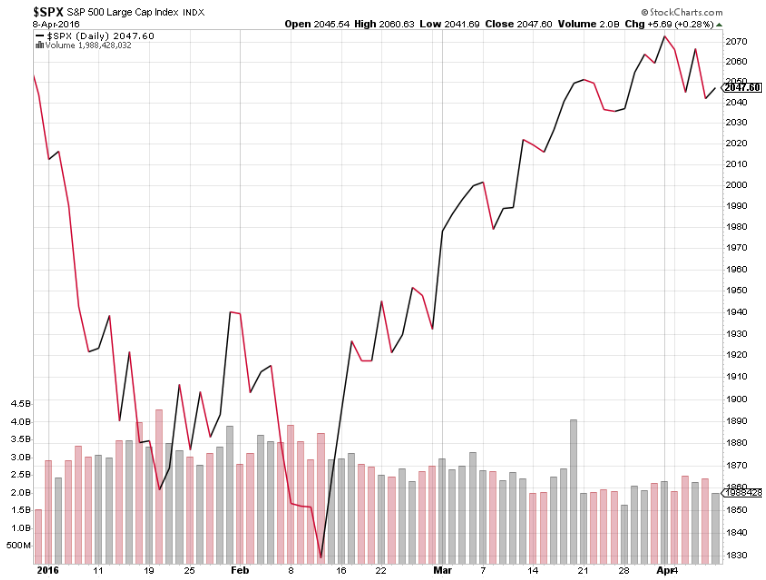
MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

WEEK OF APRIL 11, 2016

While the stock market fluttered around last week, directionally it moved lower throughout the week, with all three major market indices drifting lower for the week. While it wasn't a huge move lower, it's evident that April is not off to same start as March — month to date, the S&P 500 is down 0.8%.

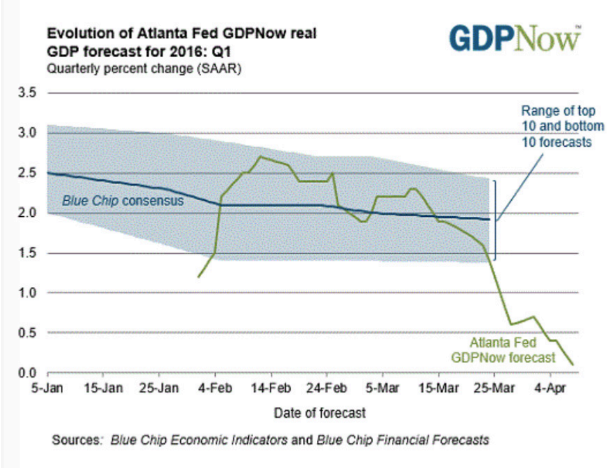


While we're less than halfway through April, there has been a shift in the conversation as the investment community has finally come to realize the degree to which the domestic economy slowed during the March quarter, a point we've been making here for quite a while now and the driver behind many of our market-defensive positions in the [Tematica Select portfolio](), which we were rewarded for last week.

Over the last several days, the Atlanta Fed has continued to revise its GDPNow tally lower and lower, and as of Friday its forecast stood at just 0.1% for the March quarter.

Thematic Signals

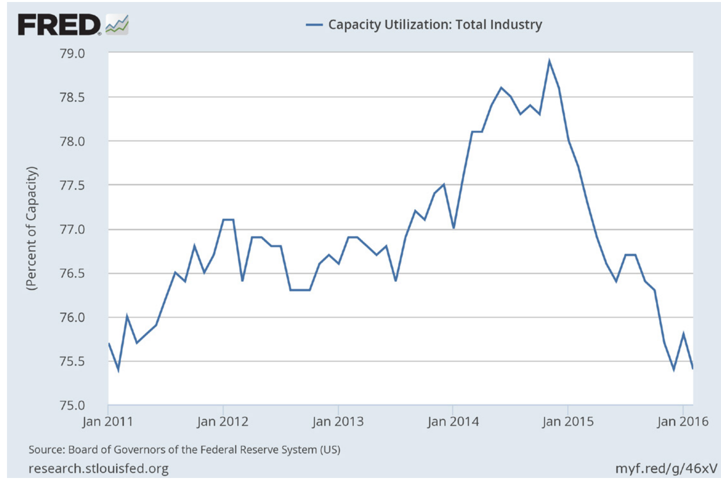
- [U.S. faces 90,000 doctor shortage by 2025, medical school association warns]()
- [Diebold Nixdorf bets on future of 'smart ATMs' - FT.com]()
- [Americans are Nuts for Almond Milk]()
- [2016 Data Breaches Running 10% Ahead of Last Year]()
- [Millennials don't want your 20th-Century investment strategy]()



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.

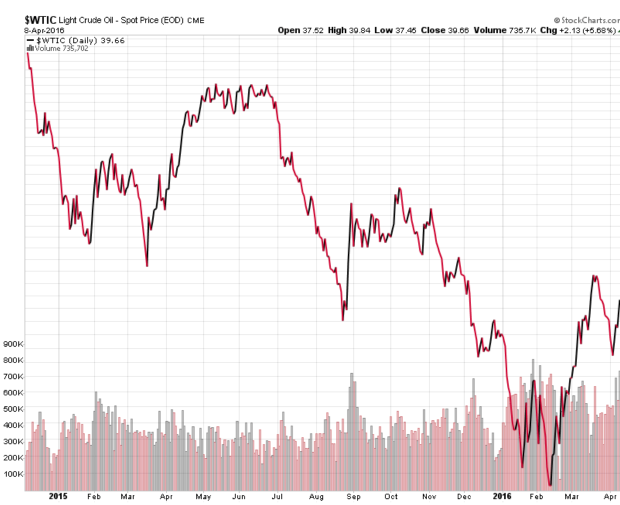
To those of us here at Tematica, this comes as little surprise given what we've seen in not just the monthly PMI data (headline data as well as that for production and orders), but also other indicators such as rail traffic and truck tonnage figures for the quarter. For the first 13 weeks of 2016, US rail traffic (carloads and intermodal units) fell 6.5 percent year over year per data from the Association of American Railroads. Lest you think that was all due to a weak start to the quarter, combined US carload and intermodal originations were down 11 percent in March vs. year ago levels. It's not looking good for rail stocks like **CSX (CSX), Norfolk Southern (NSC)** or **Union Pacific (UNP)** this earning season.



We also have renewed concern over the consumer's appetite to spend following disappointing March same-store sales reports from a number of retailers (more on that below) and more data that calls into question the consumer's ability to spend. We shared several of those data points with subscribers to ***Tematica Investing*** last week.

We've also started to see the pace of negative earnings pre-announcements pick up. Last week we heard such cuts from Europe's largest software company **SAP SE (SAP)** that warned its first-quarter results would be weaker than expected due to slower sales of software licenses to corporate customers, primarily in Brazil and the US. Other warnings were had last week from **Cree (CREE)** and **National Instrument (NATI)**, which join recent guidance cuts from **Caterpillar (CAT), Shake Shack (SHAK)**. As we've mentioned in recent weeks, we're more than a tad concerned with earnings expectations for the S&P 500, particularly for the second half of 2016 relative to the first half. This means even more so that we'll be scrutinizing company commentary in the soon to be upon us March quarter earnings season.

Counter balancing the negative, the market was aided by crude oil, which perked up a bit this week due to the unexpected drop in inventories reported for last week ,paired with another drop in the US oil rig count. We're about one week away from the expected meeting between OPEC and non-OPEC producers during which they could agree on production freezes — expect to hear much more on this next week and depending on the outcome expect to see gas prices move in one direction or the other. If gas prices continue to move higher, we could hear retailers fire a warning shot across the bow over shrinking disposable income. Something to put on our radar screens.



Let's put it all together, shall we?

In our view, the teeter-totter between risk and reward to be had in the market over the next several weeks skews far more to the risk side. We arrive at this conclusion based on the souring domestic economic outlook headed into March quarter earnings and the now known-known the Fed will remain accommodative potentially into the back half of 2016 the market that has propelled the market to trade at 17x expected 2016 earnings for the S&P 500.

To be clear, we're not calling for a correction in the stock market, but the current climate is not inspiring us to add new long positions at current levels. We'll be looking for opportunistic plays — both short plays in **Tematica Pro** as well as defensive long ones in **Tematica Investing** — and we'll continue to identify companies on the Tematica Contender List that we would prefer to buy at better prices. If you are thinking we continue to feel good about our inverse ETF positions, you would be correct!

Turning our view to this week, it's the official start for March quarter earnings as **Alcoa (AA)** once again kickstarts the season after the market close this afternoon. Companies to watch on the docket for this week aside from Alcoa include **CSX (CSX), Fastenal (FAST), JPMorgan Chase (JPM), Bank of America (BAC)** and **Citigroup (C)** as well as **Pier One Imports (PIR)** following this week's disappointing March same-store-sales reports from **Gap (GPS), Buckle (BKE), Cato Corp. (CATO)** and others.

Also this week **Facebook (FB)** will hold its annual developers conference better know as F8. Similar to **Apple's (AAPL)** events and **Alphabet's (GOOGL)** Google I/O, F8 is where Facebook takes the wraps off some of its major initiatives for the coming year. Once again, the company's Messenger app is expected to wind up at center stage as Facebook looks to monetize the platform and position it as a more of a communication tool for both individual and corporate use. For example, Facebook has cited **1-800-Flowers.com (FLWS)** which sells and delivers flowers and food baskets, as a potential partner for the new Messenger services, and already it's being reported users are starting to see ads for Uber and Lyft within the app.

Following **Yahoo!'s (YHOO)** announcement it will stream

ECONOMIC CALENDAR, APRIL 11 - 15, 2016

DATE	REPORT / SPEECH	DATA
Apr 12	**Export Prices ex-ag.**	Mar
Apr 12	**Import Prices ex-oil**	Mar
Apr 12	**Treasury Budget**	Mar
Apr 13	**MBA Mortgage Index**	04/09
Apr 13	**Core PPI**	Mar
Apr 13	**PPI**	Mar
Apr 13	**Retail Sales**	Mar
Apr 13	**Retail Sales ex-auto**	Mar
Apr 13	**Core PPI**	Mar
Apr 13	**Retail Sales**	Mar
Apr 13	**Retail Sales ex-auto**	Mar
Apr 13	**Business Inventories**	Feb
Apr 13	**Crude Inventories**	04/09
Apr 13	**Fed's Beige Book**	Apr
Apr 14	**CPI**	Mar
Apr 14	**Core CPI**	Mar
Apr 14	**Initial Claims**	04/09
Apr 14	**Continuing Claims**	04/02
Apr 14	**Natural Gas Inventories**	04/09
Apr 15	**Empire Manufacturing**	Apr
Apr 15	**Capacity Utilization**	Mar
Apr 15	**Industrial Production**	Mar
Apr 15	**Capacity Utilization**	Mar
Apr 15	**Michigan Sentiment - Prelim**	Apr
Apr 15	**Net Long-Term TIC Flows**	Feb

Major League Baseball and **Twitter (TWTR)** doing the same for NFL games this year (both of which confirm our ***Connected Society*** and ***Content is King*** investing themes), we also expect to hear more about Facebook's live video plans at F8. Without spoiling too much, this push to stream live sporting events not only helps remove one of the last stumbling blocks for cord-cutters, it also bodes very well for one of the ***Connected Society*** names we have on the **Tematica Contender List**.

We'll also getting a good amount of economic data, like the March reports for Retail Sales, Industrial Production and the twin inflation gauges that are the PPI and CPI, that should help round out the March quarter economic picture. All in all, not quite the quiet week we saw last week, but far from the frenzy that will take hold as we move deeper into March quarter earnings the week of April 18th.

Thematic Earnings on Our Radar

Here are the reports in the coming days that have caught our thematic eye:

- ***Affordable Luxury /Guilty Pleasure:*** Reynolds American (RAI)
- ***Aging of the Population:*** BlackRock (BLK)
- ***Economic Acceleration/Deceleration***: Alcoa (AA), CSX (CSX), Fastenal (FAST)
- ***Rise & Fall of the Middle Class:*** Delta Air Lines (DAL), Pier One (PIR)

While the above list seems rather short this week, we'd point out there are two reasons for that. First, the official start to earnings heralded by Alcoa starts a week from today. Second, you might be surprised to learn there are companies that don't fit into our thematic framework, but this is the case from time to time. This week there happen to be three of them, and they are the multinational banks that are **Bank of America (BAC), Citigroup (C)** and **JPMorgan Chase (JPM)**. While we could try and contort these companies into one of our investing themes, it would make as much sense as trying to put a square peg in a round hole — no matter how hard you try, sometimes things aren't meant to fit. With thousands of stocks to choose from, we'd rather focus on those that fit our investing framework and have demonstrative thematic tailwinds at their back.