MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

WEEK OF AUGUST 8, 2016

In all likelihood, last week was this summer's zenith of activity for the market, given the array of economic data points that kick off each month plus the flurry of earnings reports for 2Q 2016. We also had a few extra surprises thrown in, in particular the Bank of England (BOE) cutting interest rates, which probably shouldn't have been much of a surprise given the sharp fall in the UK's July Manufacturing PMI and the drubbing the BOE's own 2017 economic forecast took.

We began the week with a flurry of PMI's from Markit Economics, which in sum showed a pick-up in manufacturing activity to kick off 3Q 2016 and per JPMorgan its Global All-Industry Output Index "has signalled expansion for 46 months in a row. However, rates of increase so far in 2016 have generally been among the weakest seen during the current sequence of growth." Despite a pick up in global manufacturing in July, the pace of expansion in service sector activity was unchanged from June's four-month low.

Thematic Signals

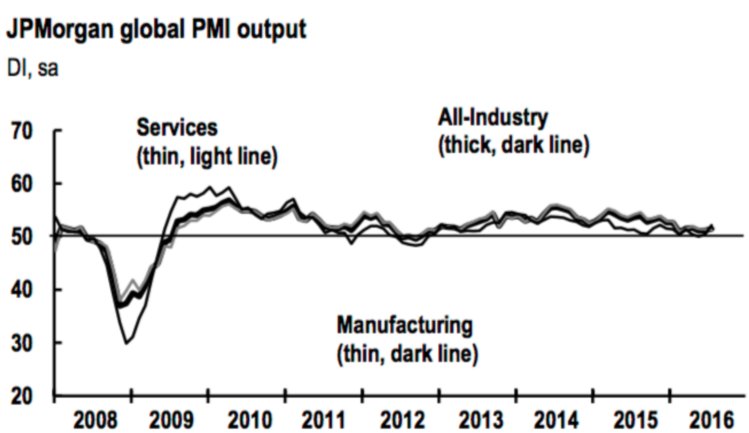
Amazon Prime taking over the skies
Connected Society / Cashstrapped Consumer

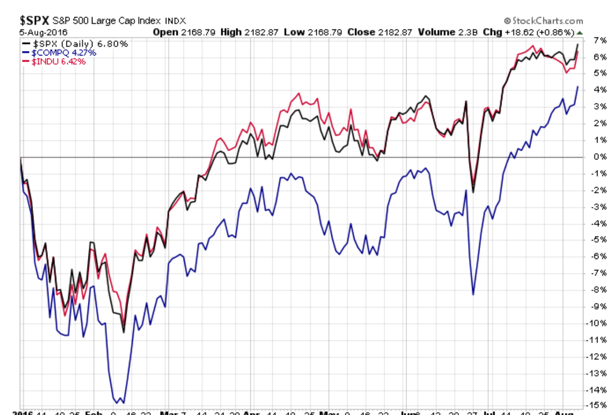
Physical Computer Theft at Advocate Health Care Network Leads to Massive Patient Record Compromise *Safety & Security*

The Centers for Disease Control and Prevention Confirms Obesity Has Spread to Every State in the US *Fattening of the Population*

Mastercard Data Show Chip Cards Are Worth the Wait When it Comes to Card Fraud *Safety & Security / Cashless Consumption*

New Subscription-free Shopping Targets Children's Market Sounds Very Affordable Luxury-ish *Affordable Luxury / Connected Society*





Looking at the US economy, Markit's July Manufacturing PMI signaled a relatively strong start for the quarter, but it remains to

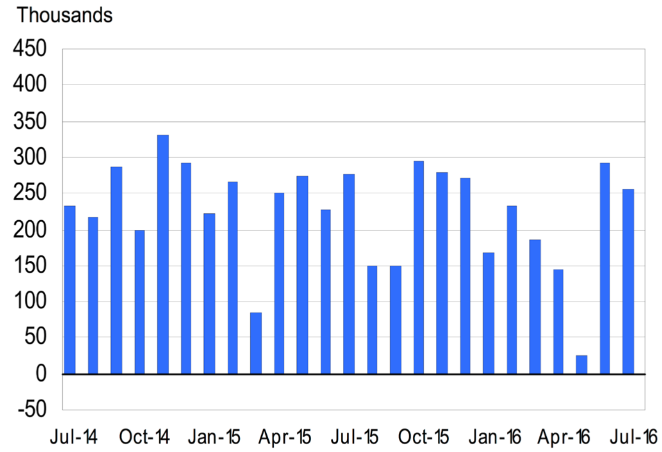
ABOUT THE MONDAY MORNING KICKOFF

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 the shape the market in the near-term, and in-turn impact our tematics.

be seen if manufacturing has turned the corner after having been a drag on the overall economy during the first half of 2016. For the domestic non-manufacturing economy, ISM's Non-Manufacturing PMI dipped to 55.5 in July from 56.5 in June with weaker prices responsible for most of the decline. The positive to be drawn from the ISM report was the month over month increase in new orders, which points to a rebound in service sector activity in the coming months.

The economic data was capped off last week by a far better than expected headline job creation per the July Employment Report. Per the Labor Department, the U.S. economy added 255,000 jobs during July, beating expectations of 180,000 jobs. Not only was this the second consecutive month of dramatically better job creation, but initial job figures for both May and June were revised higher.

Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, July 2014 – July 2016



Going beneath the headlines, we once again found reasons that took the shine off the report. Part-time job growth accounted for almost 40 percent of new jobs in July and helped restrain wage growth during the month. Granted, some of that part-time job growth is seasonal in nature. However, part-time workers are far easier to scale up and down as needed, and part-time workers tend not to receive benefits — they also don't have 401(k), pensions or other employer sponsored qualified plans that put money into the markets.

As we move into the back half of 2016, we'll continue to watch the mix of part-time versus full-time job creation as we keep tabs on our ***Cash-Strapped Consumer*** investing theme.

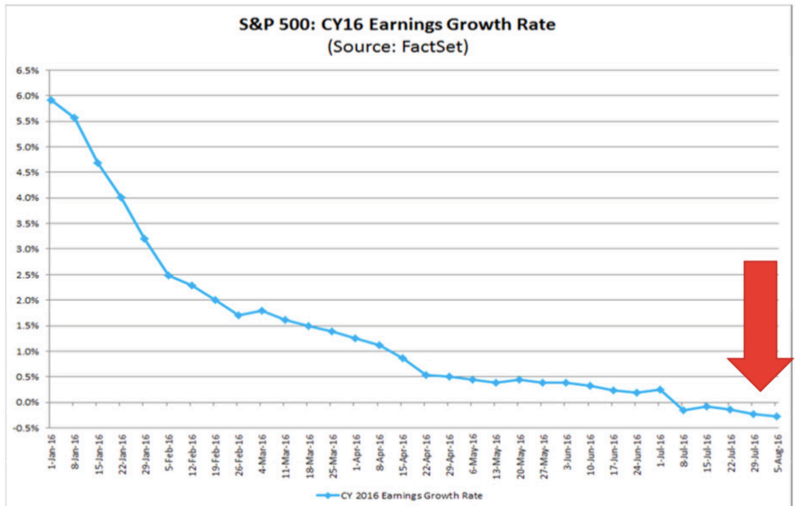
While Friday's job report headlines are likely to reignite rate hike chatter, metrics buried in the report are likely to stay the Fed's hand. Despite two consecutive months of stronger-than-expected job growth, we saw little movement in the unemployment rate as well as the labor force participation rate and payroll-to-population ratio. The latter two are preferred metrics of Fed Chairwoman Janet Yellen and suggest that despite all the headline euphoria associated with today's report the Fed is likely to remain in data-dependent mode ahead of its September and December meetings.

Looking at the global economic backdrop, we continue to see the Fed waiting to raise rates, with its December Federal Open Market Committee meeting the earliest opportunity to do so. As this realization hits the market, it means that dividend-yielding stocks yet again will have another lease on life — at least until there is enough data to reignite rate hike talk. Hopefully we'll get some in the coming weeks, as it would mean the domestic economy is actually starting to reignite from the horrible GDP print of 1.2 percent in the June quarter.

As we close out the week, 86 percent of the S&P 500 companies have reported. From a blended earnings perspective, the June quarter now looks to deliver a decline of around 3.5 percent. That's better than the 5.5 percent decline expected just over a month ago, but still the fifth consecutive quarter of year-over-year declines in earnings since Q3 2008 through Q3 2009.

The early tallies on those 430 or so company reports now have the S&P 500 group of companies delivering a modest earnings decline for all of 2016, down 0.3 percent vs. up roughly 1 percent exiting June according to FactSet data. Corporate buyback activity that was strong in the March quarter, continued into the June quarter and that means net income "growth" for the S&P 500 is down even more than that now expected 0.3% EPS decline.

All of these reports have also allowed for another look at S&P 500 earnings for the back half of 2016. Compared to the first half of the year, the latest revisions to annual earnings for the index still imply earnings growth of 9.7 percent in the second half of the year. Still rather extreme in our view and more than double the average earnings growth rate of 4.6 percent delivered for the second half of the year vs. the first half over the 2010-2015 period. Given the economic backdrop, odds are we will continue to see more declines in those expectations over the coming weeks like those we've seen year to date.



Factor in Friday's market move following the July Employment Report, and the S&P 500 closed the week at 18.4x 2016 earnings. Given the news that 2016 earnings are now expected to dip year over year, this tells us the while the US is looking once again like the preferred neighborhood, the domestic stock market is looking a tad stretched on a PE multiple perspective.

Exhibit 2A. S&P 500: Q2 2016 Earnings vs. Expectations – Companies Reporting August 1-5

Sector	Above %	Match %	Below %	Surprise Factor %	Reported This Week	Reported Total #	Index Total #
Consumer Discretionary	82%	0%	18%	7%	11	55	83
Consumer Staples	63%	25%	13%	4%	8	26	36
Energy	60%	7%	33%	50%	15	36	37
Financials	56%	11%	33%	-12%	18	90	92
Health Care	100%	0%	0%	4%	12	49	57
Industrials	46%	23%	31%	0%	13	65	68
Materials	38%	13%	50%	-8%	8	25	27
Technology	100%	0%	0%	13%	12	53	67
Telecom Services	100%	0%	0%	11%	2	5	5
Utilities	42%	8%	50%	13%	12	24	28
S&P 500	65.8%	9.0%	25.2%	2.2%	111	428	500

Source: Thomson Reuters I/B/E/S

We expect all of this will have more folks asking during the seasonal slowdown that is the back half of August: *"Where do you go from record highs with no earnings growth at one of the seasonally slowest time of year when second half earnings expectations for the market are too aggressive?"*

If we are correct that second half earnings expectations are too robust and need to be reduced even further, this means at current levels the market will be paying even more for each dollar of earnings. We suspect you know where we are going with this, but while we wait for the Wall Street herd to catch up, we'll be busy looking at new thematically driven positions for the Tematica Select List. We suspect that in the next few weeks we'll be able to add them at better prices.

Even thought the last few weeks of August tends to be rather lazy and hazy, to totally dismiss them would be a mistake as we'll still be getting more data points to fill in the missing pieces of the June quarter and before too long we'll be able to color in between the lines of the current quarter. As we've seen during the first half of 2016, most of the forecasts from the AtlantaFed GDPNow and Federal Reserve Bank of New York's Nowcasting Report tend to start off fairly optimistic, but edge their way lower as more data become available. Even then sometimes the downward revisions, like the AtlantaFed's last minute 1.8 percent forecast for the June quarter can still be over optimistic.

What this means is we will continue to monitor global macro data as its published so we can determine in real-time what are the best moves for the Tematica Select List.

ECONOMIC CALENDAR		AUGUST 8-12, 2016
DATE	REPORT / SPEECH	DATA
9-Aug	**Productivity-Prel**	Q2
9-Aug	**Unit Labor Costs**	Q2
9-Aug	**Wholesale Inventories**	Jun
10-Aug	**MBA Mortgage Index**	6-Aug
10-Aug	**JOLTS - Job Openings**	Jun
10-Aug	**JOLTS - Job Openings**	Jun
10-Aug	**Crude Inventories**	6-Aug
10-Aug	**Treasury Budget**	Jul
11-Aug	**Initial Claims**	6-Aug
11-Aug	**Continuing Claims**	30-Jul
11-Aug	**Export Prices ex-ag.**	Jul
11-Aug	**Import Prices ex-oil**	Jul
11-Aug	**Natural Gas Inventories**	6-Aug
12-Aug	**PPI**	Jul
12-Aug	**Core PPI**	Jul
12-Aug	**Retail Sales**	Jul
12-Aug	**Retail Sales ex-auto**	Jul
12-Aug	**Mich Sentiment**	Aug
12-Aug	**Mich Sentiment - Prelim**	Aug
12-Aug	**Business Inventories**	Jun

EARNINGS ANNOUNCEMENTS THIS WEEK

AFFORDABLE LUXURY

- Nordstrom (JWN)
- Macy's (M)
- Michael Kors (KORS)
- Ralph Lauren (RL)
- Fossil Group (FOSL)
- Inter Parfums (IPAR)

AGING OF THE POPULATION

- Arena Pharmaceuticals (ARNA)
- Surgery Partners (SGRY)

CASH-STRAPPED CONSUMER

- Lending Club (LC)
- JC Penney (JCP)
- Kohls Corp. (KSS)
- Dillards Inc. (DDS)

CASHLESS CONSUMPTION

- Paylocity Holdings (PCTY)

CONNECTED SOCIETY

- Blue Nile (NILE)
- Rackspace Hosting (RAX)
- Alibaba Group (BABA)
- Yelp (YELP)

CONTENT IS KING

- Walt Disney (DIS)

DISRUPTIVE TECHNOLOGIES

- Nuance Communications (NUAN)
- Twilio (TWLO)
- On Track Innovations (OTVI)
- Liquid Metal Technologies (LQMT)
- Rofin Sinar (RSTI)
- Zebra Technologies (ZBRA)

ECONOMIC ACCELERATION/DECELERATION

- Ply Gem Holding (PGEM)
- Ritchie Brothers (RBA)

FATTENING OF THE POPULATION

- Bojangles (BOJA)
- Cosi (COSI)
- Dean Foods (DF)
- Brinker International (EAT)
- Planet Fitness (PLNT)
- Shake Shack (SHAK)
- Fogo de Chao (FOGO)
- Red Robin Gourmet (RRGB)

FOODS WITH INTEGRITY

- Amplify Snack (BETR)
- Natures Sun Products (NATR)

FOUNTAIN OF YOUTH

- Zeltiq Aesthetics (ZLTQ)
- Elizabeth Arden (RDEN)

RISE & FALL OF THE MIDDLE CLASS

- Delta Apparel (DLA)
- International Flavors & Fragrances (IFF)
- Tyson Foods (TSN)
- Norwegian Cruise (NCLH)

SAFETY & SECURITY

- Cyber Ark Software (CYBR)

SCARCE RESOURCES

- Consolidated Water (CWCO)
- Global Water Resources (GWRS)
- Itron Inc. (ITRI)

TOOLING & RETOOLING

- Staffing 360 (STAF)
- K12 Inc. (LRN)
- Monster Worldwide (MWW)

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