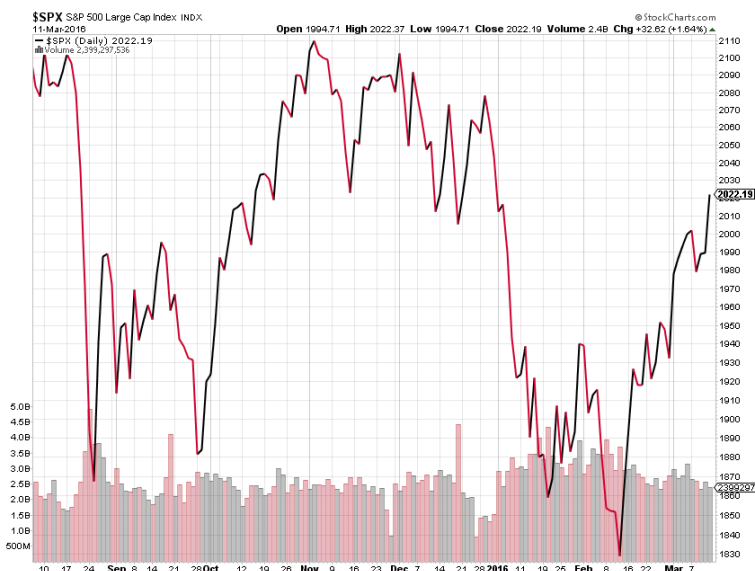


MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

WEEK OF MARCH 14, 2016

What was expected to be a largely quiet week, given the lack of economic data and the step down in corporate earnings velocity, certainly started off that way, but Thursday's news spinning out of the European Central Bank (ECB) made much more waves than expected. Those bigger waves led the S&P 500 to climb another 1.1 percent last week, adding to the index's overall move of 8.4 percent over the last month and now stands at just over 1 percent shy of breaking even for 2016.



While it was expected that the ECB was going to do something at its meeting last week, largely due to the fact that Mario Draghi had been saying the institution would “do whatever it takes,” the ECB sprinkled more monetary policy fairy dust than was expected when it:

- Cut its main refinancing rate to 0.0 percent and its deposit rate to minus 0.4 percent
- Extended its monthly asset purchases to 80 billion euros (\$87 billion) beginning next month.
- Shared that it would launch a series of four targeted longer-term refinancing operations, with maturities of four years, starting in June.

In some respect, that is a far bigger gun than was expected, given that the median estimate for monthly asset purchases was an increase to 75 billion euros a month from 60 billion euros. The trigger behind this latest stimulus initiative was found in Draghi's press conference comments – “the outlook for economic

Thematic Signals

Government Can't Let Smartphones Be 'Black Boxes,' Obama Says (Safety & Security)

A Trip Through Amazon's First Physical Store (Connected Society, Replacement / Demand Tech)

Whole Foods Asks Judge To Put The Kibosh On Lawsuit Over "Natural" Label On Baked Goods (Foods with Integrity)

Capital One Will Let Customers Pay Bills, Access Account Info Using Amazon Echo (Connected Society)

Amazon's cloud boss told us something that should terrify a \$140 billion industry (Connected Society / Safety & Security)

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.

growth in the euro zone had been revised slightly down, mainly reflecting the weakened outlook for the world economy.”

The ECB’s action heeded the call put forth by the International Monetary Fund (IMF) in a speech by IMF First Deputy Managing Director David Lipsky to the National Association for Business Economics, in which he argued that the global economy is at serious risk for “derailment” and cited new figures that pointed to the worst monthly collapse in Chinese exports since 2009.

Obviously there was the underlying issue of slower growth in the euro zone, which reflects slower growth in China, and as we learned last week China cut its growth for this year to 6.5 to 7 percent from last year’s “about 7 percent.” Over the weekend, we learned from China’s National Bureau of Statistics that the country’s industrial production and retail sales both missed the expected mark for the first two months of 2016.

While the slowing in industrial production has been telegraphed by monthly PMI data, given the impact of Chinese New Year, the retail sales miss is far more worrisome as China looks to transform to a more consumer-led economy. More specifically, industrial output rose 5.4 percent from a year earlier in January and February vs. the 5.6 percent median estimate of economists surveyed by Bloomberg. Retail sales climbed 10.2 percent from a year earlier, missing the 11 percent projected gain in the survey.

Taken all of the above together, the bottom line is slower global economic growth means slower demand, plain and simple. It increasingly looks like companies will now have to ratchet their recently revised forecasts even lower. As we get closer to the end of the current quarter, we’ll be putting earnings expectations for the S&P 500 group of companies under the microscope looking for over exuberance as well as potential short comings, and what those likely mean for the market.

Turning to the week ahead

We have a number of economic indicators coming at us this week, including Retail Sales, Housing Starts and Building Permits, and Industrial Production & Capacity Utilization for February as well as March readings for the Empire Manufacturing Index and the Philly Fed Index. Each of those will be important as we fine tune the true vector and velocity of the domestic economy in the current quarter.

As important as putting those puzzle pieces together is, given what we see as a growing mismatch between the move in the stock market and prospects for corporate earnings, we expect the talking heads will instead focus on the Fed’s FOMC policy meeting that happens this Tuesday-Wednesday (March 15-16). While there is a small cohort calling for the Fed to boost interest rates coming out of that meeting, we continue to see the Fed waiting until it has a clearer read on the speed of the domestic economy and not wanting to upset the economic apple cart following recent

| ECONOMIC CALENDAR, MARCH 14 - 18, 2016 | | |
|--|---------------------------|--------|
| DATE | REPORT / SPEECH | DATA |
| 15-Mar | Retail Sales | Feb |
| 15-Mar | Retail Sales ex-auto | Feb |
| 15-Mar | PPI | Feb |
| 15-Mar | Core PPI | Feb |
| 15-Mar | Empire Manufacturing | Mar |
| 15-Mar | Business Inventories | Jan |
| 15-Mar | NAHB Housing Market Index | Mar |
| 15-Mar | Net Long-Term TIC Flows | Jan |
| 16-Mar | MBA Mortgage Index | 12-Mar |
| 16-Mar | CPI | Feb |
| 16-Mar | Core CPI | Feb |
| 16-Mar | Housing Starts | Feb |
| 16-Mar | Building Permits | Feb |
| 16-Mar | Industrial Production | Feb |
| 16-Mar | Capacity Utilization | Feb |
| 16-Mar | Crude Inventories | 12-Mar |
| 16-Mar | FOMC Rate Decision | Mar |
| 17-Mar | Initial Claims | 12-Mar |
| 17-Mar | Continuing Claims | 5-Mar |
| 17-Mar | Philadelphia Fed | Mar |
| 17-Mar | Current Account Balance | Q4 |
| 17-Mar | Natural Gas Inventories | 12-Mar |
| 18-Mar | Mich Sentiment | Mar |

monetary stimulus initiatives in Sweden, China and the Eurozone.

In other words, we expect for the Fed to underwhelm and repeat its “data dependent” mantra, which we are rather fine with given the picture currently being painted by the data. Nonetheless, we expect the investment community and economists as well as ourselves will be parsing the Fed statement for signs if the Fed sees an interest rate hike during the first half of 2016 or if its looking more like a second half of the year event.

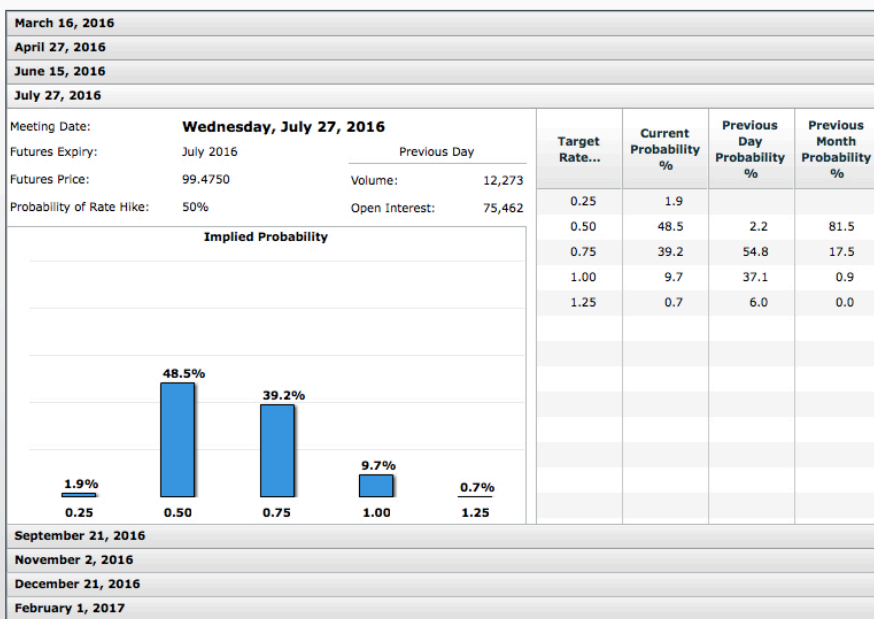
While the vector and velocity of the domestic and global economy are pretty clear for the near-term, the potential wild card in the Fed’s comments will be on inflation, given the January and February uptick in the PCE Index, a preferred metric of the Fed’s to gauge inflation. We also see gas prices inching higher due to the rebound in oil prices. Oil’s climb in our view reflects the shrinking domestic rig count from last week that stands at its lowest level in 70 years, even though U.S. crude stockpiles rose by 3.9 million to 521.9 million barrels last week, which is the highest level since 1930 per the Energy Information Administration.

To us this serves as a reminder that the stock market is a forward-looking animal. According to data from **Baker Hughes (BHI)**, the domestic oil rig count ended last week at 386 compared to the peak of 2,026 back in November 2011, which prompted the EIA to forecast the lowest level of crude output in 2017 since 2013. Consumers have no doubt noticed the uptick in gas prices, which even though are still down some \$0.65 per gallon year over year across the US, have still climbed \$0.20 per gallon over the last month.

As the supply-demand forces continue to tug back and forth, when it comes to oil prices, we have to remember there are other countries at play than just the US and the Middle East. Helping keep oil prices in check is robust oil production in the Gulf

CME Group FedWatch

Last Update 03/12/2016



PCE Core Inflation y/y%



Source: Bureau of Economic Analysis; updated 02/26/16

Briefing.com

of Mexico, which thanks to projects from **Shell (RDSA)**, **ExxonMobil (XOM)**, **Anadarko Petroleum (APC)** and **Noble Energy (NBL)**, is expected to jump by 8% in 2016 and then by another 10% in 2017 to an average of 1.83 million barrels per day, according to the EIA.

In addition to the Fed, we will hear from other central bankers this week as they ponder the next move or not for their interest rates. With that in mind, we will be checking in on Tuesday to see what the Bank of Japan does and then on Thursday for the Bank of England's decision. Rounding out the monetary policy angle, on Friday St. Louis Fed President James Bullard, never one to back away from the camera, will be speaking at the International Research Forum on Monetary Policy, and New York Fed President William Dudley will be speaking at a conference at that regional Fed bank.

With just over two weeks until the close of the current quarter, we continue to see another leg down in the number of companies reporting their quarterly results. On the one hand, that means far fewer press releases and conference calls to listen to, but on the other it means what data points we get are likely to sway investors more than during the earnings frenzy we had a few weeks ago. Here are the reports that have caught our thematic eye:

- **Affordable Luxury: Inter Parfums (IPAR), Williams-Sonoma (WSM)**
- **Cash Strapped Consumer: Aeropostale (ARO), Bon-Ton Stores (BONT), Cato Corp. (CATO), DSW Inc. (DSW), Shoe Carnival (SCVL)**
- **Connected Society: Adobe Systems (ADBE), Oracle (ORCL)**
- **Economic Acceleration/Deceleration: FedEx (FDX), HD Supply (HDSI), Ply Gem Holdings (PGEM)**
- **Foods with Integrity: The Fresh Market (TFM)**
- **New Demand, New Solutions: 3D Systems (DDD), Liquidmetal Technologies (LQMT)**
- **Tooling & Re-tooling: Rosetta Stone (RST)**

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