



MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

As We Hit the Earnings Home Stretch, Earnings Scorecard is Painting a Solid Picture

Last week not only closed the books on the month of October and navigated through a sea of corporate earnings, we also endured another terror attack and saw the unveiling of the GOP's Tax Cuts and Jobs Act. As if that wasn't enough, President Trump announced he will nominate Fed governor James Powell as his pick to succeed current Fed Chairwoman Janet Yellen. The word on Powell is he is viewed as a likely continuation of Fed Chairwoman Janet Yellen's gradual approach to raising interest rates and returning monetary policy to its pre-crisis norms. In other words, more of the same. We're not quite sure how that meshes with Trump's comment that he wants to make his mark on the Fed.

Quickly recapping the markets for October, it was a better than expected month that saw the Dow Jones Industrial Average notch a more than 4% gain and the S&P 500 rise more than 2%. Large-caps led the rally as both the S&P MidCap 400 and the S&P SmallCap 600 registered smaller gains of 2.2% and 1.0%, respectively. During the month, we saw strong performance from a number of our thematic investing themes including *Connected Society*, *Disruptive Technologies*, and *Asset-lite Business Models*.

While we are enjoying the continued market melt up, we are mindful of the increasingly stretched valuation. And now with GOP tax proposal "out there" the question being pondered by the market is whether this is a buy the rumor, sell the news event?

As the weekend fades and investors brace for the final week in "drinking from the fire hose" of earnings reports, we expect there will be no shortage of analysis shared on the Tax Cuts and Jobs Act. As we receive this, team Tematica will put the various GDP and job creation forecasts to the test to see what is reasonable and realistic vs. pie in the sky. We will also be watching gold, the dollar and the Treasury market to assess what the market makes of this proposal.

Here's what we'll be watching over the next five trading days:

On the Economic Front

Following last week's busy calendar for economic data, this week we see the usual slowdown now that we've cleared the meaty October reports: the Employment Report, ISM Manufacturing and Services and auto & truck sales. On tap this week we have the usual weekly data stream that are MBA Mortgage Applications, crude inventories and jobless claims. We also have the September JOLTs report, which we expect will once again confirm employer pain that is behind our *Tooling & Retooling* investment theme.

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.

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We also have the September report on Consumer Credit, which has seen a tapering off over the last few months. The question we're pondering is credit in decline because consumers are getting more prudent with their balance sheets or are they approaching the point at which they are tapped out? Either answer is likely to have implications for the upcoming holiday shopping season, which is already forecasted to see overall spending grow at a slower rate compared to last year. If the consumer isn't keen on opening up the wallet or purse as much as expected this holiday season, it could mean the current 4Q GDP consensus of 2.7% per The Wall Street Journal's Economic Forecasting Survey could come under pressure.

ECONOMIC CALENDAR		NOV 6-10, 2017
MONDAY, NOVEMBER 6		
None Scheduled		
TUESDAY, NOVEMBER 7		
Job openings		Sept.
Consumer credit		Sept.
WEDNESDAY, NOVEMBER 8		
None Scheduled		
THURSDAY, NOVEMBER 9		
Weekly jobless claims		11/4
Wholesale inventories		Sept.
FRIDAY, NOVEMBER 10		
Consumer sentiment		Nov.

On the Earnings Front

Last week we had more than 2,000 companies report earnings results and update their outlooks. Amid the maelstrom, it was a very positive week for the [Tematica Investing Select List](#) given stellar results from [Connected Society](#) investing theme companies [Facebook \(FB\)](#) and [Apple \(AAPL\)](#), as well as Disruptive Technology company [Universal Display](#). This week we have several more companies on the Select List reporting among the more than 960 earnings reports to be had. If you're thinking, "when will this end?", the good news is after this week we see a considerable drop in the frequency of these reports... at least for a bit.

In a few weeks, we'll get those "funny fiscal" companies that end their business year in January, which means a slew of retail earnings will be had just as the market begins to really focus on the 2017 holiday shopping season. Outlooks will be more important than ever for those retailers, but odds are those that have yet to embrace our [Connected Society](#) investing theme will continue to face staunch headwinds this holiday season.

Of the more than 960 companies reporting this week, here are some of the ones that we'll be focusing on over the next few days:

- Is CVS Health (CVS) feeling the pinch of Amazon (AMZN) in its front of store business, and what does management make of Amazon acquiring wholesale pharmaceutical licenses?
- For our [Aging of the Population](#) investing theme, how are capacity utilization rates at Brookdale Senior Living (BKD) facilities and what are the company's capital spending plans for 2018?
- Restaurant traffic has been flailing of late, are those who do eat out trading down in keeping with our [Cash-Strapped Consumer](#) investing to shun Red Robin Gourmet (RRGB) and Fogo de Chao (FOGO) in favor of more economical choices like Wendy's (WEN) and DineEquity (DIN)?
- Following Apple's (AAPL) results, what can [Connected Society](#) contender Skyworks (SWKS) tell us

about December quarter build and what does it see as a reasonable timetable for 5G networks?

- On [a recent podcast](#), we talked about the rising obesity rates in the U.S., but we're also seeing the rise of ketonic, natural and organic diets. What does all of this mean for *Fattening of the Population* contenders Weight Watchers (WTW) and Medifast (MED)?
- Is Las Vegas beginning to recover from the recent Las Vegas tragedy? Results from *Guilty Pleasure* company MGM Resorts (MGM) should offer us some insight.
- With digital sales expected to take even more consumer wallet share this holiday shopping season, how to Kohl's (KSS), JC Penney (JCP) and *Macy's* (M) plan to compete against Amazon and others embracing our *Connected Society* investing theme?

Thematic Signals

Each week we look for data points pertaining to our 17 investment themes, or as we call them Thematic Signals. These signals can be confirming or they can serve to raise questions as to whether a theme's tailwinds are strengthening or ebbing. Be sure to check out the Thematic Signals section of our website to read more about these stories and others we publish throughout the week. Here are some of the highlights we saw this week:

Connected Society/Rise & Fall of the Middle Class

[Alibaba - Riding the Connected Society tailwind to success](#)

Most U.S. investors tend to keep their purview on domestic companies and their shares, but there is a problem with that strategy. That limited gaze means missing out on opportunities outside the U.S. that are benefitting from our thematic investing themes. For example, when most folks think of the company riding our *Connected Society* investing tailwind, Amazon comes to mind. It's a good answer, but when we look at the Rising Middle Class in Asia, Amazon (AMZN) has yet to meaningfully crack that market. Meanwhile, Alibaba (BABA) is embracing a number of the same strategies as Amazon -- grocery, artificial intelligence, and cloud computing - and is poised to deliver stellar growth while doing so. While Amazon is winning the day by being the low-cost price leader and catering to the *Cash-Strapped Consumer* and the Falling Middle Class, Alibaba's audience is seeing rising disposable incomes.

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Connected Society/Disruptive Technologies

[Intel's 5G showcase should have cable companies quaking in their boots](#)

On [this week's Cocktail Investing Podcast](#), Tematica's Chris Versace and Lenore Hawkins do a deep dive on our *Connected Society* investing theme and discuss the coming creative destruction to be had with 5G wireless technology. Carriers like AT&T (T) and Verizon (VZ) are beta-ing 5G networks and commercial deployments are expected to begin in a handful of quarters. With data speeds of up to 100 gigabits per second - speeds that would enable someone to download a high-def movie in seconds instead of minutes - 5G will be a key ingredient in up and coming *Disruptive Technologies* such as autonomous car, telemedicine, the connected home and generally speaking far greater datafication as part of the Internet of Things. We see Intel's upcoming

5G showcase as giving the world the first real-world glimpse at what the technology will enable.

The question to ponder is what does this mean for cable companies, especially those that have not embraced our *Content is King* investment theme like Comcast (CMCSA)? Our guess is more pain ahead as more consumers cut more cords.

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Disruptive Technologies

Today it's the mobile web, tomorrow the voice-driven web

As we saw in 3Q 2017 earnings results from Asset-lite Business Model company **Alphabet** (GOOGL) and *Connected Society* company **Facebook** (FB), the current platform of choice among consumers is mobile. We are, however, seeing the seeds of the next technology revolution -- voice-powered intelligent solutions -- with more players entering the fray. The current leader is Amazon (AMZN) with its multitude of Echo devices, but there is also **Alphabet's** (GOOGL) Google Home and later this year Apple (AAPL) is expected to unveil its HomePod offering.

As voice interface technology improves and even faster mobile networks come to market, how long will it be before the mobile web is replaced by the voice-driven web? If that's the case, it would not bode well for companies like Synaptics (SYNA) and Logitech (LOGI) that make peripherals such as mice, keyboards, trackpads and touchpads.

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Disruptive Technologies

Amazon is the latest retailer to add AR shopping to its iOS app

On our recent podcast deep dive on our *Connected Society* investing theme, we talked about efforts to remove friction to digital shopping. We've seen great strides with 2-day delivery and painless return policies, but there are still a few pain points to be overcome. One of them has been the ability for consumers to see items not just in a finished room, but in their own room.

The Disruptive Technology that is Augmented Reality (AR) has the potential to change that and we are seeing retailers from Target to Amazon embrace AR in their mobile apps. Want to see how a chair, sofa, kitchenware or something else looks in your room? Use the AR feature in the Amazon app to see how it looks and if it's good to go, click another button to buy it there and then. Another excuse not to leave the house, but you may have to get up off the couch.

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