

■ First to Market

August 20, 2024

Not An Exit

A daily market update from FS Insight – what you need to know ahead of opening bell

“The prescience, he realized, was an illumination that incorporated the limits of what it revealed – at once a source of accuracy and meaningful error.” – Frank Herbert, Dune

Overnight

Futures muted after S&P's eight-day winning streak; Fed in focus [RT](#)

U.S. intelligence says Iran was behind presidential campaign hack [FT](#)

AI deepfakes could sway voters and disrupt elections [FT](#)

A natural-gas glut is forcing drillers to dial back – again [WSJ](#)

US oil, gas M&A activity jumped 57% last year amid industry consolidation [RT](#)

Share of people who think they'll be out of a job in the next four months rises to record high per Fed survey [NY Fed](#)

U.S. manufacturers, retailers, and shipping agents pause new investments, expansion plans due to uncertainty over future tariffs on goods from China and other nations [NYT](#)

Trump says he may end EV tax credit; is open to naming Elon Musk as an adviser [RT](#)

Elon Musk's Twitter takeover is now the worst buyout for banks since the financial crisis [WSJ](#)



Coming to a cash-strapped company near you: creditor-on-creditor violence [WSJ](#)

Edgar Bronfman submits \$4.3 billion bid for Redstone's National Amusements, Paramount stake [WSJ](#)

AMD signs \$4.9bn deal to challenge Nvidia's AI infrastructure lead [FT](#)

AMD deal shows AI chip business isn't just about chips [WSJ](#)

Carl Icahn pays \$2 million to settle SEC investigation tied to short-seller report [WSJ](#)

Private Equity hopes for shot of adrenaline from interest-rate cuts [WSJ](#)

Nord Stream revelations ignite dispute between U.S. allies [WSJ](#)

Tax firm carrying on Arthur Andersen brand explores IPO [WSJ](#)

GM is cutting more than 1,000 workers from its software business [WSJ](#)

How Walmart became an advertising powerhouse [FT](#)

The food industry is hitting back at claims it is ripping off U.S. consumers [WSJ](#)

Western airlines slash flights to China [FT](#)

Boeing is in crisis, Airbus is struggling to power ahead [WSJ](#)

Alaska Air, Hawaiian Airlines clear key antitrust hurdle [WSJ](#)

AstraZeneca is a cancer leader; obesity could be a bonus [WSJ](#)

National Association of Realtors names new CEO [WSJ](#)

Harley-Davidson changes DEI policy following activist pressure [WSJ](#)

Chinese developer issues \$9.8bn of new debt in restructuring deal [FT](#)

Rockefeller Center reinvention aims to buck Midtown malaise [WSJ](#)

Canadian group targets 7-Eleven owner in Japan's biggest foreign takeover approach [FT](#)

Pressure to ban mobile phones – restrictions on which could improve students' performance – intensifies in America's schools [FT](#)



The 50-year-old technology that brands and retailers are trying to quit [WSJ](#)

Collisions tear holes in U.S. ally's ships as tensions flare in South China Sea [WSJ](#)

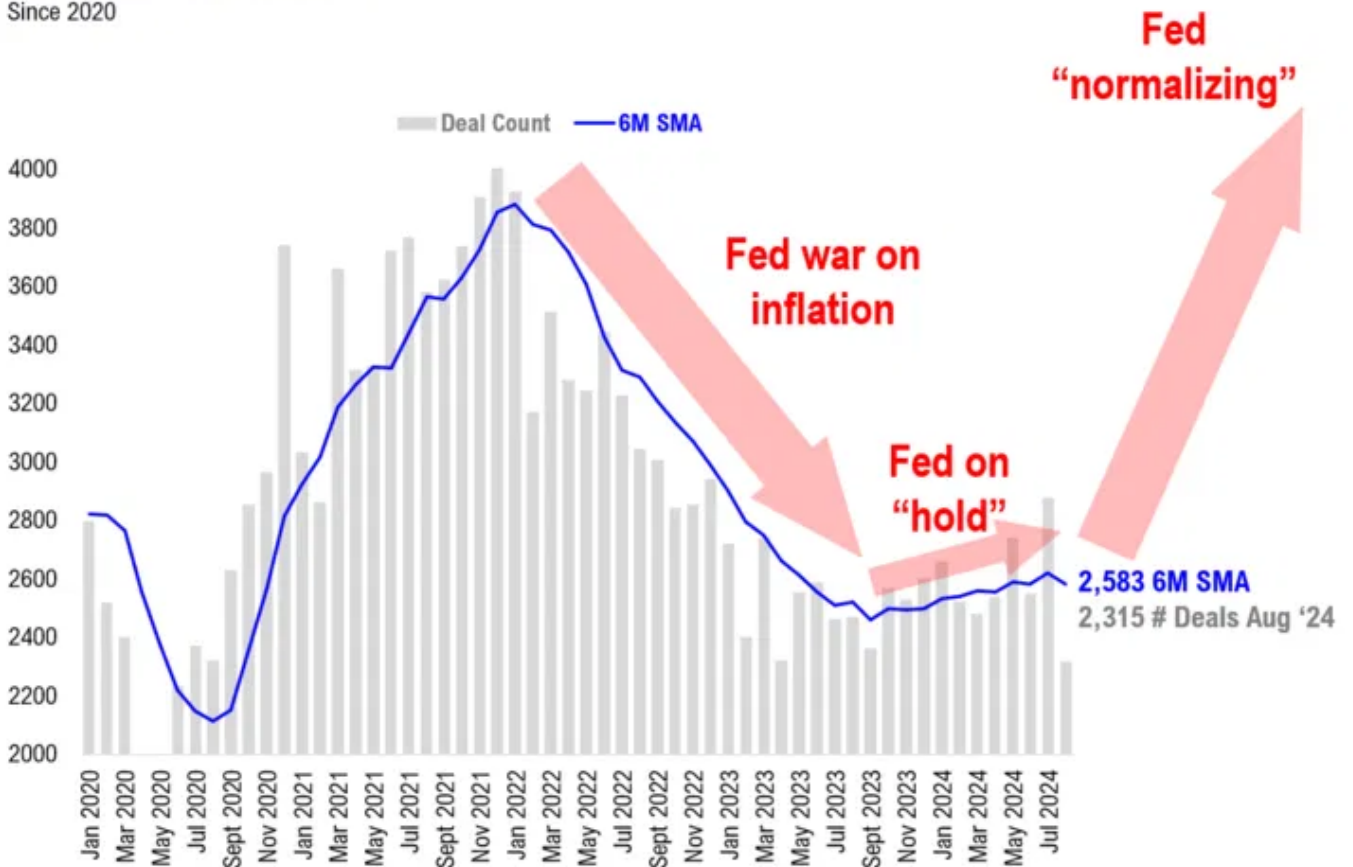
George Santos pleads guilty to fraud, identity theft [WSJ](#)

Top banker, lawyer among those missing in yacht sinking off Sicily [WSJ](#)

Phil Donahue, daytime talk-show pioneer, dies at 88 [WSJ](#)

Chart of the Day

Total # M&A Deals by Month
Since 2020



Source: Fundstrat, Bloomberg

*Current period value is adjusted based on Time Elapsed in period



MARKET LEVELS

Overnight

S&P Futures +6 ▲ point(s) (+0.1% ▲)

Overnight range: -4 ▼ to +11 ▲ point(s)

APAC

Nikkei +1.8% ▲

Topix +1.11% ▲

China SHCOMP -0.93% ▼

Hang Seng -0.33% ▼

Korea +0.83% ▲

Singapore +0.44% ▲

Australia +0.22% ▲

India +0.57% ▲

Taiwan +0.09% ▲

Europe

Stoxx 50 +0.32% ▲

Stoxx 600 +0.07% ▲

FTSE 100 -0.65% ▼

DAX +0.12% ▲

CAC 40 +0.23% ▲

Italy +0.11% ▲

IBEX +0.05% ▲

FX

Dollar Index (DXY) -0.05% ▼ to 101.83

EUR/USD -0.03% ▼ to 1.1082



GBP/USD +0.14% ▲ to 1.3009
USD/JPY -0.12% ▼ to 146.41
USD/CNY +0.05% ▲ to 7.1434
USD/CNH +0.09% ▲ to 7.1401
USD/CHF -0.36% ▼ to 0.8597
USD/CAD -0.15% ▼ to 1.3614
AUD/USD +0.03% ▲ to 0.6733

Crypto

BTC +2.98% ▲ to 60867.7
ETH +1.68% ▲ to 2660.83
XRP +2.45% ▲ to 0.6096
Cardano +2.51% ▲ to 0.3437
Solana +1.52% ▲ to 146.54
Avalanche +4.1% ▲ to 22.1
Dogecoin +4.57% ▲ to 0.1052
Chainlink +3.18% ▲ to 10.45

Commodities and Others

VIX +1.71% ▲ to 14.9
WTI Crude -1.02% ▼ to 73.61
Brent Crude -0.42% ▼ to 77.33
Nat Gas -0.22% ▼ to 2.23
RBOB Gas -0.71% ▼ to 2.248
Heating Oil -0.75% ▼ to 2.247
Gold +0.67% ▲ to 2521.07
Silver +0.78% ▲ to 29.68
Copper +0.29% ▲ to 4.192

US Treasuries



1M -0.3bps ▼ to 5.3363%
3M -3.2bps ▼ to 5.1611%
6M -6.8bps ▼ to 4.9006%
12M -2.2bps ▼ to 4.4748%
2Y -1.1bps ▼ to 4.055%
5Y -0.5bps ▼ to 3.7516%
7Y -0.0bps ▼ to 3.7866%
10Y flat at 3.8711%
20Y flat at 4.2341%
30Y +0.5bps ▲ to 4.1276%

UST Term Structure

2Y-3 ▼M Spread narrowed 0.2bps to -113.7 ▼ bps
10Y-2 ▼Y Spread widened 1.1bps to -18.8 ▼ bps
30Y-10 ▼Y Spread widened 0.5bps to 25.5 bps

Yesterday's Recap

SPX +0.97% ▲
SPX Eq Wt +0.76% ▲
NASDAQ 100 +1.32% ▲
NASDAQ Comp +1.39% ▲
Russell Midcap +0.83% ▲
R2k +1.19% ▲
R1k Value +0.72% ▲
R1k Growth +1.19% ▲
R2k Value +1.18% ▲
R2k Growth +1.21% ▲
FANG+ +1.73% ▲
Semis +1.88% ▲
Software +1.15% ▲
Biotech +3.15% ▲



Regional Banks +1.15% ▲ SPX GICS1 Sorted: Tech +1.44% ▲
 Comm Srvcs +1.44% ▲
 Cons Disc +1.14% ▲
 SPX +0.97% ▲
 REITs +0.64% ▲
 Healthcare +0.63% ▲
 Fin +0.61% ▲
 Utes +0.59% ▲
 Indu +0.59% ▲
 Materials +0.5% ▲
 Energy +0.42% ▲
 Cons Staples +0.32% ▲

USD HY OaS

All Sectors -6.0bp ▼ to 370bp
 All Sectors ex-Energy -5.8bp ▼ to 344bp
 Cons Disc -5.5bp ▼ to 326bp
 Indu -7.2bp ▼ to 272bp
 Tech -7.7bp ▼ to 353bp
 Comm Srvcs -6.5bp ▼ to 644bp
 Materials -5.3bp ▼ to 346bp
 Energy -6.2bp ▼ to 294bp
 Fin Snr -5.6bp ▼ to 327bp
 Fin Sub -3.5bp ▼ to 239bp
 Cons Staples -6.8bp ▼ to 314bp
 Healthcare -4.9bp ▼ to 401bp
 Utes -5.1bp ▼ to 218bp *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
8/21	2PM	Jul 31 FOMC Minutes	n/a	0.0
8/22	9:45AM	Aug P S&P Manu PMI	49.7	49.6



DATE	TIME	DESCRIPTION	ESTIMATE	LAST
8/22	9:45AM	Aug P S&P Srvcs PMI	54.0	55.0
8/22	10AM	Jul Existing Home Sales	3.93	3.89
8/22	10AM	Jul Existing Home Sales m/m	1.03	-5.35
8/23	10AM	Jul New Home Sales	625.0	617.0
8/23	10AM	Jul New Home Sales m/m	1.3	-0.6
8/26	8:30AM	Jul P Durable Gds Orders	3.9	-6.7

MORNING INSIGHT

Good morning!

The number of mergers has been climbing in 2024 – a sign of rising CEO confidence. When the Fed begins rate cuts, this should boost deal activity, supporting our case for small-caps: \$IWM.

More in today’s Macro Minute video, linked [HERE](#).

TECHNICAL

As Mark Newton is on break, there are no new reports or videos currently.



Reasons for Optimism in August

- Technology now nearing former lows from 2024 while the broader market has shown minimal true evidence of deterioration.
- USDJPY now seems to be nearing support and could bounce.
- Volume dispersion as 90% of volume fell into Declining stocks and produced just our second “90% Down Day” of 2024.
- Elliott-wave structure still shows the move from mid-July as being part of an ABC corrective structure, and should lead back to highs
- Sentiment polls such as “Fear and Greed” have now moved into “Extreme Fear” territory while the VIX pushed above 60 briefly on Monday
- -Last week brought about a move back to new all-time highs for SPDR Select Healthcare ETF (\$XLV) while Invesco’s Equal-weighted Financials, and Industrials ETF’s (\$RSPF, \$RSPN respectively) both moved to new highs one week prior.
- Weekly charts of MSFT, AAPL, AMZN, META, NVDA, and GOOGL have not shown much intermediate-term technical deterioration.
- Cycle Composite of SPX shows this selloff to be likely completed by 8/19 at the latest ahead of a sharp rally back to highs into mid-September.
- Seasonality shows strong August performance in Election years, and normally in 2H following a strong first half. Our current August performance shows -6% returns over the first three days of August. I expect the back half of August to prove much more positive.

Source: Fundstrat

Click [HERE](#) for more.

CRYPTO



The new “BitVM2” [paper](#) from Robin Linus and his team, an update from their previous BitVM paper, represents a potentially significant advancement in making Bitcoin more programmable. A BitVM Bridge allows users to safely transfer their Bitcoin to a rollup and withdraw it, with shorter lock-up periods and smaller upfront capital requirements. A key feature in the BitVM2 update is “permissionless challenging,” which allows anyone to question suspicious transactions, as opposed to a fixed set of operators. Most BTC bridges are controlled by multisigs that require a t-of-n honest majority, whereas the BitVM architecture has a 1-of-n security model, because anyone can challenge a malicious action and prevent theft. BitVM2 also reduces the amount of collateral operators need to lock up and shortens the time it must be held, with the verification process falling from 70 to just 3 on-chain transactions.

Bitwise has [expanded](#) its presence into Europe with the acquisition of London-based crypto ETP issuer ETC Group, which manages over \$1 billion in assets. This move adds nine European-listed crypto ETPs to Bitwise’s portfolio, including the largest physically backed Bitcoin ETP, as well as products for #ETH, #SOL, and #XRP. With this acquisition, Bitwise’s total assets under management surpass \$4.5 billion, building on a successful year marked by the launch of two major spot Bitcoin and Ethereum ETPs. Bitwise plans to strategically grow ETC Group’s platform in Europe, further cementing its role as a leading global crypto asset manager.

Click [HERE](#) for more.

First News

An Ungraceful Taxit. A controversial corporate strategy caught the attention of both the public and of government officials around the mid-2010s. Many U.S. companies began relocating their official headquarters abroad – not for operational reasons, but to reduce their tax burden. The practice, known as a tax inversion, sparked intense debate in corporate-finance circles and led to a significant confrontation between major corporations and the U.S. government.

In case you're wondering, tax inversions involve a U.S. company merging with a foreign entity and subsequently moving its legal headquarters to that foreign country. The primary motivation? Substantial tax savings. It didn't help that in the run-up to the period of the greatest tax-inversion activity, the U.S. maintained one of the world's highest corporate tax rates, at ~35%. By relocating to countries with more favorable tax environments, such as Ireland or the Netherlands, these companies could dramatically reduce their tax obligations.

The moves were transparent: most companies maintained their core business activities and management in the United States, changing only their official address. The strategy allowed them to significantly reduce their tax liabilities without substantially altering their business practices – if at all.

Several prominent corporations pursued tax inversions, namely:

1. Pfizer-Allergan: In 2015, pharma giant Pfizer attempted a \$160 billion merger with Ireland-based Allergan, aiming to relocate its headquarters to Ireland and book substantial tax savings.
2. Burger King-Tim Hortons: Burger King's 2014 merger with Canadian coffee chain Tim Hortons also drew attention for its cozy premise: move the HQ next door (Canada) reap lower tax rates.
3. Medtronic-Covidien: Medical-device manufacturer Medtronic merged with Irish company Covidien in 2015, relocating its headquarters to the Emerald Isle to save some major green.

While financially advantageous, these corporate strategies were sure to spark significant political and social controversy, which they did. Critics argued that the companies were evading their fair share of U.S. taxes – a sentiment that resonated with many, including government officials.

How not to merge

In the meantime, tax inversions were only gaining in popularity, and so the U.S. government began to respond. The Obama administration was particularly outspoken, contending that these moves unfairly shifted the tax burden to smaller businesses and individuals lacking the resources for such complex financial maneuvers.

In 2014, the Treasury Department implemented new regulations designed to diminish the appeal of tax inversions. The rules aimed to close the loopholes that companies had been exploiting. Still, the corporate sector demonstrated considerable ingenuity, continually finding new ways to circumvent regulations. The watershed moment happened in 2016, when the Treasury introduced more stringent regulations specifically targeting the Pfizer-Allergan merger. The new rules significantly complicated the use of inversions for tax avoidance, ultimately leading to the cancellation of the Pfizer-Allergan deal.

This regulatory crackdown, combined with mounting public criticism, effectively halted the tax inversion trend. In 2017, the Tax Cuts and Jobs Act finally eliminated the incentive at the heart of the scheme by reducing the U.S. corporate tax rate from 35% to 21%, enhancing the U.S.'s international competitiveness and giving companies precious few reasons to relocate overseas.

Any physical person who happens to be facing tax bills at the level of some large corporations (or small countries), it may help to know of the IRS's Eduardo Saverin Rule, which is part of the expatriation tax provisions in the U.S. tax code.

It was named after one of the co-founders of Facebook, who renounced his U.S. citizenship in 2012, shortly before Facebook's IPO, in order to avoid paying taxes on a massive windfall. At one point, Saverin commanded *a third of Facebook shares*, which he got in return for a \$30,000 cash infusion into the then-nascent company, which it needed to pay for crucial servers. Saverin's cut-and-bail on his country of birth was widely perceived as an attempt to avoid paying hefty U.S. capital gains taxes on his Facebook shares.

In response to his and similar cases, Congress enacted Section 877A of the Internal Revenue Code, which imposes what is essentially an exit tax on certain individuals who give up their citizenship to avoid paying U.S. taxes. While not created specifically for Saverin, the provision gained renewed attention and the informal moniker *The Eduardo Saverin Rule* due to his high-profile case.

Under this rule, 'covered expatriates' – U.S. citizens or long-term residents who renounce their citizenship or green card, and who meet certain income-tax liability or net-worth thresholds – are treated as if they sold all their worldwide assets at fair market value on the day before expatriation. They must pay U.S. tax on the deemed gain, subject to an exclusion amount (adjusted annually for inflation). This has been a [public-service announcement](#). [GRIT](#)

Disclosures

This research is for the clients of FS Insight only. FSI Subscription entitles the subscriber to 1 user, research cannot be shared or redistributed. For additional information, please contact your sales representative or FS Insight at fsinsight.com.

Conflicts of Interest

This research contains the views, opinions and recommendations of FS Insight. At the time of publication of this report, FS Insight does not know of, or have reason to know of any material conflicts of interest.

General Disclosures

FS Insight is an independent research company and is not a registered investment advisor and is not acting as a broker dealer under any federal or state securities laws.

FS Insight is a member of IRC Securities' Research Prime Services Platform. IRC Securities is a FINRA registered broker-dealer that is focused on supporting the independent research industry. Certain personnel of FS Insight (i.e. Research Analysts) are registered representatives of IRC Securities, a FINRA member firm registered as a broker-dealer with the Securities and Exchange Commission and certain state securities regulators. As registered representatives and independent contractors of IRC Securities, such personnel may receive commissions paid to or shared with IRC Securities for transactions placed by FS Insight clients directly with IRC Securities or with securities firms that may share commissions with IRC Securities in accordance with applicable SEC and FINRA requirements. IRC Securities does not distribute the research of FS Insight, which is available to select institutional clients that have engaged FS Insight.

As registered representatives of IRC Securities our analysts must follow IRC Securities' Written Supervisory Procedures. Notable compliance policies include (1) prohibition of insider trading or the facilitation thereof, (2) maintaining client confidentiality, (3) archival of electronic communications, and (4) appropriate use of electronic communications, amongst other compliance related policies.

FS Insight does not have the same conflicts that traditional sell-side research organizations have because FS Insight (1) does not conduct any investment banking activities, and (2) does not manage any investment funds.

This communication is issued by FS Insight and/or affiliates of FS Insight. This is not a personal recommendation, nor an offer to buy or sell nor a solicitation to buy or sell any securities, investment products or other financial instruments or services. This material is distributed for general informational and educational purposes only and is not intended to constitute legal, tax, accounting or investment advice. The statements in this document shall not be considered as an objective or independent explanation of the matters. Please note that this document (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject



to any prohibition on dealing ahead of the dissemination or publication of investment research. Intended for recipient only and not for further distribution without the consent of FS Insight.

This research is for the clients of FS Insight only. Additional information is available upon request. Information has been obtained from sources believed to be reliable, but FS Insight does not warrant its completeness or accuracy except with respect to any disclosures relative to FS Insight and the analyst's involvement (if any) with any of the subject companies of the research. All pricing is as of the market close for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, risk tolerance, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies. The recipient of this report must make its own independent decision regarding any securities or financial instruments mentioned herein. Except in circumstances where FS Insight expressly agrees otherwise in writing, FS Insight is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice, including within the meaning of Section 15B of the Securities Exchange Act of 1934. All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client website, fsinsight.com. Not all research content is redistributed to our clients or made available to third-party aggregators or the media. Please contact your sales representative if you would like to receive any of our research publications.

Copyright © 2024 FS Insight LLC. All rights reserved. No part of this material may be reprinted, sold or redistributed without the prior written consent of FS Insight LLC.