropriately reflects a reduction in near-term risk associated with the company's SMID biopharma customer base following XBI's recent ~24% rally since November 1. Charles River has historically traded between a 20% discount and 20% premium to its peer group.

U.S. Software

Initiating on Content Management and Collaboration Software

- **SUMMARY:** We initiate coverage with Buy ratings on Dropbox and Box. Investors are skeptical of the ECM market due to competitive threats and fears of commoditization. We agree -- core features are widely available and seat-based models have faced macro pressure; we model <5% y/y CY24 rev growth for both DBX and BOX which compares to 2018-2022 CAGRs of 13.7% and 13.0%, respectively. In many cases, while we expect a "good" product or feature is arguably good enough, we think pockets of product white space still exist and could drive demand for leading point solutions or enhance the value proposition of platforms further. We size the market at $45-60 billion (excluding AI), and our comparison of +10 vendors suggests there's still room to differentiate. Gartner projects a five-year CAGR of 11.7% in ECM spending to ~$25.8 billion in 2027E

COMPANY UPDATES

Mobileye Global Inc. (MBLY, Buy, TP: US$48.00)

Positive read-through from GM "re-scoping" their ADAS program

- **SUMMARY:** Yesterday after the close, Lidar provider Cepton (Ticker: CPTN, Not covered) filed an 8-k indicating that that on December 11, 2023, their Tier 1 partner Koito (Not covered) informed them that the auto OEM that was scheduled to use their Lidar product for series production in their latest ADAS product offering has decided to rescope their ADAS product and canceled outstanding purchase orders. Cepton has previously disclosed their series production award was for GM and their next-gen Ultra Cruise ADAS product.

Life Science & Diagnostic Tools

2024 Outlook: Searching for Differential Growth in a Challenging Environment

- **SUMMARY:** We expect 2024 will be another challenging year across our life sciences and diagnostics coverage. Bioprocessing demand should remain below trend, life science instrument demand (including nextgen sequencing [NGS]) is normalizing following outsized growth in 2021/2022, and trends in China remain challenging. That said, we see an opportunity for differential growth across all of these themes. Our ratings stack is heavily skewed to the bioprocess recovery theme (Thermo [TMO], Avantor [AVTR], Bio-Rad [BIO], Repligen [RGEN], Danaher [DHR], Catalent [CTLT]), we're positive on Bruker's [BRKR] differential performance opportunity within broadly challenging instrument and China trends, and believe PacBio [PACB] is well positioned with a new NGS product cycle. And we remain constructive on clinical research trends, supported by the recent bookings growth acceleration at both ICON [ICLR] and IQV [IQV]. Finally, we see a catalyst-rich year in the emerging growth diagnostics space, with Guardant Health (GH) and Natera (NTRA) our favored ideas for exposure to cancer screening and residual disease testing.

OTHER COMMENTS

Boeing Co. (BA, Buy, $315 from 275) - What's priced in?
Charles Schwab Corp (SCHW, Buy, $82) - Opening presents early: Nov. brings a surprising return to sweep cash growth
Chewy Inc (CHWY, Neutral, $19) - Pawsing to Reflect
Costco Wholesale Corp (COST, Buy, $725 from 640) - A Special Delivery
Johnson & Johnson (JNJ, Buy, $180) - Key Takeaways with JNJ Oncology Team; A Post-ASH Review of the Multiple Myeloma Portfolio
LSB Industries Inc (LXU, Buy, $11) - Updates on clean ammonia projects w/ LXU CEO
Mobileye Global Inc (MBLY, Buy, $48) - Positive read-through from GM "re-scoping" their ADAS program
PowerSchool Holdings Inc (PWSC, Neutral, $25 from 24) - Assuming Coverage, Maintain Neutral Rating at $25 PT
Regeneron Pharmaceuticals Inc (REGN, Buy, $966) - ASH event takeaways: many underappreciated pipeline assets entering mid/...
Cruise Lines - Cruise Line Tax Proposals
HCM and Technology Services Software - Claims FWE 12/09 Beat the Street-202kA/224kE
Healthcare Facilities & Managed Care - MA Enrollment Tracker - December MA Report Puts Enrollment Up 7.7% YTD, Individual MA...
Life Sciences & Diagnostic Tools - Mark-to-Market Price Target Updates
Life Science & Diagnostic Tools - 2024 Outlook: Searching for Differential Growth in a Challenging Environment
Midstream - Midstream Channel Checks; UBS Evidence Lab inside
Multi-Industry - Expert Call: HVAC Outlook & Refrigerant Changeover w/ US Distributor
US Hardlines Retail - Lasser's Look at November 2023 U.S. Census Bureau Retail Sales
US Healthcare - A Look at Today's Stock Movers, News & Key Data
US Restaurants - November Restaurant Demand Remains Solid; QSR improves slightly & Casual Dining Stable
US Softlines Retail - UBS Evidence Lab inside: China Sales Growth Trends Less Bad; Nike Looks Good vs. Peers
US Software - Initiating on Content Management and Collaboration Software

Top News
U.S. Stocks

S&P500 Earnings Calendar

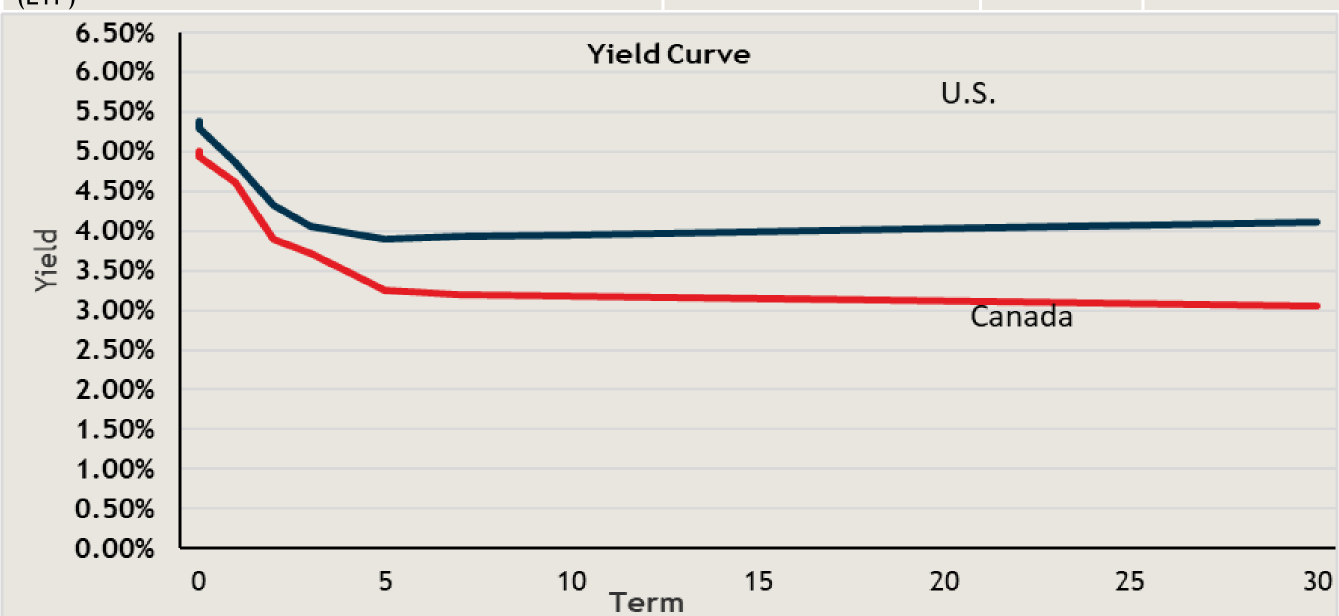
Company	Symbol	Time	Consensus EPS Estimate
Darden Restaurants Inc	DRI.N	BMO	1.73

Source: Refinitiv

Top News
Fixed Income

Canadian Key Rate	Last	Change bps		Last	Change bps
CDA o/n	5.00%	0.00	CDA 5 year	3.21%	-3.2
CDA Prime	7.20%	0.00	CDA 10 year	3.13%	-2.6
CDA 3 month T-Bill	5.03%	0.0	CDA 20 year	3.06%	-0.9
CDA 6 month T-Bill	4.93%	-1.0	CDA 30 year	2.97%	-0.8
CDA 1 Year	4.62%	1.0	5YR Sovereign CDS	39.6	
CDA 2 year	3.89%	-2.0	10YR Sovereign CDS	40.1	
US Key Rate	**Last**	**Change bps**		**Last**	**Change bps**
US FED Funds	5.25-5.50%	0.00	US 5 year	3.89%	-1.9
US Prime	8.50%	0.00	US 10 year	3.92%	-1.3
US 3 month T-Bill	5.24%	0.8	US 30 year	4.05%	-0.7
US 6 month T-Bill	5.31%	-0.2	5YR Sovereign CDS	48.02	
US 1 Year	4.92%	-1.3	10YR Sovereign CDS	55.57	
US 2 year	4.39%	-0.9			

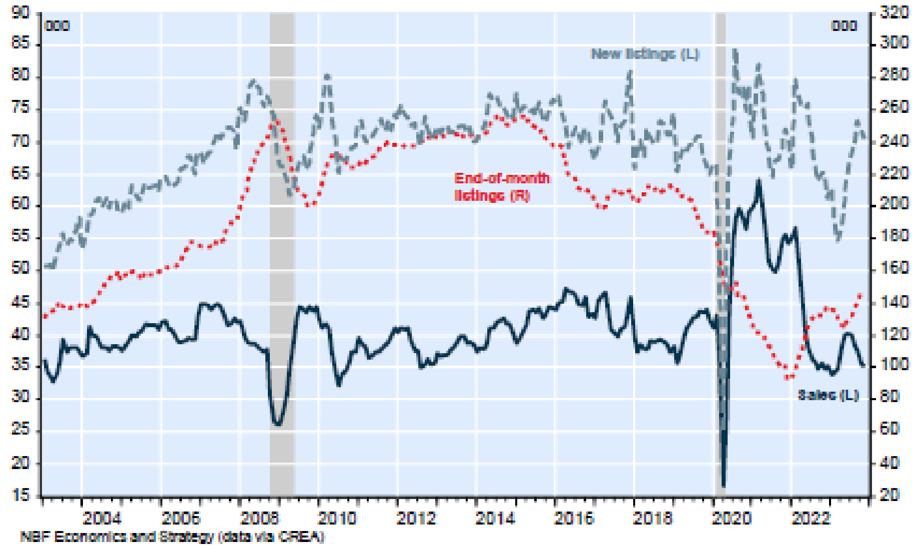
Preferred Shares Indicators	Last	Daily %	YTD
S&P Preferred Share Index	535.39	-0.17%	-1.65%
BMO Laddered Preferred Shares (ETF)	9.13	-0.35%	1.00%



Source: Refinitiv

Canada: Home sales showed first sign of stabilization in November

Home sales decreased 0.9% between October and November on a seasonally adjusted basis as financing conditions remain difficult for buyers, despite a reduction in mortgage interest rates during the month. While this was the fifth consecutive monthly decline for this indicator, it was still the smallest recorded since July. To us, this hints at a stabilization in the real estate market, at least in terms of transactions. Sales decreases were observed in 5 of the 10 provinces: Manitoba (-9.7%), B.C. (-5.5%), Quebec (-2.2%), Saskatchewan (-1.6%), and Alberta (-0.5%). On the other hand, increases were registered in P.E.I. (+11.6%), New Brunswick (+8.0%), Nova Scotia (+5.7%), Ontario (+1.5%), and Newfoundland (+0.9%). Looking ahead, activity is likely to remain limited in the housing market, notably due to difficult affordability conditions and the weakening labour market. However, the recent decline in long-term interest rates and the strong demographic growth across the country will provide some support.

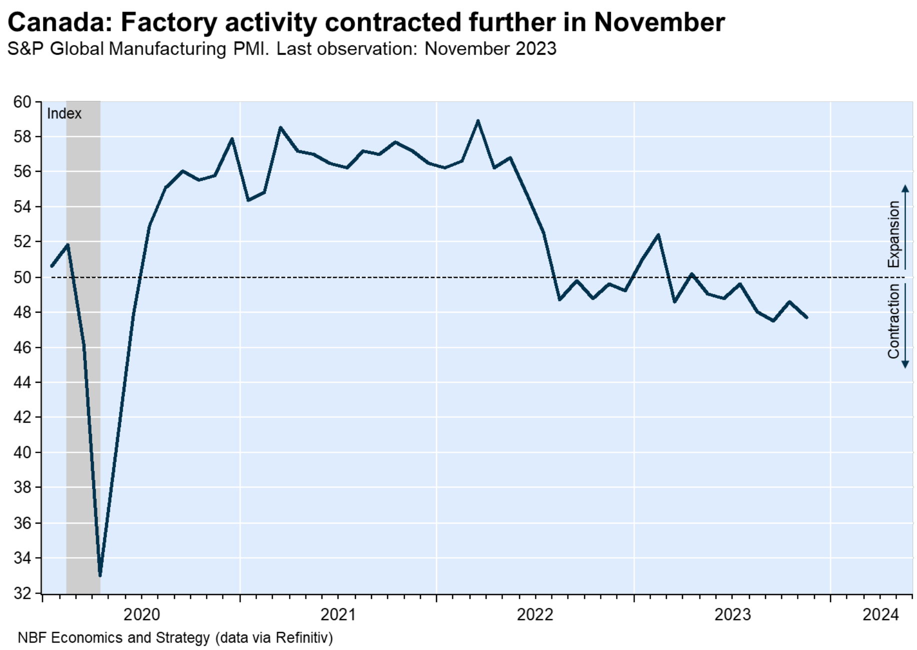


[Click here for full comments]

Snapshot – Canadian Manufacturing Sales (October)

Manufacturing sales fell 2.8% in October, 1 tick below consensus expectations calling for a -2.7% monthly decline. The prior month's result was revised up three ticks to +0.7%. Lower sales stemmed from non-durable (-3.8%) goods producing industries as well as durable goods (-1.8%) which also registered a pullback. On the non-durable goods front, the deterioration came mainly from petroleum/coal products (-10.3%), chemical (-3.0%) and food manufacturing (-1.2%). These losses more than offset gains in printing (+4.1%) and beverage/tobacco products (+1.3%). On the durable goods side, the decrease stemmed from losses in machinery (-6.6%), transportation (-2.4%) and computer/electronic product manufacturing (-15.0%) among others. These slides could not be offset by gains for fabricated metal products (+2.3%), wood products (+2.6%) and furniture (+1.9%) manufacturing. Focusing on the transportation equipment industry, the decline was the result of regressions for motor vehicles (-3.5%), motor vehicle parts (-6.0%), and ships/boats (-9.7%) while aerospace products (+6.9%) and railroads (+12.1%) posted improvements. In total, sales were down in 12 of the 21 industries covered. At the provincial level, five provinces recorded a monthly decrease with the biggest declines seen in Ontario (-4.1%), Alberta (-4.6%) and New Brunswick (-11.2%) while Nova Scotia (+4.4%) posted the largest increase. Quebec was flat in the month. With the price effect removed, total factory sales were down 2.2% in October while real inventories increased 1.2%. As a result, the real inventory-to-sales ratio increased to 1.78, the highest level outside of a recession on recorded data. The not seasonally adjusted capacity utilization rate of all manufacturing sectors fell from 78.6% in September to 77.4% in October.

Bottom line
Canadian manufacturing sales fell 2.8% in October, slightly higher than consensus expectations. The main contributors to the decrease were petroleum/coal products, machinery, and transportation. For the former, sales were down following three consecutive months of gains as both volumes and prices contributed to the decrease. Declining volumes stemmed in part from "maintenance activities in some refineries" according to Statistics Canada. All told, real sales were down 4.1% in the month. In similar fashion, machinery broke a three-month streak of gains, registering the largest drop since April 2020. Sales collapsed for industrial machinery while large declines were observed for agricultural, construction and mining machinery. Tighter credit conditions are surely curtailing outlays. Moreover, the transportation industry saw a decline in the month with mixed results within the sector. Although the motor vehicle sector is seeing effects from strikes at major plants in the U.S., the latter have been resolved and should normalize within the coming months. Back at the national level, the manufacturing sales report was also disappointing as witnessed by volume sales which regressed in month. They registered a 2.2% decline in October following a 0.3% decrease in September. After having registered flat growth in the third quarter, manufacturing shipments are on track for a significant decline in the last quarter of the year following one month of data. With the real inventory-to-sales ratio reaching an a new all-time (ex-pandemic) and slowing global demand, it remains to be seen if the sector will see growth in the coming months. Especially when you consider the timelier Canadian manufacturing PMI which remains in contraction territory.



Snapshot – U.S. Retail Sales (November)

In the **U.S., retail sales** rose 0.3% in November instead of edging down 0.1% as per consensus. The prior month's result, meanwhile, was revised downward, from -0.1% to -0.2%. Sales of motor vehicles/parts contributed positively to the headline print as they advanced 0.5% in the second month of Q4. Without autos, retail outlays rose a consensus-topping 0.2% as gains for sporting goods (+1.3%), non-store retailers (+1.0%), health/personal care items (+0.9%) and furniture (+0.9%) were only partially offset by declines for gasoline stations (-2.9%), miscellaneous items (-2.0%), electronics (-1.1%) and building materials (-0.4%). Outlays in restaurants and bars jumped 1.6%. In all, sales were up in 8 of the 13 categories surveyed. Core sales (i.e. sales excluding food services, auto dealers, building materials, and gasoline stations), which are used to calculate GDP, progressed 0.4% following a flat print the prior month.

Bottom line:
November's retail sales report came in a bit stronger than anticipated after accounting for revisions to the prior month's data. The increase in sales was modest overall but should be more impressive when expressed in real terms given the significant drop in the price of goods during the month (-0.7% according to the CPI report published on Tuesday). Sharply lower pump prices definitely acted as a drag on headline sales, with gasoline stations receipts dropping the most in 6 months. Excluding this category, retail sales would have increased a more convincing 0.6%. It is likely tough that the drop in pump prices allowed

consumers to reallocate some of their spending elsewhere, notably in bars and restaurants. And as this is the only non-goods category covered within the retail sales report, increased outlays in these establishments boded well for services spending during the month. Non-store retailers also registered a healthy increase in sales in November, a development likely linked to the growing popularity of the Cyber Monday sales event.

All in all, the November retail sales report was another compelling example of the resilience of the American consumer, whose spending continues to grow at a convincing pace, although less impressive than in the third quarter. Core sales are indeed tracking a 2.8% annualized increase in the fourth quarter, down from 6.2% in Q3 but still consistent with a healthy contribution to growth from households' goods spending.

UBS – US Economic Data: Core PCE tracking slower; claims fall as expected; retail sales look ok in November

Core PCE price tracking nudged down after import prices: now 0.05%

Adding information from import prices (international airfares) to data from yesterday's PPI and Tuesday's CPI had a small downward effect on our translation for November PCE prices. We now project headline PCE prices fell 0.07% in November (unchanged from yesterday), and core PCE prices moved up only 0.05% (down from 0.06% yesterday). Standard errors around these projections are 4 to 5 basis points. The incoming information would put 12-month inflation for headline PCE prices through November at 2.6% (2.63%) and for core PCE prices at 3.1% (3.14%).

Recall from yesterday's FOMC meeting, in yesterday's press conference Federal Reserve Chair Powell noted that the Federal Reserve Board staff was also expecting 12-month changes for headline and core PCE prices at 2.6% and 3.1% through November, the same as our estimated published yesterday morning. In addition, we would note that we have not changed our expected timing for the first 25 bp rate cut. We continue to expect a 25 bp rate cut at the March FOMC meeting.

Retail sales post decent November gain; prior months lower

Retail and food services sales posted a decent 0.3% increase in November, better than the modest decline we and consensus expected. Sales at the control group of stores moved up a better than expected 0.4% too. However, the preceding months' sales for both headline and control group sales were revised down a cumulative 0.2% in the report undoing some of the sheen of the better-than-expected November outturn.

In yesterday's press conference Chair Powell picked up on a joke we had made… with all the strength in goods spending, residential investment looks resilient perhaps because people need space to put all this stuff. Within the details of the report, non-store retailers, which includes on-line purchases, posted a 1.0% increase in November. Sporting goods sales rose 1.3%, as hockey season ramps in earnest, and clothing sales rose 0.6%. Eating out did well too, rising 1.6% in November on the back of the 0.6% October increase. Declining gas prices weighed on sales at gas stations, down 2.9% in November. Sales of electronics, building materials and supplies, and at department stores all declined last month. Motor vehicle and parts sales moved up, again kind of out of sync with the lightweight vehicle sales reported by the BEA. Overall, the report will nudge up our Q4 GDP tracking which was at 1-1/4 percent (saar), but not a lot. We also get inventory data later this morning.

Initial claims fall in line with our expectations

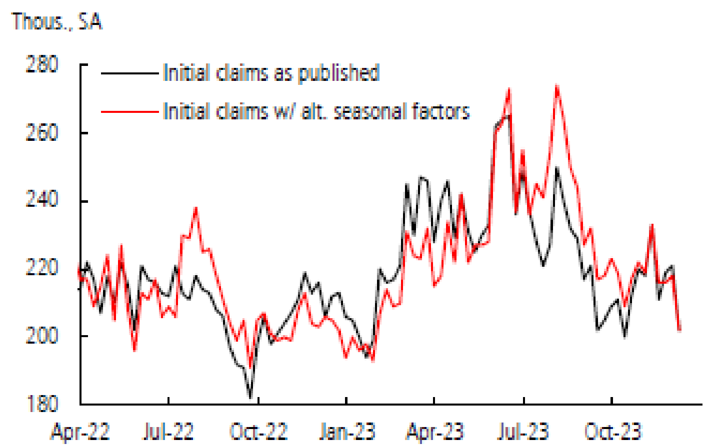
Initial claims for unemployment insurance fell back 19K to 202K in the week ending December 9, in line with our estimate (205K) and well below consensus (220K) expectations. Smoothing through the weekly volatility, the 4-week moving average moved down 8K to 213K. That is up from the recent trough near 206K in the week ending October 14, but still a relatively low level. This is often a volatile period of year for unemployment insurance claims, as post-Thanksgiving and Christmas seasonality tends not to be perfectly aligned with seasonal factors week after week. Last week, we wrote that we anticipated this week's drop because the seasonal factor's expectation seemed oddly off from what usually materialized in NSA data this week, historically.

Continuing claims for unemployment insurance moved up 20K to 1876K in the week ending December 2, retracing some of last week's decline. The reading was a little above our estimate (1870K) and a hair below consensus (1879K). Using our alternative seasonal adjustment, the general upward trend continues, consistent with hiring slowing and the stock of benefit recipients growing. As we have been writing, seasonal adjustment influenced by unusual pandemic moves in continuing claims have been impacting the contour of the published data series for the last year. As we show in the chart below comparing the series with our pre-covid seasonality with the current published data, the published series is currently trending higher into year-end, as it did last year. With our estimates of pre-covid seasonality, initial claims were also 202K, while continuing claims were 1857K.

Import prices fall but ex-fuels stalls

Import prices of petroleum and petroleum products plunged 7.1% in November, pulling down headline import prices 0.4% in November and 1.4% over the year. Stripping out fuels however, and import prices slipped -0.16% in November, and are down 0.4% over the 12 months. Some of that is being helped by imports of consumer goods ex-autos, down 0.1% over the year, and the 12-month change lingering in deflation since July.

Figure 2: Initial claims declined



Source: DoL, Haver, UBS

UBS – Global Strategy: 15 Essential Charts: Clear for Take-off or Bringing Forward Future Returns?

Powell's victory lap pivots '24 gains into '23

While saying it was 'too early to declare victory', Powell did point out (correctly) that the street got 2023 completely wrong. Consensus was worried about lower demand, but it turned out that it was stronger supply that drove inflation lower. Post supply-shock normalisation is now at a mature stage. Yet, the market, perhaps over-interpreting the Fed, now expects much more than the Fed does, in terms of both disinflation and rate cuts. And it does so within the context of already tight risk premia and strong growth expectations. We think the Fed's pivot shifts returns from 2024 to 2023. Our end-'24 targets for US 10y yield (3.6%) and the S&P500 (4850) are now only 35 bps and 1.8% away, respectively. We are not changing these.

Positioning helps near term

CTAs have now covered their shorts in both equities and bonds, but our model suggests they will further build their nascent long positions (Figure 1: CTAs have covered shorts, but will likely build longs). Sentiment has swung aggressively bullish, with the AAII net bull to bear ratio at 87%ile of a 10y distribution (Figure 2: The sentiment is bullish, but participation has been limited). Our quant crowding factors suggest flows / volumes haven't yet followed.

But risk premia & growth aren't such as saw a Q1 equities rally in the past

In the past 15 years, we saw > 5% Q1 S&P500 price returns on 7 occasions: 2010, 2012, 2013, 2017, 2019, 2021 and 2023. The current set-up for 2024 compares poorly to those occasions. Risk premia indicators like VIX, US HY spreads, equity risk premium are already considerably tighter than they were at the beginning of those high-return years. While US' business, consumer and housing confidence are softer in comparison to history, the market is categorically rejecting this weakness as temporary, and is pricing in strong earnings growth. We see the US economy as being more late cycle than mid cycle. That's not a sufficient condition for a recession, but it has tended to be one for mediocre equity returns.

Top News
Conference Calls

First Edition Call

This Week on TEAMS:

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

TUESDAY: Kyle Dahms, NBC Economist – **8:30 am English call** / **9h00 appel français**

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

THURSDAY: Rupert Merer, NBCFM Renewables Energy Analyst

– **8:30 am English call** / **9h00 appel français**

FRIDAY: Sidhu Baltej, NBCFM ESG Analyst – **8:30 am English call** **/** **9h00 appel français**

Research Services Publications (Links)

Research Services Reports

- Better than Bonds Canada - December 2023
- Better than Bonds U.S. - December 2023

Preferred Shares

- Preferred Shares - December 2023
- 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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