MONDAY MORNING KICKOFF
YOUR MARKET PRIMER FOR THE WEEK AHEAD

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WEEK OF OCTOBER 31, 2016

Last week closed out a rapid fire week of earnings reports, M&A activity and presidential politics. Ahead of us this week we have all of one day left in the month of October before we close the books and bid you a **Happy Halloween!**

Amid those increasingly mixed earnings reports, we've seen some pronounced pops and drops in the market as Wall Street digested them, both the Dow Jones Industrial Average and the S&P 500 were on their way to their "best" week in several, until the news broke that the FBI will investigate new emails related to presidential candidate Hilary Clinton. Upon that news, which is fanning the flames of uncertainty because there has never been a presidential candidate under investigation by the FBI less than two weeks before the election, the market gave back Friday's gains resulting in the S&P 500 closing down nearly 0.7 percent for the week.

Even before that news item, all three major indices looked likely to end October in the red. As we all know, the stock market is no fan of uncertainty and the latest salvo in the Clinton e-mail saga tossed a fresh dose of that on the market last week. Wall Street

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ABOUT THE MONDAY MORNING KICKOFF

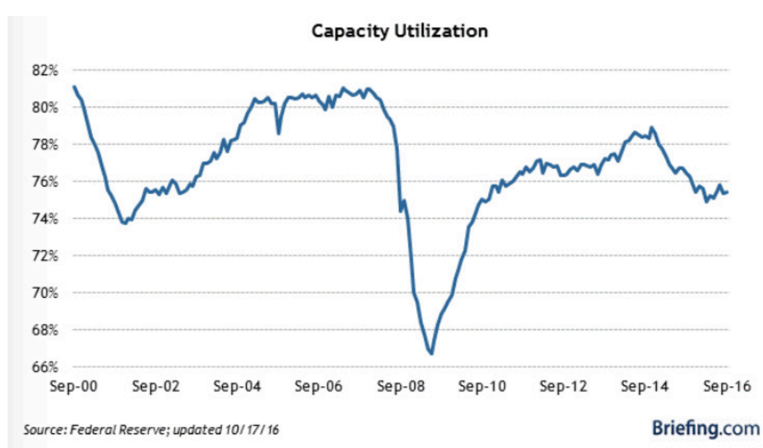
In order to get ready for the week ahead, the team at Tematica traces the key happenings of the past week and looks at the economic and earnings calendars slated to come out for the coming week in order to identify key catalysts that are bound to the shape the market in the near-term, and in-turn impact our tematics.

has been expecting Clinton to win her White House bid with Republicans likely retaining at least the US House of Representatives, a combination of which would essentially keep the current state of political gridlock. More of the same, while not great for the economy, provides a level of certainty — something we've had over the last several years, leading to significant market gains.

On Friday, the GDP print for 3Q 2016 came in better than expected at 2.9 percent vs. the expected 2.2 percent. The 2Q 2016 reading remained unchanged at 1.4 percent, which in of itself is a good thing considering the consistent downward revisions we've become accustomed to lately.

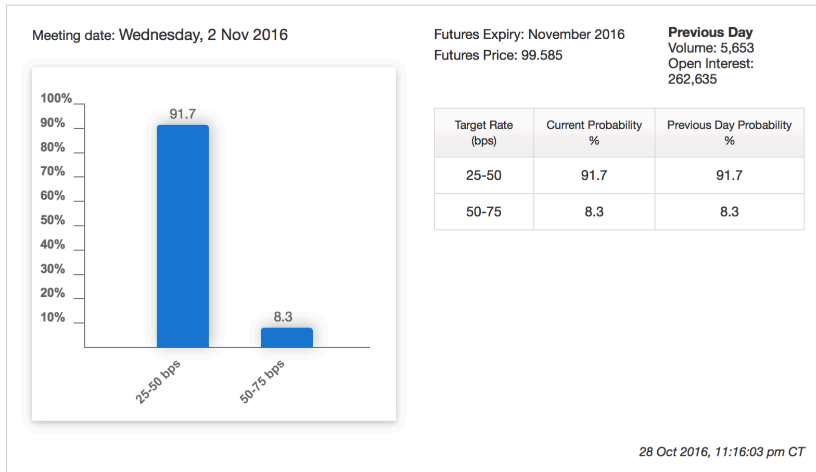
If we look at the factors that led to the upside surprise and quarter over quarter bounce back in GDP, we find a surge in soybean exports and business inventory re-stocking were the two contributing items. While we've seen some strength in overall exports, October's run up in the US dollar is likely to crimp that activity in the current quarter and inventory re-stocking occurred following the sharp inventory rundown 2Q 2016. The risk as we see it is these two "rebound" factors are more likely to be temporary than not.

One of the key factors that has been a drag on the overall economy — Business spending, or most accurately the lack of spending by corporations — remained so in 3Q 2016. For example, spending on equipment slipped at a 2.7 percent rate, dropping for a fourth consecutive quarter. Given that it is 3Q 2016 earnings season, we'd note that construction and earth moving equipment company **Caterpillar (CAT)** saw its profit get cut nearly in half and lowered its full-year revenue outlook for the second time this year. That continued drop in business spending is partially explained by domestic manufacturing capacity utilization bouncing between 74.8 and 75.2 percent over the April-September 2016 time frame.



The bottom line, as we saw in the 1.2 percent drop in September's core capital goods orders figure from last week, companies do not need to invest in new equipment when there is such excess capacity.

Digging into the line-item data like we do here at Tematica, we find that even the "hottest" aspects of manufacturing, like automotive production and electrical equipment, still have capacity utilization levels that are several points below the last peak reached in 1994-1995. Most other categories in both durable goods and nondurable goods (apparel, textiles chemicals and the like) remain well below prior peak levels. What this tells us, we are not likely to see any pronounced pick-up in business spending in the near-term. This means we'll continue to investigate and decode upcoming data to see if the 3Q 2016 GDP print was an aberration in what looks more like a stagnant and rangebound US economy.



What this likely means is already low investor expectations for the Fed to boost interest rates this week at its November meeting are likely to be met. According to the **CME Group's FedWatch** tool on Friday, there is a less than 10 percent chance the Fed will raise rates this week, while there's about a 75 percent chance the Fed will hike rates in December. Given that high December expectation, we do expect economists and analyst to break out a fine tooth comb to go over the eventual November meeting minutes. We say this because last November the Fed tweaked its policy statement to specifically reference its December 2015 meeting as a date of a possible rate lift-off, and as we know the Fed boosted interest rates at that December meeting.

We'll file this under the "measure twice, boost rates once" as we wait for those November FOMC minutes to be shared on November 23.

Amid the earnings deluge, there was one other high profile item last week making the rounds — the lack of OPEC members to agree on production figures that would serve as the basis for potential production cuts. As it is, Iraq, Iran, Libya and Nigeria have each asked for special treatment during the would-be production curb because their respective production levels have already been hit by sanctions or conflict. Outside of the OPEC producers, non-OPEC nations including Azerbaijan, Brazil, Kazakhstan, Mexico, Oman and Russia made no specific commitment over the weekend to join OPEC's potential production cut.

Turning to the Week Ahead

This week brings the usual end of the month economic data as well as the first looks at the new month data. **September Personal Income & Spending, October ISM Manufacturing** as well as **Services**, and the **October Employment Report** all hit the wires this week. Given the better than expected 3Q 2016 GDP print of 2.9 percent vs. the expected 2.2 percent and revised 2Q 2016 level of 1.4 percent, odds are the Fed will be closely watching these reports to see if the strength in the recently concluded quarter has carried over into the current one. Rest assured, we'll be there dissecting them as well.

Even after all the quarterly earnings reports from last week, we have almost another 1,500 companies slated to report quarterly results next week, including another 134 of the S&P 500. By the end of next week, this should bring the number of S&P 500 companies that have reported to 424, roughly 85 percent of the index. At that point, most of the numbers should be painted in, giving us a much clearer picture of earnings growth in the second half of 2016 vs. the forecasted 10 percent growth compared to the first half of 2016.

Ahead of that onslaught, based on the 58 percent of the S&P 500 that have reported quarterly results, expectations for S&P 500 earnings for the September quarter have risen to +1.6 percent from -2.2 percent on September 30. This has bumped up 2016 earnings expectations back into the green for 2016 with a whopping year over year growth rate of 0.5 percent (yes, that was sarcasm). More importantly, if the index reports growth in earnings this quarter, it will be the first since 1Q 2015. Having said that, as we enter the week the stock market is trading at just shy of 18x revised 2016 earnings expectations and initial earnings expectations for 2017 still call for 12.5 percent earnings growth, the highest since 2011.

ECONOMIC CALENDAR	OCT 31 - NOV 4, 2016	
DATE	REPORT / SPEECH	DATA
31-Oct	**Personal Income**	Sep
31-Oct	**Personal Spending**	Sep
31-Oct	**Core PCE Price Index**	Sep
31-Oct	**Chicago PMI**	Oct
1-Nov	**ISM Index**	Oct
1-Nov	**Construction Spending**	Sep
1-Nov	**Auto Sales**	Oct
1-Nov	**Truck Sales**	Oct
2-Nov	**MBA Mortgage Index**	29-Oct
2-Nov	**ADP Employment Change**	Oct
2-Nov	**Crude Inventories**	29-Oct
2-Nov	**FOMC Rate Decision**	Nov
3-Nov	**Challenger Job Cuts**	Oct
3-Nov	**Initial Claims**	29-Oct
3-Nov	**Continuing Claims**	22-Oct
3-Nov	**Unit Labor Costs**	Q3
3-Nov	**Productivity-Prel**	Q3
3-Nov	**Unit Labor Costs**	Q3
3-Nov	**Factory Orders**	Sep
3-Nov	**ISM Services**	Oct
3-Nov	**Natural Gas Inventories**	29-Oct
4-Nov	**Nonfarm Payrolls**	Oct
4-Nov	**Nonfarm Private Payrolls**	Oct
4-Nov	**Hourly Earnings**	Oct
4-Nov	**Unemployment Rate**	Oct
4-Nov	**Average Workweek**	Oct
4-Nov	**Trade Balance**	Sep

The bottom line on this is we still have more than 40 percent of the S&P 500 to go when its comes to earnings, and the latest earnings picture could once again shift. Even if expectations are met, the looming question is how much higher will the stock market move when its valuation is well above both the 5-year and 10-year average?

From our perspective, we don't "buy the market." As such, we'll continue to see how the earnings picture develops in the coming days, listening to the thematic data points we collect every week as we look to position both the Tematica Investing select list and our thematic indices for 2017 and beyond.

Thematic Earnings

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

AFFORDABLE LUXURY

- Luxottica (LUX)
- Coach Inc. (COH)
- Malibu Boats (MBUU)
- Marinemax (HZO)
- Steve Madden (SHOO)
- Estee Lauder (EL)

AGING OF THE POPULATION

- Cardinal Health (CAH)
- Omega Healthcare (OHI)
- Adeptus Health (ADPT)
- Cerner Corp. (CERN)
- Pfizer (PFE)
- Surgical Care (SCAI)
- Team Health (TMH)
- Anthem Inc. (ANTM)
- Henry Schein (HSIC)
- Hologic Inc. (HOLX)
- Dentsply Sirona (XRAY)
- Senior Housing (SNH)

ASSET LITE BUSINESS MODELS

- Tessera Technologies (TSRA)
- Ultimate Software (ULTI)
- Booz Allen Hamilton (BAH)
- Gartner Inc. (IT)

CASHLESS CONSUMPTION

- Square Inc. (SQ)

CASH-STRAPPED CONSUMER

- FirstCash Inc. (FCFS)
- Retailmenot (SALE)
- Revlon (REV)

CONNECTED SOCIETY

- DSP Group (DSPG)
- Cavium Inc . (CAVM)
- Match Group (MTCH)
- Facebook (FB)
- Alibaba Group (BABA)
- Qualcomm (QCOM)
- Equinix Inc. (EQIX)
- Centurylink (CTL)
- Skyworks Solutions (SWKS)
- Qorvo Inc. (QRVO)

CONTENT IS KING

- Discover Communications (DISCA)
- Electronic Arts (EA)
- Time Warner (TWX)
- Twenty-first Century Fox (FOXA)
- IAC/Interactive (IAC)
- Take-two Interactive (TTWO)
- CBS Corp. (CBS)
- Activision Blizzard (ATVI)
- EW Scripps (SSP)

DISRUPTIVE TECHNOLOGIES

- FARO Technologies (FARO)
- Veeco Instruments (VECO)
- Universal Display (OLED)
- Zillow Group (Z)
- Shutterstock (SSTK)

ECONOMIC ACCELERATION/DECELERATION

- Cabot Corp. (CBT)
- CNH Industrial (CNHI)
- Freightcar America (RAIL)
- Cummins Inc. (CMI)
- Eaton Corp. (ETN)
- Emerson Electric (EMR)

FATTENING OF THE POPULATION

- Nautilus Inc. (NLS)
- Chuys Holding (CHUY)
- Denny's Corp. (DENN)
- Dineequity Inc. (DIN)
- Kellogg Co. (K)
- Papa Johns (PZZA)
- Potbelly Corp. (PBPB)
- Texas Roadhouse (TXRH)
- Wingstop (WING)
- Kraft Heinz (KHC)

FOODS WITH INTEGRITY

- Whole Foods Market (WFM)
- Treehouse Foods (THS)

FOUNTAIN OF YOUTH

- Herbalife (HLF)
- Monster Beverage (MNST)

GUILTY PLEASURE

- Boyd Gaming (BOYD)
- Molson Coors (TAP)
- Starbucks (SBUX)
- Las Vegas Sands (LVS)
- Wynn Resorts (WYNN)

RISE & FALL OF THE MIDDLE CLASS

- Armstrong World (AWI)
- Haverty Furniture (HVT)
- Loews Corp. (L)
- Big 5 Sporting Goods (BGFV)
- Credit Acceptance Corp. (CACC)
- Honda Motor (HMC)
- Clorox (CLX)
- Lufthansa (DLAKY)
- Toyota Motor (TM)
- Church & Dwight (CHD)
- Hyatt Hotels (H)
- Gildan Activewear (GIL0

SAFETY & SECURITY

- Rockwell Collins (COL)
- Lifelock (LOCK)
- Sturm & Ruger (RGR)

SCARCE RESOURCES

- BWX Technologies (BWXT)
- Roper Technologies (ROP)
- Aqua America (WTR)
- Royal Dutch Shell (RDS.A)
- Xylem (XYL)
- American Water Works (AWK)
- Bunge (BG)
- Randgold Resources (GOLD)

TOOLING & RE-TOOLING

- Alexandria Real Estate Equities (ARE)
- Education Realty (EDR)
- BG Staffing (BGSF)
- Devry Education (DV)