

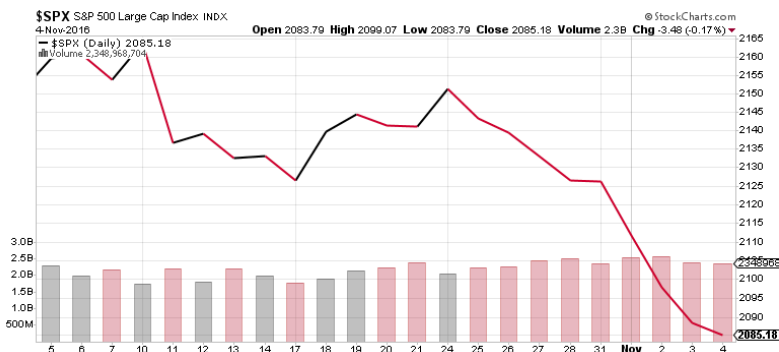
# MONDAY MORNING KICKOFF

## YOUR MARKET PRIMER FOR THE WEEK AHEAD

### WEEK OF NOVEMBER 7, 2016

Since the renewed interest by the FBI over Hilary Clinton’s emails was reported, the stock market has been caught in a riptide of renewed uncertainty. From an increasingly uncertain US presidential election, to the UK high court’s decision concerning Brexit, to Italy’s upcoming election, we see rising instability.

Let’s not forget the Fed and its language in Wednesday’s FOMC statement that paved the way for a December rate hike... that is at least until Friday’s **October Employment Report** missed expectations.



That basket of uncertainty was enough to feed even perpetually honey-starved Pooh Bear and led to a nine-day decline in the S&P 500 — it’s worst since December 1980. In situations like this, things tend to devolve into a “shoot first, and ask questions later” mentality, as the market takes a pause from fundamentals in favor of something more akin to rubbernecking on I-95 during a traffic accident — we can’t help but shift our attention.

As subscribers to **Tematica Investing** know, having anticipated such volatility, we’ve made some room on the **Tematica Investing Select List** so we could capitalize on what we saw coming.

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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 shape the market in the near-term, and in-turn impact our tematics.

## Let's Break Out That Shovel and Dig Into All of It

As expected, the Federal Reserve left interest rates unchanged last week, but the central bank's language in its post-FOMC meeting statement paved the way for a December rate hike. Parsing through the statement we find:

*"Information received since the Federal Open Market Committee met in September indicates that the labor market has continued to strengthen and growth of economic activity has picked up from the modest pace seen in the first half of this year. Although the unemployment rate is little changed in recent months, job gains have been solid."*

*"The Committee expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market conditions will strengthen somewhat further."*

As if that wasn't enough, here's the final clue:

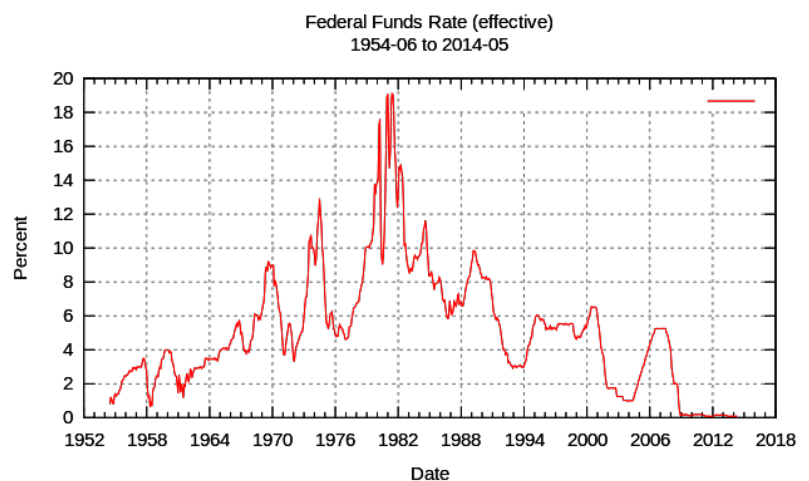
*"The Committee judges that the case for an increase in the federal funds rate has continued to strengthen but decided, for the time being, to wait for some further evidence of continued progress toward its objectives."*

Operative words — *"for the time being."* There is of course that 2016 Presidential Election next week.

Stepping back, the Fed statement resembles very much what we saw last year — language in the November policy statement that was followed by a modest interest rate hike in December. The language also signals that unless we get data pointing to a pronounced slowdown in the coming weeks, odds are the Fed will raise rates exiting its next FOMC meeting on Dec. 13-14.

Should the Fed move on interest rates come December, more than likely it will be a slow path to move rates higher:

*"The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run."*



## So what did the October Employment Report tell us?

While the overall job creation headline figure reported by the Bureau of Labor Statistics came in at 161,000 for October, missing the consensus of 178,000, it was well within the consensus range of 155,000 to 200,000 jobs. Moreover, both August and September job figures were both revised higher, bringing the average job creation to 176,000 over the last several months.

Digging into the report, there were three standouts:

- Average hourly earnings rose 2.8% year over year, the highest rate since 2009;
- The Unemployment Rate returned to 4.9% from 5.0% in September and was in line with expectations;
- The U6 employment rate, viewed as the “true” measure of unemployment, fell to 9.5% — its lowest reading since 2008.

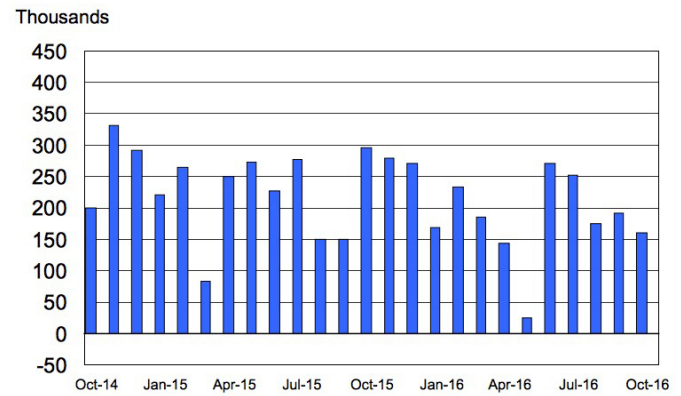
That’s not to say it was a fantastic employment report, given the month-over-month tick lower in the labor force participation rate — to 62.8. We’d also note that on both a year-over-year and month-over-month basis, the number of people not in the labor force is up. While the labor force is up year over year, it slipped by 195,000 in October compared to September.

Pretty hard to get excited when the number of folks leaving the labor force eclipses the number of jobs added, as it means the Unemployment Rate is falling for all the wrong reasons.

As we always like to say, context and perspective are key.

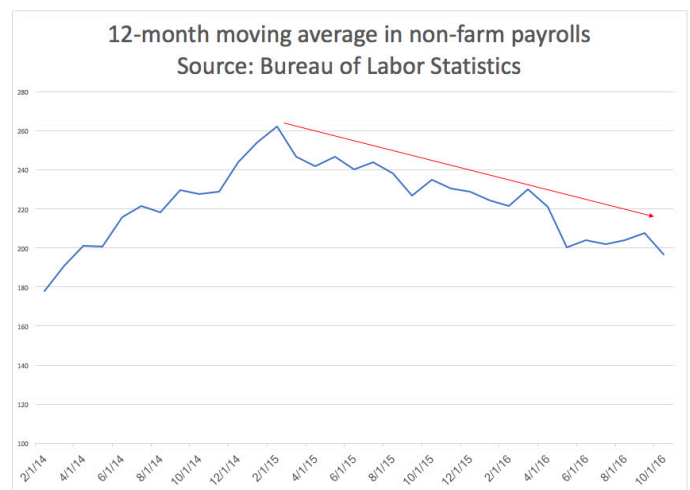
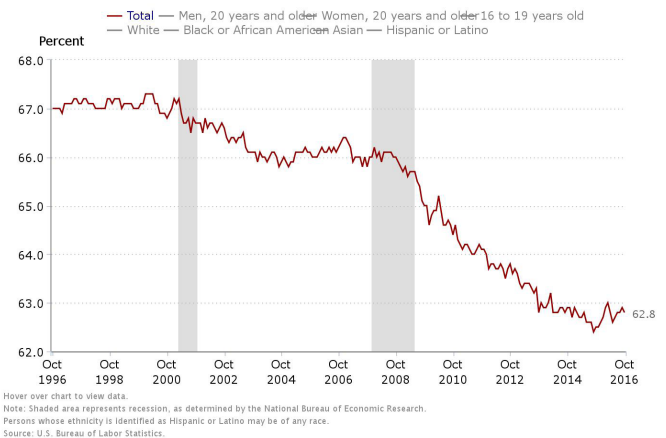
Perhaps the clearest picture to be had is after taking a 12-month moving average of non-farm payroll data. As you can see to the right, it reveals

**Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, October 2014 – October 2016**



**Civilian labor force participation rate, seasonally adjusted**

Click and drag within the chart to zoom in on time periods



that monthly job creation peaked in early 2015 and has been a steadily slowing slope ever since. We certainly don't hear President Obama sharing data like that.

Aside from the government take on October job creation, **ADP's October Employment Report** showed the private sector created 147,000 jobs during the month, falling short of the 165,000 expected and the 202,000 created during September.

Looking outside the employment data, the **ISM October Manufacturing Index** perked up month-over-month, but it was the month-over-month decline in new-order activity that stood out, as it marked one of the lowest levels in the last five months. The October reading on the Services sector from ISM showed slowing activity almost across the board, including key areas of business activity, new orders and employment. Increases were seen in inventories and prices paid.

In a nutshell, the **October Service Report from ISM** makes the strength in the September report look like an aberration vs. the run rate the last few months.

Coming out of all this data, the bottom line is the economy in October slowed compared to September. It is unclear how much of this is due to uncertainty over the 2016 Presidential election and its outcome. Having said that, historically, businesses have taken a cautious approach until they know who will be in the White House and what the likely policies will be.

**While not a great October Employment Report, it wasn't a total disaster either.**

The number of jobs created in October was likely enough to say that both the Fed and the stock market will need to see the November data ahead of the Fed's December FOMC meeting. As Tematica's Chief Macro Strategist, Lenore Hawkins, has pointed out more than a few times, historically the Fed has done a good job at increasing interest rates at the wrong time. Odds are Fed Chair Janet Yellen doesn't want to go down in the history books as being the person that put a few interest rate nails into a tepid U.S. economy and put it down for the count.

We see the Fed caught between the proverbial rock and hard place. It doesn't want to be seen as having weakened an already weak economy with a rate hike, but also would like some extra interest rate wiggle room in case the economy stumbles.

For us, it means the next iteration of data will tell us what's likely to happen come Dec. 14.

**The Tightening Presidential Race is Giving the Markets the Jitters**

The shrinking spread in the polls between Hillary Clinton and Donald Trump in the week before the election has sent tremors through the financial markets, as investors have been forced to rethink their level of confidence in a Clinton victory — markets abhor uncertainty.

**October 2016 Manufacturing ISM®  
Report On Business®**  
THE LAST 12 MONTHS

Month	PMI®	Month	PMI®
Oct 2016	51.9	Apr 2016	50.8
Sep 2016	51.5	Mar 2016	51.8
Aug 2016	49.4	Feb 2016	49.5
Jul 2016	52.6	Jan 2016	48.2
Jun 2016	53.2	Dec 2015	48.0
May 2016	51.3	Nov 2015	48.4
Average for 12 months – 50.6			
High – 53.2			
Low – 48.0			

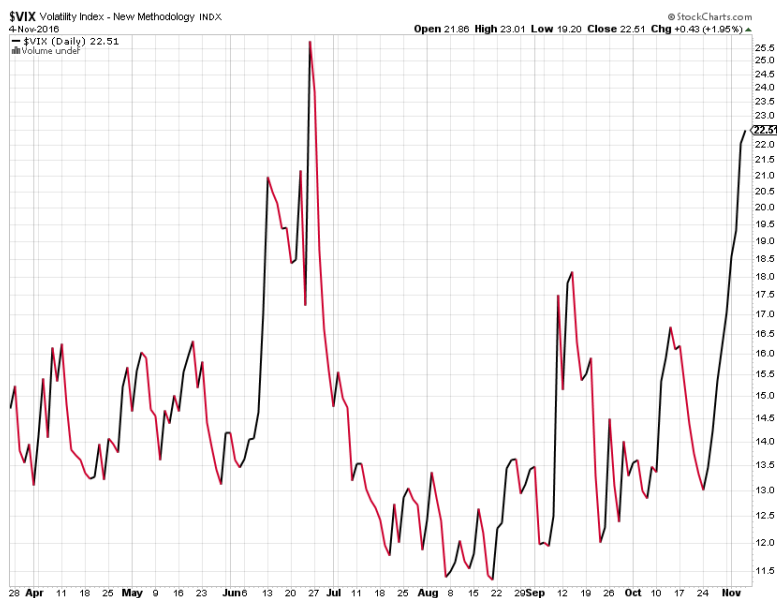
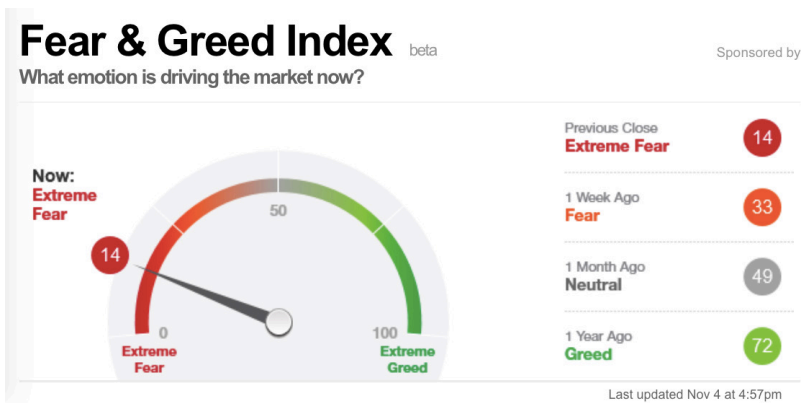
The result was a sharp move in CNN's Fear & Greed Index, which fell to 14 this afternoon (extreme fear) from 33 (fear) a week ago and 49 (just a month ago), and the **Volatility Index (VIX)** gapping up suggest the volatility is likely to spill over into next week.

The moves in those two indices showcase the market mood over the last several days — rising uncertainty, which led to yet another week over week decline in the major market indices. In particular, the S&P 500 fell more than 1.5 percent over the last five days, which adds to the 1.9 percent drop recorded for the index in October.

### Turning to the Week Ahead

Adding to the fire was the aforementioned economic data discussed earlier, but that data is far thinner this week than last. While there are no Fed-worthy economic data points to be had next week, we'll continue to watch the September reports for both Consumer Credit report and the Job Openings and Labor Turnover Survey (JOLTS) report.

The velocity of earnings reports will start off high, but begin to slow as the week progresses. In total, more than 900 companies reporting are set to report earnings this week, but only 31 of them will be S&P 500 companies. Exiting last Friday, 85 percent of the S&P 500 companies have reported earnings, and while the performance for 3Q 2016 was better than what was expected on Sept. 30 we'd have to say the 2.7 percent growth rate is still



ECONOMIC CALENDAR		NOV 7 - 11, 2016
DATE	REPORT / SPEECH	DATA
7-Nov	<b>Consumer Credit</b>	Sep
8-Nov	<b>JOLTS - Job Openings</b>	Sep
9-Nov	<b>MBA Mortgage Index</b>	5-Nov
9-Nov	<b>Wholesale Inventories</b>	Sep
9-Nov	<b>Crude Inventories</b>	5-Nov
10-Nov	<b>Initial Claims</b>	5-Nov
10-Nov	<b>Continuing Claims</b>	29-Oct
10-Nov	<b>Natural Gas Inventories</b>	5-Nov
10-Nov	<b>Treasury Budget</b>	Oct
11-Nov	<b>Mich Sentiment</b>	Nov

rather underwhelming several years into the economic “recovery.”

Ahead of us, expectations still call for those S&P 500 companies to grow their earnings 12 percent in 2017. Based on the data we’ve seen, the odds are high we’re bound to get more downward revisions for 2017 expectations, especially if oil prices continue to fall after the Nov. 30 OPEC meeting.

Already we can here Wall Street questioning the 2016 Santa Claus Rally . . .

### Near-Term It's All About Election Day

Over the next 36-48 hours, cable and broadcast news, business or not, will be filled with anchors and guests — including our very own Chief Investment Officer Chris Versace — sharing permutations and postulations as to what could happen on Election Day 2016, as well as after.

Given the unknown results of the upcoming election, Fact Set set out to determine how concerned S&P 500 companies are about the election. After searching for the term “election” in the conference call transcripts of the S&P 500 companies that have conducted third quarter earnings conference calls through November 2, Fact Set found “election” was mentioned in 80 S&P 500 companies (or 21 percent of the 386 S&P 500 companies that had reported earnings through November 2).

We would say that qualifies as being on the mind of Corporate America.

While many hope Election Day brings an end to campaign season, it is conceivable that third party candidate(s) could win sufficient electoral votes to leave neither Clinton nor Trump with the needed 270, which would then put the election into the House of Representatives. If that occurs, we wouldn’t count on a smooth process, to say the least, which means uncertainty would continue.

If either Clinton or Trump wins, there is a reasonable likelihood that the loser refuses to concede and we will be in for an ugly battle as you likely recall, the last time we had a contested election result, back in 2000, the markets weren’t exactly appreciative. It is also likely that we will be hearing reports of election fraud from either side and reports of foreign interference.

As the situation unfolds, we’ll be sharing what it means as well as how be positioned for it with Tematica Investing and Tematica Pro subscribers. Be sure to vote!



## 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**

- Nordstrom Inc JWN
- Ralph Lauren Corp RL

### **AGING OF THE POPULATION**

- Aegerion Pharm Inc AEGR
- Agile Therapeutics Inc AGRX

### **CASHLESS CONSUMPTION**

- USA Technologies Inc USAT

### **CONNECTED SOCIETY**

- Blue Nile Inc NILE
- Priceline Group Inc PCLN
- Rackspace Hosting Inc RAX
- CafePress Inc PRSS

### **CONTENT IS KING**

- AMC Entertainment AMC
- Carmike Cinemas Inc CKEC
- DISH Network Corp DISH
- Live Nation LYV
- News Corp NWSA
- Scripps Networks SNI
- Cinemark Holdings CNK
- Everyday Health Inc EVDY
- Liberty Interactive QVCA
- SeaWorld SEAS
- iHeartMedia Inc IHRT
- Tribune Media Co TRCO
- Viacom Inc VIAB

### **EMERGING ULTRA WEALTHY**

- Ferrari NV RACE

### **FATTENING OF THE POPULATION**

- Dean Foods Co DF
- Lifetime Brands Inc LCUT
- Popeyes Kitchen Inc PLKI
- Shake Shack Inc SHAK
- Wendys Co WEN
- Rave Restaurant RAVE

### **FOUNTAIN OF YOUTH**

- Inter Parfums Inc IPAR
- Coty Inc COTY

### **GUILTY PLEASURES**

- Caesars Entertainment CZR
- FTD Companies Inc FTD
- MGM Resorts Int'l MGM
- Gaming & Leisure GLPI

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

- International Flavors & Fragrances Inc IFF
- Marriott Int'l Inc MAR
- Rosetta Stone Inc RST
- Trex Co Inc TREX
- D.R. Horton Inc DHI
- hhgregg Inc HGG
- Interval Leisure ILG
- Container Store TCS
- Crocs Inc CROX
- Blue Buffalo Pet Products BUFF
- Kohls Corp KSS

### **SAFETY & SECURITY**

- TASER International TASR

### **TOOLING & RETOOLING OF AMERICA**

- American Public Education APEI
- Chegg Inc CHGG
- Franklin Covey Co FC

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