

# MONDAY MORNING KICKOFF

## YOUR MARKET PRIMER FOR THE WEEK AHEAD

### WEEK OF APRIL 18, 2016


Last week the S&P 500 rose 1.6 percent, which pulled the index modestly deeper into the green for 2016. Despite the climb higher, which also saw a number of positions in both our long only [Tematica Investing](#) as well as our more dynamic trading service [Tematica Pro](#) outperform the overall market, the preponderance of data and other news last week echoed much of what we've been getting over the last several weeks - a slower economy as the market valuation crept higher yet.

**Last week we learned March retail sales once again disappointed to the downside, falling 0.3 percent vs. an expectation for a 0.1 percent gain month over month.**

When looking at the data, we have to remember too that last month consumers spent 0.9 percent more at gas stations as the price of oil rose 15 percent from February, according to the US Energy Information Administration. The key takeaway for us is that as we expected and shared last week, the March Retail Sales Report put some very healthy content in place for our recently added **Cash Strapped Consumer** position in Tematica Investing.

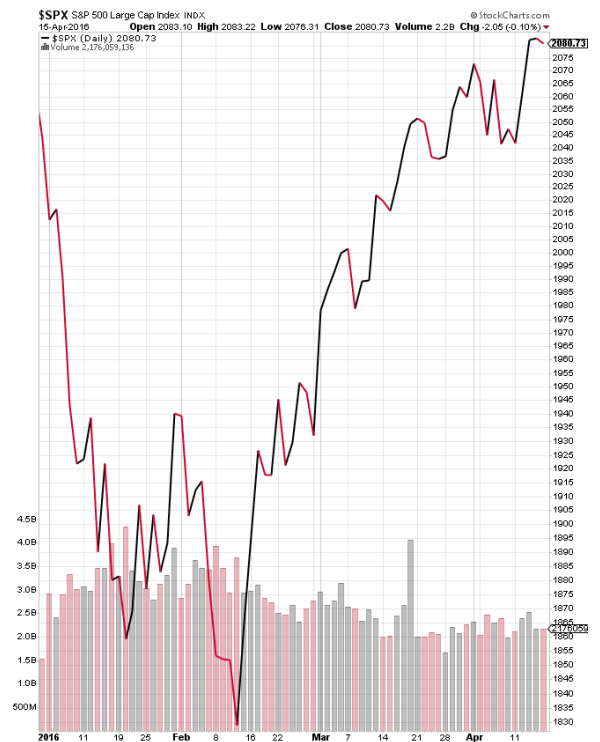
**We also learned the US producer price index fell for the second consecutive month and came in weaker than expected at -0.1 percent vs. an expected gain of 0.3 percent after a decline of 0.2 percent last month.**

March Industrial Production once again disappointed with total production falling 0.6 percent month over month and total industry capacity utilization falling to 74.8 percent, marking another month over month decline. Peering into the report, we found more confirmation that the domestic manufacturing and industrial economy is indeed slowing, given contractionary data over the last few months.



**Thematic Signals**

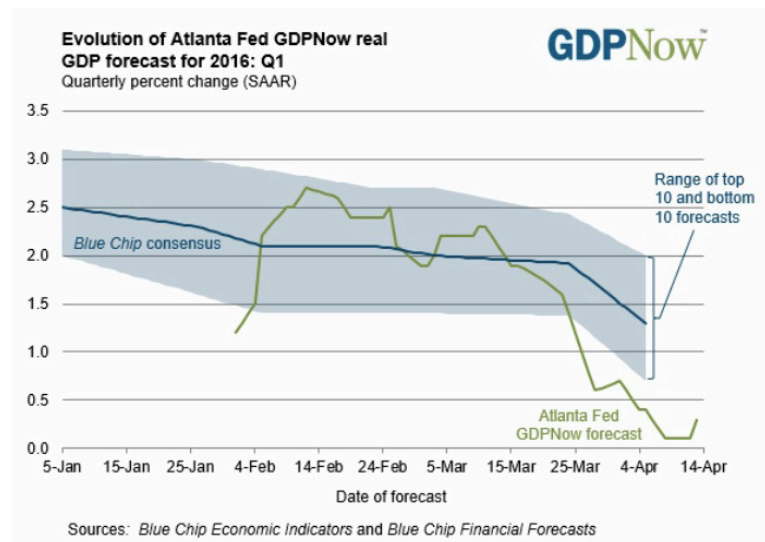
- [\*\*Oil-Freeze Talks End in Failure Amid Saudi Demands Over Iran\*\*](#)
- [\*\*Three Big Airlines Just Trashed Your Cheap Fares\*\*](#)
- [\*\*Down to Lunch, the App Store's Hottest New App, Is Tearing Teen Internet Apart\*\*](#)
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- [\*\*With New High-Speed Wireless Ventures, Facebook Stakes Claim On Another Corner Of The Internet\*\*](#)



#### 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.

What all of these figures confirm for us is March quarter GDP is not going to be anything to write home about even after the Atlanta Fed tweaked its GDPNow reading for quarter to +0.3 percent from +0.1 percent last week. Not to dismiss the March quarter as it will set the tone for much of the earnings season we are in as expectations get reset, the reality is commentary from companies that have reported their March quarter earnings don't point to things turning around near-term:



*"Looking forward we again expect volumes to decline in the second quarter, the challenging freight environment will continue as headwinds in coal, energy and metals volume are expected to more than offset the markets that will show growth.... the second quarter and probably even third quarter are going to be challenging quarters from the volume perspective. It's not really until we get to the fourth quarter we will have a little bit easier comparisons year-over-year"* — **CSX (CSX) CFO Frank Lonegro**

*"In January, we said that we were prepared for the business environment to become even more challenging and that has proved to be the case. In Europe, markets continue to decline with stable volumes but falling prices; while in North America growth in our categories has eased back to only around 1 percent. In Brazil and Argentina, market volumes are contracting as consumers struggle with rising unemployment and the high local inflation brought on by currency adjustment."* — **Unilever (UL) CFO Graeme Pitkethly**

*"We're revising our 2016 global demand for aluminum from 6 percent to 5 percent with consumption on pace to reach 59.7 million metric tons. The slight decline in demand is from two key markets, China and North America. Chinese growth is being reduced to 6.5 percent versus our prior forecast of 8 percent due to slower growth in the construction and electrical segments. North American demand growth is being reduced to 4 percent."* — **Alcoa (AA) CFO William Oplinger**

Digging into Alcoa's March quarter earnings a bit deeper, sales for the quarter declined 15 percent year over year and were 3.7 percent below analysts' consensus estimates, according to Thomson Reuters. Earnings declined a brutal 92 percent. The company also reduced sales growth forecasts for aerospace from 8-9 percent to 5-8 percent and lowered expectations for the truck market as well — not exactly giving us indications of a reaccelerating global economy, but confirming the view on our trucking industry short position in Tematica Pro.

Given the continued move higher in the market last week, the S&P 500 closed the week at 17.3x expected 2016 earnings and we continue to be wary given the economic undertones. We'd note it was more

than the index climbing modestly this week that helped expand the market multiple — per FactSet earnings expectations were once again revised lower to now just \$119.94 per share. Despite that modest revision, expectations still call for a sharp increase in second half earnings this year compared to the first half, but given comments like those above from CSX it’s looking that our concern for that level of growth is indeed well founded. We will continue to be selective in adding new positions in both Tematica Investing given the disproportionate risk-to-reward profile we see in the market that is skewed toward the risk side.

## Turning to the Week Ahead

We’ll see a step down in the velocity of economic data this week, but even before we get to that oil prices will take center stage as we exit the weekend. Some 18 oil nations, including non-OPEC Russia, gathered in the Qatari capital of Doha for what was expected to be the rubber-stamping of a deal to cut oil production, but growing unease heading into the meeting seemed rather prophetic. A deal to freeze oil output by OPEC and non-OPEC producers fell apart on Sunday after Saudi Arabia demanded that Iran join in the would-be accord. Exiting the summit, it looks that both Riyadh, which threatened to raise output if no freeze deal was reached at the gathering, and Iran, which has vowed to raise production following the lifting of Western sanctions, will indeed boost production. As a result, oil prices—which have soared more than 30 percent on the prospect of a production freeze—are likely to plunge again.

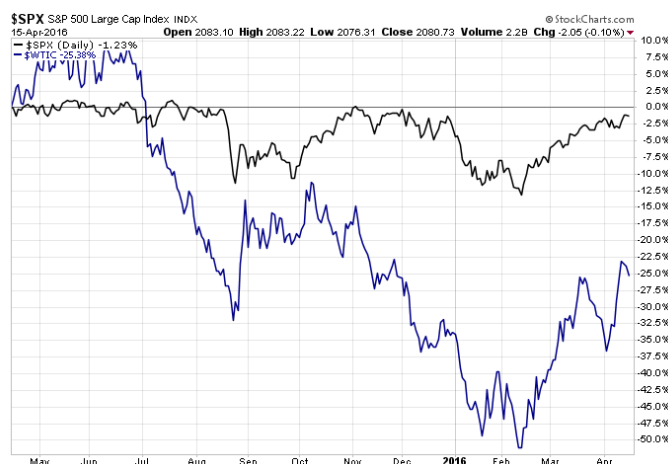
**Given the recent correlation between oil prices and the stock market, such a plunge is likely to weigh on the major indices as we start the week.**

In our view, we are not surprised by the failure of these countries to strike a deal given that these producers did not agree to production cuts earlier in the year when oil prices were far lower than they are today. As much as the market has been focused on the supply side of the equation heading into this past weekend, our view on oil prices has been far more skewed to the weak demand side of the supply-demand dynamic that has led to falling US rig counts these past several weeks.

Looking at the rest of the economic data on tap this week, it’s skewed primarily to housing data with March Housing

ECONOMIC CALENDAR, APRIL 18 - 22, 2016		
DATE	REPORT / SPEECH	DATA
18-Apr	<b>NAHB Housing Market Index</b>	Apr
19-Apr	<b>Building Permits</b>	Mar
19-Apr	<b>Housing Starts</b>	Mar
20-Apr	<b>MBA Mortgage Index</b>	16-Apr
20-Apr	<b>Existing Home Sales</b>	Mar
20-Apr	<b>Crude Inventories</b>	16-Apr
21-Apr	<b>Initial Claims</b>	16-Apr
21-Apr	<b>Continuing Claims</b>	9-Apr
21-Apr	<b>Philadelphia Fed</b>	Apr
21-Apr	<b>FHFA Housing Price Index</b>	Feb
21-Apr	<b>Leading Indicators</b>	Mar
21-Apr	<b>Natural Gas Inventories</b>	16-Apr

## CORRELATION S&P 500 vs. Crude Oil Prices



Starts and Building Permits as well as the NAHB's April Housing Market Index. In looking at the calendar, we've noticed we have entered the spring season for the housing market, which means we tend to see a pickup in activity for homebuilder and realtors. As we eye the monthly housing data, we'll also be reading real estate brokerage service company Re/Max Holdings' (RMAX) take on what happened in March from a realtors perspective.

## Thematic Earnings on our Radar

Given the arguable lull in economic data in the coming days, March quarter earning will take center stage this week. With more than 100 S&P 500 companies (including 14 Dow Jones Industrial Average components) on deck over the next five days, there is a high probability we could see volatility return in the coming days and weeks as more S&P 500 companies report. As such, we'll continue to hold our market hedging positions in Tematica Pro and our more defensive in nature ones in Tematica Investing.

Here's our thematic view on corporate earnings ahead this week:

### **Affordable Luxury/Guilty Pleasure:**

- Phillip Morris (MO)
- Las Vegas Sands (LVS)
- Under Armour (UA)
- Steve Madden (SHOO)

### **Aging of the Population**

- TD Ameritrade (AMTD)
- Goldman Sachs (GS)
- Intuitive Surgical (ISRG)
- Johnson & Johnson (JNJ)
- Raymond James Financial (RJF)
- E-Tade (ETFC)
- Medidata Solutions (MDSO)
- Novartis (NVS)

### **Asset-Lite Business Models:**

- Dolby Labs (DLBY)
- Rambus (RMBS)
- Acacia Research (ACTG)
- GATX Corp. (GMT)

### **Cashless Consumption**

- American Express (AXP)
- Visa (V)
- Synchrony Financial (SYF)

### **Connected Society**

- IBM (IBM)
- Netflix (NFLX)
- Intel Corp. (INTC)
- VMWare (VMW),
- Yahoo! (YHOO)
- Angie's List (ANGI)
- Qualcomm (QCOM)
- Microsoft (MSFT)

### **Content is King**

- IMAX (IMAX)
- Verizon Communications (VZ)

### **Economic Acceleration/ Deceleration**

- IDEX Corp. (IDEX)
- Kansas City Southern (KSU)
- Illinois Tool Works (ITW)
- Rush Enterprises (RUSHA)
- United Rentals (URI)
- Danaher (DHR)
- Caterpillar (CAT)
- General Electric (GE)
- Honeywell International (HON)

### **Fattening of the Population**

- Brinker International (EAT)
- PepsiCo (PEP)
- Coca-Cola (KO)
- Yum! Brands (YUM)
- BJ's Restaurant (BJRI)

### **Rise & Fall of the Middle Class**

- Harley Davidson (HOG)
- Tupperware Brands (TUP)
- Starbucks (SBUX)
- Skechers USA (SKX)
- American Airlines (AAL)
- Southwest Airlines (LUV)
- Kimberly Clark (KMB)

### **Safety & Security**

- Checkpoint Software (CHKP)
- F5 Networks (FFIV)
- Textron (TXT)
- Rockwell Collins (COL)

### **Tooling & Re-tooling**

- ASM International (ASMIY)

EARNINGS CALENDAR		APRIL 18 - 22, 2016
DATE	COMPANIES REPORTING	
MONDAY	<ul style="list-style-type: none"> <li>Hasbro Inc (HAS)</li> <li>Int'l Business Machines (IBM)</li> <li>J B Hunt Transport Serv. (JBHT)</li> <li>Lennox International Inc (LII)</li> <li>Morgan Stanley (MS)</li> <li>Netflix Inc (NFLX)</li> <li>PepsiCo Inc (PEP)</li> <li>Royal Caribbean Cruises (RCL)</li> <li>W W Grainger Inc (GWW)</li> </ul>	
TUESDAY	<ul style="list-style-type: none"> <li>Brinker International Inc (EAT)</li> <li>Goldman Sachs Group Inc (GS)</li> <li>Harley-Davidson Inc (HOG)</li> <li>Intel Corp (INTC)</li> <li>Interactive Brokers Group (IBKR)</li> <li>Johnson &amp; Johnson (JNJ)</li> <li>Navient Corp (NAVI)</li> <li>Philip Morris International (PM)</li> <li>Unitedhealth Group Inc (UNH)</li> <li>Yahoo! Inc (YHOO)</li> </ul>	
WEDNESDAY	<ul style="list-style-type: none"> <li>Abbott Laboratories (ABT)</li> <li>American Express Co (AXP)</li> <li>Citrix Systems Inc (CTXS)</li> <li>Coca-Cola Co (KO)</li> <li>Datawatch Corp (DWCH)</li> <li>DISH Network Corp (DISH)</li> <li>Eagle Financial Services (EFSI)</li> <li>EMC Corp (EMC)</li> <li>Fortune Brands Home &amp; Security</li> <li>Heartland Express Inc (HTLD)</li> <li>Las Vegas Sands Corp (LVS)</li> <li>Mattel Inc (MAT)</li> <li>Polycom Inc (PLCM)</li> <li>Qualcomm Inc (QCOM)</li> <li>United Continental (UAL)</li> <li>United Rentals Inc (URI)</li> <li>Yum! Brands Inc (YUM)</li> </ul>	

THURSDAY	<ul style="list-style-type: none"> <li>Advanced Micro Devices (AMD)</li> <li>Alphabet Inc (GOOGL)</li> <li>Boston Beer Co Inc (SAM)</li> <li>Briggs &amp; Stratton Corp (BGG)</li> <li>D.R. Horton Inc (DHI)</li> <li>E*TRADE Financial Corp (ETFC)</li> <li>General Motors Co (GM)</li> <li>Hanesbrands Inc (HBI)</li> <li>IMAX Corp (IMAX)</li> <li>Johnson Controls Inc (JCI)</li> <li>MamaMancini's (MMMB)</li> <li>ManpowerGroup Inc (MAN)</li> <li>Microsoft Corp (MSFT)</li> <li>Morningstar Inc (MORN)</li> <li>NVR Inc (NVR)</li> <li>PulteGroup Inc (PHM)</li> <li>Quest Diagnostics Inc (DGX)</li> <li>Skechers USA Inc (SKX)</li> <li>Snap-On Inc (SNA)</li> <li>Southwest Airlines Co (LUV)</li> <li>Starbucks Corp (SBUX)</li> <li>Trinity Industries Inc (TRN)</li> <li>Under Armour Inc (UA)</li> <li>Union Pacific Corp (UNP)</li> <li>Verizon Communications (VZ)</li> <li>Visa Inc (V)</li> </ul>
FRIDAY	<ul style="list-style-type: none"> <li>American Airlines Group (AAL)</li> <li>AutoNation Inc (AN)</li> <li>Caterpillar Inc (CAT)</li> <li>General Electric Co (GE)</li> <li>Honeywell International (HON)</li> <li>IMS Health Holdings (IMS)</li> <li>McDonald's Corp (MCD)</li> <li>SunTrust Banks Inc (STI)</li> </ul>

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