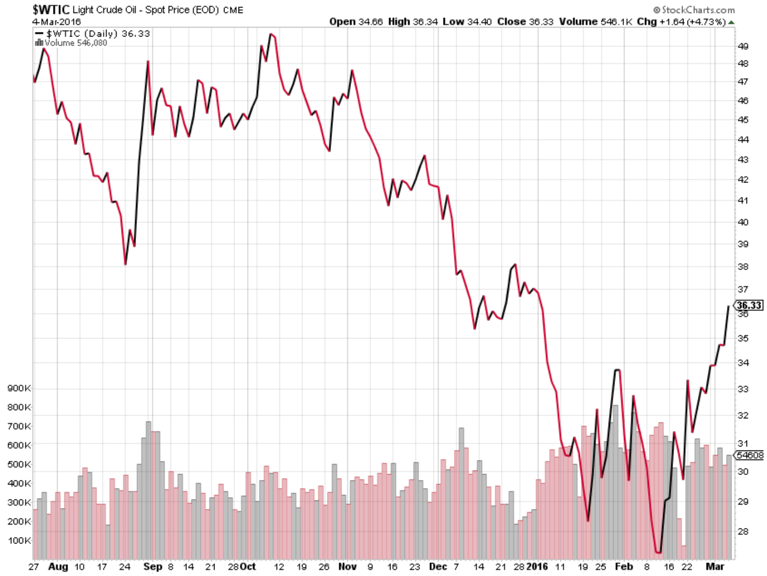
MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

WEEK OF MARCH 7, 2016

Last week marked the end of February and the beginning of the last month for the first quarter of 2016. It also went down in the books as the third consecutive week of positive moves in the market, which happened to coincide with another move higher in oil prices.

While we remain concerned over the demand side of the oil equation, we'd note the supply side continues to rationalize itself, which reflects the mounting pressure domestic producers are feeling as oil prices remains well below the $50 threshold most need to be profitable. On Friday, oilfield services company Baker Hughes (BHI) reported the total number of US oil rigs fell by 8 last week, crossing below the 400 level to 392 for the first time since late 2009. This time last year, drillers were operating more than 900 rigs and we continue to expect more fallout will be had in the oil patch.



The S&P 500 has rallied 3.6% in just four trading days since the calendar turned to March 1st, with gains led by the previously most beleaguered sectors: Energy up 7.7 percent

Thematic Signals

Competing Interests on Encryption Divide Top Obama Officials *(Safety & Security)*

Airbnb Pits Neighbor Against Neighbor in Tourist-Friendly New Orleans *(Replacement / Demand Tech)*

California Could Be Second State To Raise Minimum Smoking Age To 21 *(Guilty Pleasures)*

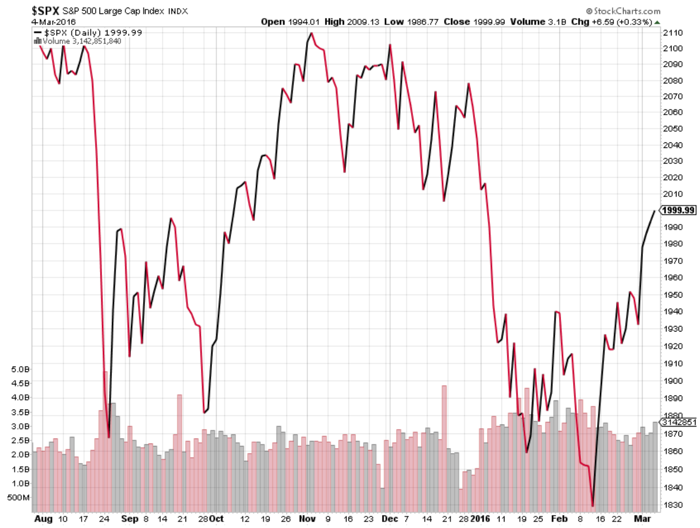
Timberwolves Fans Suing Over Team's New Paperless Ticketing System *(Connected Society)*

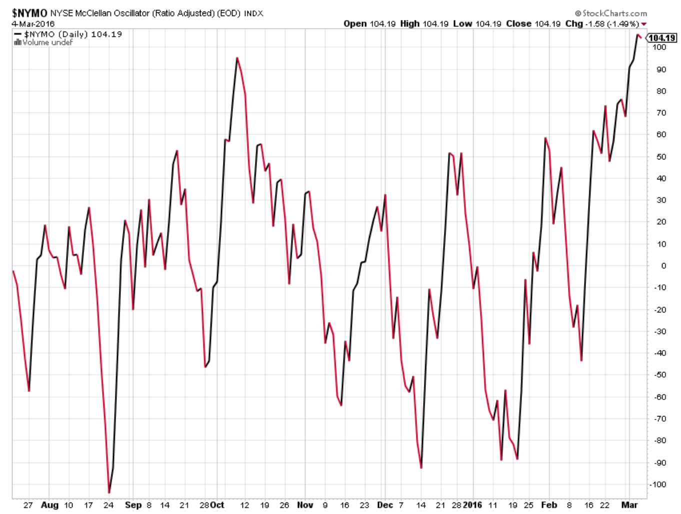
Amazon Reverses Course, Encryption Returning for Fire Devices *(Connected Society / Safety & Security)*

EBay Banks on Bar Codes for a Comeback *(Connected Society)* month-to-date as of the end of last week; Financials up 5.6 percent and Materials up 4 percent. To put the recent moves in context however, Energy is still down -22.5 percent, Financials down -8.4 percent and Materials down -15.4 percent over the past year.

What is even more astounding than the sharp upturn in the market is the breadth of the rebound. As of last Friday's close, 81% of the stocks in the S&P 500 were trading above their 50-day moving averages, with seven out of ten sectors having an even higher percentage above their 50-day moving averages.

Trading volume, however, continued to be far lighter than historical levels, which when combined with the sharp move higher in the **NYSE McClellan Oscillator** (an indicator of market breadth based on the number of advancing and declining issues on the NYSE) that has pushed the indicator back to levels from which we've seen the market correct significantly, means being cautious near-term.





Reading the economic tea leaves and revealing issues in the February Jobs Report

Our near-term cautiousness is warranted given the market's melt up despite the economic data received last the week from Markit Economics and the dual ISM indices for February, both of which pointed to month-over-month slowing in the global economy and here at home. Even Friday's February Employment Report, which on its face provided the Goldilocks touch showing the US economy has yet to fall off a cliff and inflation is not running hot enough for the Fed to act at its next Federal Open Market Committee meeting, set for March 12-15.

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> **". . . if the better than expected 242,000 jobs number offered by the February Employment Report was indeed a strong figure then why did the average work week and wages both fall in February?"**

A quick parsing of the data published by the Bureau of Labor Statistics reveals the answer — the sectors that added the most jobs, healthcare, retail, food services, pay some of the lowest wages and tend to be part-time in nature. With companies ranging from **Wal-Mart (WMT)** to **Costco Wholesale (COST)** facing the brunt of higher wages, growing uncertainty and concern over the path of the 2016 presidential election, higher costs of benefits ,and the slowing economy, the odds are pretty good that businesses will be more restrained in hiring and continue to favor part-time or contract employees where and whenever possible. Even though a person may have two part-time jobs, it still doesn't equate to one full-time job complete with paid benefits.

Paired with findings from a new study published by financial research company ValuePenguin, which showed:

- Consumer debt rose to $936 billion at the end of December to the highest level since 2009
- The average household debt of Americans is now $5,700 with the average American carrying $2,300 on credit cards

We continue to see our investment thematic, the ***Cash Strapped Consumer***, is alive and well, which isn't exactly a positive for an economy that is primarily driven by the consumer. We find this to be yet another reason to remain cautious near-term.

"We continue to see our investment thematic, the Cash Strapped Consumer, is alive and well, which isn't exactly a positive for an economy . . . "

What's ahead with economic and earnings data this week?

Turning to the week ahead, it's rather sparse on the economic data front. It's one of those rare times in the market that is relatively quiet. Yes, there are a few economic indicators that we'll be watching, including Gallup's US Consumer Spending Measure, the Labor Market Conditions Index and the NFIB Small Business Optimism Index, all of which drop early this week.

Given the influence oil prices have had on market movement we'll naturally be checking the Energy Information Administration's Petroleum Status Report midweek and will give you the download on all of it in our next release.

ECONOMIC CALENDAR, MARCH 7 - 11, 2016

DATE	REPORT / SPEECH	DATA
7-Mar	**Consumer Credit**	Jan
9-Mar	**MBA Mortgage Index**	5-Mar
9-Mar	**Wholesale Inventories**	Jan
9-Mar	**Crude Inventories**	5-Mar
10-Mar	**Treasury Budget**	Feb
10-Mar	**Continuing Claims**	27-Feb
10-Mar	**Initial Claims**	5-Mar
10-Mar	**Natural Gas Inventories**	5-Mar
11-Mar	**Export Prices ex-ag.**	Feb
11-Mar	**Import Prices ex-oil**	Feb

Can the S&P 500 overcome a rough start to current quarter earnings?

Even though 99% of the S&P 500 group of companies have reported their earnings to date for their respective 4Q 2015 quarters, there are still a number of companies yet to share their results and outlooks. These pending reports will do little to influence 2016 earnings expectations for the S&P

500, the yard stick by which we measure growth and assess the value of the overall market. Current expectations now call for an 8 percent drop in current quarter earnings, and marks the first time the index has seen four consecutive quarters of year-over-year declines in earnings since 4Q 2008 – 3Q 2009.

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How does that drop compare to ones in prior years?

- During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 2.8%.
- During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during the first two months of a quarter has been 3.6%.

Looking at that 8 percent drop for the current quarter alongside the economic data we’ve gotten over the last months and weeks, it raises the question as to how confident should we feel about consensus S&P 500 earnings expectations for 2016?

Before we answer that, let’s consider that to meet the annual earnings growth target of 3.3 percent this year requires more than a 14 percent increase in earnings during the back half of 2016 compared to the first half. Excluding the financial crisis, that’s a level of earnings growth we haven’t seen in over a decade. Let’s also consider that 8 percent earnings decline is well below the estimated earnings growth rate of 0.3 percent at the start of the quarter.

We see a high probability that earnings expectations for the second half 2016 will need to be revised lower to match the reality of the global economy. We’ll continue to monitor the data streams and central banker actions as we triangulate the vector (direction) and velocity (speed) of the next move in S&P 500 earnings adjustments.

Confirmation of our thematic approach

Before we get to which corporate earnings we’ll be monitoring this week through our thematic lens, we’d like to share two confirming thematic data points from this past week. First, the recently announced collaboration between Nest and Amazon sits at the convergence between our ***Connected Society, Cashless Consumption*** and ***Disruptive Technology*** themes.

> *Matt Rogers, founder of Nest and head of Engineering, said that the first official collaboration between Nest and Amazon’s Alexa is launching in a few weeks. The integration will allow Nest users to give out commands to Alexa when they need to turn the temperature up or down. According to Rogers, one of the commands that users can give would be “Alexa, set my bedroom thermostat to 68 degrees.” However, Rogers added that Alexa is also capable of learning new skills. In other words, users will be able to give out other useful commands in the near future that will include saying “Alexa, tell the thermostat that I’m too hot.”*

Alexa is Amazon's voice command service that powers its Amazon Echo device, and we see this initial move as the beginning of what's to come as more devices look to embrace voice interface technology.

> ***Findings in a survey published by Piper Jaffray of more than 500 merchant processing channel partners found that 44% of their point of sale merchant customers are using or have requested information about mobile wallet solutions, and 67% of those wanted Apple Pay.***

We continue to see no slowdown in the adoption of ***Cashless Consumption,*** particularly as the existing smartphone install base upgrades to models that include mobile payment capabilities and more devices embrace the functionality.

More thematic data points to be had

As we mentioned earlier, 99% of the S&P 500 group of companies have reported their earnings for their respective December 2015 quarters, but surprisingly there are still a number of companies yet to do so. While they may not influence movements in S&P 500 earnings expectations, these companies are likely to offer data, statistics and other insights that can sharpen the view of our thematic lens. Here's a short list of the companies will be monitoring this week, broken down using our thematic lens:

- **Affordable Luxury — Urban Outfitters (URBN)**
- **Aging of the Population — Surgery Partners (SGRY)**
- **Connected Society — Box Inc. (BOX), Lumos Networks (LMOS)**
- **Cashless Consumption — Square (SQ), VeriFone (PAY)**
- **Disruptive Technologies — Raven Industries (RAVN)**
- **Economic Acceleration/Deceleration — BG Staffing (BGSF), Blount International (BLT)**
- **Fattening of the Population — Del Taco (TACO), Dick's Sporting Goods (DKS), Medifast (MED), Papa Murphy's (RSH), Shake Shake (SHAK)**
- **Food with Integrity — Omega Protein Corp. (OME)**
- **Scarce Resources — Primo Water Corp. (PRMW)**
- **Replacement / Demand — LMI Aerospace (LMIA)**