

MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

Mobile Holiday Shopping Wins Big, But An Over Bought Market Will be Watching Italy and the Fed

The market rally continued last week with the **Dow Jones Industrial Average** closing above 19,000 for the first time ever on Tuesday before exiting Black Friday's shortened trading session 19,152.14. The same was true with the **S&P 500**, **Nasdaq Composite Index** and the **Russell 2000** — all finished last week at new highs.

Granted trading volumes were a tad lighter than usual, given the skeleton crews manning the trading desks, but that accounts for just a fraction of the move we've seen in those four major market indices for the month of November. Since the market close on November 3, or over the last 15 trading days, the S&P 500, Dow Jones Industrial Average and the Nasdaq Composite Index has soared between 6 to 6.8 percent. Putting all three of those indices in the dust was the small cap heavy Russell 2000, which rode a rocket ship higher over the last 15 trading days, climbing more than 16 percent in the process.

The impetus behind those moves are the prospects for infrastructure investment, rolled back regulation and tax cuts discussed by President-elect Trump. In prior times, similar policies led to some of the longest bull markets in history (1953-1974 and 1982-1999) when President Eisenhower invested in infrastructure (the early 1950s), and President Reagan pursued tax cuts and deregulation.

We don't think anyone would complain about those returns, which served to push the major indices well into positive territory for 2016. That's the good news, but as one of the dangers of hitting escape velocity is the engine can stall. The stock equivalent has

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#Blackfriday not off to a super start for retailers if the parking lot is empty @EllesEconomy @FoxBusiness @Varneyco @realDonaldTrump



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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.

both the **Dow Jones Industrial Average** and the **Russell 2000** well into overbought territory as the S&P 500 begins to flirt with that technical level. Even the technology-heavy **Nasdaq Composite Index**, which initially took a number of lumps following the outcome of the presidential election has snapped back as have shares of **Facebook (FB)**, **Amazon (AMZN)**, **Netflix (NFLX)**, and **Alphabet (GOOGL)** — the so-called FANG stocks — rebounded.

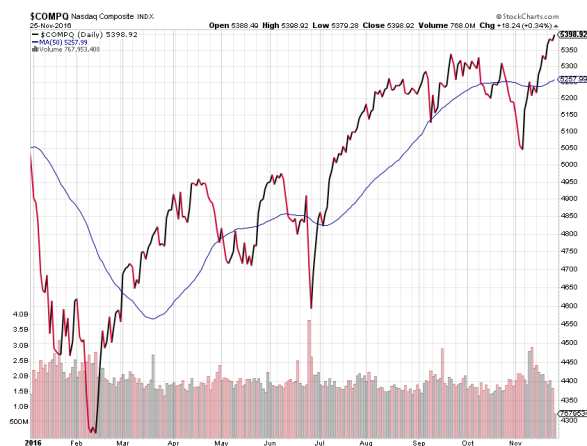
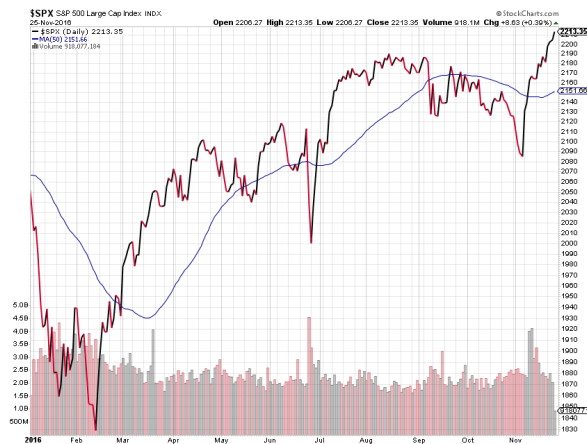
While we recognize there is renewed optimism that the US economy is likely to grow again over the coming years, breaking free of the economic malaise of the last several years, the velocity of the stock market’s climb in such a short time frame likely means there is a high probability it will take at least a pause sooner rather than later. Granted the stock market is a forward-looking creature, but we’ve seen this many times before when expectations get ahead of reality, and there tends to be some resetting as those two meet in the middle. In other words, how much of Candidate Trump’s campaign promises will President-elect Trump become action?

The next several weeks should help provide those answers and clarity as well.

Letting the Data Do the Talking

In the coming weeks, one of the indicators that we’ll be watching to gauge the market is the **NYSE McClellan Oscillator (NYMOT)**, a momentum indicator for the Net Advances (the number of advancing issues less the number of declining issues) across the NYSE as well as the sister index the **Nasdaq McClellan Oscillator (NAMO)**, which measures the same for the Nasdaq.

While the prospect of better economic growth lies ahead, a potential fly in that ointment is the year-to-date performance of the hedge fund community, which has lagged well behind the market indices. According to hedge fund data provider HFR, it’s HFRX Equity Hedge Index returned -0.45 percent through November 23. This



is likely to result in a scramble of catch-up performance between now and the end of the year that could keep the market in overbought territory longer than usual.

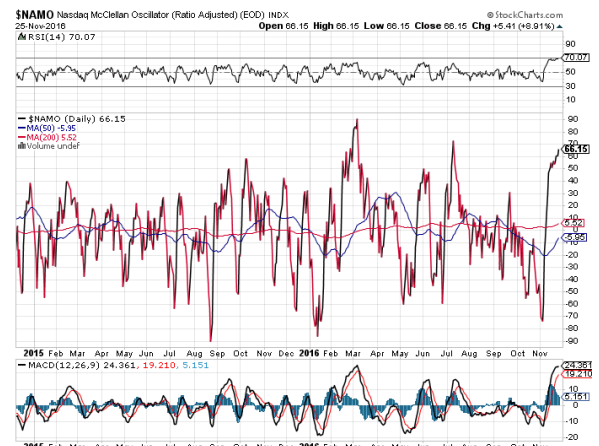
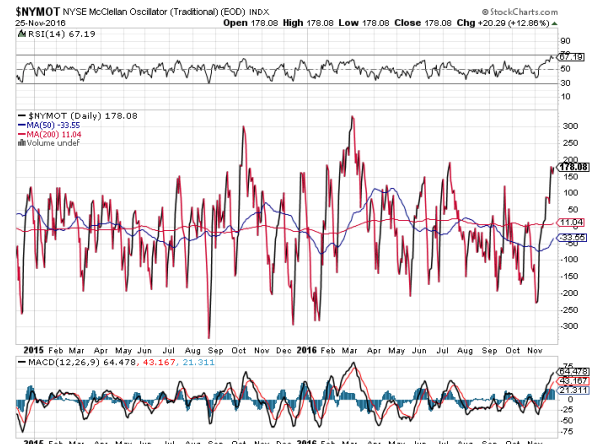
In our view, while the medium-to-longer term offers the likelihood of a stronger economy and earnings growth than we've seen in some time that could drive the market higher, the short-term could see some volatility return as potentially exuberant expectations are hit with that all-powerful force known as gravity. We also have the Dec. 4 Italian constitutional referendum vote that could be the "third domino" to vex both the global economy and pollsters. The first two were the Brexit outcome and Candidate Trump becoming President-elect Trump. Should a "NO" vote be rendered economic reforms are likely to be abandoned, which would not only undermine the stability of the European financial system but could pave the way for Italy to leave the euro zone.

Recapping the Holiday Week

Despite being a short week, we still had several pieces of economic data to decode over the Thanksgiving week in between servings of sweet potatoes and green bean casserole. We learned **October Existing Home Sales** ticked up for the second conservative month and reported **October Durable Orders** surged past expectations jumping 4.8 percent due primarily to a 12.0 percent spike in transportation orders. Meanwhile, October core capital goods orders that exclude transportation and defense rose 0.4 percent for the month.

But that was October, and this morning's **November Flash US Manufacturing PMI** report painted a far more favorable picture, with accelerated production growth supported by faster new order growth and more robust input buying. It would seem that with the 2016 election behind us, companies that were sitting on their hands got back to work in November with many surveyed companies citing a more optimistic outlook. **The Markit Flash Eurozone PMI** report showed a similar pick up in the euro zone economy in November.

These reports are likely to sway the market view on what's to come at the Fed's next FOMC meeting (Dec. 13-14) to one that sees an interest rate bump as more likely than not. As expected, last week's minutes from the Fed's early November FOMC meeting held few surprises, largely due to Chairwoman Yellen's Nov. 17 testimony before Congress. That said, watching the November move in the US dollar, we have to wonder if Yellen and the rest of the Fed crew might push out a December rate hike until sometime in 1Q 2017. That dollar move to the highest level in at least five years is great for Americans traveling abroad, but it's also a natural headwind to export demand that will weigh on the US economy.



A Little Holiday Shopping Perhaps?

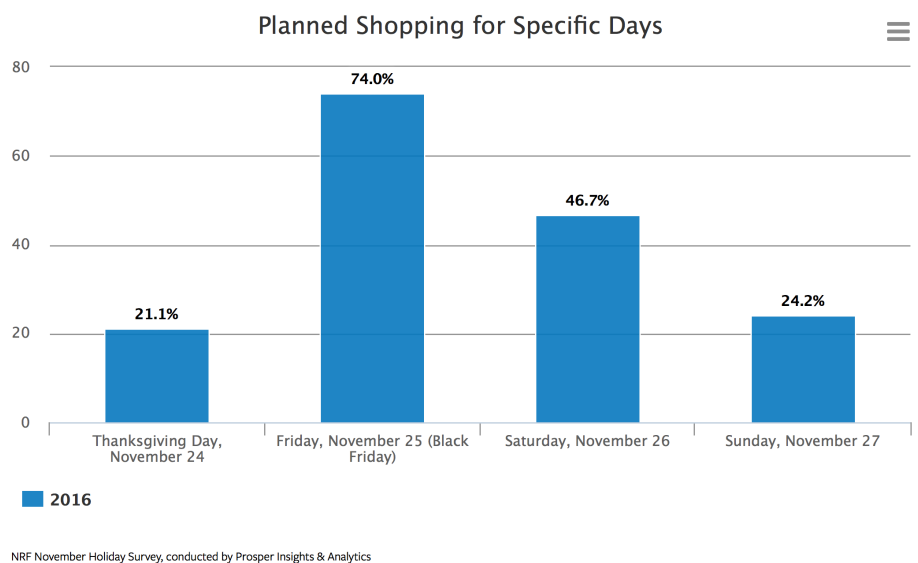
Historically, many would spend a Thanksgiving afternoon in either a food induced coma or watching football and in some cases both. Over the last few years, however, retailers have opened their doors to get a jump start on the holiday shopping season that traditionally kicked off on Black Friday (the day after Thanksgiving). According to the **National Retail Federation's (NRF)** annual survey conducted by Prosper Insights, an estimated 137.4 million people were planning to shop — be it in-store or online — from Thursday through Sunday. Per the NRF's findings, on today's Cyber Monday, 36 percent of consumers plan to shop online, vs. 34 percent last year. During the entire 2106 holiday shopping season, the NRF estimates that holiday sales will increase 3.7 percent year over year to \$630.5 billion; we'd note that forecasted growth rate is slower than last year's 4.1 percent, but better than 2013's 2.7 percent.

Given the post-election sentiment, we would not be surprised to see the NRF's forecast prove to be conservative, but rest assured we will be monitoring the outcome of the pending holiday shopping weekend.

While the final tallies will come in over the next day or so, there is little question over how online shopping fared — a telltale sign of our **Connected Society** investing theme. According to **Adobe (ADBE)** and its Digital Insights, which aggregated anonymous data from 17.6 billion visits to retail websites:

- Thanksgiving Day Online Sales: \$1.93 billion, up 11.5 percent year over year;
- Black Friday Online Sales hit \$3.34 billion, up 21.6 percent year-over-year and \$290 million ahead of the expected \$3.05 billion in online sales and its 11.3 percent year-over-year growth forecast.
- Black Friday was the first day to ever generate over a billion dollars in online sales from mobile devices, which came in at \$1.2 billion, up 33 percent year-over-year. As impressive as that statistic is, to us the real eye opener was that mobile accounted for 36 percent of total Black Friday sales

By comparison, data from analytics firm RetailNext showed net sales at brick-and-mortar stores fell 5.0 percent over on Thanksgiving and Black Friday as the number of transactions fell 7.9 percent. Preliminary data from retail research firm ShopperTrak showed that shopper visits to such stores fell a combined 1 percent during Thanksgiving and Black Friday when compared with the same days in 2015. This certainly supported the thin traffic that Chris saw Black Friday morning, which he document on [Twitter](#).



We'll keep tabs as the tallies come in to see if things meet or exceed the NRF's forecast for the shopping weekend and overall 2016 holiday spend, but so far and unexpectedly the real winner is indeed the **Connected Society** investing theme. We're already starting to feel somewhat bad for our local **United Parcel Service (UPS)** people... but not too bad.

Turning to the Week Ahead

Some of you probably wore yourself out during the holiday shopping weekend bonanza — some of you in person at the malls and outlets no doubt walking at least some of that pie off, others from the comfort of your couch with a laptop or tablet. Others may have caught **Disney's (DIS)** Dr. Strange or its latest family-friendly film *Moana* that opened last week. Our Tematica spies tell us, however, that **Time Warner's (TWX)** *Fantastic Beats and Where to Find Them* was the one to watch.

Either way, we hope you get some rest over the holiday weekend because next week will be a barn burner of economic data with a few other events mixed in as well. On the economic front, we'll get the second estimate of 3Q 2016 GDP on Tuesday followed by **October Personal Income & Spending** and the Fed's latest **Beige Book** on Wednesday. Rounding out the week we get the November read on the **ISM Manufacturing Index**, auto & truck sales and the **Employment Report**, the last one before the Fed's next FOMC meeting on Dec. 13-14. No doubt about it, these will receive much attention from the financial media and talking heads this week.

While there will be additional investor conferences this week, including the **Credit Suisse Technology, Media, and Telecom Conference** and **Nasdaq Investor Program**, as well as some earnings stragglers, today **AT&T (T)** will take the wraps off its highly anticipated DirecTV Now offering — something we are going to be paying very close attention to.

ECONOMIC CALENDAR			NOV 28 - DEC 2, 2016
DATE	REPORT / SPEECH	DATA	MARKET EXPECTS
29-Nov	GDP - Second Estimate	Q3	3.00%
29-Nov	GDP Deflator - Second	Q3	1.50%
29-Nov	Case-Shiller 20-city Index	Sep	5.20%
29-Nov	Consumer Confidence	Nov	100
30-Nov	MBA Mortgage Index	26-Nov	NA
30-Nov	ADP Employment Change	Nov	160K
30-Nov	Personal Income	Oct	0.40%
30-Nov	Personal Spending	Oct	0.50%
30-Nov	Core PCE Price Index	Oct	0.10%
30-Nov	Chicago PMI	Nov	52
30-Nov	Pending Home Sales	Oct	0.70%
30-Nov	Crude Inventories	26-Nov	NA
30-Nov	Fed's Beige Book	Nov	NA
1-Dec	Challenger Job Cuts	Nov	NA
1-Dec	Initial Claims	26-Nov	253K
1-Dec	Continuing Claims	19-Nov	NA
1-Dec	Construction Spending	Oct	0.60%
1-Dec	ISM Index	Nov	52.1
1-Dec	Natural Gas Inventories	26-Nov	NA
1-Dec	Auto Sales	Nov	NA
1-Dec	Truck Sales	Nov	NA
2-Dec	Nonfarm Payrolls	Nov	180K
2-Dec	Nonfarm Private Payrolls	Nov	170K
2-Dec	Hourly Earnings	Nov	0.20%
2-Dec	Unemployment Rate	Nov	4.90%
2-Dec	Average Workweek	Nov	34.4

During the week commentary from **Affordable Luxury** investing theme company **Tiffany & Co. (TIF)**, **Ulta Salon & Cosmetics (ULTA)** and **American Eagle Outfitters (AEO)** should offer some insight on the tone of the holiday shopping season. Also, this week grocery chain **Kroger (KR)** and **Hain Celestial (HAIN)** will give an update that should bode well for our **Food with Integrity** investing theme with the same being said for our **Safety & Security** theme via **Splunk (SPLK)** and **Smith & Wesson (SWHC)**.

Those are but some of the companies reporting this week, and below we've laid them out from a thematic perspective for you.

Enjoy the week, and we'll see you back here next Monday.

Earnings Announcements this Week

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

CASH-STRAPPED CONSUMER

- Big Lots Inc BIG
- Dollar General Corp DG
- Five Below Inc FIVE
- Lands End Inc LE

CONNECTED SOCIETY

- Box Inc BOX
- Pure Storage Inc PSTG

EMERGING ULTRA WEALTHY

- Tiffany & Co TIF

FOODS WITH INTEGRITY

- Kroger Co. KR

RISE & FALL OF MIDDLE

- American Eagle Outfitters Inc AEO
- Express Inc EXPR
- GUESS? Inc GES
- La-Z-Boy Inc LZB
- PVH Corp PVH
- Sears Holdings Corp SHLD
- Zumiez Inc ZUMZ

SAFETY & SECURITY

- Smith & Wesson Holding Corp SWHC

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