

# MONDAY MORNING KICKOFF

## YOUR MARKET PRIMER FOR THE WEEK AHEAD

### Will this Trump Rally Continue to the End of the Year?

The recent rally, or “Trump Bump”, that has been powering the stock market over the last several weeks, continued to boost equities higher last week with all three major stock market indices climbing another 2.9 to 3.3 percent. Since the election, the **S&P 500 ETF (SPY)** is up 5.8 percent with the financial and industrial heavy **Dow 30 ETF (DIA)** up even more at 7.8 percent. That move in the Dow is thanks in large part to just one stock, **Goldman Sachs (GS)**, which has an 8.4 percent weighting in the index. Having gained a mind-boggling 32 percent since the election, Goldman is responsible for roughly 1/3 of the index’s advance.

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### Fear & Greed Index beta

What emotion is driving the market now?

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Previous Close	84
Extreme Greed	
1 Week Ago	71
Green	
1 Month Ago	42
Red	
1 Year Ago	36
Red	

Last updated Dec 9 at 5:31pm

On the one hand, we are not ones to complain about the move given the positive impact it’s had on a number of position on the **Tematica Select List**. That being said, the sum total of the last several weeks that has pushed the S&P 500 into record-breaking territory with 14 new highs since the Election Day 2016, has pushed all three of those major market indices into overbought territory as well. This has also led the Fear

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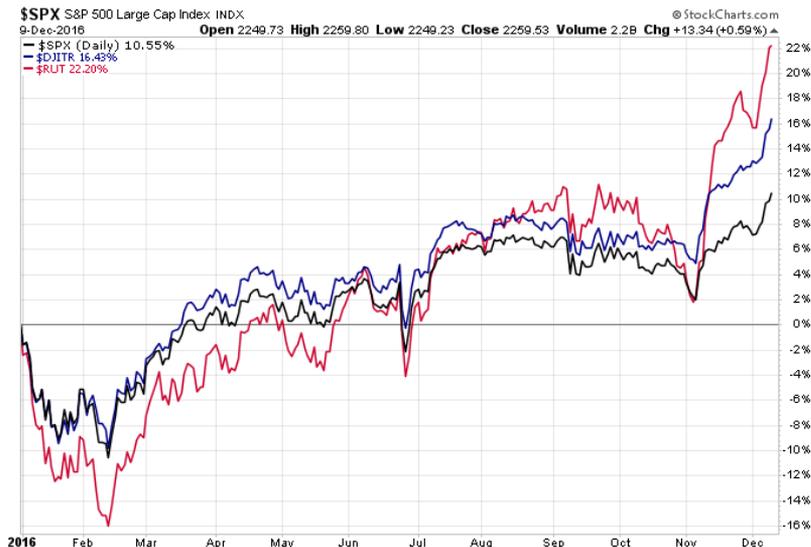


#### ABOUT THE MONDAY MORNING KICKOFF

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.

& Greed Index by CNN Money to catapult higher over the last month from a reading of 42 (Fear) to the current 87 (Extreme Greed).

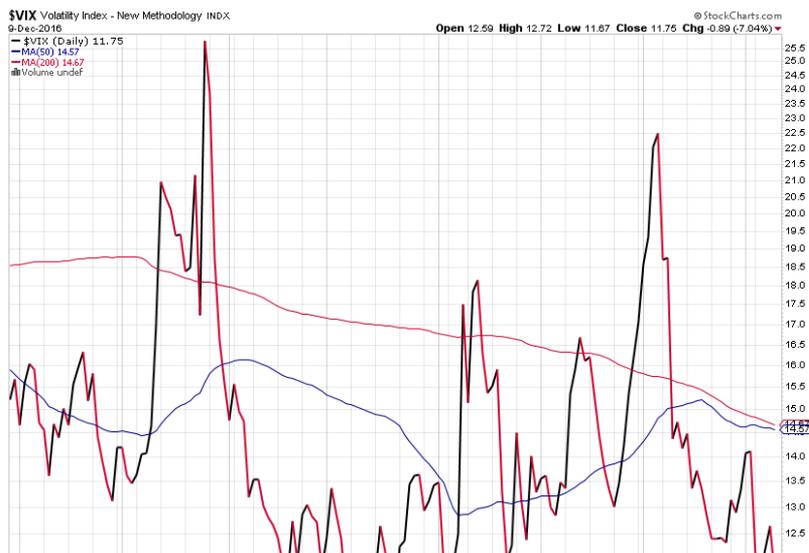
Generally speaking, when we see such pronounced moves in the market, we tend to become a little cautious, particularly if valuations for most stocks have escalated the way they have in recent weeks.



**Will this Rally Continue to the End of the Year?**

With just a couple of weeks left in the year, the biggest known potential risk to the current rally stalling out comes at us this week in the form of the Fed’s last FOMC meeting of 2016. Recent economic data, such as last week’s November ISM Manufacturing Index and this week’s November ISM Services Index, have bolstered the case for a 25 basis point increase by the Fed come this Wednesday. We’d argue the stock market has baked that expectation into the market’s cake – just look at the move in financial stocks given the 22 percent move in the **Financial Select Sector SPDR Fund (XLF)** since early November. While some of that move reflects the expectation for financial regulatory rollback, it also has something to do with prospects for better net interest margins as interest rates rise and the yield curve steepens.

With the stock market overbought and the **CBOE Volatility Index (VIX)** not too far off its 52-week low, any unexpected move by the Fed, such as a 50 basis point rate hike instead of 25, could see the market get a little jiggy. While a 50 basis point hike is plausible, we would say its probability is rather low given the dovish tone of the Fed.



## Fallout After the Italian Referendum

The other wildcard to watch as we kick the week off will be the fate of Italian bank Banca Monte dei Paschi di Siena SpA. The European Central Bank rejecting the bank's request for more time to raise capital, following the political uncertainty that has emerged given Prime Minister Renzi tendered his resignation last week.

One of the core issues at hand for regulators and policy makers is containment in order to avoid contagion across other Italian banks as well as those in the Eurozone — particularly the most systemically dangerous **Deutsche Bank (DB)**, which has seen its shares lose nearly 25 percent this year alone and were down another 4 percent last Friday.



Barring any such stronger-than-expected action by the Fed and any Italian bank drama, we are inclined to think the market will continue to move higher through the end of 2016. While some may attribute this to an early start of what's likely to be a Santa Claus rally, the reality is there is a distinct lack of selling pressure in the market. While it may be somewhat simple, we have to ask why would investors sell shares now when the odds are pretty good we will have some tax overhaul that is retroactive back to January 1, 2017, that could materially reduce taxes on their gains?

Helping fuel the domestic stock market, this week the European Central Bank extended its stimulative efforts (easing) and removed restrictions on the types of securities it could purchase (easing), even though it announced it would slow the pace of its bond-buying activity (tightening). To us, that sounds like a doctor extending a prescription for painkillers albeit it a lower dosage to treat the pain, but to also reduce the risk of becoming overly reliant on the drug.

The fact that the ECB extended the stimulus program given the outcome of the Italian referendum just days before was hardly a surprise and means the US continues to look like the best neighborhood in the still-struggling global economy. The US dollar is off its late-November high, but remains elevated compared to year ago levels, which means we'll continue watching new export orders in the coming PMI data from Markit Economics. Generally speaking, a strong dollar, while good for US tourists traveling abroad, tends to impede US export activity, which serves as a headwind for economic growth.

## While it has an ample supply of tinder, we don't see the market overheating . . . yet.

Recognizing that stock valuations have stretched further and further these last few weeks, we would recommend investors be selective and opportunistic over the coming weeks. From a sector perspective, industrial, materials and financials have all been performers while companies like **Amazon (AMZN)** and **Facebook (FB)** have lagged substantially.

The question we would suggest investors ask is if the thematic drivers that are powering those businesses, and even that at **Alphabet (GOOGL)** have changed in the last month? Has there been a marked slowdown in the shift toward digital commerce that is one of the key tenants of our **Connected Society** investing theme? Have advertisers suddenly decided to do an about face and shift advertising dollars back to radio and print, shunning online and mobile platforms? Did consumers decide to abandon online and mobile search?

Nope, nope, and nope, and those are just a few examples.

While we are all for taking advantage of discrepancies, we have to be mindful as well as that there are times when those discrepancies could take a bite on one's backside. As we've shared recently, past a certain point, the stock market's valuation and expectation will have to contend with economic reality.

Yes, the changing of the President tends to result in a wave of optimism like we are now seeing and that tends to bolster the stock market. Looking into the past, we saw that when President Reagan was elected the S&P 500 rose 18 percent through mid-February only to give back all its gains by the end of March. We will continue to be prudent with the cash in the portfolio, watching for signs of a pullback in the stock market, especially small-cap stocks, have risen rather far, rather fast.

## Turning to the Week Ahead

We'll see another downtick in the sheer number of companies reporting quarterly earnings this week, with just five S&P 500 companies reporting December quarter results. On a per-share basis, estimated earnings for the S&P 500 companies in 4Q 2016 have fallen by 2.2 percent since September 30. As a result of those downward revisions, the estimated year-over-year earnings growth rate for Q4 2016 is 3.0 percent today vs. 5.2 percent on September 30. Pardoning the sandbox math, this means that current quarter earnings will be down sequentially — more on this in a few sentences.

While the number of companies reporting is far less than just a few weeks ago, there will still be a number from which we will glean thematic data points and insight. These include **Cashless Consumption** investment theme company **Verifone Systems (PAY)** as well as **Oracle (ORCL)** and **Adobe Systems (ADBE)** that are **Connected Society** theme players. With President-elect Trump declaring he will unleash all of the US's energy resources, commentary from **Arch Coal (ARCH)**, a **Scarce Resource** theme company, should prove rather illuminating.

As it pertains to our **Aging of the Population** investing theme, there are a number of events slated for next week including:

- Guggenheim Securities 4th Annual Boston Healthcare Conference (Dec. 13);
- BMO Capital Markets Prescriptions for Success Healthcare Conference (Dec. 14);
- Bank of America Merrill Lynch Midwest Healthcare Conference (Dec. 14);
- RBC Capital Markets Healthcare Investor Day (Dec. 15); and
- **CVS Health (CVS)** 2016 Analyst Day (Dec.15).

Other notable conferences to watch this week include the 2016 Cowen and Company Networking and Cybersecurity Summit that should offer some insight on that aspect of our **Safety & Security** investing theme. There will also be a number of analyst meetings next week including ones from **General Electric (GE)**, **Honeywell (HON)**, **United Technologies (UTX)** and **Prudential Financial (PRU)**. These briefings should also help determine if the current expectation for a quarter-over-quarter downtick in S&P 500 earnings in 4Q 2016 is warranted, (see that, we didn't forget).

Aside from the Fed's FOMC meeting, we'll be getting the November reports for Retail Sales, Industrial Production, Inflation and Housing Starts. Those reports along with the outlooks from industrial companies Honeywell and GE, mentioned above, should put some context around the recent run up in the industrial sector. Since early November, **The Industrial Select Sector SPDR Fund (XLI)** has been on a tear, climbing 13 percent in anticipation of fiscal stimulus policies to be put forth by President-elect Trump. Our thinking is let's hear what these companies see near-term and what they expect on the horizon for 2017.

Rounding out next week, we'll see the latest installment of the Star War franchise – *Rogue One: A Star Wars Story* — hit theaters and at least Chris Versace will be there with a big tub of popcorn. And for those subscribers wondering, he is thoroughly enjoying AT&T's DirecTV Now and used it to watch Lenore Hawkin's latest visit with Varney & Co. on the Fox Business Network.

ECONOMIC CALENDAR		DEC 12-16, 2016	
DATE	REPORT / SPEECH	DATA	PRIOR
12-Dec	<b>Treasury Budget</b>	Nov	
13-Dec	<b>Export Prices ex-ag.</b>	Nov	
13-Dec	<b>Import Prices ex-oil</b>	Nov	
14-Dec	<b>MBA Mortgage Index</b>	10-	
14-Dec	<b>Retail Sales</b>	Nov	
14-Dec	<b>Retail Sales ex-auto</b>	Nov	
14-Dec	<b>PPI</b>	Nov	
14-Dec	<b>Core PPI</b>	Nov	
14-Dec	<b>Industrial Production</b>	Nov	
14-Dec	<b>Capacity Utilization</b>	Nov	
14-Dec	<b>Business Inventories</b>	Oct	
14-Dec	<b>Crude Inventories</b>	10-	
14-Dec	<b>FOMC Rate Decision</b>	Dec	
15-Dec	<b>CPI</b>	Nov	
15-Dec	<b>Core CPI</b>	Nov	
15-Dec	<b>Initial Claims</b>	10-	
15-Dec	<b>Continuing Claims</b>	3-Dec	
15-Dec	<b>Philadelphia Fed</b>	Dec	
15-Dec	<b>Empire Manufacturing</b>	Dec	
15-Dec	<b>Current Account Balance</b>	Q3	
15-Dec	<b>NAHB Housing Market</b>	Dec	
15-Dec	<b>Natural Gas Inventories</b>	10-	
15-Dec	<b>Net Long-Term TIC</b>	Oct	
16-Dec	<b>Housing Starts</b>	Nov	
16-Dec	<b>Building Permits</b>	Nov	

## Earnings on Tap This Week

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

### **AFFORDABLE LUXURY**

- Carnival Corp. (CCL)

### **AGING OF THE POPULATION**

- Team Health (TMH)

### **CONNECTED SOCIETY**

- Adobe Systems (ADBE)
- Oracle Corp. (ORCL)

### **CONTENT IS KING**

- Marcus Corp. (MCS)

### **CASHLESS CONSUMPTION**

- Verifone Systems (PAY)

### **ECONOMIC ACCELERATION/DECELERATION**

- GMS Inc. (GMS)
- Joy Global (JOY)
- Apogee Systems (APOG)

### **FATTENING OF THE POPULATION**

- Hostess Brands (TWINK)

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

- Sanderson Farms (SAFM)

### **SCARCE RESOURCES**

- Arch Coal (ARCH)

### **TOOLING & RETOOLING**

- Scholastic Corp. (SCHL)

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