

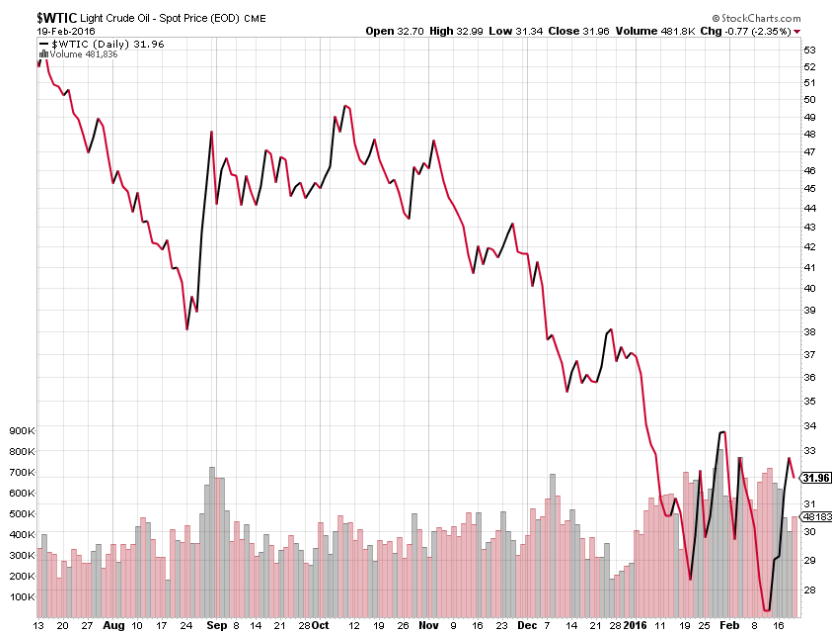
MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD


WEEK OF FEBRUARY 22, 2016

What started off as a strong week in the stock market last week — moving higher like a balloon released from a child’s grasp — gave way to the weight of gravity as the lift providing air began to leak from that balloon. The same can be said with what happened to oil prices last week, as doubts emerged over the production accord between OPEC and several other countries, which maintains record-level oil production volumes that were established this past January.

Adding even more gravitational pull to oil prices, we learned that Iran would be able to continue its production ramp, and that raised eyebrows even high over the likelihood this production accord would face even more problems. As we’ve seen in the past, when oil prices collapse these agreements tend to be fraught with side dealings. Time will tell if that once again turns out to be the case.



Also taking some of the wind out of the oil sail for the market last week was the report from the **U.S. Energy Information Administration** showing U.S. crude stockpiles rose by 2.1 million



Thematic Signals

- [Protesters Disrupt Water Supplies to India's Capital](#)** *(Scarce Resources)*
- [Goldman Sachs: More and More People Who Use Airbnb Don't Want to Go Back to Hotels](#)** *(Replacement / Demand)*
- [Verizon Has Flipped for Video](#)** *(Connected Society / Content is King)*
- [Volvo Will Sell Cars With Smartphone Keys Starting In 2017](#)** *(Connected Society)*
- [Apple Sees Value in Its Stand to Protect Security](#)** *(Safety & Security)*
- [U.S. Consumer Prices Flat in January, but Offer Glimmer of Inflation](#)** *(Cashstrapped Consumer)*



ABOUT THE MONDAY MORNING KICKOFF

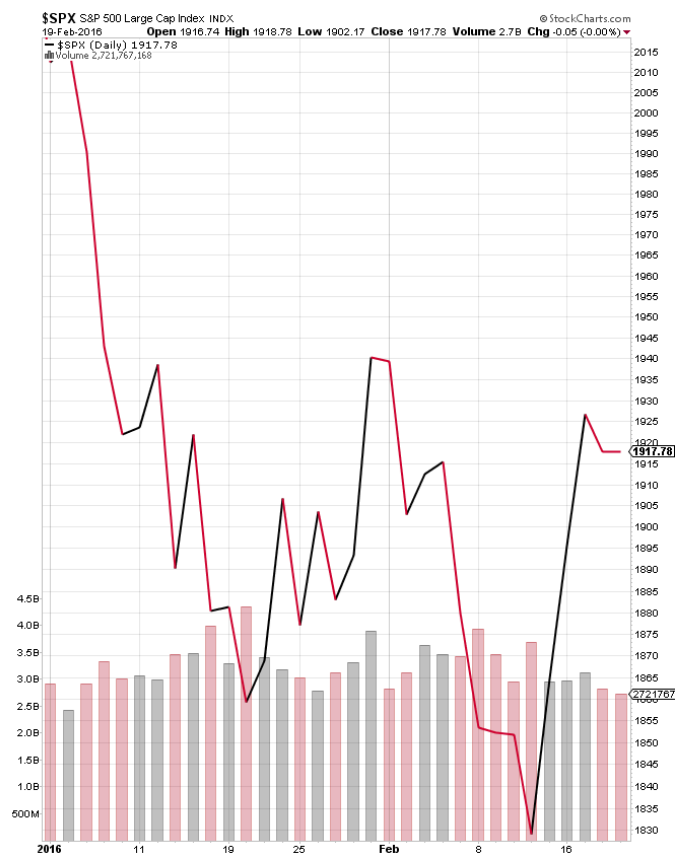
In order to get ready for the week ahead, the team at Tematica traces the key happenings of the past week and looks at the economic and earnings calendars slated to come out for the coming week in order to identify key catalysts that are bound to shape the market in the near-term, and in-turn impact our tematics.

barrels. The EIA also reminded us that there are other geographies that will continue to increase oil production this year and next, stating:

U.S. Gulf of Mexico (GOM) crude-oil production is estimated to increase to record high levels in 2017 even as oil prices remain low. The EIA projects GOM production will average 1.63 million barrels per day in 2016 and 1.79 million b/d in 2017, reaching 1.91 million b/d in December 2017. GOM production is expected to account for 18 percent and 21 percent of total forecast U.S. crude-oil production in 2016 and 2017, respectively.

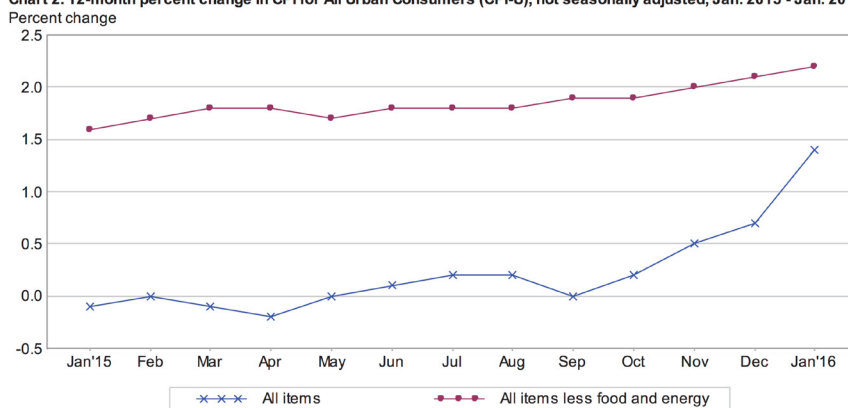
Toward the end of last week, the concerns that had weighed on the market for most of 2016 had been reignited following the post oil, share and debt buyback news that led the market higher earlier in the week. No matter what perspective we take — from government and related institutions to industry data and earnings expectations — we find further evidence of slowing global growth:

- **The Organization for Economic Cooperation and Development (OECD) cut its 2016 economic-growth forecast once again**, lowering its forecast by 0.3 percentage points to 3 percent. That's the second cut since October, when the OECD pegged 2016 growth at 3.6 percent. Chinese manufacturing remained slack in January, including the weakest reading for the government's official purchasing managers index since August 2012.
- Reports from the **New York and Philadelphia regional Fed banks showed manufacturing activity continued to contract** in February.
- The latest reading from the **American Association of Railroads shows rail traffic continued to fall**.
- Construction equipment companies **Caterpillar (CAT)** and **Deere & Co. (DE)** shared **expectations for revenue declines due to global market uncertainty**, as well as overall weak industry demand.
- Several retail companies, including **Wal-Mart (WMT)**, **Nordstrom (JWN)** and **VF Corp. (VFC)** offered **weaker than expected outlooks**, which has revived worries over the health of the consumer and his or her willingness to spend and where to spend if they are indeed opening up their wallets. "Net sales growth is now expected to be relatively flat, which compares to the previous estimate for growth of 3 percent to 4 percent on a constant-currency basis," Wal-Mart said in a statement.
- Per FactSet, "For Q4 2015, companies are reporting year-over-year declines in both earnings (-3.6 percent) and revenues (-3.7 percent). **Analysts currently do not expect earnings growth and revenue growth to return until Q3 2016.**"



Counter balancing the picture of slowing global growth, Friday's **CPI report from the Labor Department** showed rising rents, medical costs and wages lifted consumer facing inflation at the fastest rate in the last 4 and a half years. Year over year, excluding food and energy prices, the **Consumer Price Index** rose 2.2 percent. Rising rents reflect the preference to rent not own housing, while rising medical costs are due to the latest rounds of price increases thanks to the "Affordable" Care Act.

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Jan. 2015 - Jan. 2016



The impact of higher wages and benefits is being touched on by a number of companies such as **Autozone (AZO)**, **FedEx (FDX)**, **homebuilder Lennar (LEN)**, and **Wal-Mart (WMT)**, which said it will hit 2016 EPS to the tune of \$0.30 per share.

We point all of this out for a few reasons:

1. Inflation is part of the Fed's dual mandate when it examines the impact of monetary policy on the economy and it's shared a target of 2 percent.
2. Rising costs, such as benefits and wages, are likely to result in price increase as companies look to preserve margins and profits.

If we start to see a flurry of price hikes, while growth prospects remain on a low to slow glide path, we very well could soon hear talk of stagflation - higher inflation with "stagnant demand in a country's economy."

That's something we'll be pondering as we look for the next round of data, even though the general consensus is the Fed is likely to tap the breaks on any March rate hike. To us there is no clearer signal (other than all the economic data we've already gotten) than St. Louis Federal Reserve President James Bullard is saying it'd be "unwise" for the central bank to raise rates near-term. Remember, Bullard was one of those supporting rate hikes during most of 2015.

Turning to the week ahead

The coming days bring several pieces of economic data that will help triangulate how the current quarter is shaping up. We're referring to the **January Durable Orders** and **Personal Income/Spending** reports and our first hard look at the global economy in February when Markit Economics publishes its flash PMI findings on Feb. 22 (Monday).

"If we start to see a flurry of price hikes, while growth prospects remain on a low to slow glide path, we very well could soon hear talk of stagflation. "

While 87 percent of the S&P 500 group of companies have reported their quarterly earnings, we have one final earnings push this week with more than 950 companies publishing their results. Among those, we will hear from 48 S&P 500 companies and a vast number of retailers. In our view, last week's results from Wal-Mart, Nordstrom and VF Corp. are telling for what we can expect from the vast majority of retail and apparel companies this week. We expect to hear much about the negative impact of sales and discounts on margins as those companies looked to clear out winter season wear in order to make room for the spring season that will soon be upon us.

On our own mall walks and shopping excursions we've already noticed spring wear covering display tables and mannequins — we even saw Home Depot setting up its outdoor and patio furniture displays, which frankly seemed a tad bit premature with temperatures hovering in the single digits, but that could just be us.

Also this week we have the Mobile World Congress, once a hotbed of new mobile phone and smartphone models for the coming year, but the industry event should still result in a number of technology and device announcements that make it worth paying attention to as part of our Connected Society and Disruptive Technology investing themes.

ECONOMIC CALENDAR, FEBRUARY 22 - 26, 2016		
DATE	REPORT / SPEECH	DATA
23-Feb	Case-Shiller 20-city Index	Dec
23-Feb	Consumer Confidence	Feb
23-Feb	Existing Home Sales	Jan
24-Feb	MBA Mortgage Index	20-Feb
24-Feb	New Home Sales	Jan
24-Feb	Crude Inventories	20-Feb
25-Feb	Initial Claims	20-Feb
25-Feb	Continuing Claims	13-Feb
25-Feb	Durable Orders	Jan
25-Feb	Durable Goods -ex	Jan
25-Feb	FHFA Housing Price Index	Dec
25-Feb	Natural Gas Inventories	20-Feb
26-Feb	GDP - Second Estimate	Q4
26-Feb	GDP Deflator - Second	Q4
26-Feb	Personal Income	Jan
26-Feb	Personal Spending	Jan
26-Feb	Core PCE Prices	Jan
26-Feb	Michigan Sentiment - Final	Feb

Here's a look at the key earnings reports that we'll be dialing into this week:

Monday, February 22

We start the week off with reports from floor covering company **Armstrong World (AWI)**, which should shed some light on repair and remodel spending as well as new home construction, and department store **Dillard's (DDS)** that is likely to reiterate Nordstrom's results and outlook. Other companies we'll be watching include compound semiconductor capital equipment company **Veeco Instruments (VECO)**, a proxy for new LED capacity across the globe, and wearables company **Fitbit (FIT)**, which has seen its shares cut in just over two months as the company grapples with one of Steve Jobs' favorite question – "Is it a feature or a product?"

Tuesday, February 23

Following on Veeco's results, the other large compound semiconductor capital equipment company **Aixtron AG (AIXG)** will offer its take on global equipment demand. The theme of housing and retail continue with results from **Toll Brothers (TOL)**, where backlog pricing will be a key factor to watch, and **Macy's (M)** as well as **Big 5 Sporting (BGFV)** and prepaid payment network company **Blackhawk Networks (HAWK)**. **Angie's List (ANGI)**, a business that is poised in our view to

get destroyed by **Google (GOOGL)**, **Facebook (FB)**, **Groupon (GRPN)** and the like, will offer its latest views as will **Papa John's (PZZA)** and **Vitamin Shoppe (VSI)**. We expect Papa John's to join in with other restaurant companies that are benefitting from lower input costs and expect Papa John's to call out declines in dairy as well as wheat prices.

Wednesday, February 24

Did the Force benefit **Cinemark Holdings (CNK)** and fill its seats with consumers teeming with high margin snacks and drinks? We'll find out today. The retail fun continues with results and comments from **Target (TGT)** and **Cash Strapped Consumer** candidate **TJX Companies (TJX)** as well as **Lowe's (LOW)**. Chord cutting and skinnier bundles from Verizon set the tone for **Connected Society** contender **Cablevision's (CVC)** quarterly results. On the tech front, assisted driver and driver less technology company **Mobileye (MBLY)** will give share the state of industry adoption of those key technologies, while **Salesforce.com (CRM)** will enlighten on cloud adoption.

Thursday, February 25

Once again, Thursday is the barn burner of earnings news in terms of volume, but the ones we'll be sifting through include **Best Buy (BBY)**, **Kohl's (KSS)**, **Baidu (BIDU)**, **British American Tobacco (BTI)**, **Digital Realty Trust (DLR)** and **Gap (GPS)**. Other ones we'll follow up on include aviation communications provider **Gogo (GOGO)** that could be getting bounced from **American Airlines (AAL)**. One of Bill Ackman's favorite battleground stocks, **Herbalife (HLF)**, reports today and its results are bound to result in sparks one way or another.

Friday, February 26

Positive comments and results from **Nike (NKE)** and **Under Armour (UA)** pave the way for good results from **Affordable Luxury** candidate **Foot Locker (FL)**, but are actual luxury purchases fairing as well? Results from auction house **Sotheby's (BID)** should help us puzzle that out. As we end the week of Mobile World Congress, **American Tower's (AMT)** results and comments on 5G deployments should help round out the timing picture for that next generation technology that could serve to accelerate the ongoing shift toward what we call the **Connected Society**.

EARNINGS CALENDAR, FEBRUARY 22-26, 2016	
DATE	COMPANIES REPORTING
MONDAY	<ul style="list-style-type: none"> Armstrong World (AWI) Chegg Inc (CHGG) Dean Foods Co (DF) Dillard's Inc (DDS) Fitbit Inc (FIT) FreightCar America Inc (RAIL) Veeco Instruments Inc (VECO)
TUESDAY	<ul style="list-style-type: none"> Angie's List Inc (ANGI) Blackhawk Networks (HAWK) Cablevision Systems Corp (CVC) CafePress Inc (PRSS) Dollar Tree Inc (DLTR) Ecolab Inc (ECL) Home Depot Inc (HD) J M Smucker Co (SJM) Macys Inc (M) Office Depot Inc (ODP) Papa John's (PZZA) Scripps Networks Interactive Inc (SNI) Toll Brothers Inc (TOL) Vitamin Shoppe Inc (VSI) WebMD Health Corp (WBMD)
WEDNESDAY	<ul style="list-style-type: none"> Aixtron AG (AIXG) American Water Works Co. (AWK) California Water Service Group (CWT) Cinemark Holdings Inc (CNK) EchoStar Corp (SATS) Etsy Inc (ETSY) HP Inc (HPQ) IMAX Corp (IMAX) Lowe's Companies Inc (LOW) Salesforce.com Inc (CRM) Target Corp (TGT) TJX Companies Inc (TJX)
THURSDAY	<ul style="list-style-type: none"> Alarm.Com Holdings Inc (ALRM) AMC Networks Inc (AMCX) Anheuser Busch Inbev SA (ABI.BR) Baidu (BIDU) Best Buy Co Inc (BBY) Campbell Soup Co (CPB) Digital Realty Trust (DLR) Gap (GPS) Herbalife Ltd (HLF) Intuit Inc (INTU) Kohls Corp (KSS) Kraft Heinz Co (KHC) Lendingtree Inc (TREE) Nutrisystem Inc (NTRI) Palo Alto Networks Inc (PANW) Sears Holdings Corp (SHLD)
FRIDAY	<ul style="list-style-type: none"> Foot Locker Inc (FL) Hilton Worldwide Holdings Inc (HLT) J C Penney Company Inc (JCP) Sotheby's (BID)

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