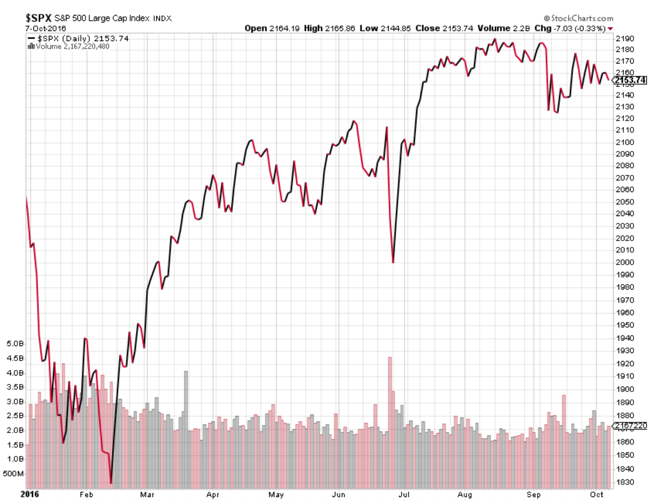
MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

WEEK OF OCTOBER 10, 2016

We kicked of 4Q2016 recently and based on the 0.6 percent move lower in the S&P 500 last week, it looks like the see-sawing the market saw in September is set to continue. Mixed economic signals in the form of the September ISM data and Friday's September Employment Report, combined with the rebound in both oil and the US dollar, vexed the market last week.



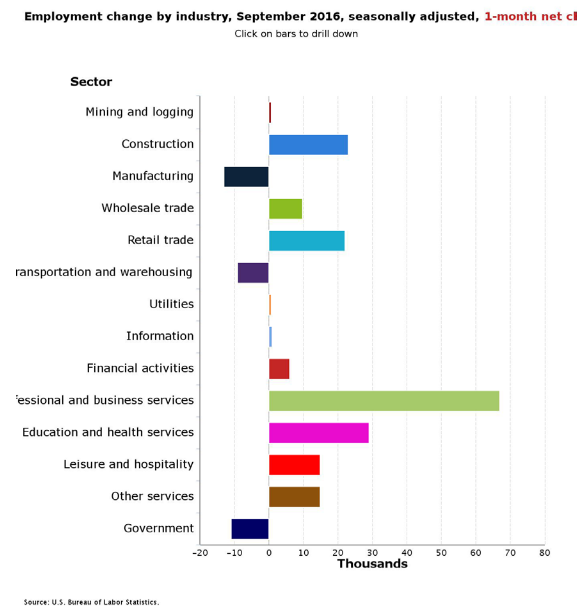
Wednesday's **ISM Non-Manufacturing Index** came in exceptionally strong, clocking in at 57.1 vs. the expected 54.0. It was the biggest beat relative to expectations for the entire economic recovery (yes, the ENTIRE economic "recovery") and the largest one-month increase in the history of the survey, which started in 1997! Stepping back, we find September also saw the largest one-month increase for the combined Manufacturing and Services sectors in the US economy.

As we like to say, however, context and perspective are key when examining data (more on that when we get to the

September Employment report in a few ticks), and in doing so we find the better than expected September data comes after a horrid August report. So let's not put on our party hats just yet.

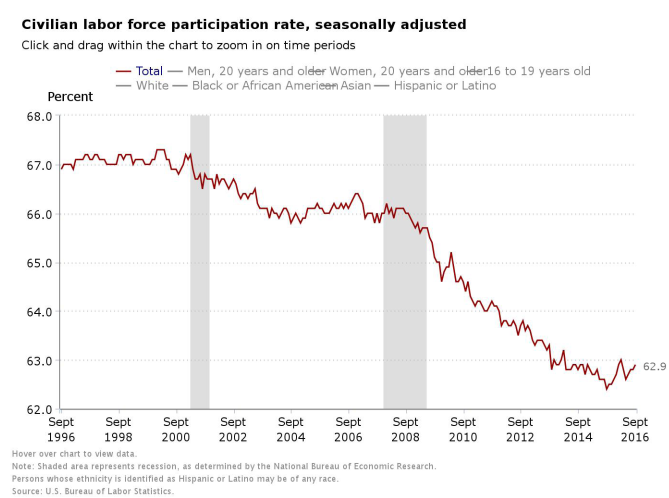
Turning to Friday's September employment report, it showed 156,000 jobs were created during the month vs. the expected 168,000-170,000 jobs and 167,000 in August (which was revised up vs. the original reading of 151,000). As we get ready to parse the data for you, we'd note the September figure was below the year-to-date average of 178,000 jobs per month. Digging into the particulars:

- Wages rose 2.6 percent year over year
- Hours worked ticked up vs. August, but remain down compared to a year ago.
- Once again we have more people working in lower wage categories (retail, hospitality, healthcare).
- We'd also note the month-over-month step up in professional and business services jobs were primarily due to the rebound in temporary jobs.



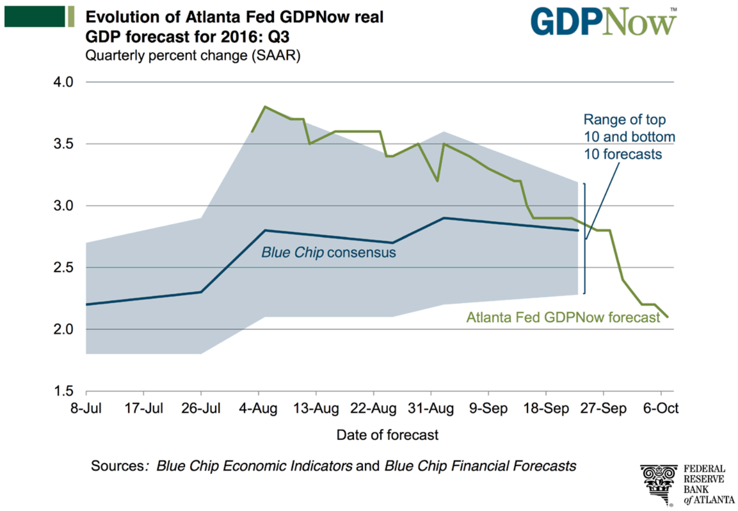
Taking a step back to look at the longer-term picture, the US has added roughly 1.7 million jobs in food services and drinking pace while losing 1.5 million higher paying manufacturing jobs, which helps explain why income levels have remained stubbornly low.

To use the language of Corporate America, job creation has a mix issue that is constraining wages and the overall economy.



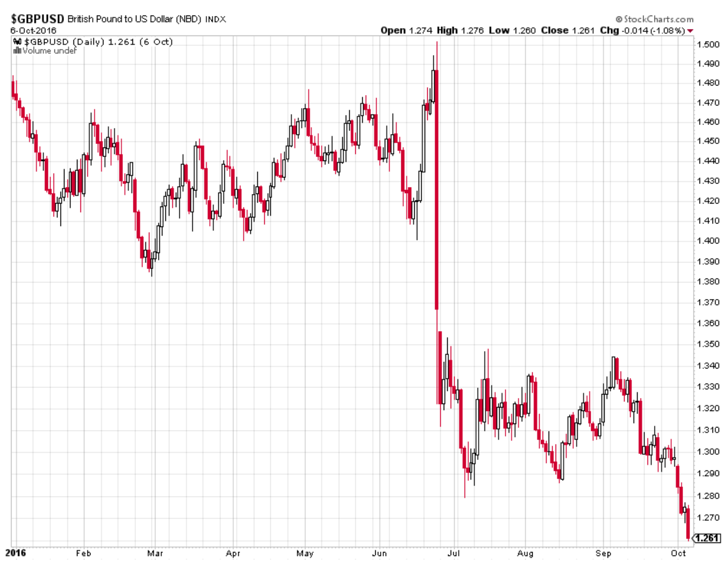
- On a positive note, the labor force participation rate — a gauge closely watched by the Fed — rose to 62.9 percent in September from 62.8 percent in August and 62.4 percent in September 2015.
- On the negative side, full-time jobs fell by 5,000, with part time jobs rising by 430,000!
- Even worse, the number of multiple jobholders rose to the second highest level in ten years, bested only by August 2008 when the financial crisis was in full swing.

Following Friday's job report, the Atlanta Fed updated its **GDPNow forecast** for the third quarter, dropping it to 2.1 percent from the recently reduced 2.2 percent. This forecast has now fallen from an initial 3.6 percent on August 3rd, to 3.5 percent at the end of August to 3.0 percent in mid-September to 2.4 percent by the end of September to today's 2.1 percent. Certainly not the vector we like to see when examining the economy and one that offers a more sobering view on that better than expected September ISM data.



Getting back to that September data, as we like to say, it takes more than one data point to make a trend and based on the ISM data as well as the Employment Report the stock market is apt to need far more data to decide if the Fed will indeed boost rates come December. As such, we suspect most major economic data points over the next 10 weeks will be closely scrutinized to determine what the Fed may do at its September FOMC meeting. What this means is we could be in for a bumpy ride in the coming weeks should the economic data continue to paint a mixed picture.

Finally, as it pertains to last week, the British pound hit a five-year low against the euro and a 31-year low against the dollar. The US dollar Index soared to its highest level since July, driven by rising US Treasury yields that have risen from the July lows of 1.37 percent to over 1.7 percent, while precious metals have been taking a pounding with gold losing over 7 percent over the past month and front month gold futures tapped its 200-day moving average.



Friday the pound experienced a "flash" crash, losing 6 percent in just two minutes, later recovering most of that loss. This event highlights our concern that all the new regulations have left FX markets with much less liquidity, making for far more volatile conditions.

As we get ready for this week, the S&P 500 as of Friday's close is priced at around an 18.3x forward price-to-earnings multiple, versus the 15x ten-year average for a P/E ratio. We've been rather vocal about the robust expectations calling for December quarter earnings to rise more than 6 percent for the S&P 500 group of companies given those earnings have contracted over the last six quarters. We're also staring down steep expectations for those earnings in 2017, as current forecast call for them to climb more than 13 percent year over year. Exactly what these forecasters see that will jumpstart such year-over-year earnings growth after 5-years between 0 and 8 percent, we're not exactly sure, but we bet they are not letting the data talk to them or at least they might be a bit hard of hearing what's it's saying.

We say this because last week, industrial conglomerate **Honeywell (HON)** trimmed back its earnings outlook and odds are it won't be the only company to do so. The sharp move in the US dollar is bound to spook companies in the short-term, which could be another reason aside from the tone of the global economy, aggressive earnings expectations and the 2016 presidential election we are likely to get tepid guidance from Corporate America when September quarter earnings officially beings this week.

Turning to the Week Ahead

Over the next few days, we should get a fuller picture on the number of disruptions and destruction left in the wake of Hurricane Matthew. While the hurricane led to **Disney (DIS)** shutting its Florida parks, one silver lining to the storm is likely to be a pickup in repair & remodel spending over the coming weeks and months. **Subscribers to Tematica Investing** have been well positioned to capitalize on current upticks in building and remodeling activity, and a post-hurricane mini-boom will certainly help those numbers along.

ECONOMIC CALENDAR	OCT 10 - 14, 2016	
DATE	REPORT / SPEECH	DATA
12-Oct	**MBA Mortgage Index**	8-Oct
12-Oct	**Crude Inventories**	8-Oct
12-Oct	**FOMC Minutes**	21-Sep
13-Oct	**Initial Claims**	8-Oct
13-Oct	**Continuing Claims**	1-Oct
13-Oct	**Export Prices ex-ag.**	Sep
13-Oct	**Import Prices ex-oil**	Sep
13-Oct	**Natural Gas Inventories**	8-Oct
13-Oct	**Treasury Budget**	Sep
14-Oct	**PPI**	Sep
14-Oct	**Core PPI**	Sep
14-Oct	**Retail Sales**	Sep
14-Oct	**Retail Sales ex-auto**	Sep
14-Oct	**Business Inventories**	Aug
14-Oct	**Mich Sentiment**	Oct

This week, there will be a number of data points to watch including the fallout to be had from last night's Presidential debate, the minutes from the Fed's **September FOMC meeting** (Wednesday, October 12), the inflation gauge that is the **Producer Price Index** (Friday, October 14) and the next **Retail Sales report** (Also Friday, October 14). In examining the **September Retail Sales Report** we'll be looking through the various line items that pertain to our ***Cash-strapped Consumer, Rise & Fall of the Middle Class*** and ***Connected Society*** investing themes.

Later this week, we have the official start to September quarter earnings season, as **Alcoa (AA)** issues its results for the quarter as well as its outlook for the current quarter and beyond. Given the impact of its business on a number of manufacturing-related industries, management's commentary on its conference call will be one we'll be dissecting this week. The same can be said for both **CSX (CSX)** and **JB Hunt Transport Services (JBHT)** — if goods are not moving around the country, it's not a good sign for manufacturing and consumption.

As we get ready to gear up for year-end holiday spending, (yes, it is almost that time once again), prepaid card and network company **Blackhawk Networks (HAWK)** is also on our radar screen this week. As we listen to the company's results and outlook, we'll be looking to square it up against recent 2016 holiday shopping forecasts. Last week, the National Retail Federation released its 2016 holiday sales forecast, which calls for a 3.6 percent increase to $655.8 billion with online sales growing between 7 percent and 10 percent to as much as $117 billion (nearly 18 percent of total holiday sales).

By comparison, RetailNext sees overall 2016 holiday retail sales climbing 3.2 percent year over year (excluding automobiles and gas) with digital sales soaring 14.9 percent to account for 16 percent of total holiday retail sales in 2016, up from 14.4 percent in 2015. There is no doubt the accelerating shift to digital shopping bodes well for our ***Connected Society*** and ***Cashless Consumption*** investment themes at the expense of brick & mortar retail. Why else would **Wal-Mart (WMT)** announce it is "pulling back on new store growth" and focusing on e-commerce with a plan that calls for a doubling the number of its large warehouses focused on e-commerce sales to 10 by the end of 2016.

Our strategy over the last few weeks with the **Tematica Investing Select List** has been to use stock specific weakness to grow those positions while improving our cost basis. We expect to do more of the same in the coming days and weeks as well as pick off a few well-positioned companies at better prices than we saw just a few months ago. Hopefully, you can say the same.

Thematic Earnings To Watch This Week

The following are the earnings announcements and conference calls we will be paying close attention to in order to glean any confirming data points for our 17 different investing themes.

AFFORDABLE LUXURY

- ClubCorp Holdings (MYCC)
- Del Frisco's Restaurant (DFRG)

CASHLESS CONSUMPTION

- Blackhawk Networks (HAWK)

CONNECTED SOCIETY

- Linear Technology (LLTC)

ECONOMIC ACCELERATION/DECELERATION

- Alcoa (AA)
- CSX Corp. (CSX)
- Fastenal (FAST)
- JB Hunt Transportation (JBHT)
- Lindsay Corp. (LNN)

GUILTY PLEASURE

- Rocky Mountain Chocolate (RMCF)

RISE & FALL OF THE MIDDLE-CLASS

- Delta Air Lines (DAL)

SAFETY & SECURITY

- Barracuda Networks (CUDA)

TOOLING & RE-TOOLING

- Staffing 360 Solutions (STAF)

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