

MORNING NEWS CALL

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U.S. Edition

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TOP NEWS

• **A Fed soft landing for jobs means something else has to crack; so far it hasn't**

The healthy finances of U.S. banks, companies and households, trumpeted during the pandemic by Federal Reserve officials as a source of resilience, may be an obstacle to battling inflation as central bankers raise interest rates in an economy able so far to pay the price.

• **Tesla's China output decline trending deeper than Musk forecast, data and internal memos show**

Production at Tesla Shanghai factory is on track to fall by over a third this quarter from the first three months of the year as China's zero-COVID lockdowns caused deeper disruptions to output than Elon Musk had predicted.

• **Target raises quarterly dividend by 20% despite margin pressure**

Target raised its quarterly dividend by 20% to \$1.08 per share despite the big-box retailer earlier this week warning of weaker margins.

• **U.S. sets high bar to settle Facebook antitrust suit -FTC chair**

U.S. Federal Trade Commission Chair Lina Khan, who promised tougher antitrust enforcement, said she would not rule out a settlement with Meta's Facebook, which the agency sued in 2020, but indicated there was a high bar for any agreement.

• **Blackstone closes in on \$6.3 bln Crown bid after Australia approvals**

Australian gambling regulators have cleared private equity giant Blackstone to run the troubled casinos of Crown Resorts in the country's two largest cities, a crucial but largely expected step in its \$6.3 billion buyout.

BEFORE THE BELL

U.S. stock index futures rose, with Tesla and other growth stocks leading the gains. **European shares** were down ahead of the European Central Bank's policy meeting. In Asian equity markets, **Japan's Nikkei** ended up as easing of COVID-19 curbs alleviated concerns around regional economic growth, while **Chinese shares** closed lower weighed down by a decline in growth stocks. **Oil prices** were in the red. The **dollar** dipped, while **gold** prices were subdued on firmer **Treasury yields**.

STOCKS TO WATCH

Deals Of The Day

• **Devon Energy Corp:** The company said on Wednesday it would acquire the leasehold interest and related assets of RimRock Oil and Gas LP in the Williston Basin in North Dakota for \$865 million. RimRock is a portfolio company of funds managed by U.S. private equity powerhouse Warburg Pincus and is focused on the acquisition and development of North American oil and gas assets. RimRock has over 38,000 net acres of total land holdings in the Williston Basin. Devon said it intends to approve a 13% increase to the fixed quarterly dividend following the closing of the deal, expected in the third quarter. Devon said it expects to incur about \$100 million in capital expenditures in 2022 after closing of the deal.

IPOs

• **Eni SpA:** Italy's Eni plans to list its retail and renewables business named Plenitude on the Milan stock exchange to raise more resources for the group's move towards cleaner energy, the group said. Eni, which owns 100% of Plenitude, did not specify the amount of shares it would sell but added it would retain a majority stake in the unit after the initial public offering (IPO). "Partially selling the business will unlock significant value and accelerate its growth, helping Eni cut the Scope 3 emissions currently generated by our customers, a key step to achieving our net zero target," said Eni Chief Executive Claudio Descalzi in a statement. The IPO is planned for some time in the

coming weeks, Eni said. The IPO is consistent with Eni's strategic approach of creating dedicated entities with tailored business models focused on their customers with independent access to the capital markets.

In Other News

• **Alphabet Inc, Amazon.com, Apple Inc & Meta Platforms Inc:** U.S. Senator Amy Klobuchar and lawmakers from both parties said on Wednesday they had the Senate votes needed to pass legislation aimed at reining in the four tech giants, Meta's Facebook, Apple, Alphabet's Google and Amazon.com, and urged a vote be taken. Versions of the bill before the House and Senate would bar the companies from favoring their own businesses in search results and other ways. "We wouldn't be asking for a vote if we didn't think we could get 60 votes," said Klobuchar, who was flanked by Senator Chuck Grassley, a Republican who backs the bill, and House sponsors Representative David Cicilline, a Democrat, and Ken Buck, a Republican. In the Senate, bills generally need support from 60 senators to cut off debate and move to a vote on final passage. The Senate is expected to vote on the bill this summer, perhaps as early as late June, according to two sources familiar with the matter.

• **Apple Inc:** The company plans to fund loans for its forthcoming Apple Pay Later service off its corporate balance sheet, the company said on Wednesday. Apple said its treasury department will decide the exact mechanism it will use to fund the loans and funding sources may shift over time. Loans and creditworthiness decisions will be handled by a wholly owned subsidiary, Apple Financing LLC. Apple announced the pay-later service this week, offering to split purchases up into four equal payments over six weeks. The service will launch later this year along with Apple's latest operating systems for iPhones and iPads and will put it into competition with existing buy-now, pay-later firms such as Affirm Holdings Inc and Block Inc's Afterpay. Apple's pay-later loans will have zero interest and no fees of any kind. Separately, a U.S. judge on Wednesday dismissed a proposed class-action lawsuit accusing Apple of defrauding customers by selling iPhones and iPads whose processors proved vulnerable to two cybersecurity flaws first disclosed in 2018. U.S. District Judge Edward Davila in San Jose, California said customers failed to prove that they overpaid for their devices because Apple knowingly concealed defects, and provided security patches that made its devices significantly slower.

• **Blackstone Inc:** Australian gambling regulators have cleared the private equity giant to run the troubled casinos of Crown Resorts Ltd in the country's two largest cities, a crucial but largely expected step in its \$6.3 billion buyout. The Sydney-listed target that is 37% owned by billionaire James Packer has been under pressure for years since damaging inquiries found it enabled money laundering, while COVID-19 lockdowns and border closures battered its profit and shares. Crown has since backed Blackstone's buyout offer as a way for investors to exit what has become a volatile investment, while analysts have said the sheen of new ownership might speed up efforts to show regulators it has overhauled its governance. Regulators in Perth, Western Australia, where Crown operates its third casino, which is also under state supervision, have not made a decision about Blackstone. In a statement, Crown said only that Blackstone received two regulator approvals and was awaiting a third.

• **Boeing Co:** The next-generation presidential aircraft being built by Boeing risks further delay due to a tight labor market for mechanics and lower-than-expected security clearance rates, the investigative arm of Congress said on Wednesday. The need for Boeing to switch to an alternative supplier for some interior work was also cited in the report issued by the U.S. Government Accountability Office (GAO) as a major schedule risk. Air Force One - emblazoned with the American flag, the words "United States of America" and the seal of the office - is famous the world over as an airborne White House. The current aircraft has 4,000 square feet (372 square meters) of space on three levels, including a conference room and medical suite. "Boeing is experiencing aircraft mechanic workforce limitations due to a competitive labor market," GAO said in its report. "They said that an additional limitation is lower-than-planned security clearance approval rates for skilled workers needed to modify the aircraft."

• **British American Tobacco Plc:** The company said it was still working towards transferring its Russian business and that it was confident in delivering its financial targets irrespective of how long it takes to offload the unit. The maker of Lucky Strike and Newport cigarettes, which stuck to its 2022 revenue and earnings forecast, said annual global tobacco industry volume is seen down about 3% due to the uncertainty over the Ukraine-Russia conflict. The tobacco giant said the war in Europe was increasing global uncertainty and disruption, making inflationary pressures on supply chains worse and hitting consumption, while increasing costs.

• **Credit Suisse Group AG & State Street Corp:** The company's shares fell on growing skepticism about a takeover offer from U.S. financial giant State Street after a media report a day earlier boosted the heavily-short stock from a near 20-year low. The lack of any confirmation drove shares in Credit Suisse further down from highs hit on Wednesday. Analysts see any takeover as highly unlikely because of limited synergies and a number of risks ranging from capital costs to litigation. One area of potential interest for State Street could be the asset management business, said Deutsche Bank. The deal speculation comes as Credit Suisse delivered a third consecutive quarterly profit warning. Separately, Credit Suisse Chief Executive Thomas Gottstein called queries

over a potential takeover offer from State Street "really stupid", shutting down questions after a media report on the matter sent shares briefly spiking the day before.

- **General Motors Co:** The company will begin production of its Chevrolet Tracker SUV in Argentina next month, the U.S. automaker and the Argentine government said Wednesday. Shilpan Amin, a GM senior vice president and president of GM International, discussed production plans with Argentine President Alberto Fernandez in a meeting in Los Angeles, GM and the Argentine government said. "The company's goal is to export the new vehicle to other Latin American countries, mainly to Brazil and Colombia, where 80% of the production will be destined," the Argentine government said. A GM spokesman said the meeting "was a good opportunity today to update the government of Argentina on the progress of this important program and the economic benefit it will deliver to the country."
- **Meta Platforms Inc:** U.S. Federal Trade Commission Chair Lina Khan, who promised tougher antitrust enforcement, said she would not rule out a settlement with Meta's Facebook, which the agency sued in 2020, but indicated there was a high bar for any agreement. In an interview on Tuesday, she also criticized what she said was a large number of obviously illegal deals and added she was not a fan of agreements to remedy problematic mergers with asset sales. Nor does she like behavioral remedies, when companies pledge a particular policy change for a certain number of years. Asked about the likelihood of a settlement, Khan said: "We've laid out the relief that we think would be necessary. I think you can yourself calculate the likelihood of Facebook willingly settling for some of that relief."
- **Microsoft Corp:** The company said on Wednesday the company would stop enforcing existing non-compete clauses in the United States, while also committing to a civil rights audit of its workforce policies in 2023. The Redmond, Washington-based software firm said changes to the enforcement of non-compete clauses would not apply to the company's most senior leadership. Microsoft added the civil rights audit of its workforce policies and practices would be conducted by a third party and a report would be published. The software firm also aims to have salary ranges in all of the company's internal and external job postings across the U.S. by at least January 2023. It would also no longer include confidentiality language in its U.S. settlement and separation agreements that prohibits workers from disclosing conduct they perceive as illegal.
- **Shell Plc:** Workers on Shell 's Prelude floating liquefied natural gas (FLNG) facility off Western Australia are set to begin 12 days of industrial action on Friday over a pay fight, a union alliance said. Shell did not comment on what impact the mix of short work stoppages and bans on certain tasks, to run through June 21 might have on output at the 3.6 million-tonnes-a-year LNG facility. "Shell recognises the entitlement of all workers to exercise their rights, including the right to participate in industrial action," a Shell spokeswoman said in emailed comments. The Offshore Alliance, which combines the Australian Workers Union (AWU) and the Maritime Union of Australia, is pressing to stop Shell from hiring contract workers at lower pay than the company's own employees doing the same job. "We will not budge from that basic starting point," AWU national secretary Daniel Walton said in emailed comments.
- **Tesla Inc:** Production at the company's Shanghai factory is on track to fall by over a third this quarter from the first three months of the year as China's zero-COVID lockdowns caused deeper disruptions to output than Elon Musk had predicted. The U.S. automaker is aiming to make more than 71,000 vehicles at its Shanghai plant in June, according to an internal production memo seen by Reuters. Together with the 44,301 units it produced in April and May, according to data from China Passenger Car Association (CPCA), that would add up to around 115,300 units in the second quarter. In the first three months of the year, Tesla Shanghai manufactured 178,887 cars, according to the CPCA. Separately, Tesla was proceeding with an online hiring event in China and added two dozen new job postings for the country, a week after Elon Musk threatened job cuts at the electric car maker and said the company was "overstaffed" in some areas. Meanwhile, Tesla sold 32,165 China-made vehicles in May, including 22,340 for export, the CPCA said. That compares with 1,152 vehicles sold and none exported in April. The Tesla factory halted work for 22 days beginning late March to comply with a city-wide lockdown in Shanghai.
- **Walt Disney Co:** The company launched its steaming service in the Middle East and North Africa on Wednesday, vying for market share in a region where the population is young, but few people so far use such services. Disney+ said it had gone live in 16 Arab countries and was tailoring content for the region, including offering Arabic subtitles on most offerings, particularly popular content. Netflix currently leads in the region, with more than 6.8 million subscribers, according to Digital TV Research. Starzplay, an Abu Dhabi-based competitor, ranks second with just under 2 million, followed by Amazon with 1.4 million. Some competitors offer original Arabic content. Digital TV Research forecasts that Netflix will grow its base to 11 million by 2027 and that Disney+ will by then take the second spot with nearly 6.5 million.

• **Zendesk Inc:** New York-based activist investment firm Jana Partners said on Wednesday it intends to sue software company Zendesk after it failed to set a date for its 2022 annual meeting. The hedge fund said the "failure" was "inexcusable" and the company's board had "inflicted significant damage" on its shareholders. Since 2017, Zendesk's annual meeting has been held between May 16 and May 29, regulatory filings showed.

INSIGHT

As top U.S. retailers drown in goods, rotation to services picks up inflation slack

Major retailers like Target and Walmart may be cutting prices to clear overstocked warehouses, but for hotel operators the revenue is pouring in with daily room rates and occupancy that have broken above pre-pandemic levels.

ANALYSTS' RECOMMENDATION

- **Bank of Marin Bancorp:** Piper Sandler raises target price to \$36 from \$33, based on the company's focus to build more operating leverage into the model by using technology.
- **Campbell Soup Co:** Citigroup raises target price to \$50 from \$46, reflecting the company's upbeat Q3 results.
- **Devon Energy Corp:** Credit Suisse raises target price to \$82 from \$75, following the announcement of the acquisition of Bakken assets.
- **Scotts Miracle-Gro Co:** JPMorgan cuts rating to neutral from overweight, expecting lower full-year 2022 results.
- **Tesla Inc:** UBS raises rating to buy from neutral, citing a stronger operational outlook and ramping of new factories.

ECONOMIC EVENTS (All timings in U.S. Eastern Time)

0830 (approx.) **Initial jobless claims:** Expected 210,000; Prior 200,000

0830 (approx.) **Jobless claims 4-week average:** Prior 206,500

0830 (approx.) **Continued jobless claims:** Expected 1.305 mln; Prior 1.309 mln

COMPANIES REPORTING RESULTS

No major S&P 500 companies are scheduled to report.

CORPORATE EVENTS (All timings in U.S. Eastern Time)

0800 **Bilibili Inc:** Q1 earnings conference call

0800 **Nio Inc:** Q1 earnings conference call

0830 **Greif Inc:** Q2 earnings conference call

0900 **Amicus Therapeutics Inc:** Annual Shareholders Meeting

0900 **Kosmos Energy Ltd:** Annual Shareholders Meeting

0900 **Oscar Health Inc:** Annual Shareholders Meeting

0930 **Ameris Bancorp:** Annual Shareholders Meeting

0930 **PRA Group Inc:** Annual Shareholders Meeting

1000 **Alleghany Corp:** Shareholders Meeting

1000 **Best Buy Co Inc:** Annual Shareholders Meeting

1000 **CoStar Group Inc:** Annual Shareholders Meeting

1000 **Evolent Health Inc:** Annual Shareholders Meeting

1000 **Fleetcor Technologies Inc:** Annual Shareholders Meeting

1000 **Fuelcell Energy Inc:** Q2 earnings conference call

1000 **G-III Apparel Group Ltd:** Annual Shareholders Meeting

1000 **Keurig Dr Pepper Inc:** Annual Shareholders Meeting

1000 **Rapid7 Inc:** Annual Shareholders Meeting

1000 **Sinclair Broadcast Group Inc:** Annual Shareholders Meeting

1000 **SpartanNash Co:** Annual Shareholders Meeting

1000 **Warby Parker Inc:** Annual Shareholders Meeting

1100 **Amedisys Inc:** Annual Shareholders Meeting

1100 **Booking Holdings Inc:** Annual Shareholders Meeting

1100 **Chesapeake Energy Corp:** Annual Shareholders Meeting

1100 **Earthstone Energy Inc:** Annual Shareholders Meeting
 1100 **Eventbrite Inc:** Annual Shareholders Meeting
 1100 **Exact Sciences Corp:** Annual Shareholders Meeting
 1100 **Fate Therapeutics Inc:** Annual Shareholders Meeting
 1100 **Gates Industrial Corporation PLC:** Annual Shareholders Meeting
 1100 **Intra-Cellular Therapies Inc:** Annual Shareholders Meeting
 1100 **Salesforce Inc:** Annual Shareholders Meeting
 1100 **Sovos Brands Inc:** Annual Shareholders Meeting
 1100 **Titan International Inc:** Annual Shareholders Meeting
 1100 **Veeva Systems Inc:** Annual Shareholders Meeting
 1130 **Duolingo Inc:** Annual Shareholders Meeting
 1200 **DaVita Inc:** Annual Shareholders Meeting
 1200 **DigitalOcean Holdings Inc:** Annual Shareholders Meeting
 1200 **Harmonic Inc:** Annual Shareholders Meeting
 1200 **Impinj Inc:** Annual Shareholders Meeting
 1200 **Kennedy-Wilson Holdings Inc:** Annual Shareholders Meeting
 1200 **Lucid Group Inc:** Annual Shareholders Meeting
 1200 **Roku Inc:** Annual Shareholders Meeting
 1200 **Virgin Galactic Holdings Inc:** Annual Shareholders Meeting
 1230 **Diamondback Energy Inc:** Annual Shareholders Meeting
 1230 **Grand Canyon Education Inc:** Annual Shareholders Meeting
 1300 **Ares Management Corp:** Annual Shareholders Meeting
 1300 **Broadmark Realty Capital Inc:** Annual Shareholders Meeting
 1300 **Energy Recovery Inc:** Annual Shareholders Meeting
 1300 **Freeport-McMoRan Inc:** Annual Shareholders Meeting
 1300 **Meridianlink Inc:** Annual Shareholders Meeting
 1300 **ServiceNow Inc:** Annual Shareholders Meeting
 1300 **Vizio Holding Corp:** Annual Shareholders Meeting
 1330 **Granite Construction Inc:** Annual Shareholders Meeting
 1400 **NV5 Global Inc:** Annual Shareholders Meeting
 1400 **Semtech Corp:** Annual Shareholders Meeting
 1600 **Blackbaud Inc:** Annual Shareholders Meeting
 1600 **Red Rock Resorts Inc:** Annual Shareholders Meeting
 1630 **DocuSign Inc:** Q1 earnings conference call
 1700 **Vail Resorts Inc:** Q3 earnings conference call
 1730 **Silk Road Medical Inc:** Annual Shareholders Meeting

EX-DIVIDENDS

Albemarle Corp: Amount \$0.39
AMETEK Inc: Amount \$0.22
Anthem Inc: Amount \$1.28
Automatic Data Processing Inc: Amount \$1.04
Caleres Inc: Amount \$0.07
Capitol Federal Financial Inc: Amount \$0.20
CME Group Inc: Amount \$1.00
CNO Financial Group Inc: Amount \$0.14
Compass Minerals International Inc: Amount \$0.15
Dick's Sporting Goods Inc: Amount \$0.48
Exponent Inc: Amount \$0.24
Fidelity National Information Services Inc: Amount \$0.47
First Horizon Corp: Amount \$0.15
Gaming and Leisure Properties Inc: Amount \$0.70
Global Payments Inc: Amount \$0.25
Hanover Insurance Group Inc: Amount \$0.75
ICF International Inc: Amount \$0.14
Kforce Inc: Amount \$0.30
Kimberly-Clark Corp: Amount \$1.16
Knight-Swift Transportation Holdings Inc: Amount \$0.12
Kontoor Brands Inc: Amount \$0.46
Lear Corp: Amount \$0.77
ManTech International Corp: Amount \$0.41

Nasdaq Inc: Amount \$0.60
Nov Inc: Amount \$0.05
Occidental Petroleum Corp: Amount \$0.13
Omnicom Group Inc: Amount \$0.70
Pultegroup Inc: Amount \$0.15
Schneider National Inc: Amount \$0.08
Sealed Air Corp: Amount \$0.20
South Jersey Industries Inc: Amount \$0.31
Spire Inc: Amount \$0.68
Textron Inc: Amount \$0.02
Travelers Companies Inc: Amount \$0.93
Trico Bancshares: Amount \$0.25
UMB Financial Corp: Amount \$0.37
United Bankshares Inc: Amount \$0.36
VF Corp: Amount \$0.50
Victory Capital Holdings Inc: Amount \$0.25
WesBanco Inc: Amount \$0.34
Williams Companies Inc: Amount \$0.42

(All analysts' estimates are according to I/B/E/S Refinitiv data)

PICTURE OF THE DAY



U.S. President Joe Biden embraces Panama's first lady Yazmin Colon as first lady Jill Biden and Panama's President Laurentino Cortizo react during the ninth Summit of the Americas, in Los Angeles, California, June 8. REUTERS/Daniel Becerril

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(Compiled by Jesse Vinay and Shreya Sabharwal in Bengaluru)

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