

MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD



Trump Trade Pushes Markets to All-Time Highs

WEEK OF NOVEMBER 14, 2016

Last week was one that stunned many people for a variety of reasons. Despite prognostication and polling predictions that called for Candidate Clinton to win the 2016 presidential election and offered a tight path for Candidate Trump, by the wee hours of Wednesday morning it was President-elect Trump that emerged. As the election results were pouring in Tuesday night and the path to the Trump victory became more assured, stock market futures tumbled and tumbled big as the global stock market came to grips with the reality that “Trump did it!?!?!?”

Like many, we too were surprised at not only the results of the election — but also the sharp rally that ensued when the markets finally opened Wednesday morning. We thought Trump’s lack of policy specifics would have weighed far more on the market than they did. The market rally on Wednesday and again on Thursday, which has been labeled the “Trump Trade”, led the Dow Jones Industrial Average to close at a new all-time high on Thursday before inching even higher again on Friday.

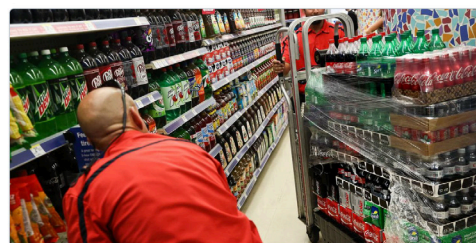
Given the sharp move in the Dow and well as the S&P 500 this week —up 5.2 percent and roughly 3.6 percent, respectively —

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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.

odds are we will likely give back some ground as the post-election euphoria fades (or the post-election haze lifts depending on which side of the political fence you sit on) and we wait for more detailed plans and policies from President-elect Trump.

We'd note the Nasdaq Composite Index lagged the other two major market indices, rising roughly 3.5 percent as higher beta, tech names weighed on Nasdaq this week.

There were several investing themes that benefitted from the Trump Trade last week, including our **Safety & Security** and **Tooling & Re-tooling** investment themes. Candidate Trump was rather vocal on improving the US military and that led to a pop in **Lockheed Martin (LMT)**, **Raytheon Corp. (RTN)** and **Northrop Grumman (NOC)**, with all three stock rising in or near double digits. This did wonders for the **iShares Dow Jones US Aerospace & Defense ETF (ITA)** as well as **PowerShares Aerospace & Defense ETF (PPA)**, which outperformed cyber security focused **PureFunds ISE Cyber Security ETF (HACK)** by several percentage points.

When was the last time we saw that?

Candidate Trump also gave much lip service to rebuilding US infrastructure and his winning the election gave rise to pronounced moves in **Caterpillar (CAT)**, **Terex Corp. (TEX)** and **Granite Construction (GVA)** shares. Of the three, the most clear-cut winner is likely to be Granite Construction along with **Vulcan Materials (VMC)** given their domestic heavy US business; others, like Caterpillar, run the risk of potential for trade wars given Candidate Trump's protectionist promises. One construction related ETF that doesn't focus on homebuilders and their activity, **PowerShares Dynamic Building & Construction ETF (PKB)**, climbed more than 10 percent last week.



Heading into the weekend, the S&P 500 came in just under 30 points away from its 52-week high, which means the index is trading at 18.2x expected 2016 earnings of \$118.72 and 16.3x expected 2017 earnings of \$132.71. Over the last several weeks, we've shared the view that the forecasted consensus year over year earnings growth looks aggressive, especially given the steady step downs in 2016 earnings for the S&P 500 group of companies. That view was predicated on the lack of business investment, questionable jobs data, the impact of foreign currency as well as monetary policy both in and out of the US.

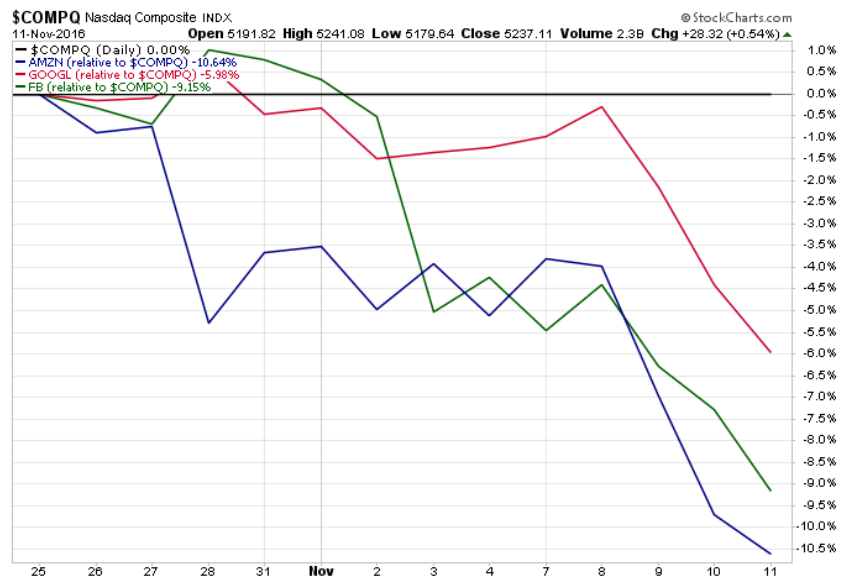
The market move over the last few days has put a new high in for the Dow Jones Industrial Average. That move, which has come pretty far, pretty fast has put that index in overbought territory, and odds are we are likely to see some give back in the coming days.

Let's remember, the Dow is composed of just 30 stocks. We tend to favor the S&P 500, which is far more reflective of the overall market. It also serves as the benchmark for institutional investors. That index is far from overbought and has been fraught of late by extreme volatility. We may see a drop in volatility as we approach the coming holiday, and that could be good for stocks to go higher.

From a technical perspective, the Nasdaq Composite Index has been taking the brunt of the selling recently with higher beta names like **Amazon (AMZN)**, **Alphabet (GOOGL)**, and **Facebook (FB)** getting hit, or in the case of **Qualcomm (QCOM)** barely budging higher last week.

While the market and several of our themes, especially our **Connected Society** and **Disruptive Technology**, as well as specific names on Tematica's Stock and ETF Select List, benefitted from this week's pop, we suspect that until President-elect Trump puts more meat on prospective policies, the market is likely to trade sideways near-term. As we look for meat on the bone for Trump's policies and the Fed's December FOMC meeting, the next set of data that is likely to move the market will be data and company commentary on the 2016 holiday shopping season.

Navigating through the next several weeks, our inclination is to think that lower taxes (both corporate and individual), corporate cash repatriation, overhauled regulation and healthcare, as well as infrastructure spending, are likely to spark business investment and put more cash in consumer pockets. If so, this could lead to growing confidence in both economic as well as earnings growth in 2017. That would be a welcome change from the last several years.



Turning to the week ahead

With 91 percent of the S&P 500 having reported earnings, it means we are in for a step-down from the recent frenetic pace of earnings reports. This week just 21 S&P 500 companies are set to report their earnings and those reports are skewed somewhat toward retail, and we along with others on Wall Street will be putting it all together to ascertain what it means for the now upon us holiday shopping season.

In particular, we'll be paying attention to results this week from **Dick's Sporting Goods (DKS)**, **Hibbett Sports (HIBB)** and **Foot Locker (FL)** to see if branded sports apparel and footwear remains a must-have among the **Rise & Fall of the Middle Class**. Much like Monday's October Retail Sales report, Thursday's earnings report from **Walmart (WMT)**, **Ross Stores (ROST)** and **TJX Companies (TJX)** should offer some insight into the consumer's spending appetite. Will it be more of our **Cash-strapped Consumer** theme this holiday season or more of the **Affordable Luxury** theme, given what we saw at **Nordstrom (JWM)** last week and may hear from **Williams Sonoma (WSM)** this week?

Aside from the Walmart's quarterly results, we'll be rather interested in getting an update on its e-commerce efforts and what it means for players like **Amazon (AMZN)**, **FedEx (FDX)** and **United Parcel Service (UPS)** this holiday season and beyond.

In October, one of our better performing investing themes was Disruptive Technologies. This week, results from **Mobileye NV (MBLY)**, **Nuance Communications (NUAN)** and **Zebra Technologies (ZBRA)** will shed some light on that outperformance will continue in November and into December.

We also have a number of Fed officials speaking each day this week, and we suspect we will once again hear differing views on what the Fed might do come December 14-15 at its next FOMC meeting. As we shared with subscribers to Tematica Investing this past Wednesday, it's quite possible the Fed takes yet another interest rate hike pass in December as it waits for a better look at policies to be put in place by President-elect Trump.

From an economic calendar perspective, the week brings us October reports for Retail Sales, inflation (with CPI and PPI reports), Industrial Production and several housing related items including Housing Starts and Building Permits.

ECONOMIC CALENDAR		NOV 14 - 18, 2016
DATE	REPORT / SPEECH	DATA
15-Nov	Retail Sales	Oct
15-Nov	Retail Sales ex-auto	Oct
15-Nov	Export Prices ex-ag.	Oct
15-Nov	Import Prices ex-oil	Oct
15-Nov	Empire Manufacturing	Nov
15-Nov	Business Inventories	Sep
16-Nov	MBA Mortgage Index	12-Nov
16-Nov	PPI	Oct
16-Nov	Core PPI	Oct
16-Nov	Industrial Production	Oct
16-Nov	Capacity Utilization	Oct
16-Nov	NAHB Housing Market Index	Nov
16-Nov	Crude Inventories	12-Nov
16-Nov	Net Long-Term TIC Flows	Sep
17-Nov	CPI	Oct
17-Nov	Core CPI	Oct
17-Nov	Housing Starts	Oct
17-Nov	Building Permits	Oct
17-Nov	Initial Claims	12-Nov
17-Nov	Continuing Claims	5-Nov
17-Nov	Philadelphia Fed	Nov
17-Nov	Natural Gas Inventories	12-Nov

We'll also get our first look at the domestic industrial economy is shaping up with the November Empire Manufacturing Report as well as the Philly Fed Index. No doubt that data is bound to factor into the Fed's thinking.

What it all means for us and our subscribers

We'll continue to look for opportunities to not only add newer positions at better prices to the **Tematica Stock Select List** as well as the **Tematica ETF Select List**, but revisit existing positions where it makes sense as well. Examples, including the shares of **Connected Society**, **Content is King** and **Cashless Consumption** thematic companies **Amazon (AMZN)** and **Alphabet (GOOGL)**, both of which came under pressure this past week. In a week that saw the S&P 500 climb more than 3.5 percent, these two stocks fell 2.4 percent and 1.8 percent, respectively, even though we are heading into the heart of the holiday shopping season.

With **Facebook (FB)** shares down 1.4 percent over the last few days, the combination makes for an interesting entry point into **PowerShares NASDAQ Internet Portfolio ETF (PNQI)** shares as those three companies account for 24 percent of its holdings.

All of that make us go hmmm . . . and yes, if you are smelling some smoke that is our thematic brains hard at work.

Earnings on Tap This Week

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

AFFORDABLE LUXURY

- Williams-Sonoma (WSM)
- Best Buy (BBY)
- BMW AG (BAMXF)

ASSET-LITE BUSINESS MODELS

- Salesforce.com (CRM)

CASH-STRAPPED CONSUMER

- Buckle (BKE)
- Walmart (WMT)
- Bon-Ton Store (BONT)
- Cato Corp. (CATO)
- Ross Stores (ROST)
- JM Smucker (SJM)
- TJX Companies (TJX)

CONNECTED SOCIETY

- Cisco Systems (CSCO)

CONTENT IS KING

- Manchester United (MANU)

DISRUPTIVE TECHNOLOGIES

- Mobileye NV (MBLY)
- Nuance Communications (NUAN)
- Zebra Technologies (ZBRA)

FATTENING OF THE POPULATION

- Post Holdings (POST)
- Jack in the Box (JACK)

FOOD WITH INTEGRITY

- Amplify Snack (BETR)
- Hain Celestial (HAIN)
- Natural Grocers (NGVC)
- Whitewave Foods (WWAV)

FOUNTAIN OF YOUTH

- Sally Beauty (SBH)

RISE & FALL OF THE MIDDLE CLASS

- Dick's Sporting Goods (DKS)
- Foot Locker (FL)
- Hibbet Sports (HIBB)
- Ctrip International (CTRP)
- L Brands (LB)
- Target Corp. (TGT)
- Home Depot (HD)

SAFETY & SECURITY

- Diebold (DBD)
- Alarm.com Holdings (ALRM)

SCARCE RESOURCES

- Global Water Resources (GWRS)

TOOLING & RETOOLING

- Intuit (INTU)

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