# MONDAY MORNING KICKOFF

## YOUR MARKET PRIMER FOR THE WEEK AHEAD

### WEEK OF SEPTEMBER 19, 2016

Coming into last week, there was considerable tension in the market, following unexpected comments made the previous week by **Federal Reserve Bank Boston President Eric Rosengren** that torpedoed the market. Fortunately, a more calm and collected opinion on what the Fed should do at its upcoming Sept. 20-21 Federal Open Market Committee (FOMC) meeting emerged last week came from **Lael Brainard,** who sits on the Fed's Board of Governors and is a voting member of FOMC. In contrast to Rosengren's hawkish comments, it was Brainard's dovish view — that while the US economy continues to make progress, the Fed would be wise to continue keeping its monetary policy loose — which soothed the market like Alka Seltzer after a rough night.

But . . . there of course has to be a "but" given the back and forth we've seen in the stock market last week . . . data emerged that raised eyebrows and concerns over the consumer, a key part of the economic engine of late given the lack of business investment spending and the impact the current presidential election is having on corporate spending. That data was the August tumble in **Retail Sales**, which missed expectations and saw more categories contract than expand month over month. While it's true the top line of the report was affected by falling gas prices — not a bad thing for consumers — that didn't offset the drop in auto sales and building materials.

One of the issues with looking at data on a month to month basis is it can be volatile, so we prefer to take a few different angles when we dig into the details. There is no arguing that per the data contained in the **August Retail Sales**

FOLLOW US:

Tematica Group
@TematicaGroup

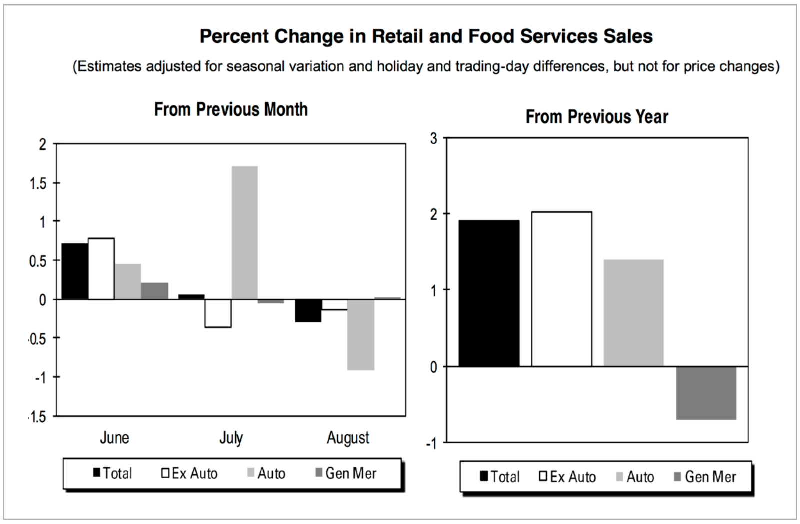
NFL Football: the last great audience #NFL #thematicinvesting $F $MCD $GM

**NFL Football: the last great audience - Tematica Research**
200+ cable channels, DVR's, streaming content, chord-cutting . . . the list goes on and on as the reasons for declining audience levels. The one hold-out is the NFL g...
tematicaresearch.com

**Lael Brainard**
**U.S. Federal Reserve's Board of Governors**
***I would like to start by describing the contours of today's economy that will be particularly important in shaping the appropriate path of policy before reviewing recent developments. These contours represent noteworthy departures from the "old normal" that prevailed in the decades prior to the financial crisis. I would argue that policy today must rely less on the old normal as a guidepost and instead be sensitive to the contours that shape today's "new normal."***

**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.



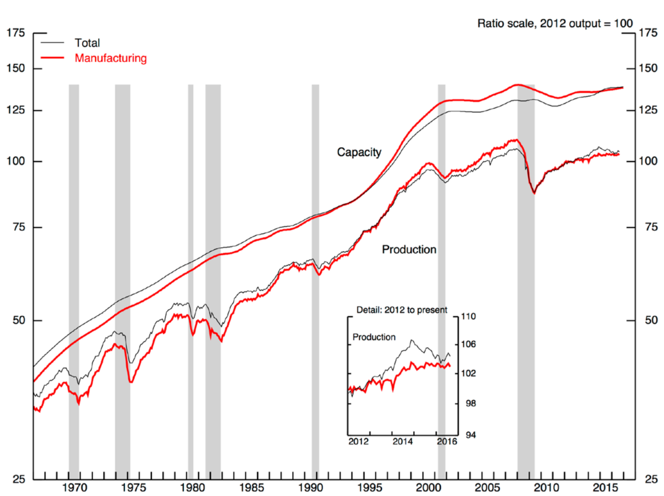

**Report**, consumers remain rather selective on where they are spending the cash and credit they have. Looking at the data on a year-over-year basis, however, we have a better idea of where they are spending, plus when companies report the convention is to look at year-over-year revenue growth.

## Where did consumers spend in August?

Ticking down the innards of the retail sales report data through our thematic lens we see two of our investment themes — ***Aging of the Population and Fountain of Youth*** — emerge as consumers continued to spend at Health & Personal Stores (up 7.8 percent year over year in August, up 8.7 percent year over year in July). Sticking with ***Fountain of Youth,*** sporting Goods store sales also were better than the overall retail spending for August. But the real winner — or should we say continued winner — was Non-Store Retailers, which saw sales rise 10.9% year over year in August.

Paired with the 12.0% year over year increase in July, there is little doubt that companies like **Amazon (AMZN), eBay (EBAY)** and online/mobile shopping sites by other retailers are taking share as part of our ***Connected Society*** and ***Cashless Consumption*** investing themes. From a year over year perspective, Department Stores and Electronics/ Appliances continued to see declines as they grapple with the accelerating shift toward digital shopping. In other words, the recent pain felt by the likes of **Macy's (M), Sears (SHLD), Nordstrom (JWM)** and **hhgregg (HGG)** is set to continue.

**AUGUST 2016: Industrial production, capacity, and utilization**




The two other big pieces of economic data that came over the transom last week were **August Industrial Production** and inflation metrics for the month. The August Industrial Production report came in weaker than expected, and saw manufacturing slump during the month, which confirmed the contraction that turned up in the **August ISM Manufacturing Index**.

On the inflation front, the August PPI reading was flat on a month over month basis, but stripping out food, energy, and trade services the index rose 1.2% for the 12 months ended in August. Still well below the Fed's 2% inflation target, coupled with the 1.1% year-over-year August increase in the CPI (+2.3% for the core CPI on the same basis) these firmer prices are likely to lead to more inflation talk from the Fed on Sept. 21.

Despite those firmer prices, when we take into account the sum of the data we just mentioned, as well as the general flow of data points over the last few weeks, everything points to a once again slower than expected economy. Therefore, we continue to see the Fed's September FOMC meeting that ends next Wednesday (Sept. 21) as a no-go event for interest rates.

## Sooner or Later, Earnings Have to Be Squared Up With Reality

While we suspect we are starting to sound like a broken record, this once again slowing economy heightens the likelihood that we will see further revisions to second half earnings expectations for the S&P 500. Over the summer, we saw the expected earnings growth rate for the back half of 2016 slip from + 13 percent to the current 8.8 percent and we still have one month of 3Q 2016 data to collect.

Said another way, we're not quite sold that after falling for six consecutive quarters the S&P 500 group of companies will rally to deliver better than 6 percent earnings growth in the December quarter.

Before we left for our Labor Day Weekend hiatus, we shared our thought that once Wall Street returned from the summer vacation it would take a sterner look at growth expectations and current valuations. We are currently in that reset, and odds are we remain in it over the next few weeks until the bulk of companies have reported their September quarter results. If you were hoping the recent volatility was near to ending, well, we think it will be here longer than expected.

Near-term it could be bumpy, but over the medium-term it will afford us the opportunity to add well positioned companies at better prices to both our ***Tematica Investing Select List*** and our ***Thematic Index***.

## Now, let's finally get to what's ahead of us this week, because after all this is the Monday Morning Kickoff, not the Monday Morning Quarterback.

Aside from the much anticipated, but likely to result in nothing Fed FOMC meeting, the rest of the week is rather housing data heavy. Not only will we be getting Housing Starts and Building Permits, but we'll also get a look at **Existing Homes Sales for August**, which we'll be watching closely with regard to several of our ***Rise & Fall of the Middle-Class*** positions in ***The Thematic Index*** and the ***Tematica Select Investment List***. We also get a sneak peek at the September Housing market via the **National Association of Home Builders Housing Market Index**.

| ECONOMIC CALENDAR | | SEPT 19 - 23, 2016 |
|---|---|---|
| DATE | REPORT / SPEECH | DATA |
| 19-Sep | **NAHB Housing Market Index** | Sep |
| 20-Sep | **Housing Starts** | Aug |
| 20-Sep | **Building Permits** | Aug |
| 21-Sep | **MBA Mortgage Index** | 17-Sep |
| 21-Sep | **Crude Inventories** | 17-Sep |
| 21-Sep | **FOMC Rate Decision** | Sep |
| 22-Sep | **Initial Claims** | 17-Sep |
| 22-Sep | **Continuing Claims** | 10-Sep |
| 22-Sep | **FHFA Housing Price Index** | Jul |
| 22-Sep | **Existing Home Sales** | Aug |
| 22-Sep | **Natural Gas Inventories** | 17-Sep |

Earnings reports to be had this week are rather slim and in some cases disparate when viewed through a traditional sector-based investing view. Our thematic approach, however, means a number of insights to be gleaned.

For example, when **FedEx Corp. (FDX)** shares its outlook it will offer perspective on the accelerating shift to digital shopping as we prepare for the year-end holiday season. **Finish Line's (FINL)** results will not only help clarify the impact of recent sporting good retail closures but confirm to what degree shoppers are embracing a more active lifestyle. That could have an implication for plus-sized retailer **Ascena Retail Group (ASNA)**, owner of Lane Bryant stores. Finally, quarterly results and guidance from **KB Home (KBH)** and **Lennar (LEN)** should contrast the mountain of housing data we'll get this week and help paint a more accurate picture of not only housing demand, but prospects for repair & remodel spending that is a part of our ***Rise & Fall of the Middle Class*** investing theme.

## EARNINGS ON TAP THIS WEEK:

### *AGING OF THE POPULATION*

- Rite Aid Corp. (RAD)

### *CASH-STRAPPED CONSUMER*

- Autozone (AZO)
- Bed Bath & Beyond (BBBY)

### *CONNECTED SOCIETY*

- Adobe Systems (ADBE)
- FedEx Corp. (FDX)
- Liberty Broadband Group (LBRDK)

### *FATTENING OF THE POPULATION*

- Ascena Retail Group (ASNA)
- General Mills (GIS)

### *FOOD WITH INTEGRITY*

- Hain Celestial (HAIN)

### *FOUNTAIN OF YOUTH*

- Finish Line (FINL)

### *RISE & FALL OF THE MIDDLE-CLASS*

- AAR Corp. (AIR)
- Carmax (KMX)
- KB Home (KBH)
- Lennar Corp. (LEN)

FOLLOW US:

**Important Disclosures and Certifications**

Analyst Certification - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report. The author certifies that no part of his/ her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Investment opinions are based on each stock's 6-12 month return potential. Our ratings are not based on formal price targets, however, our analysts will discuss fair value and/or target price ranges in research reports. Decisions to buy or sell a stock should be based on the investor's investment objectives and risk tolerance and should not rely solely on the rating. Investors should read carefully the entire research report, which provides a more complete discussion of the analyst's views.

This research report is provided for informational purposes only and shall in no event be construed as an offer to sell or a solicitation of an offer to buy any securities. The information described herein is taken from sources, which we believe to be reliable, but the accuracy and completeness of such information is not guaranteed by us. The opinions expressed herein may be given only such weight as opinions warrant. This firm, its officers, directors, employees, third party data providers or members of their families may have positions in the securities mentioned and may make purchases or sales of such securities from time to time in the open market.