Cisco Buys Splunk - RIA

In a $28 billion all-cash deal, Cisco (CSCO) is acquiring Splunk (SPLK). Splunk helps companies monitor and reduce cybersecurity risks. They also help companies resolve hack-related technical issues quickly. Cisco has acquired four other cybersecurity firms this year as they grow their footprint in the high-demand cybersecurity industry. Cybersecurity products complement Cisco?s software business lines and telecommunications and networking equipment products. Some analysts offer caution, thinking Cisco paid too high a price for Splunk. Regulatory hurdles must also be dealt with before the purchase can occur.

As is typical with buyouts, the market?s initial reaction was negative, with Cisco shares opening about 4% lower. Splunk traded almost 20% higher. While the market may initially frown on the deal, Cisco thinks Splunk offers significant synergies, leading to more growth. Per CNBC: ?*Cisco expects the deal to be cash flow positive and gross margin accretive in the first year following the closing of the acquisition; it will be accretive to Cisco?s non-GAAP earnings per share by the second year. Robbins (Cisco?s CEO) expected organizational synergies to become clear and impactful within 12 to 18 months*.?


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Cisco Systems, Inc. · 1D
O53.41 H54.10 L53.02 C53.24 −2.26 (−4.07%)
Volume 11.047M
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What To Watch Today

Earnings

- *No notable earnings releases today.*

Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
FRIDAY, SEPTEMBER 22						
13:45	USD S&P Global Composite PMI(Sep) PREL		-	-	-	50.2
13:45	USD S&P Global Manufacturing PMI(Sep) PREL		-	-	48	47.9
13:45	USD S&P Global Services PMI(Sep) PREL		-	-	50.6	50.5
17:00	USD Baker Hughes US Oil Rig Count		-	-	-	515
20:30	USD CFTC Gold NC Net Positions		-	-	-	$123.9K
20:30	USD CFTC Oil NC Net Positions		-	-	-	326.9K
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Market Trading Update

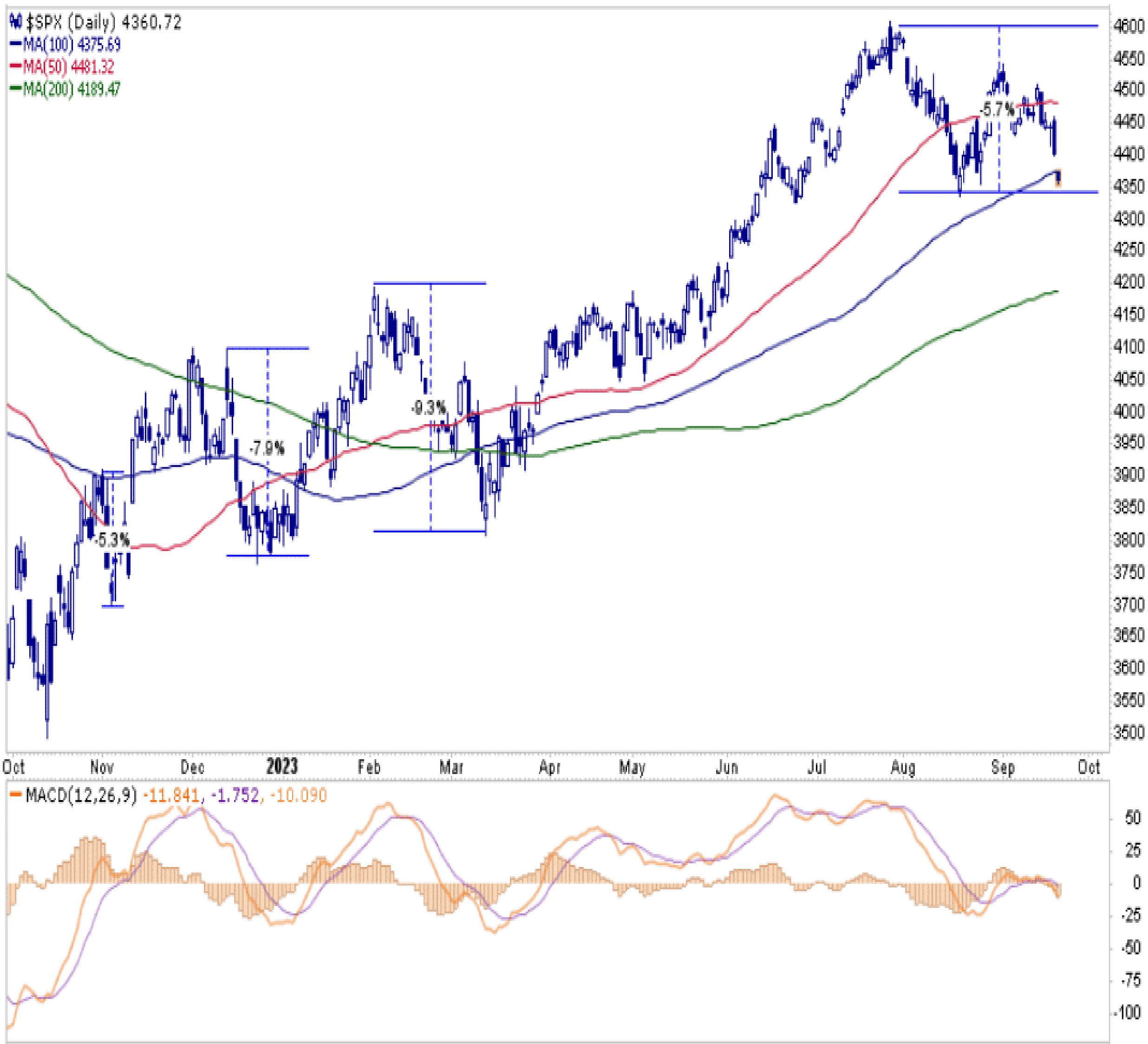
The September weakness remains as the market took out support at the 100-DMA yesterday. The market is oversold on a short-term basis and is testing minor support from June. A break below that support will bring the 200-DMA into focus and stretch the current decline to more extreme measures. Continue to manage exposures for now, but with September coming to a close and most of the data behind us before earnings season starts, a rally attempt today or Monday will not be surprising.

TradingView

Putting The Market Decline Into Perspective

The recent market decline elicits fear-mongering on Twitter and generates concerning headlines in traditional media outlets. To help analyze the recent downdraft, we share the graph below of the S&P 500. The graph charts the rally starting at the mid-October 2022 lows. As highlighted, the recent correction is the fourth one since the rally began almost a year ago. The current decline of about 6% from recent highs aligns with the prior sell-offs ranging from 5.3% to 9.3%. Thus far, the decline appears to be a natural and healthy pause in an upward trend. Additionally, there is currently a positive divergence in the MACD. As shown below the graph, the MACD is higher than the early August low despite the price being about the same level.

While we are optimistic this recent weakness is a consolidation before another leg higher, we are cognizant that the S&P 500 is below its 50dma and just broke its 100dma. That said, it is still about 5% above its 200dma. Further caution is warranted if the index breaks the 200dma. In addition to technical levels, we are also monitoring interest rates and oil prices, which are weighing on investors sentiment.


$SPX (Daily) 4360.72
MA(100) 4375.69
MA(50) 4481.32
MA(200) 4189.47
-5.3%
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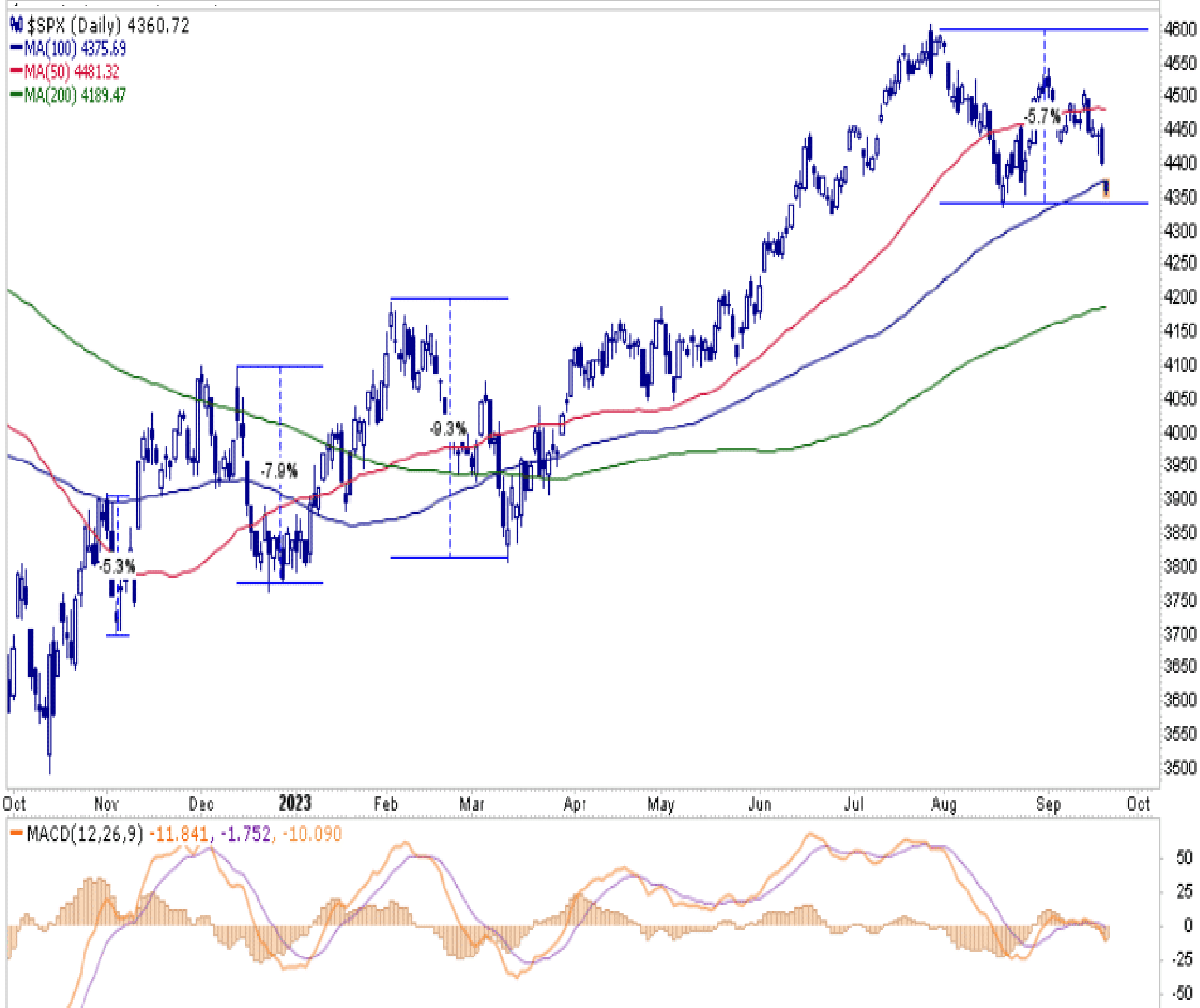
-9.3%
-5.7%
Oct Nov Dec 2023 Feb Mar Apr May Jun Jul Aug Sep Oct
MACD(12,26,9) -11.841, -1.752, -10.090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Bank Of England Increases QT

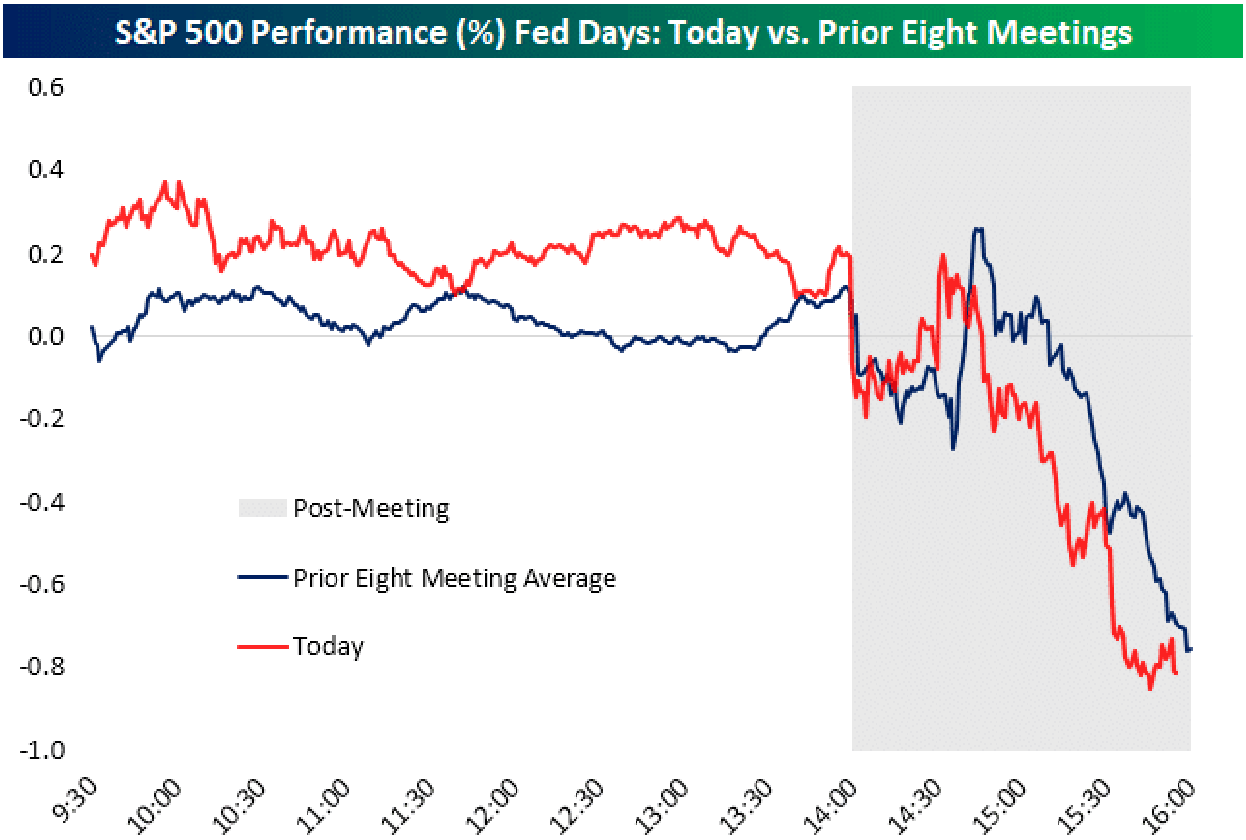
Last week, we discussed how the ECB unexpectedly increased rates by 0.25% but effectively said their rate hiking cycle is likely done. The Fed followed on Wednesday and did not hike rates, but it maintains a bias toward hiking. The Bank of England (BOE) surprised markets by not hiking rates as was largely expected, but they did increase their pace of QT.

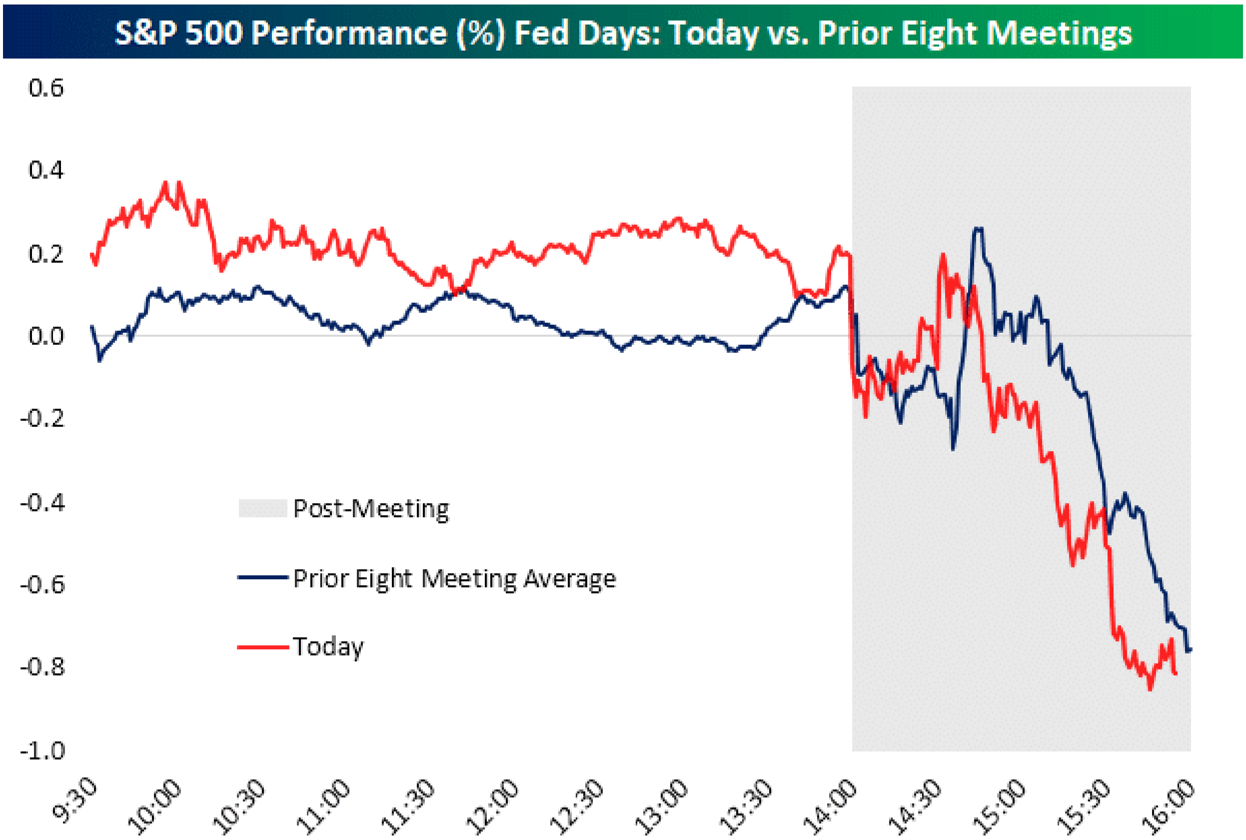
Three central banks and three distinct actions. Europe and England are dealing with high inflation and poor economic growth. As such, they are both reluctant to keep hiking rates. Conversely, the U.S. has seen its inflation rate fall quicker than Europe and England, while its economic activity has been more robust. As their monetary policies start to diverge, the volatility in the currency markets is likely to increase. The U.S. dollar index, as shown below, is up to six-month highs. A stronger dollar results domestically in deflationary price pressures from imports. At the same time, it raises the cost of dollar borrowing for foreign companies. Given the heavy reliance on said dollar funding, the stronger dollar will, in addition to prior rate hikes, act as a further headwind for foreign economic growth.

Wednesday?s Fed Day Mirrored Prior Fed Days

Another FOMC meeting and the same market results as prior meetings. It is stunning how Wednesday?s price action tracked the average from the prior eight meetings. The graph below is courtesy of Bespoke. As it shows, the market sells off as the Fed releases its statement at 2 p.m. ET. It then rallies back during the Chairman?s press conference, only to sell off more deeply following his statements.

In the ten days following the prior eight meetings, the S&P was up 1% on average. The maximum gain was 5%, and the largest loss was 4%. Five instances produced positive results, leaving three with negative returns.





Tweet of the Day

Charles V Payne
@cvpayne

Monster deal $CSCO to buy $SPLK $157 a chare i cash - these kinds of deals can be industry game-changers

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> *If you found this blog useful, please send it to someone else, share it on social media, or contact us to set up a meeting.*

Post Views: 4

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