

MONDAY MORNING KICKOFF

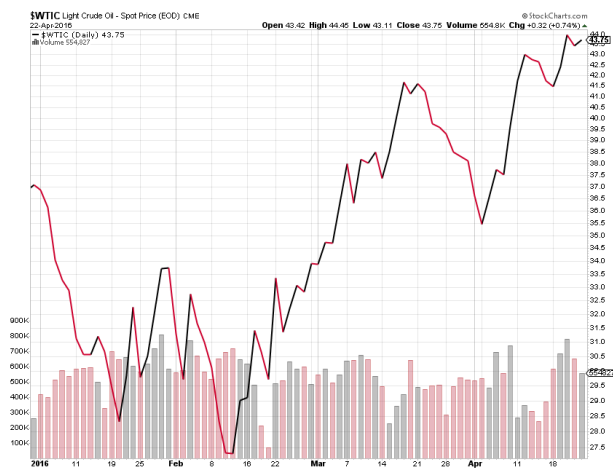
YOUR MARKET PRIMER FOR THE WEEK AHEAD

WEEK OF APRIL 25, 2016

Last week made for quite the roller coaster ride in the markets, as the S&P 500 put in a 0.5 percent gain last week due in part to a stock market rebound Friday afternoon. Even so, with Friday's 2,091.58 close, the index was still off its Wednesday high of 2111.05. (see chart below for last week's S&P 500 performance)

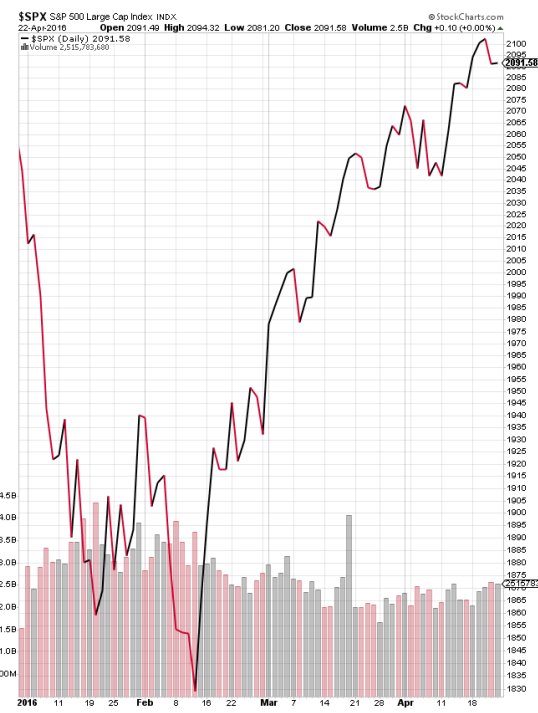


Oil and oil prices continued last week to be one of the market's key drivers. With the oil-freeze talks falling apart on April 16th in the Qatari capital of Doha after Saudi Arabia demanded that Iran join in the would-be accord, last week started off with a drop in oil prices before giving away to higher prices and ultimately closing the week at \$44 a barrel on Friday.



Thematic Signals

- [A Bright Side to the Financial Stumbles of Digital Media](#)** *Connected Society*
- [Cyber Risks Spill Over Into the Physical World](#)** *Safety & Security*
- [Don't Listen to the Starbucks Haters](#)** *Affordable Luxury / Guilty Pleasures*
- [Most of the Recession's Stay-at-Home Dads Are Going Back to Work](#)**
- [Chipotle's \\$70 million free burrito strategy may finally be bringing customers back to the chain](#)** *Foods with Integrity*
- [Cord-cutting Americans are ditching their wired broadband connections, too](#)**



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.

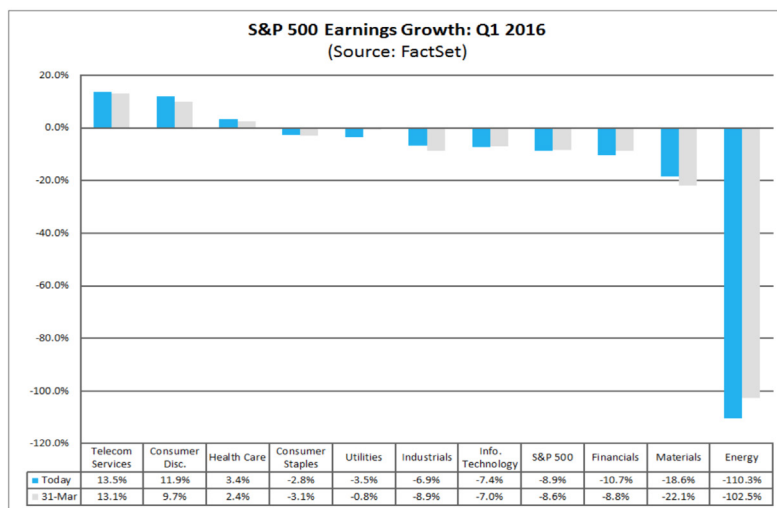
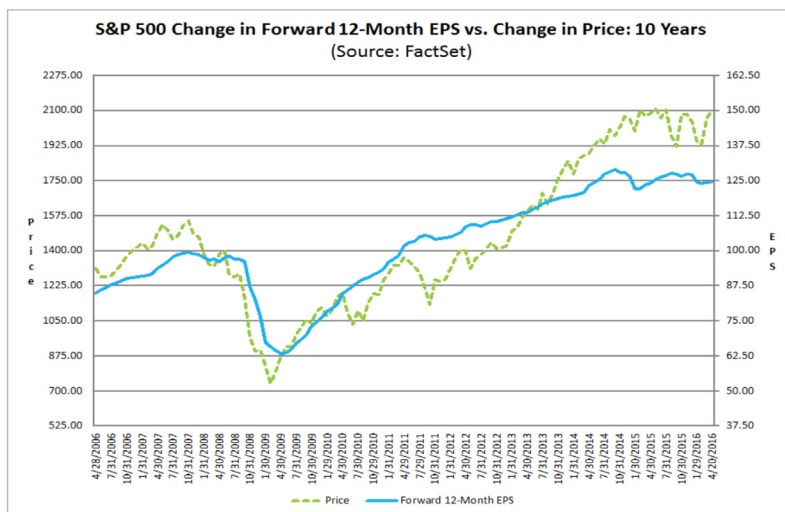
The number of oil rigs in the US has fallen to a 6-year low, totaling 343 rigs as of last week. But with Iran, Saudi Arabia, and Russia talking of higher oil production levels, when we look at the supply-demand dynamics of oil prices, we have to question how much higher oil prices will climb, particularly on the back of Friday's April Flash PMI data from Markit Economics released Friday. That report, which reflects manufacturing sentiment, contracted month over month in April, sinking to its lowest level in six-and-a-half years (more on that below).

A Look at Earnings Announcements

As you know, we have firmly entered the March quarter earnings season, and in our view the economic data of the last few months is finally starting to catch up with results and forecasts. There have been some positive earnings reports thus far, but the frequency of those bullish reports started to dwindle toward the end of last week.

In looking at the reports from **Netflix (NFLX)**, **IBM (IBM)**, **Boston Beer (SAM)**, **Starbucks (SBUX)**, **Alphabet (GOOGL)**, **Visa (V)**, **Microsoft (MSFT)** and chip supplier **Qualcomm (QCOM)**, each of them raised a red flag on growth near-term. Other companies like **PepsiCo (PEP)** sounded less bullish on prospects outside of the US, but even **Caterpillar (CAT)**, which is feeling more optimistic about China, still cut its outlook due to sluggish global commodity markets.

Even digging into results from industrial and related companies like **General Electric (GE)**, **Illinois Tool Works (ITW)**, and **Danaher (DHR)**, we see tepid organic growth and more often than not, it is the influence of buybacks that are driving bottom line results rather than top line revenue growth. Those results were far from unforeseen given the variety of industrial and manufacturing data of the last few months. Case in point: domestic Industrial Production has fallen in 6 of the last 7 reported months and rail traffic continued to fall year over year thus far in April.



In times like these, we remember the ripple effect to be had and the bottom line is prospects for growth — particularly robust growth — continue to be few and far between. Instead, we’ve seen a growing divergence between value and stock prices. While some may see the S&P 500 climbing 2% over the last month, we see it trading at 17.5x expected 2016 earnings for the S&P 500 that are up all of 2% year over year (and that’s including the impact of share repurchase programs). For perspective, that 17.5x figure is well above the 5-year and 10-year averages. [We continue to feel very comfortable with our market hedging positions in Tematica Pro.](#)

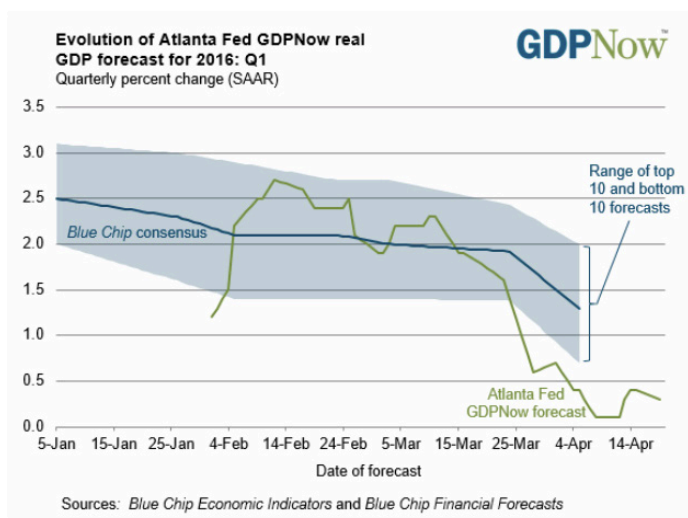
All of the above and more has given us more than a few reasons to be cautious, given the mismatch between fundamentals and the market continuing to melt higher over the last few weeks. Our preference to scoop up quality companies with strong tailwinds at attractive prices remains intact. The reception we saw to earnings from IBM, Netflix, Google, Microsoft and Starbucks confirms our view that there is a high probability we will be able to pick off better priced opportunities as we move through the March quarter earnings cycle. **It goes without saying that we expect to add more companies to the Tematica Contender List as we get ready to pounce on those opportunities.**

Turning to the week ahead

The velocity of corporate earnings picks up significantly this week as we have more than 1,000 companies reporting, compared to “just” 400 or so last past week. Viewed from a different angle, this past week we had 100 of the S&P 500 group of companies issues March quarter results, and that jumps to 187 such companies (and 8 of them are also Dow Jones Industrial Average components) in the coming five days.

Yep, it’s going to be a busy week, even before we mix in the economic data on tap and the **Fed’s April FOMC meeting (April 26-27)**. Given the recent spate of Fed related commentary, we highly doubt the Fed will do anything, but that doesn’t mean hordes of people, us included, won’t be parsing the Fed’s language used in communicating its decision.

ECONOMIC CALENDAR, APRIL 25 - 29, 2016		
DATE	REPORT / SPEECH	DATA
25-Apr	New Home Sales	Mar
26-Apr	Durable Orders	Mar
26-Apr	Durable Goods -ex	Mar
26-Apr	Case-Shiller 20-city Index	Feb
26-Apr	Consumer Confidence	Apr
27-Apr	MBA Mortgage Index	23-Apr
27-Apr	Pending Home Sales	Mar
27-Apr	Crude Inventories	23-Apr
27-Apr	FOMC Rate Decision	Apr
28-Apr	GDP-Adv.	Q1
28-Apr	Chain Deflator-Adv.	Q1
28-Apr	Initial Claims	23-Apr
28-Apr	Continuing Claims	16-Apr
28-Apr	Natural Gas Inventories	23-Apr
29-Apr	Core PCE Prices	Mar
29-Apr	Employment Cost Index	Q1
29-Apr	PCE Prices	Mar
29-Apr	Personal Income	Mar
29-Apr	Personal Spending	Mar
29-Apr	Personal Spending	Mar
29-Apr	Core PCE Prices	Mar
29-Apr	Employment Cost Index	Q1
29-Apr	Chicago PMI	Apr
29-Apr	Michigan Sentiment - Final	



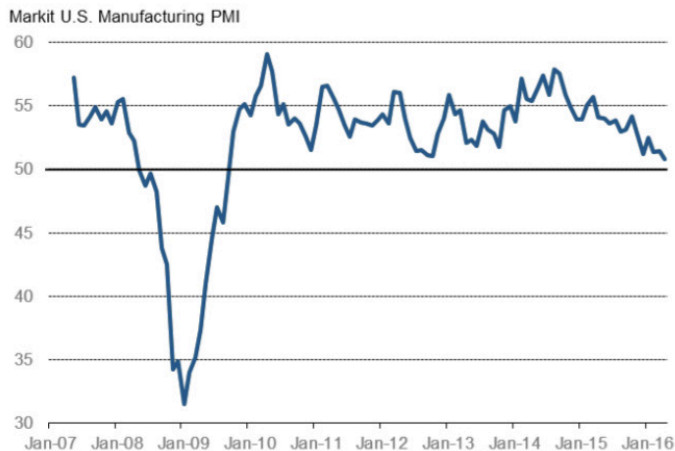
On the economic data front this week, we've got March data for **New Home Sales, Durable Orders, Consumer Confidence, Personal Income & Spending** that will serve as some of the last puzzle pieces for the March quarter. We'll also be getting our first look at the **March quarter's GDP**, and heading into this week the Atlanta Fed's GDPNow stands at a whopping 0.3% (please note that was said with more than a hint of sarcasm). Rounding out the big economic data next week we get the **Employment Cost Index** data for 1Q 2016, and the **April Chicago PMI** reading.

The latter will help fill in the blanks on April, and after this week's dismal April Philly Fed reading that fell back into negative territory — marking 7 of the last 8 months of negative readings — we'll be eyeing regional Fed data to get a handle on how sluggish the domestic economy has been in April. Based on the **April Flash US Manufacturing PMI** report from Markit Economics we received on Friday, which fell to 50.8 from 51.5 in March, it certainly looks like the economic malaise of 1Q 2016 is likely to continue.

For those looking for some hope from across the pond, don't get your hopes up too much as the **Markit Flash Eurozone Manufacturing PMI** for April fell to 51.5 from 51.6 in March - better than the US, but not something to write home about. This should make corporate outlooks from those 1,000 plus companies this week all that more interesting. Oh and lest we forget, we'll also be keeping a close eye on the **Volatility Index (VIX)**, which closed the week at 13.22, near its 2016 lows.

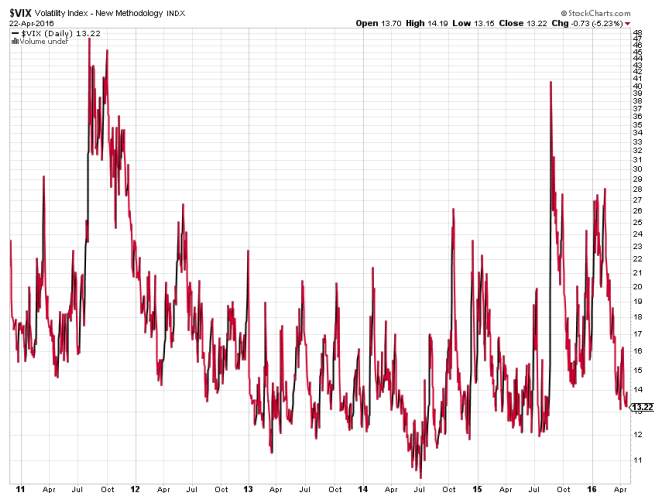
If after reading all this you're thinking to yourself it's going to be a barn burner of week this week, we agree, but we'll also be here with you to put it all in perspective. We just hope you've rested up this weekend for what's to come over the coming days.

Markit U.S. Manufacturing PMI (seasonally adjusted)



Source: Markit.

Markit Eurozone PMI and GDP



Thematic Earnings on our Radar

With a pronounced pick up in economic and March quarter earning will take center stage this week. It will be fast and furious, which is why we've sorted the upcoming tornado of reports with our thematic lens to ensure we gather the as many useful data points as possible. Here's our thematic view on corporate earnings ahead this week:

Affordable Luxury/Guilty Pleasure:

- Boyd Gaming (BYD)
- Coach (COH)
- Del Frisco's (DFRG)
- Hershey (HSY)
- Reynolds American (RAI)
- Wynn Resorts (WYNN)
- Callaway Golf (ELY)
- Ruth's Hospitality (RUTH)
- VF Corp. (VFC)
- Luxottica Group SpA (LUX)

Aging of the Population:

- Express Scripts (ESRX)
- HealthStream (HSTM)
- Laboratory Corp. (LH)
- Vascular Solutions (VASC)
- Calamos Asset (CLMS)
- Eli Lilly (LLY)
- Ameriprise Financial (AMP)
- Hologic (HOLX)
- Novadaq Technologies (NVDQ)
- Bristol Myers (BMY)
- eHealth (EHTH)
- Gilead Sciences (GILD)
- GNC Holdings (GNC)
- Stericycle (SRCL)
- Care.com (CRCM)
- Healthways (HWAY)

Asset-Lite Business Models:

- Dolby Lab (DLB)
- DSP Group (DSPG)
- Interdigital (IDCC)

Cashless Consumption:

- Paypal Holdings (PYPL)
- MasterCard (MA)
- Monogram International (MGI)

Cash Strapped Consumer:

- Spirit Airlines (SAVE)
- Tanger Factory Outlets (SKT)
- Supervalu (SVU)
- Groupon (GRPN)
- Regis Corp. (RGS)

Connected Society:

- NXP Semiconductors (NXPI)
- Philips (PHG)
- Apple (AAPL)
- Akami (AKAM)
- eBay (EBAY)
- Sensata Technologies (ST)
- AT&T (T)
- T-Mobile USA (TMUS)
- Twitter (TWTR)
- Cavium (CAVM)
- Comcast (CMCSA)
- Facebook (FB)
- Shutterfly (SFLY)
- Amazon (AMZN)
- Baidu (BIDU)
- Dupont Fabros (DFT)
- Expedia (EXPE)
- Harman International (HAR)
- LinkedIn (LNKD)
- Skyorks Solutions (SWKS)
- Yandex (YNDX)

Content is King:

- Six Flags Entertainment (SIX)
- Pandora (P)
- Outerwall (OUTR)
- Regal Entertainment (RGC)
- Sirius XM (SIRI)
- AMC Entertainment (AMC)

Disruptive Technology:

- Cree (CREE)
- Cirrus Logic (CRUS)
- FARO Technologies (FARO)
- Corning (GLW)
- II-VI (IIVI)
- Synaptics (SYNA)
- Proto Labs (PRLB)
- Materion Corp. (MTRN)

Economic Acceleration/Deceleration:

- Crane Co. (CR)
- DuPont (DD)
- 3M (MMM)
- Paccar (PCAR)
- Parker Hannifin (PH)
- Terex (TEX)
- Interface (TILE)
- Dow Chemical (DOW)
- CNH Industrial (CNHI)
- Eaton Corp. (ETN)

Fattening of the Population:

- J&J Snack Foods (JJSF)
- Buffalo Wild Wings (BWLD)
- Panera Bread (PNRA)
- Cheesecake Factory (CAKE)
- Dr. Pepper Snapple (DPS)
- Mondelez International (MDLZ)
- Dunkin Brands (DNKN)
- Domino's Pizza (DPZ)
- Restaurant Brands (QSR)

Food with Integrity:

- Chipotle Mexican Grill (CMG)
- Mead Johnson (MJN)
- Inventure Foods (SNAK)

Fountain of Youth:

- Helen of Troy (HELE)
- Nu Skin (NUS)

Rise & Fall of the Middle Class:

- B/E Aerospace (BEAV)
- Jet Blue (JBLU)
- Procter & Gamble (PG)
- Hilton Worldwide (HLT)
- Boeing (BA)
- Pilgrim's Pride (PPC)
- Colgate Palmolive (CL)
- Ingredion (INGR)

Safety & Security:

- Flir Systems (FLIR)
- Lockheed Martin (LMT)
- Lifelock (LOCK)
- Northrop Grumman (NOC)
- Mobile Iron (MOBL)
- Raytheon (RTN)

Scarce Resources:

- Mueller Water (MWA)
- Waters Corp. (WAT)
- California Water Services (CWT)
- Vasco Data Security (VDSO)

Tooling & Re-tooling:

- McGraw Hill Financial (MHI)
- K12 (LRN)

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