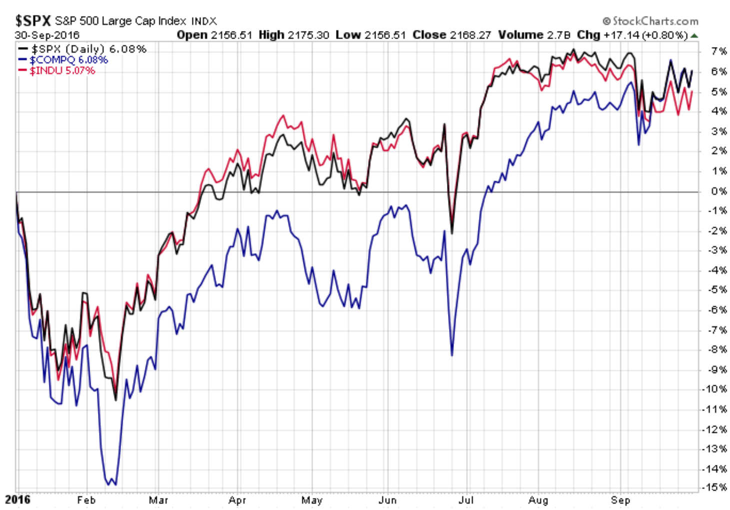
# MONDAY MORNING KICKOFF

## YOUR MARKET PRIMER FOR THE WEEK AHEAD

### WEEK OF OCTOBER 3, 2016

With Friday's market close, we shut the books not only for the week but also for the month of September and 3Q 2016. As such, the week saw the S&P 500 gyrate quite a bit, but the index finished up relatively unchanged for the week. Despite the volatile month of September, the S&P 500 finished the month unchanged as well, which we chalk-primarily up to the Fed's lack of action last week. For the September quarter, the S&P 500 rose 3.3 percent, which means more than half of the index's year-to-date gain has come during the last three months.




Last week's volatility was due not so much to the outcome of the first presidential debate, but rather to the growing concerns over European banks, most notably **Deutsche Banks (DB)**. Looking at our current holdings, we have no direct dog in that fight, but we acknowledge the fact that those concerns, as well as any outcome, are likely to impact the overall market in the coming days.

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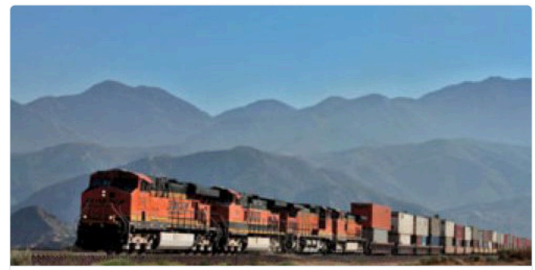
AAR: Total weekly U.S. rail traffic down 4.8% railwayage.com/index.php/frei… via @RailwayAge



**AAR: Total weekly U.S. rail traffic down 4.8%**
The Association of American Railroads (AAR) today for the week ending September 24, 2016, total U.S. weekly rail traffic was 539,609 carloads and inte...
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### Thematic Signals

**Amazon Prime taking over the world one room at a time** *Connected Society / Content is King*

**Starbucks is testing an entirely new way to bring you your iced latte** *Fattening of Population / Affordable Luxury*

**Swiss Watch Exports Fall for Fourteenth Straight Month** *Affordable Luxury / Connected Society*

**You can only shop as fast as your connection** *Connected Society*

**Even In-Store purchases are part of Connected Society** *Connected Society*

**What you should know about the ending of a US contract some say amounts to 'giving away the internet'** *Connected Society*

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### 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.

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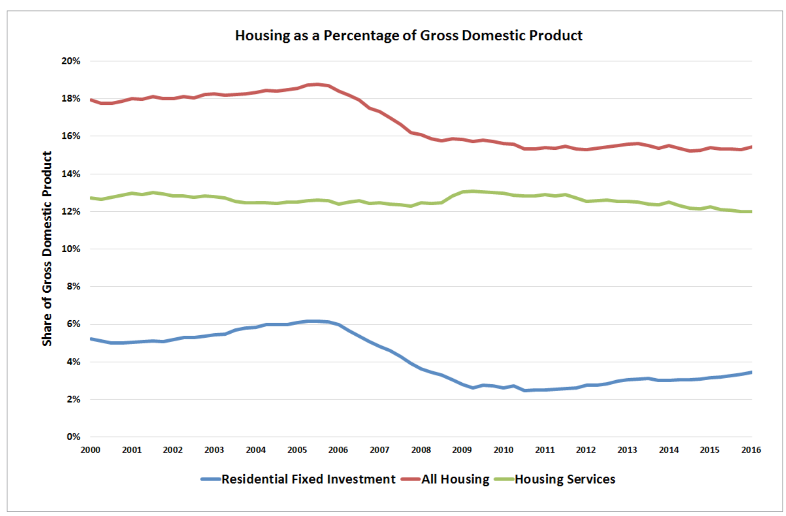
We've also got several more presidential debates on the way, a slew of economic data next week (more on that below) that will re-ignite Fed speculation and a preliminary OPEC oil production cut deal, but we'll have to see if it sticks.

Put succinctly, there are a number of reasons why we expect the market to remain volatile heading into October, and we haven't even touched on the upcoming earning season yet (more on that below — you didn't think we'd forget to talk about that did you?)

## Checking in on Housing

As most subscribers know, we tend not to look at the world through the constraints of sector investing, but we do recognize the multiplier effect the housing industry has on the domestic economy. On a direct and indirect basis, the housing industry has accounted for as much as 18 percent of GDP, which means it's worth keeping tabs on. Coming out of 1Q 2016, housing's share of GDP ticked up slightly to 15.4 percent.

Looking at the chart to the right — **Housing as a Percentage of GDP** — the underlying strengthening in the housing market has come from home building and remodeling, better known in the world of economic data as "residential fixed investment." From a thematic perspective, this residential fixed investment falls squarely in our ***Rise & Fall of the Middle-Class*** investing theme.

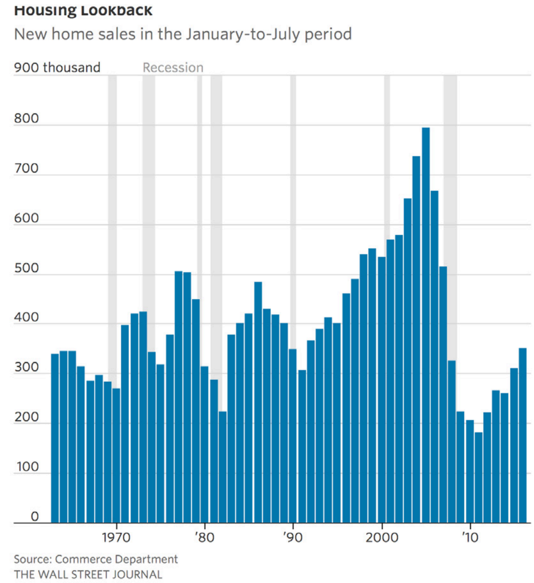



To be fair, this chart is somewhat backward looking, which has us taking a look at the far more recent housing data that landed over the last few weeks. To do that we look at **New Home Sales, New Home Inventory Levels, Existing Home Sales** (or re-sales to be clearer), and **Housing Starts and Building Permits.**

### Year over year, New Homes Sales were up 20% for August

Last week we received the latest **New Home Sales** data from the Census Bureau. For the month of August, the number of sales of new homes that closed were 609,000, down 7.6 percent month over month, but still ahead of the 585,000 that was expected. We believe an even better way to examine this data is to look at the year-over-year comparison, which is how we and the rest of Wall Street tend to examine revenue and earnings growth. On that basis, sales rose more than 20 percent August 2016 vs. August 2015, and the August annualized sales pace was the highest since January 2008.

While some may still fixate on the month-over-month decline, August was the second highest level for **New Home Sales** over the last five months and was up nicely vs. the 566,000-579,000 monthly range for the second quarter of 2016. Combined with the 659,000 homes sold in July, third quarter sales are looking much stronger than the second quarter.




### Decline in Existing Home Sales not as bad as headlines touted

Perspective can be rather revealing, provided we are open enough to look at data more than just head on, but that's what we do hear at Tematica. The same view askew gives us a different take on the "disappointing" pending **Existing Home Sales** report for August. Headlines touted the 2.4 percent drop month over month on a seasonally adjusted basis in the latest report from the National Association of Realtors.

On a year-over-year basis, however, the decline was far less, coming in at 0.2 percent, and on a not seasonally adjusted basis, the total pending home sales index for August 2016 actually rose 4.0 percent year over year.

### New Home Inventory levels are up, but not to desired levels

We are also encouraged by the month-over-month rise in **New Homes Inventory** — that would be the available inventory homes builders have on the market. One might think that low inventory levels of new homes is a good thing, but when that happens, prices tend to shoot up (laws of supply and demand) and overall sales drop.

The supply of such homes hit 4.6 months in August vs. 4.2 months in July. This is still well short of 6.0-month level that industry experts cite as the ideal balance between supply and demand of new homes, but the upward move confirms (as we discussed last week) that more homes are under construction and that's a positive for paint and appliance demand going forward.

### More Housing Inventory is on the way

Inside the recent **August Housing Starts and Building Permits** report was data on "New Privately-Owned Housing Units Under Construction at End of Period" that showed total housing units under construction at the end of August were up 13.2 percent year over year. Breaking it down, under construction single-family units rose 9.2 percent year over year to 428,000 units at the end of August, while multi-family homes under construction advanced 16.5 percent year over year.

What these combination tells us the domestic housing market continues to be a beneficiary of our ***Rise & Fall of***

***the Middle-Class*** investing theme, and is likely stronger than meets most eyes. We've shared with subscribers to our ***Tematica Investing*** newsletter recommendations on how to position their portfolios, and we see the above as rather confirming for those recommendations.

## The Week Ahead

Next week brings the usual plethora of start-of-the-month economic data, with final **September PMI** readings due from Markit Economics, **ISM's September Manufacturing and Services** indices, and the usual build up to the monthly Employment Report. We'll also get the latest construction spending data, as well as **August Factory Order** data.

With the Fed more than likely on hold until its December meeting, these reports will start to frame the narrative as to what the Fed is likely to do at that meeting, as well as allow Wall Street analysts to revisit expectations as we head into the rush of quarterly earnings reports before too long.

While there are no companies on the **Tematica Investing Select List** reporting earnings this week, there are seven S&P 500 companies scheduled to report their latest quarterly results. We'll be combing through the results and management discussion to collect relevant thematic data points. See below for a thematic perspective as to which companies are on tap this week with earnings this week.

| ECONOMIC CALENDAR | | OCT 3 - 7, 2016 |
|---|---|---|
| DATE | REPORT / SPEECH | DATA |
| 3-Oct | **ISM Index** | Sep |
| 3-Oct | **Construction Spending** | Aug |
| 3-Oct | **Auto Sales** | Sep |
| 3-Oct | **Truck Sales** | Sep |
| 5-Oct | **MBA Mortgage Index** | 1-Oct |
| 5-Oct | **ADP Employment Change** | Sep |
| 5-Oct | **Trade Balance** | Aug |
| 5-Oct | **Factory Orders** | Aug |
| 5-Oct | **ISM Services** | Sep |
| 5-Oct | **Crude Inventories** | 1-Oct |
| 6-Oct | **Challenger Job Cuts** | Sep |
| 6-Oct | **Initial Claims** | 1-Oct |
| 6-Oct | **Continuing Claims** | 24-Sep |
| 6-Oct | **Natural Gas Inventories** | 1-Oct |
| 7-Oct | **Nonfarm Payrolls** | Sep |
| 7-Oct | **Nonfarm Private Payrolls** | Sep |
| 7-Oct | **Unemployment Rate** | Sep |
| 7-Oct | **Hourly Earnings** | Sep |
| 7-Oct | **Average Workweek** | Sep |
| 7-Oct | **Wholesale Inventories** | Aug |
| 7-Oct | **Consumer Credit** | Aug |

Before closing out this edition of the ***Monday Morning Kickoff***, we'd note that for 3Q 2016, the estimated earnings decline for the S&P 500 group of companies is expected to be -2.1 percent. Should that group deliver another earnings decline, it will mark the sixth consecutive quarter of year-over-year earnings declines — the first time since 3Q 2008. Not a pretty time.

As we've come to expect during earnings season, the outlook for the current quarter is as important as the prior quarter's results, and current expectations call for the S&P 500 group of companies to deliver earnings growth of 6.0 percent in the December quarter vs. the now closed September quarter. Given the economic backdrop, continued currency issues we are hearing about — see **Costco Wholesale (COST)** and **Nike (NKE)** earnings last week — and lack of business spending, which is likely to persist at least into the December quarter, we continue to see December quarter earnings expectations as being rather aggressive.

Over the last few weeks, we've scaled into newer positions on the **Tematica Investing Select List**, but we will continue to be vigilant in looking to further improve the cost basis in select existing positions or opportunistically add a few new ones. We'll be on the lookout for both as well as any earnings pre-announcements, positive or negative, that would implications for the current portfolio.

## Earnings on Tap this Week

### CASHLESS CONSUMPTION

- Global Payments (GPN)
- Connected Society
- Liberty Broadband (LBRDA)

### CONTENT IS KING

- Marcus Group (MCS)

### ECONOMIC ACCELERATION/DECELERATION

- AZZ Inc. (AZZ)
- RPM International (RPM)
- Park Electrochemical Corp. (PKE)

### FATTENING OF THE CONSUMER

- Darden Restaurants (DRI)

### FOOD WITH INTEGRITY

- Hain Celestial (HAIN)
- Lifeway Foods (LWAY)

### FOUNTAIN OF YOUTH

- Helen of Troy (HELE)

### GUILTY PLEASURE

- Constellation Brands (STZ)
- International Speedway (ISCA)

### RISE & FALL OF THE MIDDLE-CLASS

- Monsanto (MON)
- Bassett Furniture (BSET)

### SCARCE RESOURCES

- Novagold Resources (NG)