

MONDAY MORNING KICKOFF


YOUR MARKET PRIMER FOR THE WEEK AHEAD

WEEK OF AUGUST 22, 2016

Kicking things off this morning, we officially have 8 trading days left in August and just 10 until the Labor Day weekend, which marks the end of summer, in some cases back school for students and back to work for Wall Street. Headed into two of the slowest weeks of the year, the S&P 500 is up 0.5 percent August to date and 6.85 percent year-to-date. While the index and the overall market was on a tear in July, particularly from the recent low on June 27, the movement has slowed significantly in recent weeks.

That wasn't the case for our **Thematic Index**, which closed last week over 14 percent year to date, up from just over 12 percent at the end of July on the same basis. You would be correct in thinking that we are shamelessly inferring that our Tematica Index continues to outperform the overall market, but we believe that our thematic approach to investing is far superior to the out-dated sector view of things and the Thematic Index is proving us right.

There we said it, but enough back slapping...As we've been saying over the last few weeks, the back half of August tends to be rather slow with a markedly noticed drop in trading volumes. Trading volume for the S&P 500 thus far in August averaged 495 million shares per day, 15 percent lower than average daily traded volume for the first half of April, May, June and July. Odds are high the number of shares trading hands will slow even further between now and Tuesday, September 6. Lower than usual trading volume tends to exacerbate swings in the market, both to the upside as well as the downside.


Thematic Signals

[Has Starbucks gone nuts?](#) *Guilty Pleasures*

[China's Affordable Luxury Market Continues to Grow in Size](#) *Rise & Fall of the Middle Class*

[Falling grocery prices help explain weak restaurant results](#) *Cashstrapped Consumer*

[Video Arcades Trump Most Amusement Parks, Not Disney or Universal](#) *Content is King / Connected Society*



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.

We suspect this means any additional gains the market nabs over the coming two weeks are likely to be small or at least on the smaller side. With the velocity of earnings coming to a near standstill, the number of major catalysts to be had over the next two weeks is rather few. Those unlucky folks left manning the desks are likely to be scrutinizing the market carefully. Digging into filed 10-Qs with the Securities Exchange Commission, cross-referencing company commentaries and forecasts and the like all the while zeroing in on the expected rebound in S&P 500 earnings for the December quarter.

Fun times for sure, especially for those that love sifting through the weeds, but what may not be as much fun is the outcome of those microscope-like findings. As we've pointed out, consensus expectations call for quarterly earnings to jump more than 6% in the last quarter of 2016 compared to the September quarter. The last time fourth quarter earnings delivered such a quarter over quarter increase was back in 2009.

Given the vector and velocity of the global economy, we continue to think we are more likely to see that figure get revised lower, but like the Fed, we'll continue to examine all incoming data to ensure we remain objective and "let the data talk to us." As Tematica CIO Chris Versace points out in his book [Cocktail Investing: Distilling Everyday Noise into Clear Investment Signals for Better Returns](#), one of the greater dangers investors face is "buy and sleep" investing.

That means that even though we might like to be at the beach with a nice adult beverage in one hand and a fast paced paperback thriller in our hands like the rest of Wall Street, we'll continue to be looking at all sorts of data points. With that in mind, if you're not [signed up for Thematic Signals](#), well you're simply missing out on a smorgasbord of thematic data points each week. Last week saw a great one for our **Cash-strapped Consumer** in **Wal-mart's (WMT)** quarterly earnings, but also our **Connected Society** investing theme given Wal-mart's announced acquisition of Jet.com to attempt to get on the same playing field (our view) with **Amazon (AMZN)**.

Turning our gaze to next week

While it's true the sheer number of companies reporting earnings is dropping like a stone, we still have roughly 5% of the S&P 500 to go. Granted that 5 percent is not like to have a significant impact on the earnings revisions that have resulted from the other 95 percent, but odds are there will still be meaningful data points to be had. What's the tone of **Affordable Luxury** via **Tiffany & Co. (TIF)** to how solid is job demand from **Tooling & Re-tooling** company **Staffing 360 (STAF)**, there's ample fodder to be had.

Also next week we'll get more housing figures in the form of new home sales and existing home sales data for the month of July, and we'll be putting these

ECONOMIC CALENDAR		AUG. 22 - 26, 2016
DATE	REPORT / SPEECH	DATA
23-Aug	New Home Sales	Jul
24-Aug	MBA Mortgage Index	20-
24-Aug	FHFA Housing Price Index	Jun
24-Aug	Existing Home Sales	Jul
24-Aug	Crude Inventories	20-
25-Aug	Initial Claims	20-
25-Aug	Continuing Claims	13-Aug
25-Aug	Durable Orders	July
25-Aug	Durable Orders, Ex-	July
25-Aug	Natural Gas Inventories	20-
26-Aug	GDP - Second Estimate	Q2
26-Aug	GDP Deflator - Second	Q2
26-Aug	International Trade in Goods	July
26-Aug	Michigan Sentiment - Final	Aug

reports under the microscope following the 2.1 percent increase in July Housing Starts. Also next week, we've got July Durable Orders on tap as well as several August Flash PMI reports courtesy of Markit Economics.

In both of those reports, we'll be checking on the health of the manufacturing economy following July Industrial Production that was led primarily by utilities then mining followed by manufacturing. Given the crazy heat we've experienced over the last week or so, odds are utilities were busy yet again in August and that had us be rather thankful for air conditioning. One of the line items we'll be taking a close look at inside those August Flash PMI reports is "new orders" because they will offer the first glimpse of activity for September, the last month of the current quarter.

Category	JUL	JUN	MAY	APR	MAR
Industrial Production					
Total Index	0.7%	0.4%	-0.2%	0.5%	-1.0%
Manufacturing	0.5%	0.3%	-0.2%	0.1%	-0.4%
Utilities	2.1%	2.1%	-0.4%	6.2%	-4.0%
Mining	0.7%	-0.3%	0.8%	-3.0%	-2.3%
Capacity Utilization					
Total Industry	75.9%	75.4%	75.1%	75.2%	74.9%
Manufacturing	75.4%	75.0%	74.8%	75.0%	75.0%

Later in the week, more than a few investor eyes and ears will be focused on Fed Chairwoman Janet Yellen's speech at the Federal Reserve Bank of Kansas City's two-day Monetary Policy Symposium at Jackson Hole, Wyoming (Friday, August 26). Despite the July FOMC minutes that were released last week and painted the picture of a going nowhere fast Fed when it comes to boosting interest rates, non-voting San Francisco Fed President John Williams voiced his view the Fed shoot raise rates "sooner than later." Another reason to dig into new order activity in the August Flash PMI reports as we expect Yellen to once again stick to her "data dependent" guns and be as clear as mud.

As promised, we said we would keep watch on the Volatility Index and as we pen type these words the index is once again below 12. As a reminder, we are watching the 12-level for the VIX because if it closes below 12 in August, "there was almost a sure bet that the VIX will be higher three months out by more than 6% with a fair possibility of an outsized move" according to Roberto Friedlander, at Seaport Global Securities. So far, it's not looking good.



EARNINGS ANNOUNCEMENTS THIS WEEK

The following are just some of the earnings announcements we'll have our eye on for thematic confirmation data points:

AFFORDABLE LUXURY

- William-Sonoma (WSM)
- Movado Group (MOV)
- Tiffany & Co. (TIF)

AGING OF THE POPULATION

- Patterson Companies (PDCO)
- Medtronic (MDT)

ASSET-LITE

- Premier Inc. (PINC)
- PVH Corp. (PVH)
- Workday (WDAY)

CASH-STRAPPED CONSUMER

- Regis Corp. (RGS)
- JM Smucker (SJM)
- Lannett Company (LCI)
- Big Lots (BIG)
- Burlington Stores (BURL)
- Dollar General (DG)

CASHLESS CONSUMPTION

- Connected Society
- Comscore (SCOR)

CONTENT IS KING

- Gamestop (GME)
- Grupo Televisa (TV)

ECONOMIC ACCELERATION/DECELERATION

- Nordson Corp. (NDSN)
- Standex International (SXI)

FATTENING OF THE POPULATION

- Zoe's Kitchen (ZOES)

FOUNTAIN OF YOUTH

- Ulta Salon (ULTA)

RISE & FALL OF THE MIDDLE CLASS

- CTRIP.com (CTRIP)
- American Woodwork (AMWD)
- Guess? (GES)
- Tily's (TLYS)
- Express Inc. (EXPR)
- Bebe Stores (BEBE)
- Sanderson Farms (SAFM)

SAFETY & SECURITY

- Splunk (SPLK)

TOOLING & RETOOLING

- Intuit (INTU)
- Staffing 360 (STAF)

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